TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended December 31, 2014

The Tethys Petroleum Limited Annual Report and Accounts for 2014 consists of three documents as detailed below:

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

The following Management's Discussion and Analysis ("MD&A") is dated March 31, 2015 and should be read in conjunction with the Company's Audited Consolidated Financial Statements and related notes for the year ended December 31, 2014. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with the requirements of the Disclosure and Transparency Rules ("DTR") with respect to DTR 4.1 "Annual Financial Report" of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial reporting. Amounts are stated in US dollars unless otherwise noted. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.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") has its principal executive office in Guernsey, British Isles. The domicile of Tethys is the Cayman Islands where it is incorporated. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the exploration for and the development of crude oil and natural gas fields.

Financial highlights

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

	Quarter ended December 31			Year ended December 31		
	2014	**2013**	**Change**	**2014**	**2013**	**2012**
Oil and gas revenue – continuing ops [1]	6,224	8,527	(27%)	27,389	36,945	33,629
Loss for the period / year – continuing ops [1]	(5,034)	(4,207)	20%	(15,473)	(10,535)	(20,960)
Loss for the period / year – discontinued ops [1]	(210)	(6,407)	(97%)	(912)	(7,096)	56
	(5,224)	(10,614)	(51%)	(16,385)	(17,631)	(20,904)
Basic and diluted loss per share – continuing ops [1]	(0.02)	(0.01)		(0.05)	(0.03)	(0.07)
Basic and diluted loss per share – discontinued ops [1]	-	(0.02)		-	(0.02)	-
EBITDA - adjusted for share based payments [2]	(3,806)	(3,346)	14%	(12,286)	6,659	2,469
Capital expenditure	(7,752)	(16,510)	(53%)	(26,069)	(23,809)	(17,501)
				As at 31 December		
				2014	**2013**	**2012**
Total assets				238,695	234,618	251,953
Cash & cash equivalents				3,112	25,109	1,750
Cash & cash equivalents – held in a disposal group [3]				757	622	-
Short & long term borrowings				(10,628)	(4,965)	(17,313)
Short & long term borrowings – held in a disposal group [3]				(4,871)	(8,947)	-
Total non-current liabilities				(5,489)	-	(7,475)
Total non-current liabilities – held in a disposal group [3]				(7,937)	-	-
Net debt / (funds) [2]				11,630	(11,819)	15,563
Number of common shares outstanding[4]				336,452,667	299,557,744	286,707,744

Note 1 During the second half of 2013 the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business and political climate in the country. The Board met in November 2013 and discussions concluded that a full withdrawal from current projects in the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations has been earned since June 2013. The Board formally decided in December 2013 to exit from current projects in the country and announced on January 2, 2014, being the next working day that it would do so effective immediately as there is no contractual notice period but that it would take a period to complete the process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field. During Q2 2014 the Company formally transferred the wells to the State and the majority of staff contracts had been terminated, with notice given on the remainder. The Company did not expect to benefit from any production or earn any revenues in 2014. In view of the circumstances described, the results of the Uzbekistan segment were disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia.

Note 2 Non – GAAP measure refer to page 24 of this MD&A.

Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as "Assets and Liabilities of a disposal group held for sale". For further information – refer to note 19 of the audited 2014 Consolidated Financial Statements.

Note 4 2014 includes the issue in May and June of 36,894,923 new ordinary shares which raised gross proceeds of USD15m primarily for the Kazakh shallow gas programme.

Financial highlights - continued

- Revenue from oil and gas sales in 2014 is generated from the Kazakh operation only compared with 2013 when in the first six months revenue from oil sales was also generated in Tajikistan. Both oil and gas prices have been affected by the Tenge devaluation in February 2014 although oil prices are gradually re-aligning as increases were achieved in June and September 2014. Gas prices were fixed in Tenge until the end of 2014, whereupon a new contract was re-negotiated – refer to page 15 "*Kazakhstan – Gas price*";
- The loss for the year ended 31 December, 2014, of USD15.47m from continuing operations is greater than the comparative period (USD10.54m) due to a combination of: lower revenues in terms of both volume and price, the 2013 gain of USD8.2m arising on the Tajik farm-out and reduced DD&A as a result of the re-classification of oil properties to Assets Held for Sale;
- EBITDA adjusted for share based payments for the current quarter (Note 2 above) compared with comparative quarter 2013 was lower as a result of reduction in revenues and provision for restructuring costs that will be settled in 2015;
- EBITDA adjusted for share based payments for 2014 compared with 2013 was lower due to the above-mentioned USD8.2m Tajik farm-out gain occurring in June 2013 and reduced revenues as a result of lower production volumes and pricing;
- Capital expenditure in 2014 was focused on the new shallow gas programme with 2013 focus on drilling and testing of the AKD08, AKD09 and KBD01 wells;
- Subsequent to the year end (refer to note 30 of the audited 2014 Consolidated Financial Statements), the Company entered into two separate loan agreements under which it raised total net proceeds of USD9.26 million;
- The increase in borrowings is due to the repayment of maturing rig loans which were replaced in Q1 2014 by a new rig loan and Escrow loan received in Q3 2014, refer to note 21 of the audited 2014 Consolidated Financial Statements;
- The increase in net debt is due to the overall cash outflow of the Company and is analysed on page 19 of this MD&A.

Operational highlights

	Quarter ended 31 December			Year ended 31 December		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Kazakhstan						
Oil (bopd)	2,273	2,599	(13%)	2,301	2,613	(12%)
Gas (boe/d)	1,497	1,838	(19%)	1,767	2,044	(14%)
Combined (boe/d)	**3,770**	**4,437**	**(15%)**	**4,068**	**4,657**	**(13%)**
Uzbekistan						
Oil (bopd)	-	92	(100%)	-	100	(100%)
Tajikistan						
Oil (bopd)	-	-	-	-	65	(100%)
Total boe/d	**3,770**	**4,529**	**(17%)**	**4,068**	**4,822**	**(16%)**
Kazakhstan						
Oil – production (net bbls)	**209,097**	**239,117**	**(13%)**	**839,888**	**953,892**	**(12%)**
Oil – revenue ($'000)	**4,371**	**6,076**	**(28%)**	**18,920**	**24,980**	**(24%)**
Oil – gross sales price per barrel	$24.74	$30.00	(18%)	$26.67	$30.71	(13%)
Oil – production costs ($'000)	**2,518**	**2,484**	**1%**	**9,677**	**8,410**	**15%**
Oil – cost per barrel	$12.04	$10.39	16%	$11.52	$8.81	31%
Gas – production (Mcm)	**23,407**	**28,741**	**(19%)**	**109,563**	**126,752**	**(14%)**
Gas – revenue net of sales expense and VAT ($'000)	**1,839**	**2,444**	**(25%)**	**8,191**	**10,930**	**(25%)**
Gas – sales price net of marketing commission (Mcm) and VAT	$53.10[1]	$62.67[1]	(15%)	$53.10[1]	$62.67[1]	(15%)
Gas – production costs ($'000)	**906**	**1,108**	**(18%)**	**3,432**	**3,601**	**(5%)**
Gas – cost per Mcm	$38.69	$38.55	-	$31.38	$28.43	10%

Note 1 Using a 2014 annual average exchange rate of USD 1 = Tenge 181.78 (2013: USD 1 = Tenge 154.01)

- 2014 oil production averaged 2,301 bopd compared with 2,613 in 2013, reflecting a natural decline in overall production;

- Gas production continued to follow a predicted natural decline through 2014. Production has greatly increased subsequent to year end as a result of the new shallow gas programme undertaken during the year;

- Kazakh oil prices saw a decline in February 2014 from USD30 to USD25.30 per barrel as a result of the Kazakh market absorbing the impact of the 20% Tenge devaluation that took place during that month. Although oil prices gradually increased over the subsequent period realizing USD27.40 in June and USD28.70 in September, sharp decline in oil prices in early January 2015 necessitated December pricing to be cut back as the market was saturated with an overall production surplus. Pricing for December has been reduced to $13 per barrel, although this price is subject to ongoing negotiation;

- Oil production costs are primarily fixed and will not therefore proportionately reduce in line with lower production volume. The operating cost per barrel in 2014 was significantly higher than the comparative period due to higher water disposal costs associated with higher water production. Reductions were achieved in water disposal costs during H2 2014. The installation of a permanent water injection facility (subject to funding) will further reduce operating costs. It is Management's view that these higher operating costs per barrel are temporary and will be reduced going forward;

- Kazakh gas prices were also affected by the Tenge devaluation (see Kazakhstan – Gas price) though the overall negative economic impact of the devaluation on gas sales revenues was mitigated by the reduction in Tenge based costs in Kazakhstan due to the same devaluation;

- As with the oil, gas production costs are also primarily fixed and therefore will not proportionately reduce in line with lower production resulting in a higher cost per Mcm in 2014. In 2015 cost per Mcm will reduce significantly as a result of the doubling of production achieved with the recent shallow gas programme.

Further details on the above highlights are provided throughout this MD&A document.

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on page 35 of this MD&A.

The Company's objective is to become the leading Independent E&P Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia and the Caspian Region, though the Board is looking to farm down or sell the Georgian assets to focus on the Central Asian assets in Kazakhstan and Tajikistan.

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

- complete the conditional sale of 50% (plus one share) of the Kazakh assets;
- continue to implement further cost reductions across the business;
- maintain and increase shallow gas production with the objective to supply gas to China through the newly built pipeline once operational;
- drill the Klymene exploration well in Kazakhstan – subject to closing of the SinoHan deal;
- farm out or sell the Georgian assets;
- farm down Tajikistan assets but maintain a material equity position; and
- continually evaluate strategic alternatives to fund the Company's growth.

