TETHYS PETROLEUM LIMITED

MANAGEMENT’S DISCUSSION AND ANALYSIS

for the six months ended June 30, 2013

The six months ended June 30, 2013 compared to the six months ended June 30, 2012

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

	2013	2012	Change
Revenue from oil and gas sales	21,504	16,691	29%
Net loss	(1,629)	(11,718)	-86%
Basic and diluted loss ($) per share	(0.00)	(0.04)	
Capital expenditure	2,314	3,310	-30%
Total Assets	253,924	253,153	0%
Non-current Liabilities	(12,541)	(5,752)	118%
Cash balance	65,012	4,446	1362%
Common shares outstanding	287,557,744	286,707,744	0%

The following Managementôs Discussion and Analysis (ñMD&Aò) is dated August 14, 2013 and should be read in conjunction with the Companyôs unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended June 30, 2013 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2012. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Companyôs Audit Committee and Board of Directors. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 ñInterim Financial Reportingò and the requirements of the Disclosure and Transparency Rules (óDTRô) of the Financial Conduct Authority (óFCAô) in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the ñForward-Looking Statementsò legal advisory contained at the end of this MD&A and also the Companyôs AIF.

The Tethys Petroleum Limited Interim Report and Accounts consists of two documents as detailed below:

1) Managementôs Discussion & Analysis: this includes the requirement of National Instrument 51-102 of Canadian Securities Administrators (ñCanadian NI 51-102ò) in respect of a quarterly Managementôs Discussion & Analysis and the requirements of the UKôs Disclosure & Transparency Rules with respect to a half-yearly management report; and

2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of the Canadian NI 51-102 with respect to a quarterly financial report and the requirements of UKôs Disclosure & Transparency Rules with respect to half-yearly financial information, a Directorsô Responsibility Statement and the Independent Auditorôs Review Report to Tethys Petroleum Limited on Review of Interim Financial Information.

Highlights and Significant Transactions

On January 31, 2013, the Company announced that two new gas supply contracts had been signed by TAG with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC, for the Kyzyloi and Akkulka natural gas fields. The contracts are for annual volumes up to 150 million cubic metres at an increased price of USD 90.0 per Mcm (USD 2.56 per Mcf) of gas (USD 100.8 per Mcm or USD 2.9 per Mcf including VAT). Sales costs are USD 25.0 per Mcm. The contract runs through to December 31, 2013. The net price to the Company after sales costs is effectively double the price obtained for previous gas sales in Kazakhstan.

On February 28, 2013, the Company announced it had extended the exploration period for the Kul-Bas Exploration and Production Contract by a further two years until November 11, 2015. The Kul-Bas contract area surrounds the Akkulka contract area which contains the Company's producing oil and gas fields. This extension gives further time to explore this attractive area, which has several prospects and leads.

On June 18, 2013 the Company announced the completion of the farm-out agreement announced in December 2012 with subsidiaries of Total Exploration and Production SA ("Total") and China National Petroleum Corporation ("CNPC") whereby each acquired a one third interest in its Bokhtar Production Sharing Contract (the "Bokhtar PSC") in Tajikistan. Tethys' subsidiary Kulob Petroleum Limited ("KPL") which holds the Company's interest in the Bokhtar PSC received USD63.4 million relating to its past costs. KPL is owned by Seven Stars Energy Corporation (ñSSECò) in which the Company holds an 85% share. KPL also has a part carry on an USD80.0 million initial work programme whereby KPL contributes only USD8.8 million towards this programme.

On July 8, 2013the Company announced the conditional acquisition of interests in a number of Production Sharing Contracts (ñPSCò) in Georgia. Tethys, through its subsidiary companies, will acquire a 56% interest in PSC's in three blocks in eastern Georgia for a payment of USD 9.6 million, which will be paid to the current owners by issuing 12,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share) and funding a USD 4.4 million carry on the next USD 10 million work programme. In a separate transaction the Company will acquire a 100% interest in PSC's in two other blocks for a payment of USD 6.4 million, which will be paid to the current owners by issuing 8,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share). In total, these blocks cover an area of over 6,400 square kilometres. Tethys will be the Operator of all these PSC's and the transactions are subject to the approval of the appropriate Georgian authorities as well as other conditions precedent including rescheduling of the work programmes.

On July 29, 2013 the Company announced an update on its Kazakhstan drilling schedule previously announced as part of the Kazakhstan work programme through Q1, 2014 which involves an extended and accelerated drilling programme. Further details can be seen in the *Kazakhstan Operations Update* on page 23.

In terms of EBITDA adjusted for share based payments in the three months to June 30, 2013 the Company generated a positive USD8.0 million (2012: USD1.1 million) and in the six months to June a positive USD10.7 million (2012: negative USD0.5 million). EBIDTA - adjusted for share based payments (a Non GAAP measure) is defined as: Earnings before Interest, Tax, Depreciation, Amortization and share based payments. *See table on page 9*.

In the three months to June 30, 2013 the Company generated a profit after tax of USD2.7 million compared to a post tax loss of USD4.9 million in the same period of 2012.

The boost in the profit for the period was primarily the result of USD8.7 million of the gain arising from the Tajik farm-out.

Revenue from oil and gas sales in the six months to June 30, 2013 was USD21.5 million, which represented an increase of 29% on the USD16.7 million in the same period of 2012.

In the six months to June 30, 2013 the Company generated cash of USD2.4 million from its operating activities compared to using USD3.1million in its operating activities in the same period of 2012.

In the six months to June 30, 2013, capital expenditure was USD2.3 million compared to USD3.3 million in the six months ended June 30, 2012.

Administrative costs in the six months to June 30, 2013 at USD9.6 million were 7% lower than the USD10.4 million incurred in the period to June 30, 2012.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively ñTethysò or ñthe Companyò) has its principal executive office in Guernsey, British Isles. The domicile of Tethys Petroleum Limited is the Cayman Islands where it is incorporated. Tethysô principal activity is the exploration for and production of crude oil and natural gas. The Company currently has projects in the Republic of Kazakhstan, the Republic of Tajikistan and the Republic of Uzbekistan.

Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi production contract)

Period	2013				2012			
	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]
Q1	19,242	679,429	214	1,258	35,242	1,244,402	387	2,279
Q2	26,238	926,464	288	1,697	31,967	1,128,762	351	2,068
Total	45,480	1,605,893	251	1,479	67,209	2,373,164	369	2,174

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, 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main Bukharaï Urals gas trunkline, where a compressor station was constructed at km910 on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.
- Initial production from the Kyzyloi Field was sold under the long-term take-or-pay contract signed between TAG and gas trading company GazImpex in January 2006. This contract was assigned in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP, who utilized the gas in the domestic Kazakh market. This contract was further assigned on May 1, 2009 to Asia Gas NG LLP. The contract price was USD32 per Mcm excluding VAT or USD35.84 per Mcm including VAT at the current 12% rate.
- The long-term take-or-pay contract expired in December 2012 and in late January 2013 TAG signed a contract with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company

KazTransGas JSC. This Kyzyloi contract, along with a similar one for Akkulka, is for annual volumes up to 150 million cubic metres at an increased price of USD 90.0 per Mcm (USD 2.56 per Mcf) of gas (USD 100.8 per Mcm or USD 2.9 per Mcf including VAT). Sales costs are USD 25.0 per Mcm. The contract runs through to December 31, 2013. The net price to the Company after marketing and distribution costs is effectively double the price obtained for previous gas sales in Kazakhstan.

- Between the expiry of the old sales contract at December 31, 2012 and the signing of the new contract at the end of January 2013 production was put on hold.
- The gradual reduction in production levels seen in 2012 continued into 2013 and is primarily the result of natural decline in the wells. No capital was invested in maintaining or increasing gas production due to the relatively low gas price being realized under the previous gas sales contract. With the higher gas price now being received the Company intends to boost the gas production. See *Kazakhstan Operations Update gas operations.*
- Production in Q1 2013 was 19.2 MMcm (2012: 35.2 MMcm) and in Q2 production was 26.3 MMcm (2012: 32.0 MMcm).
- To the end of Q2 2013 some 708 MMcm of gas had been produced from the Kyzyloi field.

