

TETHYS PETROLEUM LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the nine months ended September 30, 2014

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

- 1) Management's Discussion & Analysis: this includes the requirement of National Instrument 51-102 Canadian Securities Administrators ("Canadian NI 51-102") in respect of a quarterly Management's Discussion & Analysis and the requirements of the UK's Disclosure & Transparency Rules with respect DTR4.3, Interim management statements; and
- 2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of Canadian NI 51-102 with respect to a quarterly financial report and the requirements of the UK's Disclosure & Transparency Rules with respect to DTR4.3, Interim management statements and a Directors' Responsibility Statement.

The following Management's Discussion and Analysis ("MD&A") is dated November 14, 2014 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended September 30, 2014 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2013. The accompanying unaudited Condensed Consolidated Interim Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The 2013 annual audited Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company, such as the annual audited financial statements, Annual Information Form ("AIF") and Management's Discussion and Analysis ("MD&A") can be found on the SEDAR website at www.sedar.com.

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") has its principal executive office in Guernsey, British Isles. The domicile of Tethys is the Cayman Islands where it is incorporated. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the exploration for and development and acquisition of crude oil and natural gas fields and prospective areas.

Financial highlights

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

	Quarter ended September 30			Nine months ended September 30		
	2014	2013	Change	2014	2013	Change
Oil and gas revenue – continuing ops ¹	7,261	9,082	(20%)	21,165	28,418	(26%)
Loss for the period – continuing ops ¹	(2,362)	(4,887)	(52%)	(10,439)	(6,328)	65%
– discontinued ops ¹	(57)	(501)	(89%)	(702)	(689)	2%
	(2,419)	(5,388)	(55%)	(11,141)	(7,017)	59%
Basic and diluted loss (USD) per share – continuing ops ¹	(0.01)	(0.02)		(0.03)	(0.02)	
Basic and diluted loss (USD) per share – discontinued ops ¹	-	-		-	-	
EBITDA - adjusted for share based payments ²	(1,134)	(507)	124%	(8,480)	10,006	(185%)
Capital expenditure	6,216	4,985	25%	18,317	7,299	151%
				As at September 30, 2014	As at December 31, 2013	Change
Total assets				241,059	234,618	3%
Cash & cash equivalents				7,914	25,109	(68%)
Cash & cash equivalents – held in a disposal group ³				2,153	622	246%
Short & long term borrowings				11,032	4,965	122%
Short & long term borrowings – held in a disposal group ³				5,166	8,947	(42%)
Total non-current liabilities				5,923	-	100%
Total non-current liabilities – held in a disposal group ³				7,412	10,913	(32%)
Net (debt)/funds ⁴				(6,131)	11,819	(152%)
Number of common shares outstanding ⁵				336,452,667	299,557,744	12%

- Note 1 During the second half of 2013 the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business and political climate in the country. The Board met in November and discussions concluded that a full withdrawal from current projects in the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations has been earned since June 2013. The Board formally decided in December 2013 to exit from current projects in the country and announced on January 2, 2014, being the next working day that it would do so effective immediately as there is no contractual notice period but that it would take a period to complete the process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field. During Q2 2014 the Company formally transferred the wells to the State and the majority of staff contracts had been terminated, with notice given on the remainder. The Company does not expect to benefit from any production or earn any revenues in 2014. In view of the circumstances described, the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current year presentation.
- Note 2 EBITDA adjusted for share based payments is a non GAAP measure and is defined as "Loss or profit before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments" and is calculated on the results of continuing operations.
- Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as "Assets and Liabilities of a disposal group held for sale". For further information – refer to note 10 of the September 2014 Condensed Consolidated Interim Financial Statements.
- Note 4 Net debt/funds is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the consolidated statement of financial position and related notes.
- Note 5 2014 includes the issue in May and June of 36,894,923 new ordinary shares which raised gross proceeds of USD15m primarily for the Kazakh shallow gas programme.

- Revenue from oil and gas sales in 2014 is generated from the Kazakh operation only compared with the first nine months of 2013 where revenue from oil sales was also generated in Tajikistan. Both oil and gas prices have been affected by the Tenge devaluation in February 2014 although oil prices are gradually re-aligning as increases were achieved in June and September 2014. Gas prices are fixed in Tenge until the end of 2014;
- The loss for the nine month period to September 30, 2014, of USD10.4m from continuing operations is greater than the comparative period (USD6.3m) due to a gain of USD8.4m arising on the Tajik farm-out which took place in June 2013;
- EBITDA adjusted for share based payments improved compared to the immediately preceding quarter primarily as a result of lower costs. EBITDA adjusted for share based payments year to date 2014 compared with the comparative period is lower primarily due to the USD8.7m Tajik farm-out gain occurring in June 2013 and reduced revenues as a result of lower production volumes and pricing;

- Administrative expenses in 2014 have been negatively affected, on translation, by approximately USD0.6m as a result of the weakening of USD against GBP; the negative exchange impact has not been realised due to natural hedging through GBP cash held;
- Capital expenditure is higher due to capital programmes in place with respect to shallow gas and oil field development;
- Reduction of borrowings is due to the repayment of maturing rig loans which were replaced in Q1 2014 by a new rig loan and Escrow loan received in Q3 2014, see page 4 for details.
- Reduction in net funds is analysed on page 16.

Operational highlights

	Quarter ended September 30			Nine months ended September 30		
	2014	2013	Change	2014	2013	Change
Kazakhstan						
Oil (bopd)	2,445	2,435	-	2,311	2,618	(12%)
Gas (boe/d)	1,721	2,239	(23%)	1,858	2,113	(12%)
Combined (boe/d)	4,166	4,674	(11%)	4,169	4,731	(12%)
Tajikistan						
Oil (bopd)	-	-	-	-	65	(100%)
Total boe/d	4,166	4,674	(11%)	4,169	4,796	(13%)
Kazakhstan						
Oil – gross sales price per barrel	USD27.88	USD30.00	(7%)	USD27.30	USD30.94	(12%)
Oil – cost per barrel	USD9.30	USD10.07	(8%)	USD11.35	USD8.29	37%
Closing exchange rate at September 30	181.90	153.62	18%	181.90	153.62	18%
Gas – sales price net of marketing commission (Mcm)	USD53.06	USD62.83		USD53.06	USD62.83	
Gas – cost per Mcm	USD30.23	USD26.37	(15%)	USD29.39	USD25.44	16%

- Oil production was lower in Q1 of the current year compared with prior year due to weather conditions in February and March affecting the ability to truck oil from site, which necessitated the choking back of wells and in the case of AKD05 and AKD06, pump shut off. Oil production increased in Q2 2014 and was stable in Q3 2014 due to further optimisation of pumps on AKD05 and AKD06. It is expected that this quarter's oil production average will largely be maintained through the remainder of 2014;
- Gas production continues to follow a predicted natural decline through 2014 which will continue until the next phase of the gas development is brought on stream at year-end;
- Kazakh oil prices saw a decline in February 2014 as a result of the Kazakh market absorbing the impact of the 20% Tenge devaluation that took place during that month (see Kazakhstan – Oil price), although price increases have been realised in June and September 2014. In September, the price was increased to USD28.70 per barrel;
- Kazakh gas prices were also affected by the Tenge devaluation (see Kazakhstan – Gas price) though the overall negative economic impact of the devaluation on gas sales revenues was mitigated by the reduction in Tenge based costs in Kazakhstan due to the same devaluation;
- The Company experienced a significantly higher oil operating cost per barrel in the nine months ending September 2014 compared with the prior comparative period due to lower production levels during Q1 2014, which were resolved in Q2 2014, and secondly, due to higher water disposal costs due to the higher water production. Reductions were achieved in water disposal costs during Q3 2014. The installation of a permanent water injection facility (subject to funding) will reduce operating costs. It is Management's view that these higher operating costs per barrel are temporary and will be reduced going forward.

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

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on pages 26 and 27 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 the Central Asian and Caspian 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 and the Caspian Region in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

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

- focus on raising short term finance;
- immediately implement a plan of significant cost reductions;
- complete the conditional sale of 50% (plus one share) of the Kazakh assets;
- complete the shallow gas exploration and development programme in order to significantly increase natural gas production;
- 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;
- technically assess the Georgian asset; and
- develop the Tajik Bokhtar PSC together with the Company's new partners.

Significant events and transactions for the nine months ended September 30 2014

- Completion of the acquisition of a 56% interest in Blocks XI^A, XI^M and XI^N, in eastern Georgia through three Production Sharing Contracts ("PSC") for a payment of USD9.6m, being the issue of 12,000,000 ordinary shares in Tethys (based on a price of CAD0.84 per share) and funding of a USD4.4m carry on the next USD10m work programme. Tethys is now Operator of these PSC's;
- Updated Oil Resource Report for the new "Klymene" prospect in Kazakhstan with total Unrisked Mean Recoverable Oil Resources being estimated independently at over 400 million barrels;
- Drilling of a further 4 successful shallow gas exploration wells: AKK17, AKK18, AKK19 and AKK20, which tested at an aggregate rate of approximately 650 Mcm/d (23MMcf/d) from the Tasaran horizon;
- 20% devaluation of the Kazakh Tenge mid February 2014 (from 154 to 185 Tenge per 1 USD). The Company has assessed the impact on its Kazakh operations and has concluded that adverse effects on revenue will be offset by positive effects of certain payments such as the Kazakh loan and other payables denominated in local currency, such that the overall effect is neutral;
- Renewal of gas sale contracts for volumes up to 150 million cubic metres at a price of KZT13,365 (approximately USD73.47 per Mcm (USD2.09 per Mcf) of gas (USD82.29 per Mcm or USD2.34 per Mcf including VAT). Sales costs are KZT3,712.50 (approximately USD20.41) per Mcm. The contracts run through to December 31, 2014;
- Completion of an Offering that raised gross proceeds of USD15m through the issue of 36,894,923 new ordinary shares priced at GBP0.24 per share (CAD0.44 per share). Net proceeds of USD13.6m are being used by the Company for continued development of its Kazakh shallow gas programme. Refer to Note 13 of the September 2014 Condensed Consolidated Interim Financial Statements for further information;
- Extension of the Kyzylol Production Contract for a further 15 years to June 2029, allowing further time for development of this area;
- The Company has agreed with SinoHan Oil & Gas Investment No.6 B.V. the release of the USD3.88m deposit placed into Escrow with respect to the conditional sale of a 50% (plus one share) interest in the Company's Kazakhstan business. The deposit has been released as a minimal interest bearing loan that will be deducted from consideration upon completion of the sale;

- Fergus Robson, previously Group Commercial Manager, was promoted to the position of Vice President Commercial with effect from 1st August 2014. On June 30th 2014, Veronica Seymour stepped down as Vice President Communications and became part-time Public Relations Manager.

Significant events and transactions subsequent to the period end

Sale of Kazakh assets to HanHong

On November 2, 2013 Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption ("Article 36").

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

Board changes

On November 4, 2014 the Company announced that Dr. David Robson and Liz Landles have stepped down from the Board with immediate effect. Dr. David Robson and Liz Landles will continue working in their executive roles to assist the Board in helping ensure a smooth transition during this period of change.

On November 10, 2014 the Company announced that Ambassador Zalmay Khalilzad, Non-Executive Director, had stepped down from the Board with immediate effect.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2014					2013				
	Gross fluid m3	Net barrels	Net production barrels	Net production days	bopd	Gross fluid m3	Net barrels	Net production barrels	Net production days	bopd
Q1	42,503	267,334	180,801	90	2,009	53,168	334,419	288,042	90	3,200
Q2	53,005	333,390	225,024	91	2,473	37,139	233,599	202,700	91	2,227
Q3	58,926	370,635	224,966	92	2,445	44,333	279,127	224,033	92	2,435
Total	154,434	971,359	630,791	273	2,311	134,640	847,145	714,775	273	2,618

- Test production from the Doris discovery well AKD01 originally commenced in September 2010 at a level of up to 750 barrels per day. Oil was initially transported by truck to an oil loading terminal north of the town of Emba, located 450 km to the northeast of the well site, where it was treated before being transported to local refineries. In January 2011, approval was granted for a Pilot Production licence for this Doris oil discovery in the Akkulka block, whereupon the Company received the right to produce oil under the exploration contract. Furthermore, it allowed the Company to install and operate production facilities for a planned (Phase 2) production target. Once the Pilot Production Project is fully completed, relevant final reserve calculations will be submitted to the Kazakh Ministry of Oil and Gas ("MOG") to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is planning to apply for a full production contract, which is expected to be in place during 2015. In order to obtain this full production contract a gas utilization system needs to be installed which will require significant capital investment (approximately USD6m) and has a

lead time for delivery and installation of at least 12 months, as the Company will no longer be able to flare gas. This will be implemented when the SinoHan Oil & Gas Investment acquisition completes;

- The Company produces oil from three wells under the Pilot Production licence: AKD01, AKD05 and AKD06. These wells are performing to expectation. Moderate capacity progressive cavity pumps have been installed as planned on AKD05 and on AKD06. It is expected that at some time in the future the AKD01 well will also require a pump though the well performance to date has been good;
- Q1 2014 saw lower production than the same quarter prior year due to weather conditions in February and March that disrupted transportation resulting in the necessity to restrict production as well as mechanical production issues. Production increased in Q2 2014 as a result of better weather leading to improved road conditions and further optimisation of pumps on wells AKD05 and AKD06 and this persisted through Q3.