Significant events and transactions for the quarter and year ended 31 December 2014

- Completion of the acquisition of a 56% interest in Blocks XI^A, XI^M and XI^N, in eastern Georgia through three Production Sharing Contracts ("PSC") for a total payment of USD9.6m, being the issue of 12,000,000 ordinary shares in Tethys (based on a price of CAD0.84 per share) and funding of a USD4.4m carry on the next USD10m work programme. Tethys became Operator of these PSC's;

- Updated Oil Resource Report for the new "Klymene" prospect in Kazakhstan with total Unrisked Mean Recoverable Oil Resources being estimated independently at over 400 million barrels;

- Drilling of a further 4 successful shallow gas exploration wells: AKK17, AKK18, AKK19 and AKK20, which tested at an aggregate rate of approximately 650 Mcm/d (23MMcf/d) from the Tasaran horizon;

- 20% devaluation of the Kazakh Tenge mid February 2014 (from 154 to 185 Tenge per 1 USD). The Company has assessed the impact on its Kazakh operations and has concluded that adverse effects on revenue will be offset by positive effects of certain payments such as the Kazakh loan and other payables denominated in local currency, such that the overall effect is neutral;

- Renewal of the 2013 gas sale contracts for 2014 volumes up to 150 million cubic metres at a price of KZT13,365 (approximately USD73.52 net of VAT), USD53.10 net of sales expense (marketing commission);

- Completion of an Offering that raised gross proceeds of USD15m through the issue of 36,894,923 new ordinary shares priced at GBP0.24 per share (CAD0.44 per share). Net proceeds of USD13.6m are being used by the Company for continued development of its Kazakh shallow gas programme. Refer to Note 24 of the audited 2014 Consolidated Financial Statements for further information;

- Extension of the Kyzyloi Production Contract for a further 15 years to December 2029, allowing further time for development of this area;

- The Company has agreed with SinoHan Oil & Gas Investment No.6 B.V. the release of the USD3.88m deposit placed into Escrow with respect to the conditional sale of a 50% (plus one share) interest in the Company's Kazakhstan business. The deposit has been released as a minimal interest bearing loan that will be deducted from consideration upon completion of the sale;

- On October 31, 2014, the Company agreed an extension of the Longstop Date to the Sale and Purchase Agreement with SinoHan through to May 1, 2015 in order to provide additional time for the Kazakh State to consider whether to approve the transaction or to exercise its pre-emption right. In consideration for SinoHan agreeing to extend the Longstop Date, the Company has agreed that, in the event of the State Pre-emptive Rights being exercised and subject to funds being received by the Seller from JSC NC KazMunayGas (or such other entity that is responsible for implementing the exercise of the State Pre-emptive Rights), the Company shall be responsible for legal and other costs and expenses incurred by SinoHan pursuant to the Sale and Purchase Agreement up to a maximum aggregate amount of USD700,000;

- On November 4, 2014 the Company announced that Dr. David Robson and Elizabeth Landles stepped down from the Board with immediate effect followed by the resignations of Non-Executive Directors; Ambassador, Zalmay Khalilzad (November 10, 2014), Peter Lilley and Piers Johnson (November 17, 2014);

- New Board appointments were made with effect from November 18, 2014 as follows; John Bell (Executive Chairman) and Non-Executive Directors; David Botting, David Henderson and David Roberts;

- On December 31, 2014, a new contract was signed with respect to 2015 gas production for a minimum 100 million cubic metres at a fixed Tenge price. Net of marketing agent commission and VAT (see below), this equated to a net price of KZT 13,650 per 1,000 cubic metres (USD75.09 at a 2014 average annual exchange rate of 181.78 Tenge).

Significant events and transactions subsequent to the year end

- *Kazakhstan - Akkulka Exploration Contract Extension*

  On January 6, 2015 the Company announced that its wholly owned Kazakh subsidiary, TethysAralGas LLP, had received permission from the Ministry of Energy of the Republic of Kazakhstan to extend the Akkulka Exploration Contract for another four years, from March 10, 2015 to March 10, 2019 (subject to certain routine amendments to the Contract). This is the first time the Company has received a four-year extension as previous extensions have been for two-year periods.

The Ministry of Energy has provided this extension to allow the Company to fully assess the acreage. In addition, the current oil production from the "Doris" oil field is produced under this contract and this extension allows for this to continue for the four-year period.

- *Corporate - New loan financing*

  On January 16, 2015 the Company announced that it had secured a new USD6.0 million unsecured loan facility. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

  In connection with the loan financing, the Company has issued the lender with 35,600,000 warrants over the Company's shares with a price of C$0.19. In the event that the Company completes the issuance of any additional new ordinary shares (or options, warrants or other securities convertible into ordinary shares) equal to 7.5% or more of the cumulative aggregate number of outstanding shares, the lender will have the option of surrendering the warrant for a "surrender value" which would be added to the principal amount of the loan and be repayable on the 2 year maturity date. The initial surrender value is US$2.1 million and will decrease by 25% every 6 months over the term of the loan. The loan agreement contains events of default and change of control provisions.

  On March 10, 2015, the Company announced it had entered into a USD3.5 million loan agreement with a company, the assets of which are managed by Pope Asset Management LLC ("PAM"). PAM currently controls the voting rights over approximately 19% of the shares in Tethys. The principal of the loan is due to be repaid at the end of 2 years with interest payments at the rate of 8% per annum payable every 6 months. The loan agreement contains events of default and change of control provisions. The loan has been fully drawn down by the Company. In connection with the loan financing, the Company has issued the lender with 23,333,333 warrants over the Company's shares with a price of C$0.19.

- *Georgia – Reduction in interests*

  On January 22, 2015 the Company announced that it has reached agreement subject to finalising documentation with its partner, Georgian Oil and Gas, to remove its current funding obligations of approximately US$4 million under the farm-out agreement signed in July 2013, through reducing its interest in these projects. Under the terms of the new agreement Tethys will reduce its interest to 49% (from 56%) and GOG became Operator of the licence Blocks XIA, XIM and XIN from February 1, 2015.

- *Kazakhstan - Kyzyloi Gas Production Contract 15-year Extension*

  On January 23, 2015 the Company announced that its wholly-owned Kazakh subsidiary, TethysAralGas LLP, had received permission from the Ministry of Energy of the Republic of Kazakhstan to extend the Kyzyloi Gas Production Contract for another 15 years, from June 14, 2014 to December 31, 2029.

  The Ministry of Energy granted this contract extension following the Kazakh State Reserves Committee's approval of the new State Reserves for Kyzyloi previously announced in May 2014. The Kyzyloi contract area has been increased by 56 percent to 449 km2 (110, 950 acres) and now encompasses a larger gas bearing area including the AKK05 well (to be worked over later in Q1 2015) and also the AKK08 & AKK10 successful gas wells.

Reserves

Following the completion of the annual evaluation of the Kazakh reserves by an independent qualified reserves evaluator, Gustavson Associates Limited ("Gustavson"), of Colorado, USA, in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101"), the Company announced Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of "Proved"1P reserves of 16.62 million BOE - (2013: 14.14 million BOE) and "Proved and Probable" 2P reserves of 27.08 million BOE (2013: 25.37 million BOE). With the addition of 2014 production these figures represent an increase on the 2013 year end volumes in both categories.

The NPV10 value after tax of the Company's Kazakh reserves as at December 31, 2014 was USD185.86 million (2013: USD257.2 million).

The reserves in this MD&A do not reflect the pending sale of 50% of the Kazakhstan assets, which remains subject to Kazakh State waiver. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

The reserve report was prepared in full accordance with the requirements of National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators. The Company's 2014 Annual Information Form includes more detailed disclosure and reports relating to petroleum and natural gas activities for 2014. Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations.

A boe conversion ratio of 6,000 scf to 1boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The use of "total gas" indicates the combined volume of both the (predominantly) sales gas and fuel gas from the dry gas fields and the small amount of flared gas from the Doris oilfield under the Pilot Production Project. All monetary values are in millions (MM) of US Dollars. Note that reserve replacement ratio is calculated by calculating the difference between this year's 1P reserve estimate and last year's 1P reserve estimate, and dividing that quantity by the 2014 production, all in barrels of oil equivalent.

Resource Reports

The references in this MD&A to "Prospective Recoverable Resources" means those quantities of petroleum estimated, as of July 1, 2013 in respect of Project Iberia, January 15, 2014 in respect of the Klymene prospect, April 30, 2012 in respect of Akkulka and Kul-Bas, and June 30, 2012 in respect of Bokhtar, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of these resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of these resources. The product types that may reasonably be expected from potential production consist of oil, condensate, natural gas and associated gas.

These are Unrisked Prospective Resources as of July 1, 2013 in respect of Project Iberia, January 15, 2014 in respect of the Klymene prospect, April 30, 2012 in respect of Akkulka and Kul-Bas, and June 30, 2012 in respect of Bokhtar, that have not been risked for chance of discovery or chance of development. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development.

The resources estimates contained or referred to are estimates only and are not meant to provide a determination as to the volume or value of hydrocarbons attributable to the Company's properties. There are numerous uncertainties inherent in estimating quantities of resources and cash flows that may be derived, including many factors that are beyond the control of the Company. The following is a non-exhaustive list of factors which may have a significant impact on the above estimates of prospective resources: despite the classification that they are as yet undiscovered but may be potentially recoverable the Company may be unable to carry out the development or their potential recovery; the activity may not be economically viable; the Company may not have sufficient capital or time to develop them; there may be no market or transportation routes for the production; legal, contractual, environmental and governmental concerns might not allow for the recovery being undertaken; reservoir characteristics might prevent recovery. The recovery of the resources is subject to the following risks and uncertainties: market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment, government regulation, political issues, export issues, competing suppliers, operational issues (exploration, production, pricing, marketing and transportation), extensive controls and regulations imposed by various levels of government, lack of capital or income, the ability to drill productive wells at acceptable costs, the uncertainty of drilling operations, factors such as delays, accidents, adverse weather conditions, and the availability of drilling rigs and the delivery of equipment.

A barrel of oil equivalent ("boe") conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil equivalent has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. The use of the word "Gross" means 100% of the PSC or Contract.