Kazakhstan Gas Production (Akkulka production contract)

Period	2013				2012			
	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]	Mcm	Mcf	Mcm/d	boe/d
Q1	7,413	261,737	82	485	16,273	574,602	179	1,053
Q2	10,118	357,267	111	654	14,373	507,504	158	930
Total	17,531	619,004	97	570	30,646	1,082,105	168	991

- On September 16, 2010, the Company commenced the second phase of gas development (referred to as ñPhase 2ò of the Kyzyloi / Akkulka shallow gas development) with commencement of production from the Akkulka Field on October 6, 2010.
- In conjunction with this, the Company entered into a second gas sales contract with Asia Gas NG LLP pursuant to which gas was sold from the Akkulka Field at a price of USD33.93 per Mcm excluding VAT or USD38 per Mcm including VAT. Gas sold under this contract was for domestic sales and, as such, was subject to a Mineral Extraction Tax of approximately 0.5% to the Kazakh State.
- As with the Kyzyloi long-term take-or-pay contract the Akkulka sales contract expired at the end of December 2012 and in late January 2013 TAG signed a contract with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC. This Kyzyloi contract, along with the one for Kyzyloi, is for annual volumes up to 150 million cubic metres at an increased price of USD 90.0 per Mcm (USD 2.56 per Mcf) of gas (USD 100.8 per Mcm or USD 2.9 per Mcf including VAT). Sales costs are USD 25.0 per Mcm. The contract runs through to December 31, 2013. The net price to the Company after Sales costs is effectively double the price obtained for previous gas sales in Kazakhstan.
- Between the expiry of the old sales contract at December 31, 2012 and the signing of the new contract at the end of January 2013 production was put on hold.
- The gradual reduction in production levels seen in 2012 continued into 2013 and is primarily the result of natural decline in the wells. No capital was invested in maintaining or increasing gas production due to the relatively low gas price being realized under the previous gas sales contract. With the higher gas price now being received the Company intends to boost the gas production. See *Kazakhstan Operations Update gas operations.*
- Production in Q1 2013 was 7.4 MMcm (2012:16.3 MMcm) and in Q2 production was 10.0 MMcm (2012:14.4).
- To the end of Q2 2013 some 182 MMcm of gas had been produced from the Akkulka gas field.

- TAG has made eleven shallow gas discoveries in the Akkulka Exploration Licence and Contract area. The Akkulka Production Contract now covers seven of these wells, of which four are currently producing from a similar horizon to the Kyzyloi Field and are tied into the Companyô s existing pipeline infrastructure, with additional compression having been installed at the BCS. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3. In addition the Company has recently announced plans to drill up to 5 exploration wells targeting further resources in the block.
- The Company is hopeful that, with the completion of the Kazakhstan ï China gas pipeline (which the Company understands is scheduled for 2014); further increases to gas prices may be obtained with more competition from gas buyers for supply.

Total Kazakhstan Gas Production

Period	2013				2012			
	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]
Q1	26,654	941,167	296	1,743	51,515	1,819,004	566	3,332
Q2	36,356	1,283,730	400	2,351	46,340	1,636,265	509	2,997
Total	63,010	2,224,897	348	2,049	97,855	3,455,269	538	3,165

Kazakhstan Oil Production (Akkulka exploration contract)

	2013					2012				
Period	Gross fluid		Net	Net Production		Gross fluid		Net	Net Production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	53,168	334,419	288,042	90	3,200	17,149	105,082	94,463	91	1,038
Q2	37,139	233,599	202,700	91	2,227	46,099	289,957	266,391	91	2,927
Total	90,307	568,018	490,742	181	2,711	63,248	395,039	360,854	182	1,983

- On September 10, 2010, the Company commenced selling untreated oil at the well site of AKD01 (under test production at a permitted level of up to 750 barrels of oil per day (ñbopdò)) to an oil trading company which transported the oil 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. Tethys sold the unprocessed oil at the wellhead at an initial price of USD22 per barrel (ñbblò). This test production scheme was implemented to gain reservoir information, realize early cash flow and also to prepare for the higher production and associated logistics for the next stage.
- On January 11, 2011, TAG received Kazakh State approval from MOG for the Pilot Production Project for the Doris oil discovery in the Akkulka Block. This approval granted TAG the right to produce oil from the Doris discovery under the exploration contract and allowed the Company to install and operate production facilities for the planned (Phase 2) production target. Once the Pilot Production Project is fully completed, the relevant final reserve calculations will be submitted to MOG to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is expected to apply for a production contract after the appraisal programme for the Doris oil discovery is complete.
- AKD01 has been producing consistently since pilot production commenced in January 2011.

- Test production from well AKD05 commenced in June 2011 and carried on into July 2011. There was then a gap in August and September before commercial production commenced in October 2011. The well was closed during the severe winter of 2011/2012 and has on occasion been closed as a result of the shortage of rail trucks and more recently with a shortage of water disposal trucks, although this has been resolved.
- The AKD06 well was originally tested in November and December 2011 and was then closed until mid - April 2012 when it was opened for continued testing. This well continued to perform to expectations including the anticipated higher water cut. A high capacity pump will be installed in September 2013 as planned.
- In January and February of 2013 the oil production exceeded the levels of production achieved in the previous year as the trucking distance had been effectively halved due to the construction of the Aral Oil Terminal (ñAOTò) and the weather conditions were not as severe as in the same period of 2012. However, in March 2013 production was adversely affected by a combination of a shortage of railcars and the weather. The shortage of rail cars developed due to a surplus of products at refineries resulting from Russiaôs increased levels of oil and refined products exports into Kazakhstan under the customs treaty between the two countries. The result of all this was that the refineries were full and the rail trucks loaded with oil heading towards the refineries were not being accepted. This problem continued through to the end of May and resulted in production being restricted from time to time.
- To the end of Q2 2013 some 2.0 MMbbls of oil had been produced from the Doris discovery.

Aral Oil Terminal Joint Venture

On February 17, 2011, the Company signed a joint venture agreement to construct and operate AOT, a rail oil loading terminal at Shalkar in Kazakhstan. Transcontinental Oil Transportation SPRL (ñTOTò), a wholly owned subsidiary of the Company, and Olisol Investments Limited, a local partner with strong experience in the oil distribution business in Kazakhstan, each has a 50% interest in the project. In the second quarter of 2012 commercial oil sales commenced through the AOT which effectively halved the oil trucking distance providing better control over the oil sales. Production was steadily increased over a period as each part of the sales chain was optimized.

The AOT facility construction comprises three phases of which Phase 1 and the first part of Phase 2 has been completed:

Phase 1 ï To provide a loading capacity of 4,200 bopd and a storage capacity of 1,300 bbls.

Phase 2 - To provide an increase in throughput capacity from 4,200 bopd up to 6,300 bopd with the installation of two x 1000 m3 tanks (approximately 12,500 bbls) and associated pumping equipment.

The incorporation of an electrical dehydrator for the commercial treatment of crude oil which is expected to result in a higher oil price.

Phase 3 -To provide a loading capacity of 12,000 bopd and a storage capacity of 125,800 bbls of crude oil, plus an additional 12,580 bbl storage for refined products.

Final state approval of the electrical dehydrator in Phase 2 is expected in Q3 2013 while Phase 3 will be implemented when required.

In addition, AOT will be able to act as a rail logistics terminal for equipment to be moved to and from the Doris oil field and surrounding operations, and used to transport refined products for operations.

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Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

Period	2013 Total Production			2012 Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	6,475	46,488	517	9,004	64,379	707
Q2	5,322	38,212	420	8,795	62,885	691
Total	11,797	84,700	468	17,799	127,264	699

After State Take

Period	2013 TPU share			2012 TPU share		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	1,498	10,754	119	2,443	17,469	192
Q2	1,260	9,047	99	2,250	16,088	177
Total	2,758	19,801	109	4,693	33,557	184

** using 7.18 barrels = 1 tonne*

- The Company, through Tethys Production Uzbekistan (ñTPUò), owns a 100% contractor interest in the North Urtabulak PEC for the North Urtabulak Field, together with subsidiaries of Uzbekneftegaz (ñUNGò). This field is located in southern Uzbekistan in the northern portion of the Amu Darya basin. The North Urtabulak PEC does not confer ownership of the North Urtabulak Field to TPU and no reserves or resources have been attributed to TPUõs interest under the North Urtabulak PEC to date.
- Under the North Urtabulak PEC, the contractor receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the contractor receives 20%, and the Uzbek State Partners 80% of the same. By Q2 2013 the majority of the wells were on the 20% basis.
- Gross production from the wells has steadily decreased over recent years which has been compounded with regard to the Companyõs share as more wells have switched from 50% to 20%.
- As at June 30, 2013, the Company was producing approximately 400bopd (gross), 95 bopd (net), from 14 wells under the North Urtabulak PEC, of which 12 were past their first three years of production and so the Companyõs share was down to 20%.