Oil operations update

General

Oil production is currently at approximately 2,450 barrels per day, a rate that will likely be maintained for the rest of the year. Occasional optimization of the pumps on AKD05 and AKD06 are envisaged to the end of the year.

KBD01 ("Kalypto")

This well successfully encountered hydrocarbons in Jurassic sands and in carbonates of Permo/Carboniferous age in the north-western part of the Company's acreage in Kazakhstan. Following a successful cementing procedure in Q4 2013, a comprehensive stimulation and subsequent testing programme commenced in mid-December on the Permo-Carboniferous interval, after delays primarily caused by the sourcing of equipment, inclement weather and the remote location. This interval is approximately 4,100 metres below the surface and electric logs run over this section, together with drilling data, indicate more than 100 metres of gross potential hydrocarbon bearing section. Further stimulation and testing work on this well is subject to adequate funding being in place. Similar reservoirs in the area have reacted well to stimulation and techniques now applied in other regions (e.g. North America) should work on this well. Total SA has recently acquired the acreage adjacent to Kalypto to the south and west.

Joint Venture – Aral Oil Terminal ("AOT")

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd to 6,300 bopd with the installation of two 1000 m³ storage tanks (12,500 bbls) and associated pumping equipment.

Gas production – Kyzylai and Akkulka Contracts

	2014				2013			
	Mcm ¹	Mcf ²	Mcm/d ³	Boe/d ⁴	Mcm ¹	Mcf ²	Mcm/d ³	Boe/d ⁴
Kyzylai								
Q1	23,390	825,901	260	1,530	19,242	679,429	214	1,258
Q2	22,780	804,362	250	1,473	26,238	926,464	288	1,697
Q3	19,925	703,552	217	1,275	25,630	905,007	279	1,640
Total	66,095	2,333,815	242	1,425	71,110	2,510,900	260	1,533
Akkulka								
Q1	7,430	262,353	83	486	7,413	261,737	82	485
Q2	5,664	199,996	62	366	10,118	357,267	111	654
Q3	6,967	246,005	76	446	9,370	330,856	102	599
Total	20,061	708,354	73	433	26,901	949,860	99	580
TOTAL	86,156	3,042,169	315	1,858	98,011	3,460,760	359	2113

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 Kyzylloi field in 2007, following the construction of a 56 km, 325 mm diameter export pipeline from the Kyzylloi field gathering station to the main Bukhara–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;
- Production commenced from the Akkulka field on October 6, 2010;
- Q3 2014 saw continued steady production and wells are producing consistently in line with predicted natural decline.

Gas operations update

Shallow Gas Drilling programme

Currently the tied in gas wells on Kyzylloi and Akkulka are producing approximately 260 thousand cubic metres per day (Mcm/d) (9.2 million cubic feet per day (MMcf/d)).

The forward gas programme has two aspects: those wells that have been previously drilled and tested that will be tied in (AKK05, AKK14, AKK15 and AKK16) and newly drilled and tested shallow gas wells (AKK17, AKK18, AKK19 and AKK20). The initial well were chosen and four wells were drilled and tested with further targets to be identified close to the gas pipeline after the final interpretation of the recently acquired 3D seismic data. These wells are primarily targeting gas at 600-800 metres at the deeper, higher pressured Tasaran sand level that tested strongly on the AKK14 and AKK15 wells, as currently the production is exclusively from the shallower Kyzylloi stratigraphic level. On the previous drilling campaign, 11 out of 13 shallow gas wells were successful and the subsequent seismic acquired (including 3D) is of better quality.

Previously drilled and tested wells will be brought on stream at different stages over the next 12-18 months, dependent on their particular location and contract status, as well as dependent on further funding.

The AKK14 well was drilled in 2008 and tested at 195 Mcm/d (6.9 MMcf/d) in the Tasaran horizon. This gas well has been approved and incorporated under the Akkulka Production Contract. It will be worked over and brought on production and is already tied into the pipeline system.

The AKK05 well was drilled in 2005 and tested at 223Mcm/d (7.9 MMcf/d). This will be worked over in H2 2014 whereupon it can be produced under the Kyzylloi Production Contract having already been tied into the infrastructure. Both AKK05 and AKK14 are expected to be on production by the beginning of Q1 2015.

The AKK15 and AKK16 wells were drilled in 2008 and tested at 195 Mcm/d (6.9 MMcf/d) and 289 Mcm/d (10.2 MMcf/d) respectively. To date four additional exploration wells have been drilled: AKK17, AKK18, AKK19 and AKK20, all of which have encountered gas-bearing sections and tested at an aggregate rate of approximately 650 Mcm/d (23 MMcf/d) from the Tasaran horizon. These wells will be tied in during the latter half of 2014 and put onto production together with the newly drilled wells on January 1, 2015. It is expected the total initial gas production starting in 2015 will be 800 Mcm/d (28.3MMcf/d) to 850 Mcm/d (30MMcf/d).

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

The Company's strategy is to carry out the comprehensive programme outlined above, in order to complete all work and have all contracts and approvals in place to commence selling into the Kazakhstan-China pipeline system in the short term when it expects to achieve a significantly higher net price than the current net price of USD53.06/Mcm. Tethys believes that Chinese buyers are currently buying gas from Central Asia at much higher prices than this and therefore expects the price it receives to rise again at that time.

Exploration - update

The KBD02 ("Klymene") prospect is planned to be drilled to a total depth of 2,750 metres targeting a large structure in the south west of the Kul-Bas block, and will target three horizons in the Lower Cretaceous and Upper Jurassic. State approval for the Klymene exploration well drill project and associated emissions is expected by end of 2014, and commencement of drilling operations is planned upon receipt of funds from the SinoHan acquisition and the completion of a drill tender which is currently underway. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects (the geographical area of the prospect is up to ten times the areal extent of the Doris oil field). It appears to have good four-way structural

closure and positive hydrocarbon indications (“bright spots”) on the recently acquired and interpreted seismic. Independent prospective resources assessment by Gustavson Associates assign total unrisksed mean recoverable oil resources of 422 million barrels to the structure. Total SA has recently acquired the acreage to the south and west of Klymene.

Results of Operations and Operational Review - Uzbekistan

Oil Production - North Urtabulak Production Enhancement Contract (“PEC”)

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

Results of Operations and Operational Review - Tajikistan

Oil Production – Beshtentak

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

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

Operations update

Since completion of the farm-out, the new joint arrangement has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area, particularly targeted at deeper exploration potential. In Q4 2013, the joint operating company went out to tender for the acquisition of seismic data which was awarded to BGP of China in April 2014 and commenced field acquisition in late October 2014.

This new wide line 2D survey is specially designed to image the deep targets described in the Independent Resource Report and consists of a first phase of 826 kms with an option for an additional 200 kms, all to be acquired within 2014 and the first three quarters of 2015. As well as 2D acquisition and processing, a concurrent low cost passive seismic survey is planned and a Magnetotellurics survey is also being acquired now along the dip lines. Processing of all these data will be concurrent so interpretation and mapping will be underway from early 2015. This whole data set will enable the identification of the best possible location to spud the first deep well at the end of 2015.

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

Accounting from date of farm-out

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

Results of Operations and Operational Review - Georgia

Following completion, in early January 2014, of the acquisition of a 56% interest in the Georgian licence areas: Blocks XI^A, XI^M and XI^N, activities performed since acquisition have focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XI^A and XI^M with some geochemical and structural geology work underway across all three blocks.

Geochemical and rock mechanic studies are underway to further evaluate the unconventional play on the Company's acreage which Tethys believes has substantial upside potential. In addition, several conventional targets have been identified from seismic as well as potential drilling locations for unconventional wells. Capital expenditure on this work is minimal and it is currently not expected that significant investment will be required in Georgia until 2015, when these assessments have been completed. Initial discussions are also underway with potential farm-in partners for this project.

An Independent Resource Report on the Company's Georgia acreage (dated July 1, 2013), prepared by Gustavson Associates in accordance with Canadian National Instrument 51-101, estimates Gross unrisked mean recoverable prospective resources of 3.216 billion barrels of oil equivalent, consisting of 2.913 billion barrels of oil plus 1.8 trillion cubic feet (51.4 billion cubic metres) of gas.

Financial Review

Summary of Quarterly Results

	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012
Oil and gas revenue ¹	7,261	7,123	6,781	8,527	9,082	8,862	10,474	11,324
Loss for the period								
– continuing ops ¹	(2,362)	(3,668)	(4,409)	(4,208)	(4,887)	3,242	(4,683)	(3,648)
– discontinued ops ¹	(57)	(153)	(492)	(6,406)	(501)	(544)	356	(422)
Basic & diluted loss (USD) per share – continuing ops	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	0.01	(0.02)	(0.01)
Basic & diluted loss (USD) per share – discontinued ops	-	-	-	(0.02)	-	-	-	-
EBITDA – adjusted for share based payments ²	(1,134)	(2,509)	(4,837)	(3,348)	(507)	8,515	1,998	3,163
Capital expenditure	6,216	4,835	7,266	16,510	4,985	1,050	1,264	8,170
Total assets	241,059	242,878	232,881	234,618	246,536	253,924	246,896	251,953
Cash & cash equivalents	7,914	11,642	13,698	25,109	51,207	64,535	1,358	1,750
Cash & cash equivalents – held in a disposal group ³	2,153	6,036	1,627	622	-	-	-	-
Short & long term borrowings	(11,032)	(7,581)	(6,715)	(4,965)	(17,852)	(18,889)	(15,885)	(17,313)
Short & long term borrowings – held in a disposal group ³	(5,166)	(5,911)	(6,755)	(8,947)	-	-	-	-
Total non-current liabilities	(5,923)	(6,370)	(5,744)	-	(11,914)	(12,541)	(9,883)	(7,475)
Total non-current liabilities – held in a disposal group ³	(7,412)	(7,691)	(8,019)	(10,913)	-	-	-	-
Net (debt) / funds	(6,131)	4,186	1,855	11,819	33,335	45,646	(14,527)	(15,563)
Number of common shares outstanding	336,452,667 ⁶	336,452,667 ⁶	299,557,744	299,557,744 ⁵	299,557,744 ⁵	287,557,744	286,782,744	286,707,744

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

Note 2 EBITDA – adjusted for share based payments is a non GAAP measure and is defined as “Loss or profit before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments” and is calculated on the results of continuing operations

Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as “Assets and Liabilities of a disposal group held for sale”. For further information – refer to note 10 of the September 2014 Condensed Consolidated Interim Financial Statements

Note 4 Net debt/funds is calculated as total borrowings (which includes ‘current and non-current borrowings’) less cash and cash equivalents. Total capital is calculated as ‘equity’ plus net debt. All figures are as stated in the audited consolidated statement of financial position and related notes

Note 5 Includes 12,000,000 shares issued on July 9, 2013 in connection with the proposed acquisition of Georgian assets. These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014

Note 6 2014 includes the issue in May and June of 36,894,923 new ordinary shares which raised gross proceeds of USD15m for the Kazakh shallow gas programme.