Kazakhstan

Effective April 30 2012, prospective resources have been independently assessed by Gustavson with respect to Kazakh acreage at a mean unrisked total recoverable resource of 1.230 billion bbls and 634.4 Bcf. In January 2014, Gustavson have also independently assessed a newly identified prospect, named "Klymene", in the Kul-Bas Block, with unrisked mean recoverable prospective oil resources of 422 million barrels. This was based on new seismic data acquired in 2013.

Tajikistan

Effective June 30, 2012, prospective resources have been independently assessed by Gustavson with respect to Tajik acreage that since June 2013 covers an area of approximately 35,894 sq. Km. Estimated gross unrisked mean recoverable resources were reported to be 27.5 billion barrels of oil equivalent (boe). The upgrade from the figures reported previously was the result of data acquisition and interpretation from both the seismic and aeromagnetic and gravity surveys together with well data.

Georgia

An independent resource assessment, utilizing both seismic and well data, has been carried out by Gustavson with respect to 3 blocks: XIA, XIM and X^{IN}, which were acquired in early January 2014. Total unrisked mean recoverable prospective resources were assessed in excess of 3.2 billion barrels oil equivalent, with the majority being unconventional oil resources.

There is no certainty that it will be commercially viable to produce any portion of the above resources. Reference is made to the AIF for further information and prescribed disclosure relating to these resources.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2014					2013				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	42,503	267,334	180,801	90	2,009	53,168	334,419	288,042	90	3,200
Q2	53,005	333,390	225,024	91	2,473	37,139	233,599	202,700	91	2,227
Q3	58,926	370,635	224,966	92	2,445	44,333	279,127	224,033	92	2,435
Q4	50,726	319,021	209,097	92	2,273	56,759	357,000	239,117	92	2,599
Total	**205,160**	**1,290,380**	**839,888**	**365**	**2,301**	**191,399**	**1,204,145**	**953,892**	**365**	**2,613**

- Test production from the Doris discovery well AKD01 originally commenced in September 2010 at a level of up to 750 barrels per day. Oil was initially transported by truck to an oil loading terminal north of the town of Emba, located 450 km to the northeast of the well site, where it was treated before being transported to local refineries. In January 2011, approval was granted for a Pilot Production licence for this Doris oil discovery in the Akkulka block, whereupon the Company received the right to produce oil under the exploration contract. Furthermore, it allowed the Company to install and operate production facilities for a planned (Phase 2) production target. Once the Pilot Production Project is fully completed, relevant final reserve calculations will be submitted to the Kazakh Ministry of Oil and Gas ("MOG") to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is planning to apply for a full production contract, which is expected to be in place during 2016. In order to obtain this full production contract a gas utilization system needs to be installed which will require significant capital investment (approximately USD8m) and has a lead time for delivery and installation of 12-18 months, as the Company will no longer be able to flare gas. This will be implemented when the sale to SinoHan Oil & Gas Investment completes;

- The Company produces oil from three wells under the Pilot Production licence: AKD01, AKD05 and AKD06. These wells have been performing to expectation although AKD05 & AKD06 have been off during the winter due to restricted transshipment and trucking and higher water cuts, but are expected back on production in Q2 2015, depending on the oil price at that time. Moderate capacity progressive cavity pumps have been installed as planned on AKD05 and on AKD06. It is expected that at some time in the future the AKD01 well will also require a pump though the well performance to date has been good.

Oil operations update

General

Oil production is currently at 640 barrels per day on a restricted 6mm choke from AKD01 only due to transshipping issues at AOT and the recent onset of predicted annual spring break up that severely affects trucking, it is expected that the rate will go back to in excess of 2,000 barrels per day in May and an average rate of 1,770 barrels per day will be achieved for 2015. The transportation issues from AOT resulted from a fall in the oil price in Kazakhstan that caused the temporary closure of some refineries. The realized oil price fell in December 2014 and again in January 2015 to a price of $13 per barrel which is the current price. This lower price was the result of both a fall in world oil prices and an increase in refined products being imported from Russia because of recently imposed sanctions that restricted them selling into other markets.

Joint Venture – Aral Oil Terminal ("AOT")

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd to 6,300 bopd with the installation of two 1000 m^3 storage tanks (12,500 bbls) and associated pumping equipment. Phase 3, which includes the incorporation of an electrical dehydrator for the commercial treatment of crude oil is currently suspended due to low oil prices.

Gas production – Kyzyloi and Akkulka Contracts

	2014				2013			
Kyzyloi	Mcm [1]	Mcf [2]	Mcm/d [3]	Boe/d [4]	Mcm [1]	Mcf [2]	Mcm/d [3]	Boe/d [4]
Q1	23,390	825,901	260	1,530	19,242	679,429	214	1,258
Q2	22,780	804,362	250	1,473	26,238	926,464	288	1,697
Q3	19,925	703,552	217	1,275	25,630	905,007	279	1,640
Q4	17,834	629,719	194	1,141	22,029	777,833	239	1,409
Total	**83,929**	**2,963,533**	**230**	**1,353**	**93,139**	**3,288,733**	**255**	**1,502**
Akkulka								
Q1	7,430	262,353	83	486	7,413	261,737	82	485
Q2	5,664	199,996	62	366	10,118	357,267	111	654
Q3	6,967	246,005	76	446	9,370	330,856	102	599
Q4	5,573	196,783	61	358	6,712	236,995	73	429
Total	**25,634**	**905,137**	**70**	**414**	**33,613**	**1,186,855**	**92**	**542**
TOTAL	**109,563**	**3,868,670**	**300**	**1,767**	**126,752**	**4,475,588**	**347**	**2,044**

Note 1 Mcm is thousands of cubic metres
Note 2 Mcf is thousands of cubic feet
Note 3 Mcm/d is thousands of cubic metres per day
Note 4 boe/d is barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead

- 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 IntergasCentralAsia (ICA), a division of the Kazakh state natural gas company KazTransGas (KTG);
- Production commenced from the Akkulka field on October 6, 2010;
- 2014 saw continued steady production and wells are producing consistently in line with predicted natural decline however temporarily in Q1 2015 production will be lower from these older wells due to the effects of being "backed out" by the higher pressure and volumes from the new Akkulka wells coming on stream.

Gas operations update

Shallow Gas Drilling programme

During 2014, the Company produced dry gas from a total of 11 wells at a depth of approximately 500m below surface, comprising eight producers in the Kyzyloi field and three in the central Akkulka field. In January 2015 wells AKK15, 16, 17, 18 and 19 were added to make a total of sixteen producers with a current combined production of around 550 Mcm per day. It is also planned to work over and put on production wells AKK14 and AKK05 during Q1/Q2 2015. Note that wells AKK11,13 & KYZ_G12 were shut in at year end and will be opened in Q2 2015 due to their low volumes and hydrates during winter.

The 2014 gas programme had two components: wells that had been previously drilled and tested were tied in along with new shallow gas wells. These wells targeted gas at 600-800 metres at the deeper, higher pressured, Tasaran sand level that tested strongly on the AKK14 and AKK15 wells (previously the production was exclusively from the shallower Kyzyloi stratigrahic level).

During the second half of 2014 a new pipeline system was installed in order to tie in AKK15, 16, 17, 18 and 10, for which final State approvals were received in February 2015. In parallel, a dehydration system was installed at the Booster Compressor Station and is performing well and outputting gas sufficient to make not only Kazakh but also export standard. Final State approval and commissioning of this unit was achieved in March 2015.

It is planned to increase production in Q2 2015 by putting onto production wells AKK14 then AKK05 and further optimizing existing compression.

The recently completed Bozoi-Shymkent-China gas pipeline means that, for the first time, Tethys has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to China, and the existing Bukhara Urals trunk line that transports gas from Central Asia into Russia. Currently the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent.

Once necessary contracts and approvals are in place, the Company's strategy is to commence selling into the Kazakhstan-China pipeline system when it expects to achieve a significantly higher net price than the recently concluded 2015 net price of USD75.09 (at an exchange rate of 181.78 Tenge). Tethys believes that Chinese buyers are currently buying gas from Central Asia at much higher prices than this and therefore expects the price it receives to rise again at that time. During Q1 2015, the Company signed a Memorandum of Understanding ("MOU") with PetroChina.

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 is now in place, and commencement of drilling operations is planned upon receipt of funds from the SinoHan sale; a drill tender having been completed in December 2014. 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 hydrocarbon indications ("bright spots") on the recently acquired and interpreted seismic. Independent prospective resources assessment by Gustavson Associates assign total unrisked mean recoverable oil resources of 422 million barrels to the structure and total risked mean recoverable oil resources of 106 million barrels. Total SA has recently acquired the acreage to the south and west of Klymene and intends to drill one well on each of their blocks in 2015.

Results of Operations and Operational Review - Uzbekistan

Oil Production - North Urtabulak Production Enhancement Contract ("PEC")

During the second half of 2013, the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business climate in the country. The Board met in November 2013 and discussions concluded that a full withdrawal from existing projects in the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations had been earned since June 2013. The Board formally decided in December 2013 to exit from existing projects in the country and announced on January 2, 2014, being the next working day, that it would do so effective immediately as there was no contractual notice period but that it would take a period to complete the process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field. During Q2 2014 the Company formally transferred the wells to the State and the majority of staff contracts were terminated. There is currently a staff of four on short term contracts who are required in order to facilitate a formal hand over of equipment to the State under the provisions of the PEC. This hand over is currently underway as at the date of this MD&A. The Company was not expected to benefit from any production or earn any revenues in 2014. In view of the circumstances described, the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia.

Results of Operations and Operational Review - Tajikistan

Oil Production – Beshtentak

	2014				2013			
	Total production				Total production			
	Tonnes	Barrels	Production days	bopd	Tonnes	Barrels	Production days	bopd
Total	**-**	**-**	**-**	**-**	**1,420**	**10,338**	**160**	**65**

On June 18, 2013, the Company completed a farm-out agreement with subsidiaries of Total SA and CNPC. As part of the agreement with Total SA and CNPC Beshtentak wells were relinquished to the government and as a result, production ceased.