Tajikistan Oil Production (Beshtentak field)

	2013				2012			
	Tonnes	Barrels*	Production days	bopd	Tonnes	Barrels*	Production days	bopd
Q1	969	7,053	90	78	500	3,640	91	40
Q2	451	3,285	70	47	887	6,461	91	71
Total	1,420	10,338	160	65	1387	10,101	182	56

** using 7.28 barrels = 1 tonne*

The Beshtentak well BST20 was worked over by applying modern perforating and acidisation techniques in October 2011 and produced until early June 2013 when this well and the rest of the Beshtentak field was returned to the

Tajik State as part of the farm-out process with the State taking responsibility for the wells and facilities abandonment.

Production Summary

In the first six months of 2013, the oil and gas production levels achieved (before the deduction of local governments share or taxation) were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	2,711	348	2,049	4,760
Uzbekistan	468	-	-	468
Tajikistan	65	-	-	65
Total	**3,244**	**348**	**2,049**	**5,293**

While in the same period of 2012 the production levels were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	1,983	538	3,165	5,148
Uzbekistan	699	-	-	699
Tajikistan	56	-	-	56
Total	**2,738**	**538**	**3,165**	**5,903**

The combined boe/d is one of the Companyĉs Key Performance Indicators (ñKPIòs).

The Kazakh oil production has increased in 2013 as compared to the same period of 2012, despite the problems with Russian imports and shortage of railway carriages. This increase however has not been sufficient to offset the reduction in Kazakh gas production combined with the reduction in refined products production in Uzbekistan.

Financial Review

Loss before tax

The Company recorded a net loss after taxation of USD1.6 million in the six months ended June 30, 2013 compared to a net loss of USD11.7 million in the same period of 2012 and a profit of USD2.7 million in the three months to June 30, 2013 compared a loss of USD 4.9 million in the same period of 2012. The principal movements between the periods were as follows:

	Three months ended June 30			Six months ended June 30		
	2013	**2012**	**Movement**	**2013**	**2012**	**Movement**
Sales and other revenues	8,951	10,204	-12%	21,504	16,691	29%
Total revenue and other income	**8,951**	**10,204**	-12%	**21,504**	**16,691**	29%
Sales expenses	(880)	-	100%	(1,525)	-	100%
Production expenses	(3,063)	(2,930)	5%	(7,125)	(5,840)	22%
Depreciation, depletion and amortisation	(3,534)	(4,755)	-26%	(8,513)	(7,791)	9%
Business development expenses	(767)	(611)	26%	(1,269)	(984)	29%
Administrative expenses	(4,915)	(5,555)	-12%	(9,585)	(10,352)	-7%

Share based payments	(215)	(1,274)	-83%	(546)	(1,877)	-71%
Income from Tajik Farm-Out	8,659	-	-	8,659	-	-
Foreign exchange gains/(loss) net	(53)	(112)	-53%	78	(176)	-144%
Fair value gains/(loss)	462	829	-44%	32	(67)	-148%
Profit from jointly controlled entity	131	163	-20%	388	101	284%
Net finance (costs) / income	(833)	(398)	109%	(1,515)	(852)	78%
Profit/(loss) before taxation	**3,943**	**(4,439)**	**-189%**	**583**	**(11,147)**	**-105%**
Taxation	(1,245)	(431)	189%	(2,212)	(571)	287%
Profit/(loss) for the period	**2,698**	**(4,870)**	**-155%**	**(1,629)**	**(11,718)**	**-86%**
Earnings/(loss) per share	0.01	(0.02)		(0.00)	(0.04)	

Note

From January 1, 2012, the Company re-classified the administrative costs associated with two of its subsidiaries to business development expenses in the consolidated statement of comprehensive income. The comparative information has been reclassified to conform to the current presentation. Business development expenses are costs associated with identifying new business opportunities for the Company either within countries in which the Company is currently operating, or in new countries.

In terms of EBITDA adjusted for share based payments in the three months to June 30, 2013 the Company generated a positive USD8.0 million (2012: USD1.1 million) and in the six months to June a positive USD10.7 million (2012: negative USD0.5 million). EBIDTA - adjusted for share based payments (a Non GAAP measure) is defined as: Earnings before Interest, Tax, Depreciation, Amortization and share based payments. The primary difference between the two years is the contribution towards profit in 2013 from the farm-out in Tajikistan

EBIDTA - adjusted for share based payments

EBIDTA - adjusted for share based payments (a Non GAAP measure) is defined as: Earnings before Interest, Tax, Depreciation, Amortization and share based payments ï see table below.

	Three months ended June 30			Six months ended June 30		
	2013	**2012**	**Movement**	**2013**	**2012**	**Movement**
Sales and other revenues	8,951	10,204	-12%	21,504	16,691	29%
Total revenue and other income	**8,951**	**10,204**	-12%	**21,504**	**16,691**	29%
Sales expenses	(880)	-	100%	(1,525)	-	100%
Production expenses	(3,063)	(2,930)	5%	(7,125)	(5,840)	22%
Business development expenses	(767)	(611)	26%	(1,269)	(984)	29%
Administrative expenses	(4,915)	(5,555)	-12%	(9,585)	(10,352)	-7%
Income from Tajik Farm-Out	8,659	-	-	8,659	-	-
EBIDTA - adjusted for share based payments	**7,985**	**1,108**	**621%**	**10,659**	**(485)**	**-2298%**

Share based payments	(215)	(1,274)	-83%	(546)	(1,877)	-71%
Depreciation, depletion and amortization	(3,534)	(4,755)	-26%	(8,513)	(7,791)	9%
Foreign exchange gains/(loss) net	(53)	(112)	-53%	78	(176)	-144%
Fair value gains/(loss)	462	829	-44%	32	(67)	-148%
Loss from jointly controlled entity	131	163	-20%	388	101	284%
Net finance (costs) / income	(833)	(398)	109%	(1,515)	(852)	78%
Profit/(loss) before taxation	**3,943**	**(4,439)**	**-189%**	**583**	**(11,147)**	**-105%**
Taxation	(1,245)	(431)	189%	(2,212)	(571)	287%
Profit/(loss) for the period	**2,698**	**(4,870)**	**-155%**	**(1,629)**	**(11,718)**	**-86%**

Revenue

A breakdown of the sales between the six months to June 30, 2013 and the same period in 2012 are as follows:

	Three months ended June 30			Six months ended June 30		
	2013	2012	Movement	**2013**	2012	Movement
Gas sales	3,170	1,488	113%	5,493	3,140	75%
Oil sales	5,600	7,648	-27%	13,663	10,087	35%
Refined product sales	89	1,013	-91%	2,168	3,321	-35%
Other revenue	92	55	67%	180	143	26%
	8,951	10,204	-12%	21,504	16,691	29%

Kazakh gas sales

	Three months ended June 30			Six months ended June 30		
	2013	2012	Movement	**2013**	2012	Movement
Gas sales	3,170	1,488	113%	5,493	3,140	75%

- Both of the gas sales contracts operating in 2012 expired at December 31, 2012.
- The gas sales are generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan and, as referred to in *Kyzyloi Gas Production* above, are sold to Asia Gas NG LLP at agreed prices of USD90 per Mcm excluding VAT.
- As stated in the Kazakh gas production sections above, TAG signed a contract with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC. This contract included both Kyzyloi and Akkulka gas, and is for annual volumes up to 150 million cubic metres at an increased price of USD 90.0 per Mcm (USD 2.56 per Mcf) of gas (USD 100.8 per Mcm or USD 2.9 per Mcf including VAT). Sales costs are USD 25.0 per Mcm. The contract runs through to December 31, 2013. The net price to the Company after Sales costs is effectively double the price obtained for previous gas sales in Kazakhstan.

- Gas sales for the three months to June 30, 2013 at USD3,170,000 were higher than the USD2,323,000 in the first quarter of 2013 as there was no gas production in January while a new contract was being negotiated. The 2013 revenue figures in both the three months and the six months to June 30, 2013 were greater than the same periods of 2012 as a result of the higher gas price achieved in the new contract.