Loss for the period

The Company recorded a net loss after taxation of USD10.4m for the nine months ended September 30, 2014 (2013: USD6.3m), the principal variances between the two periods being the Tajik gain realized on farm-out in June 2013 (USD8.4m) and depreciation, depletion and amortization of the Kazakh assets which ceased when the assets were classified as held for sale on November 2, 2013. Further variances between the two periods are summarized below together with a discussion of variances greater than 10%:

	Quarter ended September 30			Nine months ended September 30		
	2014	2013 ¹	Change	2014	2013 ¹	Change
Sales and other revenues	7,261	9,082	(20%)	21,165	28,418	(26%)
Sales expenses	(534)	(831)	(36%)	(1,776)	(2,356)	(25%)
Production expenses	(2,963)	(3,137)	(6%)	(9,975)	(9,380)	6%
Depreciation, depletion and amortization	(281)	(3,581)	(92%)	(580)	(11,350)	(95%)
Business development expenses	(461)	(628)	(27%)	(1,781)	(1,605)	11%
Administrative expenses	(4,181)	(4,848)	(14%)	(14,388)	(14,046)	2%
Transaction costs of assets held for sale	(114)	-	-	(245)	-	-
Share based payments	(20)	(205)	(90%)	(216)	(751)	(71%)
(Costs) / gain on Tajik farm-out	-	(206)	(100%)	-	8,453	(100%)
Foreign exchange loss - net	(98)	(140)	(30%)	(168)	(67)	151%
Fair value gain on derivative financial instrument - net	-	516	(100%)	17	548	(97%)
(Loss) / profit from jointly controlled entity	(44)	201	(122%)	(1,312)	589	(323%)
Finance costs - net	(215)	(732)	(71%)	(1,200)	(2,249)	(47%)
Loss before taxation	(1,650)	(4,509)	(63%)	(10,459)	(3,796)	176%
Taxation	(712)	(378)	(88%)	20	(2,532)	(101%)
Loss for the period from continuing operations	(2,362)	(4,887)	(52%)	(10,439)	(6,328)	65%
Loss for the period from discontinued operations	(57)	(501)	(89%)	(702)	(689)	2%
Loss for the period	(2,419)	(5,388)	(55%)	(11,141)	(7,017)	59%

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

Sales & other revenue

	Quarter ended September 30			Nine months ended September 30		
	2014	2013 ¹	Change	2014	2013 ¹	Change
Summary						
Oil	5,334	5,791	(8%)	14,549	19,454	(25%)
Gas	1,923	2,993	(36%)	6,352	8,486	(25%)
Other	4	298	(99%)	264	478	(45%)
Total	7,261	9,082	(20%)	21,165	28,418	(26%)
By region:						
Kazakhstan						
Oil	5,334	5,791	(8%)	14,549	18,904	(23%)
Gas	1,923	2,993	(36%)	6,352	8,486	(25%)
Other	4	40	(90%)	12	205	(94%)
Total	7,261	8,824	(18%)	20,913	27,595	(24%)
Tajikistan						
Oil	-	-	-	-	550	(100%)
Other	-	258	(100%)	252	258	(2%)
Total	-	258	(100%)	252	808	(69%)
Other						
Oil	-	-	-	-	15	(100%)
Total	7,261	9,082	(20%)	21,165	28,418	(26%)

	Gross sales		Realized price at wellhead	Compensation	VAT	Net sales
	bbls	Revenue	USD/bbl			
2014						
Q1	174,381	4,827	27.1	97	507	4,223
Q2	215,535	5,704	26.5	114	598	4,992
Q3	219,117	6,097	27.9	122	641	5,334
Total	609,033	16,628	27.3	333	1,746	14,549
2013						
Q1	272,695	8,737	32.0	165	918	7,654
Q2	205,427	6,248	30.4	134	655	5,459
Q3	220,206	6,621	30.0	135	695	5,791
Total	698,328	21,606	30.9	434	2,268	18,904

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

- Since Q2 2013, there has been downward pressure on pricing as a result of a 30% increase in railway tariffs in January 2013, which was absorbed by the domestic market. By Q4 2013, the oil price was stable at USD30 per barrel, however, during February 2014 this price was eroded as a result of the 20% devaluation of the Tenge which was absorbed by the market. The Company is not responsible for any distribution or transportation costs as product is sold at the wellhead. It is expected that price increases realised in June and September 2014 will continue the upward trend;
- The Company hopes to obtain a full production licence in 2015, which is dependent on implementation of the gas utilisation project (subject to funding), at which point it should be able to export production and realize an international price less applicable transport costs and export tariffs.

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

- In late January 2013, the Company signed two contracts with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company, KazTransGas JSC. Both Kyzylai and Akkulka sales contracts are for annual volumes up to 150 million cubic metres at a fixed Tenge net price of KZT 9,652.50 per 1,000 cubic metres (approximately USD53.06 or USD 1.49 per 1,000 cubic feet – at a current exchange rate of 181.90 Tenge) or fixed Tenge gross price including 12% VAT of KZT 10,810.80 per 1,000 cubic metres (USD59.42 or USD 1.67 per 1,000 cubic feet) net of marketing and distribution costs. Both contracts run through to December 31, 2014 and are subject to exchange rate risk – refer to page 25 – *Sensitivities*.

Tajikistan Oil sales

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

Sales expenses

Sales expenses represent marketing agent's commissions of KZT3,712.50 per Mcm, net of 12% VAT, (approximately USD20.41 at a current exchange rate of KZT181.90), paid in relation to the Kazakh gas sale contracts. These marketing agent's commissions have been in place since February 2013.

Production expenses

	Quarter ended September 30 (adjusted for discontinued operations)			Nine months ended September 30 (adjusted for discontinued operations)		
	2014	2013	Change	2014	2013	Change
Kazakhstan						
Oil production	2,093	2,257	(7%)	7,159	5,926	21%
Gas production	807	923	(13%)	2,526	2,493	1%
Tajikistan						
Oil production	-	54	(100%)	-	796	(100%)
Other	63	(97)	(166%)	290	165	76%
Total	2,963	3,137	(6%)	9,975	9,380	6%
Kazakhstan						
Oil production - net bbls	224,966	224,033	-	630,791	714,775	(12%)
Oil production - cost per bbl	USD9.30	USD10.07	(8%)	USD11.35	USD8.30	37%
Gas production – boe	157,136	205,988	(24%)	505,925	576,799	(12%)
Gas production - cost per boe	USD5.14	USD4.48	15%	USD4.99	USD4.32	16%
Total – average cost per boe	USD7.22	USD7.28	(1%)	USD8.17	USD6.31	30%

Kazakhstan – oil production

- A significant proportion of costs associated with oil production are fixed, therefore even if there is lower oil production in the current period compared with the comparative period, costs will not reduce proportionately;
- Cost per barrel of oil production has been affected during the current period due to the lower production levels affected by pump downtime and weather in Q1 2014, and secondly, due to higher water disposal costs as a result of the higher water production. Going forward the Company expects oil production costs to decrease from the current average levels by the installation of a permanent water injection facility, which will take approximately 5 months and is subject to funding. It is Management's view that these higher operating costs per barrel are temporary and will be reduced going forward.

Kazakhstan – gas production

- As with the oil, a significant proportion of costs associated with gas production are fixed, therefore with lower gas production, costs per boe will not reduce proportionately;
- There have been increases in gas production costs since Q3 2013 as a result of the Kazakh salary review;
- The Company's shallow gas programme (discussed in the section on Kazakh operations update) should result in cost reduction per cubic metre as economies of scale are achieved.

Tajikistan

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

Depreciation, depletion and amortization (DD&A)

DD&A for the 3 months ended September 30, 2014 was USD0.281m representing a decrease of 92% over the comparative period (USD 3.581m). The variance was primarily as depletion of the Kazakh assets ceased at the point at which assets were transferred to "held for sale" (November 2, 2013) in accordance with the Company's accounting policy. In addition, there was no depletion of the Tajik Beshtentak field, which ended at the point of farm-out (June 2013).

Business development expenses

Business development expenses are associated with the pursuit of new business opportunities either within existing operating territories or elsewhere. Expenditure for the 3 months ended September 30, 2014 was USD0.461m representing a decrease of 27% over the comparative period (USD0.628m). The overall increased level of expenditure for the nine months ended September 30, 2014, reflects the activity of the Tajik office post farm-out where pre farm-out its costs were of an administrative nature combined with a re-deployment of some personnel from administrative related roles to business development roles and a higher level of business development activity generally. Business development expenditure has reduced in the current quarter compared with Q2 2014 and will further reduce as a result of the closure of a Tajik project office and termination of associated staff contracts.

Administrative expenses

	Quarter ended September 30 (continuing operations)			Nine months ended September 30 (continuing operations)		
	2014	2013	% Change	2014	2013	Change
Staff	2,436	2,280	7%	7,207	6,541	10%
Travel	476	859	(45%)	1,932	2,342	(18%)
Office	490	452	8%	1,564	1,443	8%
Professional & regulatory fees	360	625	(42%)	1,733	2,008	(14%)
Marketing costs	163	408	(60%)	957	987	(3%)
Other costs	256	224	14%	995	725	37%
Total	4,181	4,848	(14%)	14,388	14,046	2%

- Generally, it should be noted that administrative expenses in 2014 have been negatively affected by an unrealised exchange effect of approximately USD0.6m as a result of the weakening of USD against GBP. Although the profit and loss account is impacted, there is no negative cash flow impact because a significant proportion of the 2014 loans and equity raised was in GBP which provides a natural hedge for the Company's GBP expenditures;
- Kazakh salaries were increased during the 3rd quarter of 2013 as a result of a salary review. This review, the first since 2010, was key to ensuring the retention of staff. Increases have, however, been offset by higher capitalisation of technical staff costs as a result of increased activity on various licence areas;
- Travel costs have been restricted during the quarter to minimise costs;
- Office costs in the quarter are higher than the comparative quarter due to fluctuation in spend. Period to date costs are higher than the comparative period due to costs associated with the London office move and an IT upgrade of the Company's financial reporting systems;
- Professional & regulatory fees have been reduced through the negotiation of a discount on regulatory services and a decision to discontinue Q1 and Q3 auditor reviews;
- Marketing costs are lower for the quarter due to timing of spend. Costs in relation to certain investor relation service contracts have been terminated from Q3 2014 and 2015 (3 month notices having been served in Q2 2014) in order to reduce costs;
- Other costs are higher for the quarter compared with prior quarter due to timing of spend and year to date as a result of taxes incurred in Tajikistan which in the comparative period had been incurred in the final quarter.

Transaction costs of assets held for sale

Costs of USD0.245m have been incurred during 2014 (2013: USD nil) as a result of negotiating and finalising the sale of 50% (plus one share) interest in the Kazakh business segment. The sale is subject to Kazakh State approval, at which point closing will take place.

Share based payments

Share based payments for the quarter ended September 30, 2014, amounted to USD0.02m representing a 90% decrease over the comparative period (USD0.21m) reflecting an overall decrease in remaining term and no new awards.

(Costs) / gain on Tajik farm-out

On completion of the Tajik farm-out, in June 2013, the Company undertook a review of its Tajik assets. Net book values of USD1.227m (property, plant & equipment) and USD53.519m (intangible exploration assets) were applied against the proceeds of USD63.404m together with transactional and other related costs, resulting in a gain of USD8.453m.

Foreign exchange loss– net

Foreign exchange gains and losses arises from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. The losses to date in 2014 are principally as a result of the revaluation of Pound Sterling cash & cash equivalents and borrowings into US Dollars and are, in the main, unrealised. The comparative period amount is principally as a result of KZT denominated amounts in the Kazakhstan business.

Fair value gain on derivative financial instrument - net

The valuation of the derivative financial instruments is zero for the quarter, compared with the comparative quarter, reflecting the expiry of warrants issued in connection with the original rig loan financing.

(Loss) / profit from jointly controlled entity

The loss generated from the Aral Oil Terminal was USD0.044m for the quarter compared with a profit of USD0.201m in the comparative period. Since the last quarter of 2013, the terminal has generated losses as a result of temporary lower volume throughput. Actions are being taken at the Terminal to reduce operating costs and re-structure financing with a view to reducing interest expense over the remaining term of the external debt.

Finance costs - net

Finance costs consist of loan interest expense net of interest income. Finance costs for the period to date are USD1.2m representing a decrease of 47% over the comparative period (USD2.2m) reflecting lower interest paid due to lower overall borrowings and a greater capitalisation of interest in the current period compared with the comparative period as a result of higher capital expenditure incurred in the current period.

Taxation

The overall current tax recovery for the nine months to September 30, 2014, of USD0.02m compared with a tax expense of USD2.5m in the comparative period is primarily as a result of the devaluation of the Kazakh Tenge in February 2014, which increased tax losses available for future offset. A reconciliation of the loss before income tax to the current tax recovery or expense is provided in note 5 to the Condensed Consolidated Interim Financial Statements.