Operations update

Since completion of the farm-out, the new joint arrangement has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area, particularly targeted at deeper exploration potential. In Q4 2013, the joint operating company went out to tender for the acquisition of seismic data which was awarded to BGP of China in April 2014 and commenced field acquisition in late October 2014. This new wide line 2D survey is specially designed to image the deep targets described in the Independent Resource Report and consists of a first phase of 826 kms with an option for an additional 200 kms, all to be acquired by the end of 2015. As well as 2D acquisition and processing, a concurrent low cost passive seismic survey is planned and a Magnetotellurics survey is also being acquired now along the dip lines. Processing of all these data will be concurrent so interpretation and mapping will be underway from early 2015. This whole data set will enable the identification of the best possible drilling location to be agreed on at the end of 2015 / early Q1 2016.

An Independent Resource Report on the Bokhtar PSC area (dated June 30, 2012), prepared by Gustavson Associates in accordance with Canadian National Instrument 51-101, estimates Gross unrisked mean recoverable prospective resources of 27.5 billion barrels of oil equivalent, consisting of 114 trillion cubic feet (3.22 trillion cubic metres) of gas and 8.5 billion barrels of oil.

Accounting from date of farm-out

Following the farm-out to subsidiaries of Total SA and CNPC in June 2013, whereby each acquired a one third interest in Kulob's Bokhtar Production Sharing Contract, an operating company, Bokhtar Operating Company BV, has been established which is jointly owned by the three partners. The Company has classified the arrangement as a joint operation (where the company has rights to the assets, and obligations for the liabilities, relating to the arrangement). The Company recognizes its share of assets, liabilities and transactions, including its share of those incurred jointly, in accordance with the relevant International Financial Reporting Standards.

Results of Operations and Operational Review - Georgia

Following completion, in early January 2014, of the acquisition of a 56% interest in the Georgian licence areas: Blocks XIA, XIM and XIN, activities performed since the 2013 2D seismic acquisition have focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XIA and XIM with some geochemical and structural geology work having been completed across all three blocks.

An Independent Resource Report on the Company's Georgia acreage (dated July 1, 2013), prepared by Gustavson Associates in accordance with Canadian National Instrument 51-101, estimates Gross unrisked mean recoverable prospective resources of 3.216 billion barrels of oil equivalent, consisting of 2.913 billion barrels of oil plus 1.8 trillion cubic feet (51.4 billion cubic metres) of gas. Geochemical and rock mechanic were completed to further evaluate the unconventional play on the Company's acreage which Tethys believes has substantial upside potential. In addition, several conventional targets have been identified from seismic as well as potential drilling locations for unconventional wells.

Significant planned capital expenditure is currently on hold while negotiations are being undertaken with the State to approve a change of the remaining commitment on Block XI^{N} from the remaining 100 line km of 2D seismic by 30th June 2015 to gravity surveying, this is expected to be approved in Q2 2015. A dataroom for potential farm-in partners has been set up for this project.

Refer to page 6 for details of the reduction in the Company's interest in the Georgian licences subsequent to year end.

Financial Review

Summary of Quarterly Results

	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013
Oil and gas revenue [1]	6,224	7,261	7,123	6,781	8,527	9,082	8,862	10,474
Loss for the period								
– continuing ops [1]	(5,034)	(2,362)	(3,668)	(4,409)	(4,208)	(4887)	3,242	(4,683)
– discontinued ops [1]	(210)	(57)	(153)	(492)	(6,406)	(501)	(544)	356
Basic & diluted loss ($) per share – continuing ops	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01	(0.02)
Basic & diluted loss ($) per share – discontinued ops	-	-	-	-	(0.02)	-	-	-
EBITDA – adjusted for share based payments [2]	(3,806)	(1,134)	(2,509)	(4,837)	(3,348)	(507)	8,515	1,998
Capital expenditure	7,752	6,216	4,835	7,266	16,510	4,985	1,050	1,264
Total assets	238,695	241,059	242,878	232,881	234,618	246,536	253,924	246,896
Cash & cash equivalents	3,112	7,914	11,642	13,698	25,109	51,207	64,535	1,358
Cash & cash equivalents – held in a disposal group[3]	757	2,153	6,036	1,627	622	-	-	-
Short & long term borrowings	(10,628)	(11,032)	(7,581)	(6,715)	(4,965)	(17,852)	(18,889)	(15,885)
Short & long term borrowings – held in a disposal group[3]	(4,871)	(5,166)	(5,911)	(6,755)	(8,947)	-	-	-
Total non-current liabilities	(5,489)	(5,923)	(6,370)	(5,744)	-	(11,914)	(12,541)	(9,883)
Total non-current liabilities – held in a disposal group[3]	(7,937)	(7,412)	(7,691)	(8,019)	(10,913)	-	-	-
Net (debt) / funds[2]	(11,630)	(6,131)	4,186	1,855	11,819	33,355	45,646	(14,527)
Number of common shares outstanding	336,452,667	336,452,667	336,452,667[5]	299,557,744[4]	299,557,744[4]	299,557,744[4]	287,557,744	286,782,744

Note 1 Amounts have been re-stated for operations discontinued during 2013

Note 2 Non – GAAP measure refer to page 24 of this MD&A

Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as “Assets and Liabilities of a disposal group held for sale”. For further information – refer to note 19 of the audited 2014 Consolidated Financial Statements

Note 4 Includes 12,000,000 shares issued on July 9, 2013 in connection with the proposed acquisition of Georgian assets. These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014

Note 5 2014 includes the issue in May and June of 36,894,923 new ordinary shares which raised gross proceeds of USD15m for the Kazakh shallow gas programme.

Loss for the year

The Company recorded a net loss after taxation of USD15.4m for the year ended December 31, 2014 (2013: USD10.5m), the principal variances between the two periods being the Tajik gain realized on farm-out in June 2013 (USD8.2m), decreased revenue as a result of both lower volumes and price and reduced depreciation, depletion and amortization of the Kazakh assets which ceased when the assets were classified as held for sale on November 2, 2013. Further variances between the two periods are summarized below together with a discussion of variances greater than 10%:

	Quarter ended December 31			Year ended December 31		
	2014	2013	Change	2014	2013	Change
Sales & other revenues	6,224	8,527	(27%)	27,389	36,945	(26%)
Sales expenses	(511)	(679)	(25%)	(2,287)	(3,036)	(25%)
Production expenses	(3,501)	(4,260)	(18%)	(13,476)	(13,640)	(1%)
Depreciation, depletion & amortization	(690)	(1,269)	(46%)	(1,270)	(12,619)	(90%)
Business development expenses	(100)	(1,090)	(91%)	(1,881)	(2,695)	(30%)
Administrative expenses	(3,259)	(4,656)	(30%)	(17,647)	(18,703)	(6%)
Restructuring costs	(2,585)	-	-	(2,585)	-	-
Transaction costs of assets held for sale	2	(611)	(100%)	(243)	(611)	(60%)
Share based payments	(8)	(112)	(93%)	(224)	(862)	(74%)
(Costs) / gain on Tajik farm-out	-	(240)	(100%)	-	8,214	(100%)
Foreign exchange loss - net	(32)	(46)	(30%)	(200)	(113)	77%
Fair value gain on derivative financial instrument - net	-	282	(100%)	17	830	(98%)
(Loss) / profit from jointly controlled entity	(44)	(291)	(85%)	(1,356)	298	(555%)
Finance costs - net	(47)	789	(106%)	(1,247)	(1,460)	(15%)
Loss before taxation	**(4,551)**	**(3,656)**	**24%**	**(15,010)**	**(7,452)**	**101%**
Taxation	(483)	(551)	(12%)	(463)	(3,083)	(85%)
Loss for the period / year from continuing operations	(5,034)	(4,207)	20%	(15,473)	(10,535)	47%
Loss for the period / year from discontinued operations	(210)	(6,407)	(97%)	(912)	(7,096)	(87%)
Loss for the period / year	**(5,244)**	**(10,614)**	**(51%)**	**(16,385)**	**(17,631)**	**(7%)**

Sales & other revenue

	Quarter ended December 31			Year ended December 31		
	2014	2013	Change	2014	2013	Change
Summary						
Oil	4,371	6,076	(28%)	18,920	25,530	(26%)
Gas	1,839	2,444	(25%)	8,191	10,930	(25%)
Other	14	7	100%	278	485	(43%)
Total	**6,224**	**8,527**	**(27%)**	**27,389**	**36,945**	**(26%)**
By region:						
Kazakhstan						
Oil	4,371	6,076	(28%)	18,920	24,980	(24%)
Gas	1,839	2,444	(25%)	8,191	10,930	(25%)
Other	14	3	367%	26	208	(88%)
Total	**6,224**	**8,523**	**(27%)**	**27,137**	**36,118**	
Tajikistan						
Oil	-	-	-	-	550	(100%)
Other	-	-	-	252	258	(2%)
Total	**-**	**-**	**-**	**252**	**808**	**(69%)**
Other	-	4	(100%)	-	19	(100%)
Total	**6,224**	**8,527**	**(27%)**	**27,389**	**36,945**	**(26%)**

Kazakhstan Oil sales

	Gross sales		Realized price at wellhead	Compensation	VAT	Net sales
2014	**bbls**	**Revenue**	**$/bbl**			
Q1	174,381	4,827	27.1	97	507	4,223
Q2	215,535	5,704	26.5	114	598	4,992
Q3	219,117	6,097	27.9	122	641	5,334
Q4	201,922	4,997	24.7	101	525	4,371
Total	**810,955**	**21,625**	**26.7**	**434**	**2,271**	**18,920**
2013						
Q1	272,695	8,737	32.0	165	918	7,654
Q2	205,427	6,248	30.4	134	655	5,459
Q3	220,206	6,621	30.0	135	695	5,791
Q4	231,399	6,945	30.0	140	729	6,076
Total	**929,727**	**28,551**	**30.7**	**574**	**2,997**	**24,980**

- Under the Pilot Production licence, oil can only be sold in the local market;
- Net figures exclude the compensation for water content plus compensation for natural wastage and transportation costs of water from the well head to the terminal at Shalkar. The compensation for water content is due to the small amount of water in the crude that remains after the field separation;
- Sale price is determined based on oil sold at the wellhead. The Company incurs no transportation or marketing costs. Some other entities report their oil price differently, with transportation and marketing costs being reported separately. Tethys' oil is trucked 230 km and then railed hundreds of kilometres. According to figures provided by local oil buyers if oil was sold at the refinery, the price would be significantly higher;
- Q1 2014 sales revenue was affected by lower volume than in the same period prior year, although volumes in subsequent quarters have been favourable compared with prior year. Revenue has been affected by a price decrease from its Q4 2013 level of USD30 per barrel to an average of approximately USD27.30 per barrel as a result of the February 2014 Tenge devaluation. During September 2014, the price was increased to USD28.70 from the June level of USD27.40 as the market gradually re-aligned following the Tenge devaluation in February, however by December, the local market was adversely affected by the significant decline in world oil prices at the end of the 2014 and prices decreased significantly to USD13.