Kazakh oil sales

A breakdown of Kazakh oil sales in the six months to June 30, 2013 are as follows:

Period	Gross bbls	Revenue $000	Price at wellhead $/bbl	Compensation $000	VAT $000	Net Sales $000
Q1	272,695	8,737	32.0	165	918	7,654
Q2	205,427	6,248	30.4	134	655	5,459
	478,122	14,985	31.3	299	1,573	13,113

Kazakh oil sales in the same period of 2012 were as follows:

Period	Gross bbls	Revenue $000	Price at wellhead $/bbl	Compensation $000	VAT $000	Net Sales $000
Q1	89,024	2,671	30.0	79	278	2,314
Q2	245,231	7,876	32.1	118	831	6,927
	334,255	10,547	31.7	197	1,109	9,241

In Kazakhstan the Companyҫs current oil production is under a Pilot Production Scheme and therefore oil is sold only on the domestic market.

Net figures exclude the compensation for water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Shalkar. The associated water from production is separated at the well site and transported approximately 40km to a disposal facility. Water is currently being produced and disposed from the AKD01, AKD05 and AKD06 wells that together make up the current total production. The compensation water is a small amount of water in the crude that remains after the field separation. The VAT can be recovered by the Companyҫs Kazakh subsidiary.

It should be noted that this is the realized price at the wellhead and the Company therefore incurs no transportation and marketing costs beyond this. The Company notes that some other entities report their oil price somewhat differently, with transportation and marketing costs being reported separately. Tethysô oil is trucked 230 kilometres and then railed many hundreds of kilometres and according to figures provided by local oil buyers if oil was sold at the refinery and reported the price it would be significantly higher. *See Kazakhstan Oil Production (Akkulka contract) on page 4.*

The primary differences in oil sales between the six months to June 30, 2013 and the same period in 2012 can be explained as follows:

- In Q1 2013 up to three wells were producing compared to one in the same period of 2012. In Q2 of 2013 and also Q2 2012 up to three wells were producing. See *Kazakhstan Oil Production (Akkulka contract)* above.
- In the second quarter of 2013 there were problems with Russian oil imports and the consequential lack of railway trucks while in the same period of 2012 the Company was benefiting from the increased deliveries and reduced turnaround time for trucks following the opening of AOT.

- In the three months to June 30, 2012 there was an increase in the sales price as the result of a combination of increased production and the opening of AOT. While in 2013 because of the problems identified below the Company offered a discount to its customer in order to get sales moving.
- In January and February 2013 TAG received USD33/barrel at the field (including VAT) which equates to an approximate sales price at the refinery of USD55-USD60/barrel based on current costs associated with trucking the oil to the AOT, the toll for using the AOT (Tethys owns 50% of the AOT and receives 50% of all profits from it), and sending by rail car to the refinery. However, the price received at the field was lower from March to June 2013 due to the instability in the refined product prices in Kazakhstan, which resulted in TAG receiving USD30/barrel at the field. A further downward pressure on the realised oil price occurred in January 2013 when the Kazakh domestic railway tariffs were increased by more than 30% while there was no increase in the fixed oil sales price in the Kazakh domestic market. The Company has been informed by the current oil buyer that it expects to see this situation stabilise in the near future and it is expected that in the near future the price will increase back to the same level as in previous months. Currently TAG has to sell oil on the domestic market but once it has obtained a Production Contract it can export the oil and realise the much higher export price. It expects to have achieved a production contract by Q4 2014.

Tajik oil sales

	Three months ended June 30			Six months ended June 30		
	2013	2012	Movement	**2013**	2012	Movement
Oil sales	141	721	-80%	550	847	-35%

Oil sales in Tajikistan were produced solely from the Beshtentak BST20 well. The figure for 2013 was lower than in the same period of 2012 as production levels reduced as a result of communication with the nearby BST103 well which is producing gas from the field for the city of Kulob, this gas being part of the ñbase levelò production on the field assigned to the Tajik State. As stated in *Tajikistan Oil Production (Beshtentak field)* above the Beshtentak field was returned to the Tajik state in June 2013.

Refined products sales (Uzbekistan)

	Three months ended June 30			Six months ended June 30		
	2013	2012	Movement	**2013**	2012	Movement
Refined product sales	89	1,013	-91%	2,168	3,321	-35%

- Refined product sales for the six months to June 30, 2013 were USD2,168,000 compared to USD3,321,000 in the same period of 2012. This reduction was primarily the result of a drop in production in 2013 compared to 2012.
- There was virtually no release of products from the refinery in the three months to June 2013 while the volumes were being built up to a level where they can be sold at an appropriate price and so there was almost no revenue in the three months to June 30, 2013 compared to USD1,013,000 in the same period of 2012.

  Deferred revenue from refined product sales, i.e. goods sold and paid for but awaiting delivery, at June 30, 2013 was USD520,000 (June 30, 2012: USD1,395,000).
- Under the North Urtabulak PEC, TPU receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the company receives 20%, and the Uzbek State

Partners 80% of the same. As at June 30, 2013 the majority of these wells were past the initial three years of production.

Operating expenses

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Kazakhstan	2,491	2,173	15%	5,441	4,219	29%
Uzbekistan	181	419	-57%	882	1,105	-20%
Tajikistan	346	338	2%	742	508	46%
Other	45	0	0%	60	8	650%
	3,063	2,930	5%	7,125	5,840	22%

Kazakhstan

The split between the gas and oil production costs in the six months to June 30, 2013 in Kazakhstan was as follows:

	Six months to June 30, 2013	Six months to June 30, 2012
Kazakhstan gas production costs	USD 1,688,000	USD 1,404,000
Kazakhstan gas production	Mcf 2,224,897	Mcf 3,455,269
Production cost per Mcf	USD 0.76	USD 0.41
Kazakhstan oil production costs	USD 3,753,000	USD 2,815,000
Kazakhstan oil production	bbl 490,742	bbl 360,854
Production cost per barrel	USD 7.64	USD 7.80
Production cost per boe	USD 6.32	USD 4.50

- Total oil production costs in Kazakhstan were higher in the six months to June 30, 2013 compared to the same period in 2012 primarily as a result of three wells producing oil for the majority of the six months in 2013 while only one well AKD01 was producing in the first quarter of 2012. See *Kazakhstan Oil Production (Akkulka contract)* above for details.
- Production levels would have been higher and the production cost per barrel would have been lower but for the production interruptions caused by the refinery problem. See *Kazakhstan Oil Production (Akkulka contract)* above for details.
- Total gas production costs were higher in the six months to June 30, 2013 than in the same period of the prior year despite lower gas production levels.
- The gradual reduction in production levels seen in 2012 continued into 2013 and is primarily the result of natural decline in the wells. In addition to which there was no production in January 2013 while the new sales contract was being negotiated.

- A large part of production costs are fixed and so are incurred even when there is no production and this combined with a general increase in costs combined with the reduced production levels resulted in a higher cost per MMcf.

Tajikistan

- Production costs in Tajikistan in the six months to June 30, 2013 were higher than in the same period of 2012 due to production being put on hold for a large part of the first quarter of 2012.
- As in Kazakhstan, a large proportion of the production costs in Tajikistan were fixed.
- Production ceased in early June 2013 when the Beshtentak field was returned to the Tajik state.

Uzbekistan

- Production costs in Uzbekistan in the six months to June 30, 2013 were down when compared to the equivalent periods of 2012 as a result of reduced levels of production.
- Production costs in Uzbekistan in the three months to June 30, 2013 were down when compared to the equivalent periods of 2012 as a result of reduced levels of production and the production not being sold but being held as stock at the refinery. See *Refined Product Sales (Uzbekistan)* above.

Depreciation, depletion and amortization expense

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
DD & A costs	3,534	4,755	-26%	8,513	7,791	9%

- The DDA in Kazakhstan is directly related to the use of reserves and not only includes the capital costs incurred to date but also the capital costs anticipated in recovering these reserves. Kazakhstan has the majority of reserves owned by the Company which combined with the highest level of production means that it is the primary contributor to this category of expenditure.
- The fact that the DDA charge in the three months to June 30, 2013 was less than in the same period of 2012 was the result of reduced oil production levels in Kazakhstan in those three months.
- Similarly as the oil production in Kazakhstan was higher in the three months to March 31, 2013 and in the six months to June 30, 2013 when compared to the same periods of 2012 this resulted in a higher DDA figure in the six months to June 30, 2013 than in the equivalent period in 2012.
- In Tajikistan the reserves attributed to Beshtentak were small and so as the oil production uses up these reserves the depreciation charge increases accordingly.
- In Uzbekistan the Company participates in the North Urtabulak PEC which does not have reserves attributed to it and so the DDA charge is based on anticipated future production levels.