Loss for the year from discontinued operations

As a result of the Company's decision at the end of 2013 to exit from Uzbekistan, all revenues and costs associated with this segment have been excluded from the Company's results and separately disclosed. Comparative figures have been re-stated. The loss of USD0.702m is with respect to costs associated with the exit. Refer to notes 5 and 6 of the 2013 Consolidated Financial Statements.

Liquidity and Capital Resources

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

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

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt/funds is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net funds/debt. All figures are as stated in the Condensed Consolidated Statement of Financial Position and related notes.

	As at		Change
	September 30, 2014	December 31, 2013	
Total financial liabilities - borrowings	11,032	4,965	
Total financial liabilities – borrowings of a disposal group	5,166	8,947	
Less: cash and cash equivalents	(7,914)	(25,109)	
Less: cash and cash equivalents – of a disposal group	(2,153)	(622)	
Net debt / (funds)	6,131	(11,819)	(152%)
Total equity	210,986	202,593	4%
Total capital	217,117	190,774	14%

In a net debt position, the Company will assess whether the projected cash flow is sufficient to service the debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through alternative methods such as the issue of equity.

Financing

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Condensed Consolidated Interim Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Financial Statements for the period ended September 30, 2014.

The Company's activities, together with the factors likely to affect its future development, performance and position are set out in the Condensed Consolidated Interim Financial Statements and this Management's Discussion & Analysis document. The financial position of the Company, its cash flows and liquidity position are as set out in the Condensed Consolidated Interim Financial Statements and discussed further in this Management's Discussion & Analysis document.

The Company reports a loss for the nine months ended September 30, 2014 of USD11.1m (2013: USD7.0m). As at October 31, 2014, the Company held cash of USD8.0m, had an accumulated deficit of USD193.4m and a net current asset position of USD3.2m excluding non-current items classified as held for sale.

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. Completion is dependent on the Company receiving Kazakh governmental permission and waiver of the States' pre-emptive right (article 36) which have not yet been received and are beyond the Company's control. The Kazakh Government is currently conducting due diligence on the Kazakh businesses in order to decide whether or not to exercise its pre-emptive right. In view of the current delay, the Company has agreed an extension of the Longstop Date under the Sale and Purchase Agreement with SinoHan until May 1, 2015. The potential delay that this may have on completion of the Kazakh sale of assets is unknown at present. Under the terms

of pre-emption, should the Kazakh Government decide not to approve the sale to SinoHan, then it is obliged to complete on the same purchase terms.

In July 2014, the Company and SinoHan agreed the release of the USD3.88m deposit placed by SinoHan into escrow upon signature of the Sale and Purchase Agreement to assist with the further implementation of the Kazakh capex programme. This is in the form of a minimal interest bearing loan which will be deducted from the consideration due from SinoHan on completion. Upon completion of the sale to SinoHan, the Company will receive proceeds of USD71.12m (USD75m less the released escrow deposit of USD 3.88m), plus potential future bonuses. Furthermore, upon completion, to the extent that the Company has spent in excess of USD20m on capital expenditure from July 1, 2013, SinoHan will enter into a shareholder loan in an amount and on terms equivalent to the funding provided by the Company. By September 30, 2014, an excess of USD9m had been funded by the Company. This effectively means that on completion, the Company's share of future cash calls will be reduced by at least USD9m.

Net proceeds of USD13.6m raised from the equity issue initiated in May 2014 and completed in June 2014, are being applied to the new shallow gas programme in Kazakhstan, with the new wells due to be on production by January 1, 2015. Forecast cash flows incorporate a number of assumptions related to the Kazakh shallow gas programme including timings, pricing and implementation required to generate incremental revenue. Price risk and sensitivities are further discussed on page 25 "Sensitivities" of the Management's Discussion and Analysis document.

Until completion of the Kazakh sale, the Company is currently reliant upon the following:

- the success of its new Kazakh shallow gas programme, including timing of incremental production and the negotiation and agreement of a new gas sales contract, the current contract expires December 31, 2014, at a price that is significantly higher than the current level;
- the cessation of cash call payments to the Bokhtar Joint Operating Company which could potentially dilute the Company's equity interest. Under the terms of the farm-out agreement entered into on June 18, 2013, the Company is required to contribute only 11.11% of its 33.33% stake or USD9m of the first USD80m initial work programme. As at September 30, 2014, the Company had contributed USD1.9m. The carry of 22.22% (USD17.8m) is shared equally by its partners, Total and CNPC. The Company has initiated discussions with its partners to utilise the remaining carry of USD14.0m in such a way that the Company's current cash contribution is immediately reduced to zero. Upon utilisation of the remaining carry, currently anticipated to be May 2015, the Company would resume its contributions at the full rate of 33%, assuming the Kazakh sale has completed by then. If agreed, this would reduce the Company's immediate cash outflow and avoid dilution;
- implementation of significant immediate cost reductions of at least US\$5m over the course of the next year in a way that will not impair current operations and activities;
- injection of short term funding for a minimum amount of US\$5m to support the short term liquidity of the Company until the results of the new shallow gas programme are fully realized and the Kazakh sale completes.

Should completion of the Kazakh sale be delayed further than May 2015 then the Company will need to secure additional funding in order to meet its contractual obligations under the Akkulka Exploration and Kul-Bas Exploration and Production Contracts, refer to note 16 to the September 2014 Condensed Consolidated Interim Financial Statements for further details.

Subsequent to the period end, the Company announced a significant Board change that will be voted upon at an Extraordinary General Meeting to be announced. The new Board will examine the potential to further reduce costs. Meanwhile, management continues to adopt a prudent cash management approach by meeting mandatory capital expenditure and reducing costs to the extent that ongoing operations will not be affected.

Management has examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances and material uncertainties referred to above, the Board has concluded that there are significant uncertainties that could have a material impact on the Company's financial resources, however, measures being taken by the Company should ensure that it has adequate resources and potential to continue operations for at least the next twelve months, providing cost savings are realised and short term funding is secured for the period until the Kazakh sale completes. For these reasons, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Cash Flow

	Quarter ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash & cash equivalents at beginning of period	17,678	64,535	25,731	1,750
Cash inflow				
Proceeds from farm-out (net)	-	-	-	63,199
Proceeds from financing	3,884	-	11,604	4,714
Proceeds from issuance of equity (net)	-	-	13,568	523
Interest received	50	60	148	152
Repayment of loan receivable from jointly controlled entity	-	-	-	400
Total	3,934	60	25,320	68,988
Cash outflow				
Operating activities – before tax (including discontinued operations)	(2,107)	(5,488)	(9,617)	(2,827)
Capital expenditure	(6,216)	(4,987)	(18,317)	(7,299)
Repayment of borrowings – including interest	(1,547)	(1,847)	(9,561)	(6,017)
Repayment of historic costs	(27)	(69)	(126)	(212)
Corporation tax paid	-	(50)	(148)	(276)
Movement in restricted cash	(14)	(10)	(474)	(635)
Investment in jointly controlled entity	-	-	-	(4)
Other (includes change in working capital)	(1,428)	(720)	(2,304)	(1,974)
Movement in asset retirement obligation	-	(253)	-	(253)
Total	(11,339)	(13,424)	(40,547)	(19,497)
Effect of exchange rates on cash & cash equivalents	(206)	36	(437)	(34)
Cash & cash equivalents at end of period	10,067	51,207	10,067	51,207

Operating activities

Operating activities have been affected by a reduction in revenue in the current period over the comparative period as a result of the cessation of Uzbek and Tajik revenue combined with a reduction in Kazakh oil and gas revenues.

Proceeds from farm-out

USD63.2m were the net proceeds generated from the Tajik farm-out.

Proceeds from financing

In February 2014, the Company entered into a new loan agreement to seek to borrow up to USD12m, of which USD7.7m had been sourced by the end of June 2014 – refer to note 11 to the September 2014 Condensed Consolidated Interim Financial Statements for further information.

In July 2014 the Company agreed with SinoHan Oil & Gas Investment No.6 B.V. the release of the USD3.9m deposit placed into Escrow with respect to the conditional sale of a 50% (plus one share) interest in the Company's Kazakhstan business. The deposit has been released as a minimal interest bearing loan that will be deducted from consideration upon completion of the sale.

Proceeds from issuance of equity (net)

During May and June 2014 net proceeds of USD13.6m were raised through the issue of 36,894,923 new ordinary shares priced at GBP0.24 (CAD0.44) per share.

Other

“Other” incorporates movements of changes in working capital associated with capital (long term VAT and advances to contractors).

Capital Expenditure

Significant spend is as follows:

Continuing operations	Quarter ended September 30			Nine months ended September 30		
	2014	2013	Change	2014	2013	Change
Kazakhstan						
Fire-safety	-	-		299	-	
AKD08	-	2,779		533	3,391	
AKD09	-	625		768	625	
Pumps	-	-		548	-	
2D & 3D Seismic	-	-		228	-	
New shallow gas wells & tie-ins	3,018	-		5,801	-	
Gas dehydration	1,867	-		3,761	-	
Rig mobilization	-	-		148	-	
KBD01 – testing	-	214		636	214	
Other	-	1,136		1,115	1,740	
Total	4,885	4,754	3%	13,837	5,970	132%
Tajikistan						
Bokhtar exploration	835	65		2,381	658	
Total	835	65	1,185%	2,381	658	262%
Georgia	496	-	100%	1,818	-	100%
Corporate & other	-	(10)	-	281	28	904%
Discontinued operations						
Uzbekistan	-	176	-	-	643	-
Total	6,216	4,985	25%	18,317	7,299	151%

Non-GAAP Measures

EBITDA adjusted for share based payments

EBITDA adjusted for share based payments shown in this MD&A does not have any standardized meaning as prescribed under IFRS and, therefore, is considered a non-GAAP measure. This measure has been described and presented to provide shareholders and potential investors with additional information regarding the Company's financial results. This measure may not be comparable to similar measures presented by other entities.

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

	Quarter ended September 30			Nine months ended September 30		
	2014	2013 ¹	Change	2014	2013 ¹	Change
EBITDA - adjusted for share based payments	(1,134)	(507)	124%	(8,480)	10,006	(185%)
Depreciation, depletion and amortization	(281)	(3,581)	(92%)	(580)	(11,350)	(95%)
Share based payments	(20)	(205)	(90%)	(216)	(751)	(71%)
Fair value gain on derivative financial instrument - net	-	516	(100%)	17	548	(97%)
Finance costs - net	(215)	(732)	(71%)	(1,200)	(2,249)	(47%)
Loss before taxation	(1,650)	(4,509)	(63%)	(10,459)	(3,796)	176%

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

Accounting policies, changes to accounting standards and critical estimates

Changes to accounting standards are disclosed in note 2 to the September 30, 2014 Condensed Consolidated Interim Financial Statements. Refer to note 2 to the 2013 Annual Audited Consolidated Financial Statements for further information on the Company's significant accounting policies and note 4 for information on critical judgments and accounting estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at November 14, 2014 the Company had authorized share capital of 700,000,000 ordinary shares of which 336,452,667 (2013: 287,557,744) 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 November 14, 2014, a total of 40,374,320 (2013: 33,699,000) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding is 19,270,400 and the number of warrants outstanding is 2,090,000.

Dividends

There were no dividends paid in the period.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, 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 September 30, 2014 was USD1,047,843 (2013 – USD1,060,012) or GBP627,352 (2013 – GBP685,833). As at the date of this report, the services of Dr. Robson and three other Vazon employees are provided to the Company.

On June 17, 2013, the Company made a deposit of GBP400,000 as security for amounts owing to Vazon under the management services contract. The deposit is non-current and restricted - see note 9 of the September 2014 Condensed Consolidated Interim Financial Statements.

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

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants USA LLC (collectively "OPC") have one common director with the Company. Total fees for the nine months ended September 30, 2014 were USD55,887 (2013 – USD117,912). These fees represented significantly less than 1% of the turnover of OPC. OPC participated in the 2014 loan financing, described in note 11 of the September 2014 Condensed Consolidated Interim Financial Statements, advancing USD400,000 to the Company. The balance due to OPC at September 30, 2014 was USD365,370.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing, described in note 11 of the September 2014 Condensed Consolidated Interim Financial Statements, for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants at a fair value of USD2,940 and US 25,891 respectively. These loans were repaid in full in February 2014 and the warrants expired in May and June 2014.

Ambassador Khalilzad is a non-executive director of the Company. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to USD45,000 for the period ended September 30, 2014 (2013 – USD65,502).