Kazakhstan Oil price

- Since Q2 2013, there was downward pressure on pricing as a result of a 30% increase in railway tariffs in January 2013, which was absorbed by the domestic market. By Q4 2013, the oil price was stable at USD30 per barrel, however, during February 2014 this price was eroded as a result of the 20% devaluation of the Tenge which was absorbed by the market. The Company is not responsible for any distribution or transportation costs as product is sold at the wellhead. As a result of the decline in world oil prices at year end a production surplus arose in Kazakhstan which impacted on traders' ability to sell on. Subsequent to year end, to ensure continuity of production throughput, the Company has made provision for a December price reduction from USD28.60 to USD13.00, although negotiations are ongoing.

Kazakhstan Gas sales

- Gas sales were lower in both the quarter and year to date compared with comparative periods due to natural decline and lower selling price following the devaluation. There was no gas production in January 2013 while the new gas contract was under negotiation.

Kazakhstan Gas price

- In late January 2013, the Company signed two contracts with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company, KazTransGas JSC. These contracts were renewed for the year ended December 31, 2014. Both Kyzyloi and Akkulka sales contracts were for annual volumes up to 150 million cubic metres at a fixed Tenge price. Net of sales expenses (see below), this equated to a price (net of VAT) of KZT 9,652.50 per 1,000 cubic metres (USD53.10 at a 2014 average annual exchange rate of 181.78 Tenge);

- On December 31, 2014, a new contract was signed with respect to 2015 production for a minimum 100 million cubic metres at a fixed Tenge price. Net of sales expenses (see below), this equates to a price (net of VAT) of KZT 13,650 per 1,000 cubic metres (USD75.09 at a 2014 average annual exchange rate of 181.78 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 31 – *Sensitivities.*

Tajikistan Oil sales

Oil sales ceased during Q2 2013 as a result of relinquishment of the Beshtentak field as part of the farm-out agreement with Total and CNPC. Current year revenue consists of the provision of one-off ad hoc services to the Bokhtar Joint Operating Company.

Sales expenses

Sales expenses represent Kazakh marketing agent commissions paid in relation to the 2013 / 2014 Kazakh gas sale contracts of KZT3,712.50 per Mcm, net of 12% VAT, (USD20.42 at a 2014 average annual exchange rate of 181.78 Tenge).

Kazakh marketing agent commission with respect to the 2015 gas contract is anticipated to be KZT 4,550 per Mcm, net of 12% VAT, (USD25.03 at a 2014 average annual exchange rate of 181.78 Tenge).

Production expenses

	Quarter ended December 31			Year ended December 31		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Kazakhstan						
Oil production	2,518	2,484	1%	9,677	8,410	15%
Gas production	906	1,108	(18%)	3,432	3,601	(5%)
Tajikistan						
Oil production	-	63	(100%)	-	859	(100%)
Other	78	605	(87%)	368	770	(52%)
Total	**3,502**	**4,260**	**(18%)**	**13,477**	**13,640**	**(1%)**
Kazakhstan						
Oil production - net bbls	209,097	239,117	(13%)	839,888	953,892	(12%)
Oil production - cost per bbl	12.04	10.39	16%	11.52	8.81	31%
Gas production - boe	137,816	169,000	(18%)	643,741	746,000	(14%)
Gas production - cost per boe	6.57	6.55	-	5.33	4.83	10%
Total – cost per boe	9.31	8.47	10%	8.43	6.82	24%

Kazakhstan – oil production

- A significant proportion of costs associated with oil production are fixed, therefore even if there is lower oil production in the current period compared with the comparative period, costs will not reduce proportionately, hence current quarter cost per barrel is greater than comparative quarter primarily as a result of lower volume produced;
- Cost per barrel of oil production has been affected during the current year, compared with prior year, due to the lower production levels which were affected by pump downtime and weather in Q1 2014, and secondly, due to higher water disposal costs as a result of the higher water production. Going forward the Company expects oil production costs to decrease from the current average levels by the installation of a permanent water injection facility, which will take approximately 5 months and is subject to funding;
- With the reduction in oil sale price, the Company has undertaken a review of its underlying oil operating costs. Cost reductions are currently being achieved through the reduction of staff, 10% reduction of salaries and the placement of staff on unpaid leave.

Kazakhstan – gas production

- As with the oil, a significant proportion of costs associated with gas production are fixed, therefore with lower gas production, costs per cubic metre/boe will not reduce proportionately. Costs for the current quarter are in line with the comparative quarter despite lower volume;

- Cost savings have been achieved year to date through a review of staffing levels although cost per boe is higher as a result of lower volumes produced;

- The Company's shallow gas programme (discussed in the section on Kazakh operations update) will result in cost reduction per cubic metre/boe as economies of scale are achieved from January 1, 2015.

Tajikistan

- As previously noted, 2013 Tajik production ceased as a result of the farm-out (June 2013).

Depreciation, depletion and amortization (DD&A)

DD&A for the 3 months ending December 31, 2014 was USD0.69m representing a decrease of 46% over the same quarter in the prior year (2013: USD1.269m), the variance was primarily as depletion of the Kazakh assets ceased at the point at which assets were transferred to "held for sale" (November 2, 2013) in accordance with the Company's accounting policy. Annual DD&A for 2014 was USD1.27m, a decrease of 90% over the prior year (2013: USD12.619m) for the same reason. In addition, there was no Tajik depletion of the Beshtentak field, which ended at the point of farm-out in June 2013.

Business development expenses

Business development expenses are associated with the pursuit of new business opportunities either within existing operating territories or elsewhere. Expenditure for the 3 months ended December 31, 2014 was USD0.1m representing a decrease of 91% over the same quarter prior year (2013: USD1.09m), reflecting decisions made earlier in the year to reduce activity in relation to potential new projects and to close one of the Tajik offices accordingly. Annual expenditure for 2014 was USD1.881m, a decrease of 30% over the prior year (2013: USD2.695m).

Administrative expenses

	Quarter ended December 31			**Year ended December 31**		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
Staff	1,664	2,145	(22%)	8,871	8,686	2%
Travel	346	803	(57%)	2,278	3,145	(28%)
Office	425	531	(20%)	1,989	1,974	1%
Professional & regulatory fees	615	760	(19%)	2,348	2,768	(15%)
Marketing costs	38	148	(74%)	995	1,135	(12%)
Other costs	171	269	(37%)	1,166	995	17%
Total	**3,259**	**4,656**	**(30%)**	**17,647**	**18,703**	**(6%)**

- Administrative expenses in 2014 have been adversely affected by an unrealised exchange effect of approximately USD0.8m as a result of the weakening of USD against GBP. Although profit and loss account is impacted, there is no negative cash flow impact because a significant proportion of the 2014 loans and equity raised was in GBP which provided a natural hedge for the Company's GBP expenditures;

- Staff costs have significantly reduced in the current quarter compared with the comparative period as a result of staff terminations and re-allocation of costs to "Restructuring costs" – see below. Annual expenditure is consistent with prior year as a result of Kazakh salary increases during Q3 2013;

- Restrictions on travel continued in the quarter resulting in a decrease both current quarter and annual spend compared with prior comparative periods as the Company continued to reduce its costs in this area;

- Office costs have reduced in the current quarter as a result of decisions made to close the Dubai, Washington and Toronto offices. Rental commitments with respect to these offices have been re-allocated to "Restructuring costs".

- Professional & regulatory fees continue to reflect reductions both in the current quarter and on an annual basis compared with comparative periods as a result of the negotiation of a discount on regulatory services and lower audit and review fees arising as a result of re-tender of 2014 audit services and a decision to discontinue Q1 and Q3 auditor reviews;

- Marketing costs are lower for the quarter and twelve months as costs in relation to certain investor relation service contracts have been terminated from Q3 2014 and 2015 with 3 month notices having been served in Q2 2014 in order to reduce costs;

- Other costs are lower during the quarter due to reduced bank fees although annual expenditure is higher for the year as a result of local administrative taxes in Tajikistan, which were higher than in the previous year.

Restructuring costs

On December 1, 2014 the Company announced a downsizing program with significant staff reductions and cost reductions in all key general and administrative expenses areas. At the same time the Company announced its intention to close its Dubai, Washington and Toronto offices as soon as practical. The costs associated with this programme of restructuring have been shown in the Consolidated Statement of Comprehensive Income separately from administrative expenses to provide additional information in relation to these expenses. Restructuring costs for the quarter were USD 2,585,000 which included a provision of USD1,759,000 which is expected to be paid over the course of 2015.