Sales expenses

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Sales and marketing expenses	880	-	-	1,525	-	-

- Sales expenses represent agent commissions paid in relation to securing the Kazakhstan gas sales contracts and are costed at USD25.0 per Mcm. These contracts came into effect at the end of January 2013.

- The higher figure in the second quarter as compared to the first quarter of 2013 reflects the higher sales levels achieved in the second quarter. As stated above there were no gas sales in January 2013.
- As these contracts only came into existence in 2013 there were no costs of this type incurred in 2012.

Business development expenses

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Business development	767	611	26%	1,269	984	29%

- Business development expenses are costs associated with identifying new business opportunities for the Company either within countries in which the Company is currently operating, or in new countries.
- From January 1, 2012, the Company re-classified the administrative costs associated with two of its subsidiaries to business development expenses in the consolidated statement of comprehensive income. The comparative information has been reclassified to conform to the current presentation to ensure that costs are compared on a consistent basis.
- Business development costs incurred in the Company's pursuit of new contracts and are not confined to Central Asia. While the costs incurred in 2013 include the pursuit of various contracts in Uzbekistan and Tajikistan they also include Georgia and other countries.

Administrative expenses

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Staff costs	2,337	2,475	-6%	4,503	4,841	-7%
Travel costs	798	730	9%	1,506	1,467	3%
Office costs	517	767	-33%	1,038	1,396	-26%
Professional fees	688	875	-21%	1,240	1,451	-15%
Marketing costs	233	267	-13%	596	404	48%
Other costs	342	441	-22%	702	793	-11%
	4,915	5,555	-12%	9,585	10,352	-7%

As stated in previous MD&A's the Company has initiated a review of all costs with a particular focus on Administrative expenses. The objective of this review is twofold:

1. A push to reduce costs in all areas but particularly Administrative costs;
2. A review of categorization of costs to ensure that the Company is behaving consistently with other similar oil and gas companies, which will facilitate appropriate comparison within its peer group.

For the three months to June 30, 2013 the total administrative expenses were 12% down on the comparative period of 2012 which combined with the 3% reduction achieved in the three months to March 31, 2013 to give an overall reduction of 7% in the six months to June 30, 2013 when compared to the equivalent period of 2012.

In the six months to June 30, 2013 the primary areas of savings were:

- Office costs at 26% lower than in 2012.
- Professional fees at 15% lower than in 2012.

While the primary area of increased spending in the six months to June 30, 2013 was:

- Marketing costs which were up 48% but it is anticipated that this will ease down over the remaining months of 2013 to come into line with 2012 cost levels.

In the three months to June 30, 2013:

- All categories other than travel displayed a reduction on the figure for the same period of 2012. The primary cause of the increased expenditure was the need for a number of meetings to conclude the farm-out with Total and CNPC in June.

Share based payments

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Share based payments	215	1,274	-83%	546	1,877	-71%

In the six months to June 30, 2013, no options (2012: 5,235,000) were granted, nil (2012: 15,000) were exercised and 165,000 (2012: 240,000) were forfeited or expired.

In the three months to June 30, 2013, no options (2012: 5,025,000) were granted, nil (2012: nil) were exercised and nil (2012: 126,000) were forfeited or expired.

77,205 warrants were granted in connection with commissions payable to brokers with respect to 2013 loans. See *Liquidity and Capital Resources* below.

Refer to Note 4 Share-based Payments in the unaudited condensed consolidated interim financial statements.

Income from Tajik farm-out

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited (ñKulobò), completed a farm-out agreement with subsidiaries of Total Exploration and Production SA (ñTotalò) and China National Petroleum Corporation (ñCNPCò) whereby each acquired a one third interest in Kulobôs Bokhtar Production Sharing Contract. Cash consideration received amounted to USD63,404,444. As part of the agreement, a review was undertaken of the underlying exploration assets. As a result of this review, net book values of USD1,226,548 relating to Property, plant and equipment and USD53,519,223 relating to Intangible assets were applied against the proceeds, with surplus proceeds booked to profit (USD8,658,673).

Kulob is owned by Seven Stars Energy Corporation (ñSSECò) in which the Company holds an 85% share and management will determine with the other SSEC shareholders how any surplus funds after repayment of the SSEC loan to Tethys Tajikistan Limited (ñTTLò) and Kulobôs share of the first USD80 million tranche of capital expenditure, might be utilised.

Foreign exchange

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Foreign exchange loss / (gain) net	53	112	-53%	(78)	176	-144%

A small foreign exchange loss was incurred in the three months to June 30, 2013 but a small profit in the six months to June 30, 2013.

Fair value

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Fair value loss / (gain) - net	(462)	(829)	-44%	(32)	67	-148%

Joint venture

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Profit from jointly controlled entity	(131)	(163)	-20%	(388)	(101)	284%

Profit from the jointly controlled joint venture in 2013 represented the Companyộs 50% share in the profit generated by the AOT in 2013 and 2012.

Finance costs

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Net finance costs	833	398	110%	1,515	852	78%

Finance costs consist primarily of loan interest costs net of any interest income.

Taxation

	Three months ended June 30			Six months ended June 30		
	2013	2012	Change	**2013**	2012	Change
Current tax expense	(37)	66	-156%	198	210	-6%
Deferred tax expense / (recovery)	1,282	365	251%	2,014	361	458%
	1,245	431	189%	2,212	571	287%

The deferred tax in the three months is primarily the result of the recognition of the exposure to irrecoverable WHT on loan interest between Kazakhstan and Belgium. *Refer to Note 6 in the unaudited condensed consolidated interim financial statements.*

Capital Expenditure

As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned capital expenditure to later in 2013. There were consequently no major items of capital expenditure in the three or six months to June 30, 2013. For future plans please refer to *Operations Update* on page 23.

Summary of Quarterly Results

Financials	**Sep 30 2011**	**Dec 31 2011**	**Mar 31 2012**	**Jun 30 2012**	**Sep 30 2012**	**Dec 31 2012**	**Mar 31 2013**	**Jun 30 2013**
Revenue	6,849	7,416	6,487	10,204	9,990	11,426	12,553	8,951
Net (loss) / profit	(8,575)	(9,424)	(6,848)	(4,870)	(5,117)	(4,069)	(4,327)	2,698
Basic and diluted loss ($) per share	(0.03)	(0.04)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	0.01
Capital expenditure	11,148	5,068	1,209	3,310	4,812	8,170	1,264	1,050
Total assets	255,066	263,391	253,945	253,153	252,083	251,953	246,896	253,924
Total long term liabilities	(8,295)	(4,676)	(5,656)	(5,752)	(9,437)	(7,475)	(9,883)	(12,541)
Cash balance	18,425	11,631	4,803	4,446	1,620	2,227	1,835	65,012

Significant factors influencing above quarterly results

- Other than in Q2 2013 oil sales in Kazakhstan have steadily increased since Q3 2011.
- Refined product sales in Uzbekistan have steadily decreased over recent years.
- The farm-out with Total and CNPC in Q2 2013 resulted in a contribution towards profit of USD8.7 million.
- The Kazakh gas net sales price effectively doubled in February 2013 but there was no production in January 2013 while the new sales contract was being negotiated.
- As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned 2013 capital expenditure to later in the year.
- The opening of the AOT in April 2012 saw a significant increase in oil production in Kazakhstan combined with an increase in the price per barrel resulting in a significant increase in oil revenue.
- Kazakhstan oil sales were significantly affected by adverse weather conditions in Q1 2012.
- There was an impairment adjustment in Uzbekistan in Q4 2011 of USD8.98 million.