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

Three non-executive directors and one executive director participated in the 2014 rig loan financing described in note 11 of the September 2014 Condensed Consolidated Interim Financial Statements.

In addition, non-interest bearing advances have been made to three officers of the Company, provided for upfront accommodation costs, as is common in Dubai. Amounts advanced during the period and balances outstanding at the end of the period are shown in the table below.

	Nine months ended		Balance as at	
	September 30, 2014	September 30, 2013	September 30, 2014	December 31, 2013
Loans advanced to Company:				
Non-executive director	200	-	183	-
Non-executive director	150	-	137	-
Non-executive director	100	-	93	-
Executive director	167	-	157	-
Amounts advanced by Company:				
Officer	-	54	-	27
Officer	-	76	-	45
Officer	68	50	29	17

Risks, Uncertainties and Other Information

The Company is exposed to a number of risks and uncertainties that are common to other companies engaged in the same or similar businesses. A summary of these risks and uncertainties as well as additional information relating to the Company is included in the Company's annual Management's Discussion & Analysis for the year ended December 31, 2013 (the "Annual MD&A") and the 2013 Annual Information Form (the "AIF") which are available on SEDAR at www.sedar.com. The sections entitled "Risks and Uncertainties" from the Annual MD&A and the "Risk Factors" from the AIF are incorporated herein by reference.

To following information is provided to reflect the financial exposure to the following risk factors identified by the Company i.e. movement in certain financial aspects of the Company's risk profile since the prior reporting period:

Financial Risk Management

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

Credit risk

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

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

	September 30	December 31
	2014	2013
Trade receivables	-	84
Cash and cash equivalents	7,914	25,109
Restricted cash	1,234	1,135
Total	9,148	26,328
Assets of a disposal group held for sale (Kazakhstan):		
Trade receivables	5,826	3,985
Cash and cash equivalents	2,153	622
Restricted cash	1,721	1,664
Loans receivable from jointly controlled entities	1,499	2,676
Total	11,199	8,947
Total	20,347	35,275

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 Company's sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at September 30, 2014. Refer also to the section on Financing on pages 16 and 17.

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

The following are the contractual maturities of financial liabilities, including estimated interest payments at September 30, 2014:

	Contractual cash flows	Less than one year	1 – 3 years	4 – 5 years	Thereafter
Trade and other payables	2,642	2,642	-	-	-
Financial borrowings	12,885	5,990	6,895	-	-
Operating leases	2,015	690	936	389	-
Commitments ¹	11,060	11,060	-	-	-
Total	28,602	20,382	7,831	389	-
Liabilities of a disposal group held for sale (Kazakhstan):					
Trade and other payables	5,835	5,614	150	71	-
Financial borrowings	5,806	3,779	2,027	-	-
Operating leases	96	96	-	-	-
Commitments ²	15,421	14,274	1,147	-	-
Total	27,158	23,763	3,324	71	-
Total contractual obligations	55,760	44,145	11,155	460	-

¹Comprises Georgian and Tajikistan work programme commitments. See note 16 of the Condensed Consolidated Interim Financial Statements for details.

²Comprises Kazakhstan work programme commitments which encompass capital expenditure, production expenditure and administrative costs. See note 16 of the Condensed Consolidated Interim Financial Statements for details.

There can be no assurance that debt or equity financing will be available, or sufficient, to meet the Company's requirements or, if debt or equity financing were available, that it would be on terms acceptable to the Company. Until completion of the Kazakh sale, the Company is currently reliant upon obtaining additional short term funding and certain other factors discussed on pages 16 and 17 to continue as a going concern. Inability of the Company to access sufficient capital for its operations could have a material impact on the Company's financial condition, timing of activities and results of operations and prospects.

Interest rate risk

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

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. An increase or decrease of 100 basis points would have had a minimal impact to the Company's results for the period.

Foreign exchange risk

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

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

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at September 30, 2014 are as follows:

In USD equivalent	CAD '000	GBP '000	EUR '000	KZT '000
Cash and cash equivalents	-	4,397	56	520
Trade and other receivables	-	21	1	9,620
Trade and other payables	(23)	(402)	(73)	(2,467)
Financial liabilities – borrowings	-	(3,013)	-	(5,166)
Net exposure	(23)	1,003	(16)	2,507

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

Effect in USD'000	CAD '000	GBP '000	EUR '000	KZT '000
Profit or (loss) before tax	(2)	100	(2)	251

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

Market risk

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

- *Marketability of Production*

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia, China 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. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position. The Company is not aware of any impact to the marketability of its production caused by recent events in the Ukraine and subsequent sanction against Russia.

- *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 (Tenge) price gas contracts up to the end of 2014.

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

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

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

As previously stated gas production from both the Kyzylai and Akkulka contracts in Kazakhstan is sold at fixed prices, at least until the end of 2014, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2014, however, it would be affected by exchange rate risk.

Sensitivities

The price of gas sales from gas produced from both the Kyzylai and Akkulka gas fields under Gas Supply Contracts is fixed in Tenge until December 31, 2014 and hence will be sensitive to a fluctuation in exchange rate. A 10% devaluation of the Tenge, from 181.90 to 200.09 for example, would result in a net price reduction of USD4.82 per Mcm (i.e. USD48.24 from USD53.06). On production of 102,200 Mcm per annum (at 280 Mcm per day), this would result in a reduction of USD492,604 in gas revenue.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 2,500 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD912,500 per annum.

Political & regulatory

The Company decided in December 2013 and announced on January 2, 2014 that it had made a decision to exit Uzbekistan and surrender its rights under the PEC due to changes in the business climate and political environment. The Company's decision was principally as a result of problems encountered by Tethys Production Uzbekistan (the trading name of the Company's subsidiary, Baker Hughes (Cyprus) Limited, ("BHCL") in receiving allocation and payment for the delivery of crude oil to the Fergana refinery. Uzbek authorities have requested access to certain records of BHCL. Such inspections are relatively commonplace in the FSU. To date, the Company has received two claims as a result of the tax inspections undertaken, the risk of crystallization of these claims is considered by the Company to be remote. In addition, the Company has incurred expenses relating to its exit from Uzbekistan, for which provision has been made. Moreover, as a result of problems encountered by the Company with the Fergana refinery, the Company may be unable to recover payment for oil previously delivered to the Fergana refinery (estimated at a book value of approximately USD1.6m) which has been fully written down in the 2013 annual audited consolidated financial statements. Political, regulatory and similar risks are reviewed by Management and further reviewed by the Strategic Risk Committee of the Board at which mitigating strategies and policies are discussed and agreed. The members (and advisors) of the Strategic Risk Committee include experienced diplomats, politicians and personnel familiar with the Company's operating areas. The Company is not aware of any significant risks arising as a result of recent events in the Ukraine and subsequent sanctions imposed on Russia.

Management Services Provided by Vazon and Dependence on Key Personnel

The services of the Company's Executive Chairman and President and the Chief Administrative Officer and Corporate Secretary are provided under the terms of two management services agreements with a corporate entity, Vazon. As a result, these two executive officers of the Company, although officers of the Company, are not employed directly by the Company but rather by Vazon. Vazon is a corporation wholly-owned by Dr. David Robson, the Company's Executive Chairman and President. Either management services agreement may be terminated on up to twelve months' notice by Vazon or the Company. In conjunction with the decision by Dr. Robson and Elizabeth Landles to step down from the Board which was announced on November 4, 2014 notice was also given by Vazon to terminate the management services agreements.

The Company has previously reported that there is no certainty that it will be able to attract and retain suitable candidates should either of the management services agreements be terminated and the executive officers choose not to be employed or retained by the Company and any such termination may materially and adversely affect the Company. Moreover, the Company is dependent on its key executive officers to manage its affairs and operations. The departure of any one key executive officer may negatively impact on certain of the Company's operations until a suitable replacement candidate is appointed.

The Company does not carry key man insurance on any of its executives as at the date hereof.

In the event that the Company is unable to attract, retain and train key personnel, the Group's business, operations and prospects could be materially and adversely affected.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC Interpretations issued by the IFRS Interpretations Committee. Please refer to the 2013 annual consolidated financial statements - Note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further detailed discussion.

Derivative Financial Instruments

The Company has a warrant liability representing a financial liability relating to share warrants where the shares are denominated in a currency that is not the Company's functional currency. Full details are disclosed in note 21.2 of the 2013 annual consolidated financial statements.

Internal Controls Over Financial Reporting

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 – 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 September 30, 2014, 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 September 30, 2014. The Company's 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.

Significant equity investees

Details of significant equity investees are discussed in note 17 of the 2013 annual audited consolidated financial statements.

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 Company's management as appropriate to allow timely decisions regarding disclosure.

Forward-looking statements

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

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; 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 Company's 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 Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Tethys Petroleum Limited

Interim Financial Information
(Unaudited)
September 30, 2014

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

- 1) **Management's Discussion & Analysis:** this includes the requirement of National Instrument 51-102 Canadian Securities Administrators ("Canadian NI 51-102") in respect of a quarterly Management's Discussion & Analysis and the requirements of the UK's Disclosure & Transparency Rules with respect to DTR4.3 Interim management statements; and
- 2) **Interim financial information:** this includes the Condensed Consolidated Interim Financial Statements, the requirements of Canadian NI 51-102 with respect to a quarterly financial report and the requirements of the UK's Disclosure & Transparency Rules with respect to DTR4.3 Interim management statements, a Directors' Responsibility Statement.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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Responsibility Statement of the Directors in Respect of the Interim Report and Accounts

We confirm on behalf of the Board that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;
- the interim report and accounts includes a fair review of the information required by DTR4.3 Interim management statements.

We draw attention to the section entitled "Going Concern" in Note 2 to the Condensed Consolidated Financial Statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the Financial Statements for the period ended September 30, 2014.

For and on behalf of the Board

J. Hammond
Chief Executive Officer
November 14, 2014

D.S. Lay
Chief Financial Officer
November 14, 2014

Tethys Petroleum Limited

Condensed Consolidated Statement of Financial Position (unaudited)
(in thousands of US dollars)

	Note	As at	
		September 30, 2014	December 31, 2013
Non-current assets			
Deferred tax	5	301	322
Intangible assets	7	45,119	31,074
Property, plant and equipment	8	14,687	15,291
Restricted cash	9	651	660
Investment in jointly controlled entity		4	4
		60,762	47,351
Current assets			
Trade and other receivables		660	1,358
Advances		-	4,000
Cash and cash equivalents		7,914	25,109
Restricted cash	9	583	475
Assets of a disposal group classified as held for sale	10	171,140	156,325
		180,297	187,267
Total assets		241,059	234,618
Equity			
Share capital	13	33,645	28,756
Share premium		321,724	307,295
Other reserves		42,837	42,621
Accumulated deficit		(193,378)	(182,533)
Non-controlling interest		6,158	6,454
Total equity		210,986	202,593
Non-current liabilities			
Financial liabilities - borrowings	11	5,923	-
		5,923	-
Current liabilities			
Financial liabilities - borrowings	11	5,109	4,965
Derivative financial instruments – warrants	12	-	17
Current taxation		172	144
Trade and other payables		2,642	4,946
Provisions		-	520
Liabilities of a disposal group classified as held for sale	10	16,227	21,433
		24,150	32,025
Total liabilities		30,073	32,025
Total equity and liabilities		241,059	234,618
Commitments and contingencies	16		

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on November 14, 2014 and were signed on its behalf.