Transaction costs of assets held for sale

No significant transaction costs have been incurred during the quarter compared with the prior quarter when significant costs of USD0.6m were incurred as a result of the negotiation of the SinoHan deal i.e. the sale of 50% (plus one share) interest in the Kazakh business segment. Costs of USD0.243m have been incurred during 2014 (2013: USD0.611m) with respect to this transaction. The sale is subject to Kazakh State approval, at which point closing will take place.

Share based payments

Share based payments for the quarter ending December 31 2014 amounted to USD0.008m representing a 93% decrease over the comparative period (2013: USD0.112m). The annual cost amounted to USD0.224m (2013: USD0.862m), both periods reflecting an overall decrease in remaining term and no significant new option or warrant issues.

(Costs) / gain on Tajik farm-out

On completion of the Tajik farm-out, in June 2013, the Company undertook a review of its Tajik assets. Net book values of USD1.227m (property, plant & equipment) and USD53.519m (intangible exploration assets) were applied against the proceeds of USD63.404m together with transactional and other related costs, resulting in a gain of USD8.214m.

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 losses to date in 2014 are principally as a result of the revaluation of GBP Sterling cash and cash equivalents and borrowings into US Dollars and are, in the main, unrealised.

Fair value gain on derivative financial instrument - net

The valuation of the derivative financial instruments is nil for the quarter compared with the comparative quarter which was USD0.282m and USD17k for the year (2013: USD0.83m), reflecting the expiry of warrants issued in connection with the original rig loan financing.

(Loss) / profit from jointly controlled entity

The loss generated by the Aral Oil Terminal was USD1.356m for the year, (2013: profit USD0.298m) a decrease of 555%. The loss generated in the current quarter was USD0.044m compared with USD0.291m in the comparative period. Since the last quarter of 2013, the terminal has generated losses as a result of lower volume throughput. Actions are being taken at the Terminal to reduce operating costs and financing has been re-structured with effect from August 2014 resulting in reducing interest expense over the remaining term of the debt.

Finance costs - net

Finance costs consist of loan interest expense net of interest income. Finance costs for the year were USD1.247m representing a 15% decrease over 2013 (USD1.46m). Greater interest capitalisation occurred in the comparative quarter Q4 2013 as a result of increased capital expenditure incurred during that quarter.

Taxation

The overall current tax charge for the year was USD0.463m (2013: USD3.083m). There was a significant impact on Kazakh tax losses and tax pools arising from the Tenge devaluation in February 2014. A reconciliation of the loss before income tax to the current tax expense is provided in note 11 to the audited 2014 Consolidated Financial Statements.

Loss from discontinued operations

As a result of the Company's decision at the end of 2013 to exit from Uzbekistan, all revenues and costs associated with this segment have been excluded from the Company's results and separately disclosed. The loss of USD0.912m is with respect to costs associated with the exit. Refer to note 5 of the audited 2014 Consolidated Financial Statements.

Liquidity and Capital Resources

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

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and 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 (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 audited 2014 Consolidated Financial Statements.

	Year ended 31 December		
	2014	**2013**	**Change**
Total financial liabilities - borrowings	10,628	4,965	
Total financial liabilities – borrowings of a disposal group	4,871	8,947	
Less: cash and cash equivalents	(3,112)	(25,109)	
Less: cash and cash equivalents – of a disposal group	(757)	(622)	
Net debt / (funds)	11,630	(11,819)	(198%)
Total equity	205,750	202,593	2%
Total capital	**217,380**	**190,774**	**14%**

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.

Financing and Going Concern

The consolidated financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Management and the board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Consolidated Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Consolidated Financial Statements for the year ended December 31, 2014.

For the year ended December 31, 2014, the Company reported a loss of USD16.4 million (2013: USD 17.6 million) and an accumulated deficit of USD198.6 million (2013: USD182.5 million) at that date and negative working capital of USD7.5 million (2013: positive USD16.4 million) excluding items classified as held for sale.

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. ("SinoHan"), part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund, for USD75 million. Completion is dependent on the Company receiving Kazakh governmental permission and waiver of the States' pre-emptive right (article 36 of Kazakhstan law on Subsoil and Subsoil Use) which have not yet been received and are beyond the Company's control. The Kazakh Government is currently completing due diligence on the Kazakh businesses in order to decide whether or not to exercise its pre-emptive right. In view of the current delay, the Company has agreed an extension of the Longstop Date under the Sale and Purchase Agreement with SinoHan until May 1, 2015. The Company has an obligation to undertake a number of significant Conditions Precedent ("CPs") prior to completion of the sale, including receipt of the approval from the Ministry of Energy, which the Company is actively pursuing, however there is no guarantee that all CPs will be completed prior to the Longstop Date. The potential delay that Kazakh Governmental approval may have on completion of the Kazakh sale of assets is unknown at present. Under the terms of pre-emption, should the Kazakh Government decide not to approve the sale to SinoHan, then it is obliged to complete the sale on the same purchase terms as SinoHan.

In July 2014, the Company and SinoHan agreed the release of the USD3.88 million deposit placed by SinoHan into escrow upon signature of the Sale and Purchase Agreement to assist with the further implementation of the Kazakh capex programme. This is in the form of a minimal interest bearing loan which will be deducted from the consideration due from SinoHan on completion. Upon completion of the sale to SinoHan, the Company will receive proceeds of USD 71.12 million (USD 75 million less the released escrow deposit of USD 3.88 million), plus potential future bonuses estimated to be USD2.07 million. Furthermore, upon completion, to the extent that the Company has spent in excess of USD20 million on capital expenditure from July 1, 2013, SinoHan will enter into a shareholder loan in an amount and on terms equivalent to the funding provided by the Company. By December 31, 2014, an excess of approximately USD10 million had been funded by the Company. This effectively means that on completion, the Company's share of future cash calls will be reduced by at least USD10 million.

In consideration for SinoHan agreeing to extend the Longstop Date, the Company has agreed that it shall be responsible for legal and other costs and expenses incurred by SinoHan pursuant to the Sale and Purchase Agreement up to a maximum aggregate amount of USD700,000 in the event that the CPs are not met or are waived by the Longstop Date and the Buyer has complied with its obligations.

Furthermore, if the SinoHan deal does not complete by the Longstop date of May 1,2015, the above described USD3.88m advance will become repayable will become repayable within 10 days upon request from SinoHan (refer to note 21.1 of the audited 2014 Consolidated Financial Statements).

Tethys' future operations and earnings will depend upon the results of Tethys' operations in the Republic of Kazakhstan, 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.

In order to support the Company's short term liquidity position, which has been adversely affected by the recent decrease in world oil prices, management has been implementing a cost reduction programme with respect to its operational and G&A costs and has been searching for additional sources of financing. Subsequent to the year end (refer to note 30 of the audited 2014 Consolidated Financial Statements), the Company entered into two separate loan agreements under which it raised total net proceeds of USD9.26 million.

In accordance with a number of current assumptions, these funds should be sufficient to cover the Company's expenditures for the next twelve months, including its obligations under the Bokhtar agreement until the end of April 2015 (refer to note 28 of the audited 2014 Consolidated Financial Statements), by which time it is anticipated that the SinoHan transaction will have completed.

However, in the event that the SinoHan transaction does not complete by the Longstop Date, the Company will need to secure additional funding in order to meet its contractual obligations under the Tajik Bokhtar licence and Kazakh Exploration and Production licences (refer to note 28 of the audited 2014 Consolidated Financial Statements) and to repay the SinoHan advance and legal costs.

The cessation of cash call payments to the Bokhtar Joint Operating Company would potentially dilute the Company's equity interest and failure to meet its Kazakh commitments could potentially result in the confiscation of licences.

The Company's ability to continue as a going concern is dependent upon completion of the SinoHan deal, its ability to fund its 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. There can be no assurances that management will be successful with these initiatives. 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.

Cash Flow

	Quarter ended December 31		Year ended December 31	
	2014	2013	2014	2013
Cash & cash equivalents at beginning of period/year	**10,067**	**51,207**	**25,731**	**1,750**
Cash inflow				
Operating activities – before tax (including discontinued operations)	-	2,322	-	-
Proceeds from farm-out (net)	-	-	-	62,959
Proceeds from financing (net)	-	-	11,604	4,714
Proceeds from issuance of equity (net)	-	-	13,568	523
Interest received	50	64	198	216
Repayment of loan receivable from jointly controlled entity	-	-	-	200
Other (includes changes in non cash working capital and restricted cash)	3,892	-	1,114	-
Total	**3,942**	**2,386**	**26,484**	**68,612**
Cash outflow				
Operating activities – before tax (including discontinued operations)	(1,567)	-	(11,184)	(505)
Costs of farm-out (net)	-	(240)	-	-
Capital expenditure	(7,752)	(16,510)	(26,069)	(23,809)
Advances	-	(4,000)	-	(4,000)
Repayment of borrowings – including interest	(963)	(4,732)	(10,524)	(10,749)
Remediation of wells	-	-	-	(253)
Repayment of historic costs	(27)	(71)	(153)	(283)
Corporation tax paid	(172)	-	(320)	(276)
Movement in restricted cash	-	(143)	-	(778)
Payment of loan to jointly controlled entity	-	(200)	-	-
Investment in jointly controlled entity	-	-	-	(4)
Other (includes changes in non cash working capital and restricted cash)	-	(2,050)	-	(4,024)
Total	**(10,481)**	**(27,946)**	**(48,250)**	**(44,681)**
Effect of exchange rates on cash & cash equivalents	340	63	(97)	50
Cash & cash equivalents at end of period/year	**3,868**	**25,731**	**3,868**	**25,731**

Operating activities

Operating activities were affected by a reduction in revenue in the current year over the comparative year as a result of loss of Uzbek and Tajik revenue combined with a reduction in Kazakh oil and gas revenues.

Proceeds from farm-out (net)

USD62.9m were the net proceeds generated from the Tajik farm-out of June 2013.