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2012 to June 30, 2013:

	June 30, 2013	**Dec 31, 2012**	**Change**	**Movement Details**
Property, plant and equipment	113,258	121,097	(7,839)	Little capital expenditure was incurred in the six months of 2013 while DD&A was incurred in line with production
Intangible Assets	54,438	107,374	(52,936)	Proceeds allocated from the Tajik Farm-out
Restricted cash	2,168	1,543	625	Cash placed on restricted deposit to replace charge on Tajikistan assets
Prepayments and other receivables	5,812	6,444	(632)	Reduction in prepayments to contractors in line with reduced capital expenditure.
Inventories	1,583	2,046	(463)	The amount of stock released from the refinery in Uzbekistan in the period was greater than the production in the period to June 30,2013
Trade and other receivables	8,051	7,703	348	Increased level of gas sales in Kazakhstan.
Cash and cash equivalents	64,535	1,750	62,785	Refer to consolidated statement of cash flows in the interim financial statements
Other reserves	42,291	41,705	586	Stock based compensation expense incurred in the period.
Non controlling interest	8,208	8,437	(229)	15% non-controlling interest in SSEC
Accumulated deficit	(166,785)	(165,385)	(1,400)	Post tax loss incurred for the six months to June 30, 2013, attributable to the shareholders
Non-current financial liabilities - borrowings	7,153	3,688	3,465	Movement of Kazakh loans from current - following agreed repayments schedule.
Deferred taxation	4,926	2,912	2,014	Movement with respect to Uzbekistan and Kazakhstan
Current financial liabilities - borrowings	11,736	13,625	(1,889)	Transfer of part of the Kazakh loan to Non-current liabilities partly offset by
Deferred revenue	1,155	1,713	(558)	Movement with respect primarily to Kazakhstan.
Trade and other payables	7,552	8,231	(679)	Reduction in trade payables in Kazakhstan and Tajikistan

Contractual obligations and liabilities as at June 30, 2013

	Payments Due by Period USD'000s			
	Total	**Less than 1 Year**	**1 - 3 Years**	**Greater than 3 Years**
Financial borrowings	18,889	11,736	7,153	
Operating leases	1,406	844	360	202
Trade and other payables	7,839	7,552	194	93
Commitments	26,955	21,801	5,154	
Total contractual obligations	**55,089**	**41,933**	**12,861**	**295**

The primary constituents of the commitments are the work plans in Kazakhstan which encompass capital expenditure, production expenditure and administrative costs**.**

Liquidity and Capital Resources

See Note 12 *Financial liabilities – borrowings* in the Companyǿs unaudited Condensed Consolidated Interim Financial Statements.

Rig loans

In December 2011, the Company closed on the first tranche of a maximum USD10 million loan facility amounting to USD3,965,240, which is secured by the ZJ70 and ZJ30 rigs and other equipment. This facility gives lenders the choice of two methods of repayment designated Option A and Option B. The remaining two tranches of the USD10 million facility were closed in February and March 2012.

Under Option A, which has a term of one year, lenders have the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date.

Option B, which has a term of two years, gives lenders the right to receive equal monthly installments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date.

These borrowings are held at amortized cost. The interest payable on the borrowed funds is 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each USD100,000 principal amount of the loan advanced to the Company. As at June 30, 2013, a total of 7,594,051 warrants had been granted to lenders.

Such warrants will be exercisable at a 25% premium to the price of the volume weighted average CAD price of the shares on the TSX for the 5-day period prior to the day the borrower receives the funds in its bank account.

The Company recorded a total discount to the USD10 million loan in the amount of USD1,031,779 based on the relative fair value of the warrants. The loan was then amortised using the effective interest rate method. Lenders have security over the shares of Imperial Oilfield Services Limited which has no other assets except the drilling rigs and associated equipment.

During December 2012, following the agreement of all loan holders, Tranche 1 Option A loan holders with loans maturing in December 2012 rolled over their loans for a further period of one year. In February and March 2013, Tranche 2 and Tranche 3 Option A loan holders with loans maturing in February and March 2013 also rolled over their loans for a further period of one year.

The original loans were de-recognized and the new loans recognized at fair value. Associated warrants were re-issued at exercise prices of CAD0.64, CAD0.71 and CAD0.92. Furthermore, extensions of warrant expiry dates were granted to all loan holders, except two officers of the company who were re-issued with warrants upon expiry of the original warrants.

Kazakh loan

On June 29, 2012 the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the ñbank loan facilityò).

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Companyôs consent, and is a bank loan to Eurasia Gas Group LLP, the Companyôs joint venture partner in Aral Oil Terminal LLP, whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Companyôs subsidiary, Tethys Aral Gas (ñTAGò). The bank loan facility has a term of up to four years depending on the Companyôs requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

A formal loan agreement was signed with Eurasia Gas Group LLP for 2.35 billion KZT with a drawdown period of one year from the date of first drawdown (May 31, 2012). Repayment and interest terms are agreed for each drawdown, upon drawdown. In January 2013, the Kazakh loan arrangement was terminated and replaced by way of an arrangement whereby funds are advanced to the Company and repaid as a deduction against oil revenue. Terms of the arrangement are principally the same (i.e. the principal repayment to be completed by April 2016 with monthly repayments of both principal and interest) and therefore under IFRS, the amounts advanced continue to be treated as a loan.

As at June 30, 2013, 1.935 billion KZT (USD12.9 million) of funds had been advanced to the Company in relation to the loan agreement, with a remaining repayment period over 3 years and monthly repayments of both principal and interest (at a weighted average effective interest rate of 14.99%).

In case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

Certain assets have been pledged by both TAG and AOT as security for the above-mentioned bank loan facility which represents a financial guarantee to the Company. The value of this guarantee has been assessed as nil, primarily due to the credit worthiness of Eurasia Gas Group LLP.

For details of avenues that the Company is currently pursuing to improve liquidity refer to the ñ*Funding”* section below.

Cash Flows

The movement in the cash balance during the six months to June 30, 2013 compared to the same period of 2012 can be broken down as follows:

	June 30 2013	**June 30 2012**
Net cash generated / (used) in operating activities	2,436	(3,104)
Net cash generated / (used) in investing activities	59,496	(5,486)
Net cash generated in financing activities	925	1,806
Foreign exchange difference	(72)	10
Increase/(decrease) in cash and cash equivalents	62,785	(6,774)

While for the three months to June 30, 2013 the figures are as follows:

	June 30 2013	June 30 2012
Net cash generated / (used) in operating activities	(126)	589
Net cash generated / (used) in investing activities	60,747	(3,768)
Net cash generated in financing activities	2,634	2,873
Foreign exchange difference	(78)	98
Increase/(decrease) in cash and cash equivalents	63,177	(208)

Operating activities

In the six months to June 30, 2013 the Company generated cash of USD2.44 million from its operating activities, which was significant improvement when compared to the USD3.10 million that was used in operating activities in the same period of 2012. The improved performance in 2013 was primarily the result of higher oil revenues in Kazakhstan.

In the three months to June 30, 2013 the Company used a small amount of cash, of USD0.13 million in its operating activities compared to the USD0.59 million that was generated from its operating activities in the same period of 2012. The slight downturn in the quarter was primarily the result of lower oil revenues in Kazakhstan.

Investing activities

Primarily as a result of the funds generated by the farm-out the Company realised USD59.50 million from its investing activities in the six months to June 30, 2013 compared to USD5.49 million used in investing activities in the same period of 2012.

The funds generated by the Company from the Tajik farm-out were also the primary factor in the Company realising USD60.75 million from its investing activities in the six three months to June 30, 2013 compared to USD3.77 million used in investing activities in the same period of 2012.

Financing activities

In April 2013 the Company received KZT603 million (USD4.0 million) under the Kazakh loan facility (see *Kazakh loan* above) which combined with the funds raised in tranches 2 and 3 of the drilling equipment loan (see *Rig Loan* above) that were due for settlement in Q1 2013 but were rolled over gave the Company a surplus of USD0.92 million from its financing activities in the six months to June 30, 2013.

The Kazakh loan funds received in April were also the primary cause of the Company realizing a surplus of USD2.63 million from its financial activities in the three months to June 30, 2013.

Capital management

The Companyǿs capital structure is comprised of shareholdersô equity and debt.

The Companyǿs 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 some debt financing though June 2013 saw the Company complete its first farm-out, which generated in excess of USD63 million. 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 Companyǿs commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including ócurrent and non-current borrowingsô as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as óequityô as shown in the consolidated statement of financial position plus net debt.

	June 30 2013	June 30 2012	% Change
Total financial liabilities - borrowings	18,889	12,256	54%
Less: cash and cash equivalents	(65,012)	(4,446)	1,362%
Net debt / (funds)	(46,123)	7,810	-691%
Total equity	219,765	228,191	-4%
Total capital	173,642	236,001	-26%

The position at June 30, 2013 was a surplus of funds compared to a net debt position of USD7,810,000 at June 30, 2012. The Company is confident that future cash flows together with the current level of funds will be sufficient to support ongoing operations.

If the Company was in a Net Debt position, the Company would assess whether the projected cash flow was sufficient to service this debt and support ongoing operations. Consideration would be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity.