J. Hammond
Chief Executive Officer

D.S. Lay
Chief Financial Officer

Tethys Petroleum Limited

Condensed Consolidated Statement of Comprehensive Income (unaudited)
(in thousands of US dollars)

	Three months ended		Nine months ended		
	Note	September 30, 2014	September 30, 2013 Restated ¹	September 30, 2014	September 30, 2013 Restated ¹
Sales and other revenues	3	7,261	9,082	21,165	28,418
Sales expenses		(534)	(831)	(1,776)	(2,356)
Production expenses		(2,963)	(3,137)	(9,975)	(9,380)
Depreciation, depletion and amortization		(281)	(3,581)	(580)	(11,350)
Business development expenses		(461)	(628)	(1,781)	(1,605)
Administrative expenses		(4,181)	(4,848)	(14,388)	(14,046)
Transaction costs of assets held for sale		(114)	-	(245)	-
Share based payments		(20)	(205)	(216)	(751)
(Loss)/gain on Tajik farm-out		-	(206)	-	8,453
Foreign exchange loss - net		(98)	(140)	(168)	(67)
Fair value gain on derivative financial instrument - net		-	516	17	548
(Loss)/profit from jointly controlled entity		(44)	201	(1,312)	589
Finance costs - net		(215)	(732)	(1,200)	(2,249)
Loss before tax from continuing operations		(1,650)	(4,509)	(10,459)	(3,796)
Taxation	5	(712)	(378)	20	(2,532)
Loss for the period from continuing operations		(2,362)	(4,887)	(10,439)	(6,328)
Loss for the period from discontinued operations net of tax		(57)	(501)	(702)	(689)
Loss and total comprehensive income for the period		(2,419)	(5,388)	(11,141)	(7,017)
Loss and total comprehensive income attributable to:					
Shareholders		(2,321)	(5,177)	(10,845)	(6,578)
Non-controlling interest		(98)	(211)	(296)	(439)
Loss and total comprehensive income for the period		(2,419)	(5,388)	(11,141)	(7,017)
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations	6	(0.01)	(0.02)	(0.03)	(0.02)
Basic and diluted - from discontinued operations	6	-	-	-	-

No dividends were paid or are declared for the period (2013 – none).

1 - 2013 figures have been restated to exclude operations discontinued during 2013 (note 2).

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Unaudited Condensed Consolidated Statement of Changes in Equity (unaudited)
(in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
Balance at January 1, 2013		28,671	306,725	(165,385)	25,113	16,592	8,437	220,153
Comprehensive loss for the period		-	-	(6,578)	-	-	(439)	(7,017)
Transactions with shareholders								
Share-based payments	4	-	-	-	788	-	-	788
Issue of warrants		-	-	-	-	9	-	9
Exercise of warrants		85	570	-	-	-	-	655
Total transactions with shareholders		85	570	-	788	9	-	1,452
Balance at September 30, 2013		28,756	307,295	(171,963)	25,901	16,601	7,998	214,588
Comprehensive loss for the period		-	-	(10,570)	-	-	(44)	(10,614)
Dividend paid to non-controlling interest		-	-	-	-	-	(1,500)	(1,500)
Transactions with shareholders								
Share-based payments		-	-	-	119	-	-	119
Exercise of warrants		-	-	-	-	-	-	-
Total transactions with shareholders		-	-	-	119	-	-	119
Balance at December 31, 2013		28,756	307,295	(182,533)	26,020	16,601	6,454	202,593
Comprehensive loss for the period		-	-	(10,845)	-	-	(296)	(11,141)
Transactions with shareholders								
Shares issued	13	4,889	15,808	-	-	-	-	20,697
Share issue costs	13	-	(1,379)	-	-	-	-	(1,379)
Share-based payments	4	-	-	-	216	-	-	216
Total transactions with shareholders		4,889	14,429	-	216	-	-	19,534
Balance at September 30, 2014		33,645	321,724	(193,378)	26,236	16,601	6,158	210,986

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

The notes on pages 6 to 25 form part of these condensed consolidated financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statement of Cash Flows (unaudited)
(in thousands of US dollars)

	Note	Three months ended		Nine months ended	
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Cash flow from operating activities					
Loss before tax from continuing operations ¹		(1,650)	(4,509)	(10,459)	(3,796)
Loss before tax from discontinued operations ¹		(57)	(551)	(704)	(681)
Adjustments for					
Share based payments		20	205	216	751
Net finance cost		215	734	1,200	2,249
Depreciation, depletion and amortization		281	3,721	580	12,234
Fair value gain on derivative financial instruments		-	(516)	(17)	(548)
Net unrealised foreign exchange (gain)/loss		(147)	113	(64)	(2)
Loss/(gain) on Tajik farm-out		-	206	-	(8,453)
Loss/(profit) from jointly controlled entity		44	(201)	1,312	(589)
Movement in deferred revenue		-	(491)	-	(1,049)
Movement in provisions		(200)	-	(520)	-
Net change in working capital	15	(613)	(4,200)	(1,161)	(2,943)
Cash used in operating activities		(2,107)	(5,489)	(9,617)	(2,827)
Corporation tax paid		-	(50)	(148)	(276)
Net cash used in operating activities		(2,107)	(5,539)	(9,765)	(3,103)
Cash flow from investing activities					
Interest received		50	60	148	152
Expenditure on exploration and evaluation assets		(1,633)	(945)	(6,199)	(1,458)
Expenditure on property, plant and equipment		(4,583)	(4,040)	(12,118)	(5,841)
Movement in restricted cash		(14)	(10)	(474)	(635)
Investment in jointly controlled entity		-	-	-	(4)
Repayment of loan receivable from jointly controlled entity		-	-	-	400
(Costs)/proceeds of Tajik farm-out		-	(206)	-	63,199
Movement in advances to construction contractors		(304)	(1,409)	(2,032)	(2,321)
Movement in value added tax receivable		72	189	(21)	1,734
Net change in working capital	15	(1,063)	704	(251)	(1,387)
Net cash (used in)/generated from investing activities		(7,475)	(5,657)	(20,947)	53,839
Cash flow from financing activities					
Proceeds from issuance of borrowings, net of issue costs		3,884	-	11,604	4,714
Repayment of borrowings		(1,113)	(1,216)	(8,204)	(4,203)
Interest paid on borrowings		(434)	(631)	(1,357)	(1,814)
Proceeds from issuance of equity	13	-	-	14,947	523
Share issue costs		(133)	-	(1,379)	-
Movement in asset retirement obligation		-	(253)	-	(253)
Payment of other liabilities		(27)	(70)	(126)	(212)
Net cash generated from/(used in) financing activities		2,177	(2,170)	15,485	(1,245)
Effects of exchange rate changes on cash and cash equivalents		(206)	38	(437)	(34)
Net (decrease)/increase in cash and cash equivalents		(7,611)	(13,328)	(15,664)	49,457
Cash and cash equivalents at beginning of the period		17,678	64,535	25,731	1,750
Cash and cash equivalents at end of the period		10,067	51,207	10,067	51,207
Cash and cash equivalents at end of the period comprises:					
Cash in assets of a disposal group held for sale	10	2,153	-	2,153	-
Cash and cash equivalents		7,914	51,207	7,914	51,207
		10,067	51,207	10,067	51,207

1 - 2013 amounts have been restated for operations discontinued in 2013.

The notes on pages 6 to 25 form part of these condensed consolidated financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited)
(tabular amounts in thousands of US dollars)

1 General information

The principal executive office of Tethys Petroleum Limited and its subsidiaries (collectively “Tethys” or the “Company”) are in Guernsey, British Isles. The domicile of Tethys Petroleum Limited is the Cayman Islands, where it is incorporated. The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys’ principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange (“TSX”), a standard listing on the London Stock Exchange (“LSE”) and secondary listing on the Kazakhstan Stock Exchange (“KASE”) in Almaty.

2 Basis of preparation and accounting policies

The annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRSs”) and IFRIC interpretations issued by the IFRS Interpretations Committee.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the requirements of the Disclosure and Transparency Rules (“DTR”) of the Financial Conduct Authority (“FCA”) in the United Kingdom as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2013.

Discontinued operation

The results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company’s continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current period presentation.

Disposal group held for sale

The Company has announced the sale of a 50% plus one share interest in the subsidiary company which owns its Kazakhstan businesses. The assets and liabilities of the Company’s Kazakhstan businesses have therefore been grouped together in the Consolidated Statement of Financial Position as “assets of a disposal group held for sale” and shown as current assets and “liabilities of a disposal group held for sale” shown as current liabilities.

Going concern

The Board has considered the Company’s current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Condensed Consolidated Interim Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Financial Statements for the period ended September 30, 2014.

The Company’s activities, together with the factors likely to affect its future development, performance and position are set out in these Condensed Consolidated Interim Financial Statements and the Management’s Discussion & Analysis document. The financial position of the Company, its cash flows and liquidity position are as set out in these Condensed Consolidated Interim Financial Statements and discussed further in the Management’s Discussion & Analysis document.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited) (tabular amounts in thousands of US dollars)

The Company reports a loss for the nine months ended September 30, 2014 of USD11.1m (2013: USD7.0m). As at October 31, 2014, the Company held cash of USD8.0m, had an accumulated deficit of USD193.4m and a net current asset position of USD3.2m excluding non-current items classified as held for sale.

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. Completion is dependent on the Company receiving Kazakh governmental permission and waiver of the States' pre-emptive right (article 36) which have not yet been received and are beyond the Company's control. The Kazakh Government is currently conducting due diligence on the Kazakh businesses in order to decide whether or not to exercise its pre-emptive right. In view of the current delay, the Company has agreed an extension of the Longstop Date under the Sale and Purchase Agreement with SinoHan until May 1, 2015. The potential delay that this may have on completion of the Kazakh sale of assets is unknown at present. Under the terms of pre-emption, should the Kazakh Government decide not to approve the sale to SinoHan, then it is obliged to complete on the same purchase terms.

In July 2014, the Company and SinoHan agreed the release of the USD3.88m deposit placed by SinoHan into escrow upon signature of the Sale and Purchase Agreement to assist with the further implementation of the Kazakh capex programme. This is in the form of a minimal interest bearing loan which will be deducted from the consideration due from SinoHan on completion. Upon completion of the sale to SinoHan, the Company will receive proceeds of USD71.12m (USD75m less the released escrow deposit of USD 3.88m), plus potential future bonuses. Furthermore, upon completion, to the extent that the Company has spent in excess of USD20m on capital expenditure from July 1, 2013, SinoHan will enter into a shareholder loan in an amount and on terms equivalent to the funding provided by the Company. By September 30, 2014, an excess of USD9m had been funded by the Company. This effectively means that on completion, the Company's share of future cash calls will be reduced by at least USD9m.

Net proceeds of USD13.6m raised from the equity issue initiated in May 2014 and completed in June 2014, are being applied to the new shallow gas programme in Kazakhstan, with the new wells due to be on production by January 1, 2015. Forecast cash flows incorporate a number of assumptions related to the Kazakh shallow gas programme including timings, pricing and implementation required to generate incremental revenue. Price risk and sensitivities are further discussed on page 25 "Sensitivities" of the Management's Discussion and Analysis document.

Until completion of the Kazakh sale, the Company is currently reliant upon the following:

- the success of its new Kazakh shallow gas programme, including timing of incremental production and the negotiation and agreement of a new gas sales contract, the current contract expires December 31, 2014, at a price that is significantly higher than the current level;
- the cessation of cash call payments to the Bokhtar Joint Operating Company which could potentially dilute the Company's equity interest. Under the terms of the farm-out agreement entered into on June 18, 2013, the Company is required to contribute only 11.11% of its 33.33% stake or USD9m of the first USD80m initial work programme. As at September 30, 2014, the Company had contributed USD1.9m. The carry of 22.22% (USD17.8m) is shared equally by its partners, Total and CNPC. The Company has initiated discussions with its partners to utilise the remaining carry of USD14.0m in such a way that the Company's current cash contribution is immediately reduced to zero. Upon utilisation of the remaining carry, currently anticipated to be May 2015, the Company would resume its contributions at the full rate of 33%, assuming the Kazakh sale has completed by then. If agreed, this would reduce the Company's immediate cash outflow and avoid dilution;
- implementation of significant immediate cost reductions of at least US\$5m over the course of the next year in a way that will not impair current operations and activities;
- injection of short term funding for a minimum amount of US\$5m to support the short term liquidity of the Company until the results of the new shallow gas programme are fully realized and the Kazakh sale completes.

Should completion of the Kazakh sale be delayed further than May 2015 then the Company will need to secure additional funding in order to meet its contractual obligations under the Akkulka Exploration and Kul-Bas Exploration and Production Contracts, refer to note 16 for further details.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited) (tabular amounts in thousands of US dollars)

Subsequent to the period end, the Company announced a significant Board change that will be voted upon at an Extraordinary General Meeting to be announced. The new Board will examine the potential to further reduce costs. Meanwhile, management continues to adopt a prudent cash management approach by meeting mandatory capital expenditure and reducing costs to the extent that ongoing operations will not be affected.

Management has examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances and material uncertainties referred to above, the Board has concluded that there are significant uncertainties that could have a material impact on the Company's financial resources, however, measures being taken by the Company should ensure that it has adequate resources and potential to continue operations for at least the next twelve months, providing cost savings are realised and short term funding is secured for the period until the Kazakh sale completes. For these reasons, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

New accounting policies

No new standards have been introduced for the current accounting period and whilst a number of amendments have been made to existing standards none of these are expected to have a material impact on the Company.