Proceeds from financing (net)

2014 financing consists of the proceeds of USD7.7m raised from the new rig loan issued in February 2014 and release of the USD3.88m deposit placed into escrow with respect to the conditional sale of a 50% (plus one share) interest in the Company's Kazakh business. Prior year financing consisted of the draw down of the final tranche of the Kazakh loan facility. For further information regarding the Company's borrowings, refer to note 21 to the audited 2014 Consolidated Financial Statements.

Proceeds from issuance of equity (net)

Current year net proceeds of USD13.6m were raised through the issuance of 36,894,923 new ordinary shares priced at GBP0.24 (CAD0.44) per share. Prior year proceeds were as a result of the exercise of warrants previously issued in connection with the original rig loan.

Capital Expenditure

Significant spend is as follows, with the main focus being delivery of the shallow gas programme that facilitated doubling of gas production from January 2015:

	Quarter ended 31 December			Year ended 31 December		
Continuing operations	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Kazakhstan						
Fire-safety	187	-		486	-	
AKD08	501	7,941		1,034	11,332	
AKD09	265	-		1,033	625	
Pumps	-	401		548	401	
2D & 3D Seismic	-	1,173		228	1,173	
New shallow gas wells & tie-ins	2,443	950		8,244	950	
Gas dehydration	653	-		4,414	-	
Rig mobilization	363	902		511	902	
KBD01 - testing	858	2,210		1,494	2,424	
Other	181	1,495		1,296	3,235	
Total	**5,451**	**15,072**	**(64%)**	**19,288**	**21,042**	**(8%)**
Tajikistan	**1,831**	**823**	**122%**	**4,212**	**1,481**	**184%**
Georgia	**479**	**-**	**100%**	**2,297**	**-**	**100%**
Corporate	**(9)**	**396**	**(102%)**	**272**	**424**	**(36%)**
Discontinued operations						
Uzbekistan	-	219	(100%)	-	862	(100%)
Total	**7,752**	**16,510**	**(53%)**	**26,069**	**23,809**	**9%**

Advances

During the last quarter of the comparative year, the Company advanced a USD4.0m (non refundable) carry with respect to the USD10m work programme agreed as part of the acquisition cost of a 56% share in the new Georgian licences, which was subsequently classified as part of the investment in Georgia in 2014.

Remediation of wells

In 2013, the Company incurred the cost of remediation of Tajik wells as part of the farm-out agreement.

Other

“Other” incorporates movements of changes in both short and long term working capital (including VAT and advances to contractors) and movements in restricted cash deposits.

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 Notes to the audited 2014 Annual Consolidated Financial Statements. Refer to note 4 of the Notes to the audited 2014 Consolidated Financial Statements for further information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Non-GAAP Measures

EBITDA adjusted for share based payments

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

	Quarter ended December 31			Year ended December 310		
	2014 ok	2013	Change	2014 ok	2013	Change
EBITDA - adjusted for share based payments	(3,806)	(3,346)	14%	(12,286)	6,659	(285%)
Depreciation, depletion and amortization	(690)	(1,269)	(46%)	(1,270)	(12,619)	(90%)
Share based payments	(8)	(112)	(93%)	(224)	(862)	(74%)
Fair value gain on derivative financial instrument - net	-	282	(100%)	17	830	(98%)
Finance costs - net	(47)	789	(106%)	(1,247)	(1,460)	(15%)
Loss before taxation	**(4,551)**	**(3,656)**	**24%**	**(15,010)**	**(7,452)**	**101%**

Net debt / (funds)

Net debt / (funds) 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 audited 2014 Consolidated Statements.

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

Stockholder Equity

As at March 31, 2015 the Company had authorized share capital of 700,000,000 ordinary shares of which 336,452,667 (2013: 299,557,744 which included 12,000,000 shares held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014) 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 approved at the AGM on April 24, 2008.

As at March 31, 2015, a total of 40,374,320 (2013: 34,388,129) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at March 31, 2015 is 22,516,300 and the number of warrants outstanding is 61,023,333.

Dividends

No dividends were declared in 2014. In 2013, one of the Company's subsidiaries, Seven Stars Energy Company ("SSEC"), declared a USD10 million dividend, 85% of which was paid to the Company and 15% of which was paid to the subsidiary's 15% shareholder.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, the Company's former Executive Chairman and President, is the sole owner and managing director.

Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2014 was USD1,369,307 (2013 – USD1,341,648).

On June 17, 2013, the company made a deposit of GBP400,000 as security for amounts owing to Vazon under the management services contract. The deposit is non-current and restricted (note 15 to the audited 2014 Consolidated Financial Statements).

On November 4, 2014, Vazon gave the required one year's notice to terminate the management services contract.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants USA LLC (collectively "OPC") had one common former director with the Company, Piers Johnson. Mr. Johnson resigned as a Director of the Company on November 17, 2014. Total fees for the year ended December 31, 2014 were USD 55,887 (2013 – USD133,304). These fees represented significantly less than 1% of the turnover of OPC. OPC participated in the 2014 loan financing described in note 21.1 to the annual 2014 Consolidated Financial Statements advancing USD400,000 to the Company. The balance due to OPC at December 31, 2014 was USD349,774.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants at a fair value of USD2,940 and USD25,891 respectively. These loans were repaid in full in February 2014 and the warrants expired in May and June 2014.

Ambassador Khalilzad was a non-executive director of the Company until his resignation on November 6, 2014. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to USD45,000 for the period ended December 31, 2014 (2013 – USD65,502).

Dr. David Robson, former Executive Chairman and President, had a close family member employed by the Company on standard terms and conditions.

Three non-executive directors and one executive director of the Company participated in the 2014 rig loan financing described in note 21 of the audited 2014 Annual Consolidated Financial Statements on the same terms as other participants. In addition, non-interest bearing advances have been made to three officers of the Company. Amounts advanced during the period and balances outstanding at the end of the period are shown in the table below:

	Year ended		Balance as at	
Loans advanced to Company:	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Non-executive director (resigned)	200	-	175	-
Non-executive director	150	-	131	-
Non-executive director (resigned)	100	-	82	-
Executive director (resigned)	167	-	139	-
Amounts advanced by Company:				
Officer	40	54	26	27
Officer	78	76	65	45
Officer	68	50	23	17

Commitments and contingencies

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 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 recognized 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 legal 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.

Kazakhstan

The 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 Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstani 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.

On November 1, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses. The assets and liabilities of the Kazakhstan businesses have been shown in the audited 2014 Consolidated Financial Statements as a disposal group help for sale (note 19). The commitments and contingencies of the Kazakhstan businesses are as follows:

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") 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 USD 2,698,531 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory, payable upon signature of the Akkulka oil production contract.

Work programmes for the period October 1, 2012 to October 1, 2015 have been agreed totalling USD 4,421,300 which includes a commitment for the period October 1, 2014 to October 1, 2015 of USD 1,172,500. As at December 31, 2014 all commitments for the periods up to October 1, 2015 had been met. It is planned to absorb the AKK16, 18, 19 and 20 wells into the Production Contract and expand the Contract boundaries, once completed (expected in Q2 2015) revised work programmes and commitments will be determined.

Akkulka Exploration Contract

Work programmes for the period January 1, 2014 to March 10, 2015 were agreed totalling USD 19,274,000. Commitments up to December 31, 2014 have been met. An extension to the appraisal period has been granted up to March 10, 2019, the work programme and commitments includes 100km2 of 3D seismic in the block in the period March 11, 2015 to March 10, 2016 for an amount of circa USD 1.7million.

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 USD 3,275,780. To date, the Company has paid two amounts of USD 49,137 each in relation to this balance. If and when commercial production commences, USD 88,666 is due in quarterly instalments until the remaining historical costs of USD 3,177,506 have been paid in full.

Work programmes for the calendar years 2013 to 2015 have been agreed totalling USD 14,904,300 which includes a commitment for 2015 of USD 9,441,100. Commitments up to December 31, 2014 were not met and an application was made by the Company to reschedule the remaining commitments. The commitments were rescheduled in Q4 2014 for the work programme up to November 11, 2015 for a total of USD8,855,000 comprising up to two wells.

Kyzyloi Production Contract

In June 2014, the Company received approval from the Ministry of Oil & Gas of the Republic of Kazakhstan for an extension to its Kyzyloi Production Contract for a further 15 years to June 2029. Work programmes for the 15 year period have been agreed totalling USD 114,567,000 which includes a commitment for 2015 of USD 7,487,200.

Tajikistan

Bokhtar Production Sharing Contract

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest.

Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company is only required to contribute 11.11% or USD9 million of the first USD80 million of the initial work programme. As at December 31, 2014, the joint venture partners had contributed USD 20.9 million to the Bokhtar Operating Company of which the Company's share was USD 2.3 million.

At December 31, 2014, Bokhtar had contractual commitments of USD 85.3 million relating to seismic acquisition, against which payments of USD 13.8 million have been made to date. Tethys share is approximately USD 15 million.

Georgia

Work programmes have been agreed with the Georgian Government which require the Company to conduct at least 100km of seismic studies by July 1, 2015 on Block XIN at an estimated cost of USD2.0 million. The Company has a 56% interest in three blocks in Eastern Georgia and is responsible for funding the first USD10 million of the work programme and 56% of costs thereafter. The Company has contributed USD 5.4 million towards the work programme to date.

Operating leases

Leases as a lessee:

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

December 31, 2014	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	2,464	1,086	1,012	366

December 31, 2013	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	1,206	734	343	129

Risks, Uncertainties and Other Information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2014 Annual Information Form 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 Executive Board of Directors. The Company has identified its principal risks for 2014 to include:

(1) Liquidity;

(2) Retention and extension of existing licences and development thereof with respect to success rates. Considerable technical work is undertaken to reduce related areas of risk and maximise opportunities;

(3) Production volume – both oil and gas;

(4) Political, fiscal and related risks.