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at June 30, 2013 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 287,557,744 (2012: 286,707,744) 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 the date of this report, August 14, 2013, a total of 33,699,000 (2012: 34,388,129) ordinary shares were reserved under the Companyös Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at the date of this report, August 14, 2013, is 33,699,000 (2012:33,903,000) and the number of warrants outstanding is 2,267,038 (2012:10,412,706).

OUTLOOK

The information provided under this heading is considered as forward looking information and as such please refer to *Forward Looking Statements* on page 31 of this MD&A.

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of oil and gas field development projects and long-term high potential exploration projects focused on but not limited to the Central Asian region. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

While the Company's long-term ambition is to occupy a significant role in the production and delivery of hydrocarbons from the Central Asian/ Caspian and Caucasus region to local and global markets, the specific focus of management in the short term is to:

- fully appraise the Doris and Dione oil field discoveries in the Akkulka Block, Kazakhstan;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;

- accelerate the shallow gas well program in Kazakhstan;
- work with its new farm-out partners in the appraisal and development of the Bohhtar block in Tajikistan;
- pursue and develop the Chegara PEC in Uzbekistan;
- pursue the acquisition and development of the PSC opportunities in Georgia;
- acquire contracts on new exploration and/or appraisal/development acreage in Tajikistan, Uzbekistan and other areas;

Having completed its first successful farm-out the Company will continue to consider other farm-out/farm-in and joint venture opportunities.

Kazakhstan Operations Update

Oil operations

The AKD08 ("Doto") and AKD09 ("Dexa") wells will be drilled simultaneously providing significant cost savings and providing exposure to two potentially high impact prospects this year.

The AKD08 ("Doto") Exploration well is located to the south-west of the producing Doris field and north of the Dione oil discovery. It is designed to target several potential zones including the Lower Cretaceous sandstone and Upper Jurassic carbonate sequences as proven in Doris and, after significantly more interpretation being carried out over the summer, also the deeper Triassic sequence which had very good hydrocarbon shows in other wells in the near vicinity, including the AKD01 well (Doris oil discovery). Prospectivity may also exist in the Jurassic sandstone sequence which flowed oil in the Dione (AKD03) well. The Doto prospect has 22 million barrels gross mean unrisked recoverable prospective oil resources attributed to it (Gustavson & Associates) in the Cretaceous and Upper Jurassic sequences. The deeper Triassic sequence has not been independently assessed as yet and therefore the Company is unable to quote a reportable resource estimate for this horizon but the Company believes it to be an attractive prospect. This well is planned to commence drilling operations in early September and is forecast to take approximately 70 days to drill to a planned total depth of 3,500 metres using Tethys' own ZJ70 "Telesto" rig.

The AKD09 ("Dexa") exploration/appraisal well is located to the North-west of the producing Doris field and is designed to target Lower Cretaceous channel sandstone sequences similar to the current major producing unit in the Doris field. The Dexa prospect has 14 million barrels gross mean unrisked recoverable prospective oil resources attributed to it (Gustavson & Associates). This well is planned to commence drilling operations at the end of September and is forecast to take approximately 45 - 50 days to drill to a planned total depth of 2,400 metres using Tethys' own ZJ30 "Tykhe" rig which is no longer needed in Tajikistan and is being mobilised from there.

Both prospects offer relatively low risk exploration/appraisal opportunities and are the two closest currently identified exploration/appraisal targets to the Doris oil field itself.

On the Doris field itself further analysis of the producing wells is underway prior to the installation of artificial lift equipment and improvements in fluid handling planned for September. This work has resulted in production levels being temporarily reduced and currently the field is producing some 2,600 barrels of oil per day and further work is underway. Once the work is completed production is planned to return to over 3,500 barrels of oil per day.

Gas Operations

It is planned to conduct workovers on the AKK05 and AKK14 wells in Q3/Q4 in order to boost gas production and short-term cash flow. These wells have successfully tested gas in the past but are being worked over now due to the higher realized gas price.

Commencing in late September/early October five further shallow gas exploration wells are expected to be drilled consecutively on a number of additional prospects and leads which have been identified based on seismic data. These are relatively low risk targets and of the last 13 shallow exploration wells previously drilled by Tethys in the Akkulka Block, 11 tested commercial gas. This accelerated program will continue into H1 2014.

The planned gas exploration wells are typically 600-800 meters measured depth and will take up to three weeks each to drill. Currently these are located mainly in the central and south-eastern part of the Akkulka Exploration Contract and relatively close to existing gas infrastructure and the Akkulka Production Contract area.

Tethys has re-focused some of its investment into accelerating gas development and exploration after the significant increase in the realized gas price in January of this year**.** Current gas production is approximately 380,000 cubic metres (13.4 million cubic feet or 2,237 barrels oil equivalent) per day. The new Kazakhstan-China gas trunkline under construction (planned to pass through Tethys' contract areas) will provide an additional commercialization route and offers potential further price upside. Overall infrastructure in the field area is also improving and a new railway is now under construction with a new rail station planned to be built only some 70 kilometres from the Doris oilfield and 23 kilometres from the nearest Akkulka gas well. This could provide more cost effective transportation options for oil plus a nearby market for some gas.

Exploration – Kul Bas

The KBD01 (Kalypso) comprehensive testing programme initially on the Permo-Carboniferous interval will commence in Q3. The programme will involve initial perforation and potentially acidisation followed by fracture stimulation of the carbonate interval approximately 4,100 meters below the surface and will take up to one month to complete. Electric logs run over this section indicated more than 100 metres of gross potential hydrocarbon bearing zones in what is interpreted to be shelf limestones with hydrocarbon shows also being noted whilst drilling. The Kalypso Permo-Carboniferous is likely to be gas condensate bearing with 122 billion cubic feet (3.5 billion cubic metres) gross mean unrisked recoverable prospective resources attributed to it by Gustavson & Associates. Further potential lies in the Jurassic sands which showed indications of oil when drilling and on electric logs.

The two-year extension to the Kul-Bas Exploration and Production Contract area has now been successfully obtained by Tethys at the Ministry of Oil and Gas in Astana and as such the exploration phase of this contract will now run until November 11, 2015 assuming no further extensions are given.

Seismic

The field acquisition of 200 line kilometres of 2D seismic over identified prospects in the south-west part of the Kul-Bas block, separate from Kalypso is now finished with processing and interpretation to finish in Q4.

Furthermore an additional 35 kilometres of 2D data was recently acquired within the Akkulka block, but targeting additional areas of interest around the shallow producing Kyzyloi gas field. This activity is likely to follow the Kul-Bas seismic acquisition programme. The field acquisition of 100 square kilometres of 3D data is about to start, this survey will cover further prospects identified north west of the producing Doris wells and with similar Cretaceous reservoirs predicted as well as evaluate horizons from the shallow gas down to Permo-Carboniferous, this is part of the minimum work programme for the block

Tajikistan Operations Update

Following the successful completion of the farm-out with Total and CNPC the new operating company Bokhtar Operating Company Limited (ñBOCò) has been set up and is currently staffing up appropriately.

BOC has drawn up a budget to the end of 2013 of which the primary capital expenditure items are the seismic survey and the plugging and abandoning of a number of previously drilled or worked over wells by Tethys through KPL. The decision to plug and abandon the wells was requested by the new partners contingent on the farm-out being finalised. The wells which are being plugged and abandoned are Komsomolsk 200 and 201 (KOM200+201), East Olimtoi 9 (EOL09), Persea 1 (PRS01), Khoja-Sartez 20 and 22 (KHZ20 & KHZ22) and this work has been contracted to Tethys Services Tajikistan LTD (ñTSTLò) to carry out the work with a planned completion date in September 2013.

The seismic survey is due to commence in Q4 2013.

Uzbekistan Operations Update

As previously reported the Company intends to focus future efforts in Uzbekistan on developing new contracts such as the Chegara PEC and on potential exploration activities. Currently these new projects include the Chegara PEC (Chegara is a much less developed, producing field located to the south of North Urtabulak) and a potential exploration block in the North Ustyurt basin (which is south of the Doris discovery in the same basin in Kazakhstan and which the Company believes has considerable exploration potential).

North Urtabulak PEC

A number of workovers are planned for Q4 2013 and early 2014 with a view to boosting production from the existing contract.

Chegara Group of Fields

On May 16, 2012, the Company signed a PEC for the Chegara Group of fields, located within the Amu Darya basin, some 14 kilometres south-west of the North Urtabulak field. The PEC has a term of twenty-five years and under this new PEC, Chegara Production Limited is allocated refined products for the crude oil it produces and sells these refined products on the export market. Unlike the North Urtabulak PEC, under the terms of the Chegara PEC, Tethys has been granted exclusive rights to conduct operations on the Chegara Group of fields.