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

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

3 Segmental Reporting

Geographical segments

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

The Executive Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Georgia and Tajikistan. The company has discontinued operations in Uzbekistan and the results for the Uzbekistan segment have been shown separately from the rest of the Company.

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan and Georgia, the Company is currently undertaking exploration and evaluation activity. A small amount of production took place in Tajikistan up until June 2013 when the Company handed back its producing wells to the State as part of the Tajik farm-out.

The Company also operates a corporate segment which acquired a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan and Tajikistan according to operational requirements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited)
(tabular amounts in thousands of US dollars)

The segment results for the nine months ended September 30, 2014 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and Corporate	Continuing operations	Uzbekistan ¹
Gas sales	6,352	-	-	-	6,352	-
Oil sales	14,549	-	-	-	14,549	-
Refined product sales	-	-	-	-	-	-
Other income	12	252	-	-	264	-
Other operating income	-	-	-	1,587	1,587	-
Segment revenue and other income	20,913	252	-	1,587	22,752	-
Inter-segment revenue	-	-	-	(1,587)	(1,587)	-
Segment revenue and other income from external customers	20,913	252	-	-	21,165	-
Loss from jointly controlled entity	(1,312)	-	-	-	(1,312)	-
Profit/(loss) before taxation	4,237	(1,204)	(8)	(13,484)	(10,459)	(704)
Taxation	217	-	-	(197)	20	2
Net profit/(loss) for the period	4,454	(1,204)	(8)	(13,681)	(10,439)	(702)

Note 1 Discontinued operation in 2013.

Borrowing costs of USD299,630 and USD150,646 incurred in the Corporate segment were capitalised in the Kazak and Tajik segments respectively during the period.

The segment results for the nine months ended September 30, 2013 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and Corporate	Continuing operations	Uzbekistan ¹
Gas sales	8,486	-	-	-	8,486	-
Oil sales	18,904	550	-	-	19,454	-
Refined product sales	-	-	-	-	-	2,263
Other income	205	258	-	15	478	-
Other operating income	-	-	-	3,225	3,225	-
Segment revenue and other income	27,595	808	-	3,240	31,643	2,263
Inter-segment revenue	-	-	-	(3,225)	(3,225)	-
Segment revenue and other income from external customers	27,595	808	-	15	28,418	2,263
Profit from jointly controlled entity	589	-	-	-	589	-
Profit/(loss) before taxation	3,513	6,865	-	(14,174)	(3,796)	(681)
Taxation	(2,510)	-	-	(22)	(2,532)	(8)
Net profit/(loss) for the period	1,003	6,865	-	(14,196)	(6,328)	(689)

Note 1 Discontinued operation in 2013.

Borrowing costs of USD94,182 and USD39,043 and incurred in the Corporate segment were capitalised in the Kazakh and Tajik segments respectively during the period.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited)
(tabular amounts in thousands of US dollars)

The segment results for the three months ended September 30, 2014 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and Corporate	Continuing operations	Uzbekistan ¹
Gas sales	1,923	-	-	-	1,923	-
Oil sales	5,334	-	-	-	5,334	-
Refined product sales	-	-	-	-	-	-
Other income	4	-	-	-	4	-
Other operating income	-	-	-	193	193	-
Segment revenue and other income	7,261	-	-	193	7,454	-
Inter-segment revenue	-	-	-	(193)	(193)	-
Segment revenue and other income from external customers	7,261	-	-	-	7,261	-
Loss from jointly controlled entity	(44)	-	-	-	(44)	-
Profit/(loss) before taxation	2,700	(450)	(8)	(3,892)	(1,650)	(57)
Taxation	(664)	-	-	(48)	(712)	-
Net profit/(loss) for the period	2,036	(450)	(8)	(3,940)	(2,362)	(57)

Note 1 Discontinued operation in 2013.

Borrowing costs of USD116,363 and USD111,360 incurred in the Corporate segment were capitalised in the Kazak and Tajik segments respectively during the period.

The segment results for the three months ended September 30, 2013 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and Corporate	Continuing operations	Uzbekistan ¹
Gas sales	2,993	-	-	-	2,993	-
Oil sales	5,791	-	-	-	5,791	-
Refined product sales	-	-	-	-	-	95
Other income	40	258	-	-	298	-
Other operating income	-	-	-	1,279	1,279	-
Segment revenue and other income	8,824	258	-	1,279	10,361	95
Inter-segment revenue	-	-	-	(1,279)	(1,279)	-
Segment revenue and other income from external customers	8,824	258	-	-	9,082	95
Profit from jointly controlled entity	201	-	-	-	201	-
Profit/(loss) before taxation	536	(417)	-	(4,628)	(4,509)	(551)
Taxation	(378)	-	-	-	(378)	50
Net profit/(loss) for the period	158	(417)	-	(4,628)	(4,887)	(501)

Note 1 Discontinued operation in 2013.

Borrowing costs of USD76,658 and USD17,360 incurred in the Corporate segment were capitalised in the Kazakh and Tajik segments respectively during the period.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited) (tabular amounts in thousands of US dollars)

The segment assets and liabilities as at September 30, 2014 and capital expenditures for the nine months then ended are as follows:

	Kazakhstan ²	Tajikistan	Georgia	Uzbekistan	Other and Corporate	Group
Total assets	171,140	33,318	11,741	27	24,833	241,059
Total liabilities	16,227	989	81	395	12,381	30,073
Cash expenditure on exploration & evaluation assets, property, plant and equipment	13,846	2,381	1,818	-	272	18,317

Note 2 Assets of a disposal group held for sale, refer to note 10 for further details.

The segment assets and liabilities at December 31, 2013 and capital expenditures for the nine months ended September 30, 2013 were as follows:

	Kazakhstan ²	Tajikistan	Uzbekistan	Other and Corporate	Group
Total assets	156,325	32,998	73	45,222	234,618
Total liabilities	21,433	2,346	1,517	6,729	32,025
Cash expenditure on exploration & evaluation assets, property, plant and equipment	5,970	658	643	28	7,299

Note 2 Assets of a disposal group held for sale, refer to note 10 for further details.

4 Share-based payments

Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2013. The options under the plan vest in three tranches with one third vesting immediately, one third after 12 months and one third after 24 months. These options are equity settled share based payment transactions.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited) (tabular amounts in thousands of US dollars)

The following tables summarize the stock option activity for the period ended September 30, 2014 and September 30, 2013.

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2014	33,707,400	1.35
Granted	120,000	0.72
Forfeited	(10,000)	0.88
Expired	(14,547,000)	1.22
Outstanding at September 30, 2014	19,270,400	1.44
Exercisable at September 30, 2014	19,020,400	1.45
Outstanding at January 1, 2013	33,864,000	1.35
Granted	330,000	0.72
Forfeited	(75,000)	0.82
Expired	(309,600)	1.42
Outstanding at September 30, 2013	33,809,400	1.33
Exercisable at September 30, 2013	31,800,400	1.37

A share based payment charge of USD215,649 (2013 – USD788,135) was recorded for the period, of which nil (2013 – USD37,178) was capitalised.

Warrants

The following tables summarize the warrant activity for the period ended September 30, 2014 and September 30, 2013.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2014	2,267,038	2.38
Expired	(177,038)	0.94
Outstanding at September 30, 2014	2,090,000	2.50
Exercisable at September 30, 2014	2,090,000	2.50
Outstanding at January 1, 2013	2,254,538	2.39
Granted	77,205	0.82
Expired	(64,705)	0.98
Outstanding at September 30, 2013	2,267,038	2.38
Exercisable at September 30, 2013	2,267,038	2.38

Tethys Petroleum Limited

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There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Warrants are equity settled share based payment transactions. The warrants granted above were issued in connection with commissions payable to brokers with respect to the Rig loans rolled over in 2012 and 2013 (note 11).

5 Taxation

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

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

	September 30, 2014	December 31, 2013
Tax losses	301	322
Net deferred tax asset	301	322
Liabilities of disposal group (note 10)		
Capital assets	5,666	5,322
Tax losses	(1,564)	(887)
Other	193	249
Net deferred tax liability	4,295	4,684

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

	Nine months ended	
	September 30, 2014	September 30, 2013 ²
Loss before income taxes from continuing operations	(10,459)	(3,796)
Income tax rate	20%	20%
Expected income tax recovery	(2,092)	(759)
<i>Increase/ (decrease) resulting from:</i>		
Amounts treated differently for tax and accounting purposes ¹	(3,811)	33
True-ups of tax balances ¹	2,293	1,574
Impact of effective tax rates in other foreign jurisdictions	2,023	880
Losses and tax assets not utilised/recognised	1,567	815
Other	-	(11)
	(20)	2,532
Current tax expense	177	42
Deferred tax (benefit) / expense	(197)	2,490
	(20)	2,532

Note 1 – amounts were significantly affected by the 20% devaluation of the Kazakh Tenge during February, 2014.

Note 2 – 2013 amounts have been restated for operations discontinued in 2013.

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Notes to Condensed Consolidated Financial Statements (unaudited)
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6 Loss per share

	Loss for the period	Weighted average number of shares (thousands)	Per share amount \$
Nine months ended September 30, 2014			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(10,143)	315,197	(0.03)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(702)	315,197	-
Three months ended September 30, 2014			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(2,264)	336,453	(0.01)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(57)	336,453	-
Nine months ended September 30, 2013			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(5,889)	287,150	(0.02)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(689)	287,150	-
Three months ended September 30, 2013			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(4,676)	287,558	(0.02)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(501)	287,558	-

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares, including share options and warrants, are considered to be anti-dilutive and have therefore been excluded from the diluted per share calculation.

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7 Intangible assets

	Exploration and evaluation assets		Total
	Georgia	Tajikistan	
At December 31, 2013			
Cost	-	31,074	31,074
Accumulated amortisation and impairment	-	-	-
Net book amount	-	31,074	31,074
Nine months ended September 30, 2014			
Opening net book amount	-	31,074	31,074
Additions	11,517	2,528	14,045
Closing net book amount	11,517	33,602	45,119
At September 30, 2014			
Cost	11,517	33,602	45,119
Accumulated amortisation and impairment	-	-	-
Net book amount	11,517	33,602	45,119

On January 2, 2014, the Company announced that it had received the appropriate governmental consent for the acquisition of a 56% interest in Blocks XIA, XIM and XIN ("Project Iberia") in eastern Georgia for a payment of 12,000,000 of the Company's ordinary shares (valued at USD5.75 million on January 2, 2014) and funding a USD4.4 million carry on the next USD10 million work programme.

Additions to intangible assets during the current period principally relate to the Company's initial investment in the Georgian blocks including the USD4 million advanced towards the work programme prior to December 31, 2013.

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8 Property, plant and equipment

	Oil and gas equipment	Vehicles	Office and computer equipment	Total
At December 31, 2013				
Cost	22,184	714	813	23,711
Accumulated depreciation and impairment	(7,575)	(359)	(486)	(8,420)
Net book amount	14,609	355	327	15,291
Nine months ended September 30, 2014				
Opening net book amount	14,609	355	327	15,291
Additions	-	68	258	326
Disposals	-	(44)	-	(44)
Accumulated depreciation on disposals	-	23	-	23
Depreciation	(672)	(109)	(128)	(909)
Closing net book amount	13,937	293	457	14,687
At September 30, 2014				
Cost	22,184	738	1,071	23,993
Accumulated depreciation and impairment	(8,247)	(445)	(614)	(9,306)
Net book amount	13,937	293	457	14,687

9 Restricted Cash

Non Current

	September 30, 2014	December 31, 2013
Restricted cash	651	660

The above amount consists of a deposit of GBP400,000 placed as security with respect to amounts owed to Vazon Limited (note 14).

Current

	September 30, 2014	December 31, 2013
Restricted cash	583	475

The above amounts consist of monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai held as fixed term deposits with banks.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements (unaudited)
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10 Assets and liabilities of disposal group held for sale

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 BV, part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption ("Article 36"). Closing will take place once these approvals are received.

The Company has considered the structure of the arrangement with SinoHan, the legal form of the vehicles through which the arrangement will be conducted, the contractual terms of the arrangement and other facts and circumstances and determined that the arrangement should be classified as a joint venture, where the Company has rights to the net assets of the arrangement.