Financial Risk Management

The Company's activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate and foreign exchange risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

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

Credit risk

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

With respect to the Company's financial assets the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

	December 31	December 31
	2014	**2013**
Trade receivables	-	84
Cash and cash equivalents	3,112	25,109
Restricted cash	739	1,135
Total	**3,851**	**26,328**
Assets of a disposal group held for sale (Kazakhstan):		
Trade receivables	1,540	2,203
Cash and cash equivalents	757	622
Restricted cash	1,922	1,664
Loans receivable from jointly controlled entities	1,500	2,676
Total	**5,719**	**7,165**
Total	**9,570**	**33,493**

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. At December 31, 2014, the trade receivable amounted to USD1,540,000 (2013 – USD2,303,000), none of which was greater than 30 days overdue.

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

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company does not believe that the balance is impaired at the reporting date. The carrying amount of the loans receivable represents the maximum exposure to credit risk at each balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2014. Refer also to the section on Financing and Going Concern on pages 20 and 21.

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

The following are the contractual maturities of financial liabilities, including estimated interest payments at December 31, 2014:

	Contractual cash flows	Less than one year	1 – 3 years	4 – 5 years
Trade and other payables	4,102	4,102	-	-
Financial liabilities - borrowings	12,213	5,963	6,250	-
Total	**16,315**	**10,065**	**6,250**	**-**
Liabilities of a disposal group held for sale (Kazakhstan):				
Trade and other payables	5,710	5,504	159	47
Financial liabilities - borrowings	5,525	3,235	2,290	-
Total	**11,235**	**8,739**	**2,449**	**47**
Total financial liabilities	**27,550**	**18,804**	**8,699**	**47**

There can be no assurance that debt or equity financing will be available or, sufficient, to meet the Company's requirements or, if debt or equity financing were available, that it would be on terms acceptable to the Company. Until completion of the Kazakh sale, the Company is reliant on obtaining additional debt or equity funding to continue as a going concern. Inability of the Company to access sufficient capital for its operations could have a material impact on the Company's financial condition, timing of activities and results of operations and prospects.

Interest rate risk

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

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. A decrease of 100 basis points in the interest rate would have resulted in a decrease of USD23,000 in the interest earned in the current year (2013 - USD39,000).

As at December 31, 2014, the Company's interest rate profile was:

	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	623	116	739
Cash and cash equivalents	-	3,112	3,112
Financial liabilities - borrowings	(6,726)	(3,902)	(10,628)
Total	**(6,103)**	**(674)**	**(6,777)**
Assets and liabilities of a disposal group held for sale (Kazakhstan):			
Restricted cash	1,922	-	1,922
Cash and cash equivalents	-	757	757
Financial liabilities - borrowings	(4,871)	-	(4,871)
Total	**(2,949)**	**757**	**(2,192)**
Total	**(9,052)**	**83**	**(8,969)**

Foreign exchange risk

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

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

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at December 31, 2014 are as follows:

In USD equivalent	**CAD '000**	**GBP '000**	**EUR '000**	**KZT '000**
Cash and cash equivalents	19	1,788	26	754
Trade and other receivables	-	34	2	9,532
Trade and other payables	(21)	(184)	(78)	(2,393)
Financial liabilities -borrowings	-	(2,769)	-	(4,871)
Net exposure	**(2)**	**(1,131)**	**(50)**	**3,022**

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

Effect in USD'000	**CAD '000**	**GBP '000**	**EUR '000**	**KZT '000**
Profit or (loss) before tax	-	(127)	(3)	354

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan, Tajikistan or Georgia to foreign entities. However, there can be no assurance, that restrictions on repatriation of capital or distributions of earnings will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Lari will continue to be exchangeable into US Dollars or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Lari into US Dollars or Pounds Sterling to meet its foreign currency obligations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as marketability of production and commodity prices.

- *Marketability of Production*

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia, Europe and now potentially China. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

- *Commodity price risk*

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in oil and/or natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. In Kazakhstan, the Company has fixed price (Tenge) gas contracts up to the end of 2015, although there is potential to discuss a re-alignment of price with the buyers in the event of Tenge / USD devaluation greater than 10%.

The Company's oil contract in Kazakhstan is subject to commodity price fluctuation and it may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells because of lower prices. These factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

Beyond 2014, fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for oil and gas prices in the region is good, the recent events in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, consideration needs to be given to production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and, as such, there are many differing opinions on the cause of recent price changes.

As previously stated gas production from both the Kyzyloi and Akkulka contracts in Kazakhstan is sold at fixed prices, at least until the end of 2015, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2015, however, it would be affected by exchange rate risk, see "Sensitivities".

There were no commodity price financial derivatives outstanding as at December 31, 2014 and 2013.

SinoHan transaction

The Company is dependent on the completion of the SinoHan transaction to fund its operations. The completion of the SinoHan transaction is subject to a number of conditions, including various regulatory approvals, which include receipt of Article 36 pre-emption waiver from the MOE, approval of the Antimonopoly Agency, permissions of the National Bank of Kazakhstan and listing of the Company's subsidiary Tethys Kazakhstan SA on the Kazakh Stock Exchange. Refer also to section *"Description of the Business – Kazakhstan"* in the Company's Annual Information Form. If the conditions precedent are not satisfied by May 1, 2015 then the transaction is unlikely to be completed under the terms currently contemplated, resulting in significant budgetary constraints for the Company, including the obligation to repay the USD3.88 million advance.

Sensitivities

The price of gas sales from gas produced from both the Kyzyloi and Akkulka gas fields under Gas Supply Contracts is fixed in Tenge until December 31, 2014 and hence will be sensitive to a fluctuation in exchange rate. A 20% devaluation of the Tenge, from 181.78 to 218.13 for example, would result in a net price reduction of USD8.85 per Mcm (i.e. USD44.25 from USD53.10). On production of 111,723 Mcm per annum, this would result in a reduction of USD988,749 in gas revenue.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 1,770 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 USD646,050 per annum.

Environmental

The Company's operations are subject to environmental, safety and health and sanitary regulations in the jurisdictions in which it operates. Whilst the Company believes that it carries out its activities and operations in material compliance with these environmental, safety and health and sanitary regulations, there can be no guarantee that this is the case. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on a semi-annual basis for information purposes and no payments are applicable. In Tajikistan and Georgia the Company is subject to environmental regulation through its joint venture partner operating companies and its activities are subject to inspection by the appropriate authority in that country.

At present, the Company believes that it meets satisfactory environmental standards in all material respects in all of the areas in which it operates, and has included appropriate amounts in its capital expenditure budget to continue to meet its current environmental obligations. However, the discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Political & regulatory

The Company decided in December 2013 and announced on January 2, 2014 that it had made a decision to exit Uzbekistan and surrender its rights under the PEC due to changes in the business climate and political environment. The Company's decision was principally as a result of problems encountered by Tethys Production Uzbekistan (the trading name of the Company's subsidiary, Baker Hughes (Cyprus) Limited, ("BHCL") in receiving allocation and payment for the delivery of crude oil to the Fergana refinery. Uzbek authorities have requested access to certain records of BHCL. Such inspections are relatively commonplace in the fSU. To date, the Company has received two claims as a result of the tax inspection undertaken, the risk of crystallization of these claims is considered by the Company to be remote. In addition, the Company has incurred expenses relating to its exit from Uzbekistan, for which provision has been made. Moreover, as a result of problems encountered by the Company with the Fergana refinery, the Company may be unable to recover payment for oil previously delivered to the Fergana refinery (estimated at USD1.6 million) which has been written down in the audited 2013 Annual Consolidated Financial Statements. Political, regulatory and similar risks are reviewed by the Board at which mitigating strategies and policies are discussed and agreed.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC Interpretations issued by the IFRS Interpretations Committee. Please refer to the audited 2014 Consolidated Financial Statements - Note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further detailed discussion.

New and amended accounting standards adopted by the Company

The following new or amended standards have been introduced for the current accounting year:

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- IAS 32, Financial Instruments, Presentation (''IAS 32'') has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The Company adopted these amendments on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRIC 21, Accounting for Levies imposed by governments (''IFRIC 21'') was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company adopted IFRIC 21 on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRS 2, Share based payments has been amended to clarify the definition of vesting conditions. The amendment clarifies that the vesting condition is either a service or performance condition and separately defines these two conditions. The Company adopted these amendments on July 1, 2014 which did not result in any material impact on the consolidated financial statements.

- IFRS 3, Business combinations has been amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the consolidated financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these early and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- The IASB completed the final element of its comprehensive publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.
- IFRS 10, Consolidated financial statements (“IFRS 10”), and IAS 28, Investments in associates and joint ventures (“IAS 28”), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016.
- IFRS 11, Accounting for acquisitions of interests in joint operations (“IFRS 11”), has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendment to IFRS 11 is effective for annual periods beginning on or after January 1, 2016.
- IFRS 15, Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

Derivative Financial Instruments

The Company has a warrant liability representing a financial liability relating to share warrants where the shares are denominated in a currency that is not the Company’s functional currency. Full details are disclosed in note 21.2 of the audited 2014 Consolidated Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

As at December 31, 2014, an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and the CFO concluded that, as at December 31, 2014, 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.

Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its internal control over financial reporting. Based on this evaluation, the CEO and CFO concluded that internal control over financial reporting was effective as at December 31, 2014, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control – Integrated Framework and related illustrative documents, which will supersede the 1992 COSO Framework as of December 15, 2014. As of December 31, 2014, the Company was utilizing the original framework published in1992, but is transitioning to the 2013 COSO Framework as it relates to its internal control over financial reporting.

In 2014 there was no change in the Company's internal control over financial reporting that materially affected or is reasonably likely to materially affect its internal control over financial reporting.

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 its fiscal 2014 reports.

Significant equity investees

Details of significant equity investees are discussed in note 26 of the audited 2014 Consolidated Financial Statements.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Tethys' and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2014 capital investments projections, and the potential source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; the ability of the Company to farm out or sell its Georgian assets; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; the risk that the SinoHan transaction will not complete as expected; the Company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; the Company will not be successful in negotiating binding terms for the export of gas and oil to China at prices significantly higher than prices currently realized; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

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