As of the date of this report, the Company is waiting for final governmental approvals to commence operations on the Chegara PEC. These approvals are in their final stages and are expected to be finalised in September 2013 with the issuance of a Presidential Decree. The Chegara PEC has a similar contractual arrangements to the North Urtabulak PEC that TPU currently has over the North Urtabulak Field, and which has operated successfully for approximately 14 years. Under this contract TPU is allocated refined oil products and sells these on the export market in U.S. Dollars. The Company believes these new fields offer significant upside and good potential to increase oil production in the near to mid-term.

Uzbekistan Exploration MOU

In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue to provide the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. On February 1, 2012, the Company signed a further MOU with UNG with the objective of providing the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain blocks in the North Ustyurt Basin ï a basin the Company believes has very similar geological characteristics as the Kazakh portion of the basin and the extensive modeling of the Doris oil discovery and surrounding area can be useful if applied to the Uzbek portion of the basin.

On May 16, 2012, the Company signed an additional MOU to agree to a timetable for the potential signing of this Exploration Agreement.

As of June 30, 2013, the Company was proceeding with these negotiations for the Bayterek exploration block in the North Ustyurt and expects to make significant progress toward acquiring this highly prospective acreage in the coming year.

Transactions with Related Parties

Refer to Note 14 in the unaudited condensed consolidated interim financial statements.

Vazon Energy Limited

Vazon Energy Limited (ñVazonò) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, 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 period ended June 30, 2013 was USD756,050 (2012 ï USD1,559,647). As at the date of these consolidated financial statements, the services of Dr. Robson and two other Vazon employees are provided to the Company. The remainder of the employees previously employed by Vazon were transferred to Tethys Services Guernsey Limited during the last quarter of 2012.

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract. The guarantee comprises a charge over the assets of one of the Companyôs subsidiaries, Tethys Tajikistan Limited (ñTTLò), equalling amounts owing under the management services contract from time to time. This guarantee was discharged on June 17, 2013 and replaced with a GBP 400,000 security deposit made by Tethys Petroleum Limited. The deposit is non-current and is restricted (note 10).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC have one common director with the Company. Total fees for the six months ended June 30, 2013 were USD40,169 (2012 ï USD64,631). OPC participated in the 2011 loan financing described in note 11, advancing USD200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD15,030. The loan was advanced under the same conditions and terms afforded to non-related parties. As a result of agreeing to the rollover, discussed in note 11, the term of the warrants was extended which did not result in any change in fair value.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing described in note 11 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 were issued at a fair value of USD2,940 and USD25,891 respectively.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to USD38,466 for the six months ended June 30 2013.

Dr. David Robson has a close family member employed by the Company on standard terms and conditions.

Non-interest bearing loans of USD101,342 and USD76,251 have been advanced to two officers during 2012 and 2013 for relocation costs. Balances outstanding at June 30, 2013 were USD12,710 and USD51,788 respectively (2012 ï nil and USD53,545).

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2012 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 2013 to include:

- Exploration and development expenditures and success rates, though considerable technical work is undertaken to reduce related areas of risk and maximise opportunities.
- Oil and gas sales volumes and prices;
- Retention and extension of existing licences.

Financial Risk Management

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

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 Companyøs cash and cash equivalents and accounts receivable balances.

With respect to the Companyộs 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:

	June 30 2013	June 30 2012
Trade receivables	2,611	2,943
Cash and cash equivalents	64,535	4,446
Investments	1,120	1,118
Loan receivable from jointly controlled entities	2,482	2,213
	70,748	10,720

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 period. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. The Companyộs sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At June 30, 2013 the trade receivable amounted to USD2,610,549 (2012 ï USD2,943,126), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

In Uzbekistan, the Company makes use of three customers where full payment is in US Dollars and is required before delivery of the oil and therefore there is limited exposure to credit risk in this country. In Tajikistan, oil was being purchased by two buyers where prepayment in full was also required before delivery but there will be no further sales in Tajikistan in the foreseeable future.

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 the counterparties are banks with high credit ratings (minimum BBB or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Within the Central Asian countries, banks with the international ratings are generally not available.

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 Companyộs 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 June 30, 2013.

The Companyộs 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. Revenue and expenditure levels, both actual and projected, are reviewed on a regular basis and forecasts updated accordingly. These forecasts enable the Company to identify when additional financing might be needed or expenditure plans adjusted. With the current funds in excess of USD64 million the Company does not foresee a liquidity problem in the near future.

The timing of cash outflows relating to financial liabilities and commitments at the reporting date are summarized on page 20 above in *Contractual obligations and liabilities as at June 30, 2013*.

Particularly in the current climate, there can be no assurance that debt or equity financing will be available or sufficient to meet the Companyộs requirements or if debt or equity financing were available, that it would be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material impact on the Companyộs 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 volatility in market interest rates.

Because of the current level of deposit interest rates on USD being less than 1%, the Companyôs exposure to interest rate risk on short term deposits is minimal.

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in a number of foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Companyôs cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. A significant portion of expenditures in Kazakhstan are denominated in local currency, the Tenge. There is limited availability in exchange rate derivatives to manage exchange rate risks with this currency.

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

Foreign currency risk

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. While there are in fact restrictions on repatriation of capital and distribution of earnings from Uzbekistan to foreign entities, the Company has not been affected by this as it is paid for its refined product sales in US Dollars outside of Uzbekistan. There can be no assurance, those restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be exchangeable into U.S. Dollars or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Soum into U.S. 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 and Europe. 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. The Company is hopeful that, with the completion of the Kazakhstan ï China gas pipeline (which the Company understands is scheduled for 2013/2014) this exposure will be reduced.

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 Companyôs production could have a material adverse effect on the Companyôs 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 gas contracts up to the end of 2013 but its oil contracts in Kazakhstan and formerly in Tajikistan and its refined products in Uzbekistan are 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 at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. Beyond 2013 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, events in the recent past in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, there needs to be consideration of 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 production from both the Kyzyloi and Akkulka contracts in Kazakhstan are sold at fixed prices, at least until the end of 2013, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations in 2013. In Uzbekistan, the Company sells refined petroleum products on a monthly basis and is consequently also subject to movements in the oil price.

Sensitivities

While the price of gas sales from gas produced from the Kyzyloi and Akkulka gas fields under the Gas Supply Contract is fixed in Kazakh Tenge until December 31, 2013 there is an agreed fixed exchange rate and consequently there is no sensitivity to currency movements or market movements in the gas price.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 3,500 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in the sales revenue of USD1,277,500 per annum.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At net production levels of 95 bopd, a movement of USD1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of USD34,675 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, the Company is subject to environmental regulation 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.

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 (ñIFRSsò) and IFRIC Interpretations issued by the IFRS Interpretations Committee.

Please refer to the annual consolidated financial statements for the year ended December 31, 2012 Note 2 *Summary of Significant Accounting Policies* for details of the Companyôs accounting policies.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer (ñCEOò) and the Chief Financial Officer (ñCFOò) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 ï Certification of Disclosure in Annual and Interim Filings. The CEO and CFO of Tethys are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of June 30, 2013, which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at June 30, 2013. The Companyôs control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition, where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures (DC+P) as that term is defined in NI 52-109. Disclosure controls and procedures have been designed by the Tethys Management, under the supervision of the CEO and CFO, to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Companyôs management as appropriate to allow timely decisions regarding disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethysô shareholders and potential investors with information regarding the Company and its subsidiaries, including managementôs assessment of Tethysô and its subsidiariesô future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as ñforward-looking statementsò) within the meaning of the ñsafe harbourò provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as ñanticipateò, ñbelieveò, ñexpectò, ñplanò, ñintendò, ñforecastò, ñtargetò, ñprojectò 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 2013 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 Companyôs 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 Companyôs and its subsidiariesô 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 Companyôs and its subsidiariesô ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Companyôs ability to generate sufficient cash flow from operations to meet its current and future obligations; the Companyôs ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Companyôs and its subsidiariesô ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate and terrorist threats; 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; future prices for natural gas; future currency and exchange rates; the Companyôs ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business: gas production levels; and the Companyôs ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Companyôs demands. Statements relating to ñreservesò or ñresourcesò or ñresource potentialò 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.

The references in this document to "prospective resources" means those quantities of petroleum estimated, as of April 30, 2012, 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 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 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.