Once the sale transaction completes, the Company will no longer control and consolidate the Kazakhstan businesses but will exercise joint control with SinoHan and account for its interest in the joint venture using the equity method of accounting. The Company's investment in the joint venture will be shown in the consolidated statement of financial position at fair value initially and adjusted thereafter for changes in the Company's share of net assets of the joint venture, less distributions received and less any impairment in value of the investment. The Company's consolidated statement of comprehensive income will reflect the Company's share of the results after tax of the joint venture.

The following table provides additional information with respect to the assets and liabilities of the disposal group held for sale.

	September 30, 2014	December 31, 2013
Non-current assets		
Intangible assets	28,826	26,467
Property, plant and equipment	119,858	107,710
Restricted cash	1,721	1,664
Prepayments and other receivables	8,840	10,639
Investment in jointly controlled entity	1,116	1,116
	160,361	147,596
Current assets		
Inventories	1,301	1,446
Trade and other receivables	5,826	3,985
Loan receivable from jointly controlled entity	1,499	2,676
Cash and cash equivalents	2,153	622
	10,779	8,729
Total assets	171,140	156,325
Non-current liabilities		
Financial liabilities - borrowings	1,965	5,171
Deferred taxation	4,295	4,684
Trade and other payables	221	263
Asset retirement obligations	931	795
	7,412	10,913
Current liabilities		
Financial liabilities - borrowings	3,201	3,776
Trade and other payables	5,614	6,744
	8,815	10,520
Total liabilities	16,227	21,433
Net assets	154,913	134,892

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Notes to Condensed Consolidated Financial Statements (unaudited)
(tabular amounts in thousands of US dollars)

11 Financial liabilities

	Effective interest rate	Maturity date	September 30, 2014	December 31, 2013
Current				
Escrow loan	Libor + 1% p.a.	2015	3,890	-
Rig loans	14.76%p.a.	2017	1,219	-
Rig loans – Option A	19.9% p.a.	2014	-	3,538
Rig loans – Option B	19.5% p.a.	2014	-	1,427
			5,109	4,965
Non-current				
Rig loans	14.76% p.a.	2017	5,923	-
			11,032	4,965
Liabilities of disposal group (note 10)				
Current				
Kazakh loan	14.0% p.a.-15.9% p.a.	2014	3,201	3,776
Non-current				
Kazakh loan	14.0% p.a.-15.9% p.a.	2016	1,965	5,171
			5,166	8,947

Escrow loan

On July 9, 2014, the Company entered into a loan agreement with SinoHan Oil and Gas Investment Number 6 BV whereby SinoHan agreed an early release of the escrow deposit made in connection with the sale transaction referred to in note 10. The loan bears interest at the rate of 1 month US LIBOR plus 1% per annum. On completion of the sale transaction with SinoHan, the loan amount will not be repayable and will be deducted from the consideration due to the Company under the Sale and Purchase Agreement. If the parties mutually agree to abort the transaction or it does not complete before the Longstop date under the agreement then the loan is repayable with 10 days' notice or otherwise accrues interest at 15% per annum.

Rig loans

On February 13, 2014, the Company entered into a new loan agreement to seek to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns the ZJ70 and ZJ30 rigs and other equipment. At September 30, 2014, loans with a face value of USD4.665 million and GBP2.026 million have been borrowed under the agreement.

The lenders receive an initial repayment followed by 34 equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount at the maturity date.

These borrowings are held at amortized cost with interest payable of 12% per annum and an effective interest rate of 14.76% per annum.

The previous rig loans were fully repaid during February 2014. Warrants to acquire ordinary shares in the Company were issued to lenders in connection with those loans. Details of these warrants are given in note 12.

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Kazakh loan

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the “bank loan facility”). The loan balance has been included within the liabilities of a disposal group held for sale, see note 10 for further details.

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Company’s consent, and is a bank loan to Eurasia Gas Group LLP, the Company’s joint venture partner in Aral Oil Terminal LLP (“AOT”), whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Company’s subsidiary, Tethys Aral Gas (“TAG”). The bank loan facility has a term of up to four years depending on the Company’s 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 with 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 September 30, 2014, 1.935 billion KZT (USD12.9 million) of funds have 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 the event that 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.

12 Derivative financial instruments - warrants

	September 30, 2014	December 31, 2013
Balance, beginning of period / year	17	523
Issued during the period / year	-	461
Exercised	-	(137)
Fair value gain	(17)	(830)
Balance, end of period / year	-	17

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The fair value of the liability is estimated using the Black-Scholes pricing model using the following average assumptions:

	September 30, 2014	December 31, 2013
Weighted average fair value	-	\$0.04
Risk free rate	0.93%	0.93%
Expected term	0.2 year	0.4 year
Volatility	46.8%	51.9%
Dividend	Nil	Nil

The following table summarizes the warrant activity for the periods ended September 30, 2014 and September 30, 2013.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2013	5,775,000	0.81
Granted	1,819,051	0.78
Exercised	(850,000)	0.63
Expired	(1,803,551)	0.95
Outstanding at September 30, 2013	4,940,500	0.78
Exercisable at September 30, 2013	4,940,500	0.78
Outstanding at January 1, 2014	4,125,000	0.81
Expired	(4,004,121)	0.81
Outstanding at September 30, 2014	120,879	0.99
Exercisable at September 30, 2014	120,879	0.99

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Warrants are equity settled share based payment transactions.

13 Share capital

	September 30, 2014 Number	December 31, 2013 Number
Authorized		
Ordinary shares with a par value of \$0.10 each	700,000,000	700,000,000
Preference shares with a par value of \$0.10 each	50,000,000	50,000,000

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Ordinary equity share capital Allotted and fully paid	Number	Share Capital	Share Premium
At January 1, 2013	286,707,744	28,671	306,725
Issued during the year in connection with the exercise of share options	850,000	85	570
At December 31, 2013	287,557,744	28,756	307,295
At January 1, 2014	287,557,744	28,756	307,295
Issued during the period – Georgia acquisition	12,000,000	1,200	4,550
Issued during the period – private placement	36,894,923	3,689	11,258
Share issue costs	-	-	(1,379)
At September 30, 2014	336,452,667	33,645	321,724

The Company issued 12,000,000 shares on July 9, 2013 in connection with the proposed acquisition of certain Georgian assets. These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014. Whilst these shares were issued as at December 31, 2013, they did not qualify for recognition as equity of the company at that date as the conditions required to release the shares to the seller had not been met. The conditions were met on January 2, 2014 and so the shares have been included in the table above from that date.

On May 14, 2014, the Company announced that it had entered into a placing agreement to raise USD13 million with new and existing investors (the "Placing") and agreed to raise USD2 million with new and existing investors by way of direct subscription (the "Direct Subscription"). The Direct Subscription and the Placing are together referred to as the "Offering".

The Offering was completed in two tranches. 17,105,764 ordinary shares were issued in the "First Tranche" raising gross proceeds of USD6.95 million. 19,789,159 ordinary shares were issued in the "Second Tranche" raising gross proceeds of USD8.05 million. The Offering was completed in June 2014 raising total gross proceeds of USD15 million.

14 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Vazon Energy Limited

Vazon Energy Limited ("Vazon") 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 September 30, 2014 was USD1,047,843 (2013 – USD1,060,012) or GBP627,352 (2013 – GBP685,833). As at the date of these consolidated financial statements, the services of Dr. Robson and three other Vazon employees are provided to the Company.

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On June 17, 2013, the company made a deposit of GBP400,000 as security for amounts owing to Vazon under the management services contract. The deposit is non-current and restricted (note 9).

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

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants USA LLC (collectively "OPC") have one common director with the Company. Total fees for the nine months ended September 30, 2014 were USD55,887 (2013 – USD117,912). These fees represented significantly less than 1% of the turnover of OPC. OPC participated in the 2014 loan financing described in note 11 advancing USD400,000 to the Company. The balance due to OPC at September 30, 2014 was USD365,370.

Related party transactions with key management personnel

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

Ambassador Khalilzad is a non-executive director of the Company. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to USD40,000 for the period ended September 30, 2014 (2013 – USD65,502).

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

Three non-executive directors and one executive director of the Company participated in the 2014 rig loan financing described in note 11 on the same terms as other participants. In addition, non-interest bearing advances have been made to three officers of the Company. Amounts advanced during the period and balances outstanding at the end of the period are shown in the table below.

	Nine months ended		Balance as at	
	September 30, 2014	September 30, 2013	September 30, 2014	December 31, 2013
Loans advanced to Company:				
Non-executive director	200	-	183	-
Non-executive director	150	-	137	-
Non-executive director	100	-	93	-
Executive director	167	-	157	-
Amounts advanced by Company:				
Officer	-	54	-	27
Officer	-	76	-	45
Officer	68	50	29	17

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15 Change in working capital

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Trade and other receivables	710	(2,828)	(1,139)	(3,176)
Inventories	(27)	(510)	145	(47)
Trade and other payables	(2,323)	(287)	(3,434)	(966)
Change in working capital	(1,640)	(3,625)	(4,428)	(4,189)
Non-cash transactions	(36)	129	3,016	(141)
Net change in working capital	(1,676)	(3,496)	(1,412)	(4,330)

Net change in working capital is categorized in the Condensed Consolidated Statement of Cash Flows as follows:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Operating activities	(613)	(4,200)	(1,161)	(2,943)
Investing activities	(1,063)	704	(251)	(1,387)
Balance	(1,676)	(3,496)	(1,412)	(4,330)

16 Commitments and contingencies

Kazakhstan

On November 1, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses. The assets and liabilities of the Kazakhstan businesses have been shown in these accounts as a disposal group held for sale (note 10). The commitments and contingencies of the Kazakhstan businesses are as follows:

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD2,698,531 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory, payable upon signature of the Akkulka oil production contract.

Work programmes for the period October 1, 2012 to October 1, 2015 have been agreed totalling USD4,421,300 which includes a commitment for the period October 1, 2014 to October 1, 2015 of USD1,172,500. Commitments up to September 30, 2014 have been met.

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Akkulka Exploration Contract

Work programmes for the period January 1, 2014 to March 10, 2015 have been agreed totalling USD19,274,000 which includes a commitment for the period January 1, 2015 to March 10, 2015 of USD7,939,000. Commitments up to December 31, 2014 have been met and an application has been made by the Company to revise and reschedule the remaining commitments as part of a potential appraisal extension.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD88,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

Work programmes for the calendar years 2013 to 2015 have been agreed totalling USD14,894,300 which includes a commitment for 2015 of USD6,309,300. Commitments up to December 31, 2014 have not yet been met however an application has been made by the Company to reschedule the remaining commitments.

Kyzyloi Production Contract

In June 2014, the Company received approval from the Ministry of Oil & Gas of the Republic of Kazakhstan for an extension to its Kyzyloi Production Contract for a further 15 years to June 2029. Work programmes for the extended Kyzyloi Production Contract have been submitted but final State approvals have not yet been received, but are expected in 2014.

Tajikistan

Bokhtar Production Sharing Contract

The Company has an effective 28.05% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest.

Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company is only required to contribute 11.11% or USD9 million of the first USD80 million of the initial work programme. As at September 30, 2014, the joint venture partners had contributed USD17.4 million to the Bokhtar Operating Company of which the Company's share was USD1.9 million.

On October 30, 2014, the Company announced that the next phase of the seismic acquisition programme planned to identify the location of the first deep well to be drilled has commenced. Bokhtar Operating Company has signed a contract to acquire a large seismic programme to add to the surveys already acquired by Tethys. At September 30, 2014, Bokhtar had contractual commitments of USD81.5 million relating to seismic acquisition, against which payments of USD1.3 million have been made to date.

Georgia

Work programmes have been agreed with the Georgian Government which require the Company to conduct at least 100km of seismic studies by July 1, 2015 on Block XIN at an estimated cost of USD2.0 million. As referred to in note 7, the Company has a 56% interest in three blocks in Eastern Georgia and is responsible for funding the first USD10 million of the work programme and 56% of costs thereafter. The Company has contributed USD5.1 million towards the work programme to date.

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17 Operating leases

Leases as a lessee:

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

September 30, 2014	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	2,111	786	936	389

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

18 Subsequent events

Sale of Kazakh assets to HanHong

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption ("Article 36").

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

Board changes

On November 4, 2014, the Company announced that Dr. David Robson and Liz Landles have stepped down from the Board with immediate effect. Dr. David Robson and Liz Landles will continue working in their executive roles to assist the Board in helping ensure a smooth transition during this period of change.

On November 10, 2014 the Company announced that Ambassador Zalmay Khalilzad, Non-Executive Director, had stepped down from the Board with immediate effect.