TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and six months ended June 30, 2015

The following Management's Discussion and Analysis ("MD&A") is dated August 14, 2015 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended June 30, 2015 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2014. 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 2014 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.

Nature of Business

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

Financial highlights

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

	Quarter ended 30 June			Six months ended 30 June		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Oil and gas revenue – continuing ops [1]	6,838	7,123	(4%)	12,792	13,904	(8%)
(Loss) / profit for the period – continuing ops [1]	(25,278)	(3,668)	589%	(27,312)	(8,077)	238%
– discontinued ops [1]	(36)	(153)	(76%)	(77)	(645)	(88%)
	(25,314)	(3,821)	562%	(27,389)	(8,722)	214%
Basic and diluted loss (USD) per share – continuing ops [1]	(0.08)	(0.01)	700%	(0.08)	(0.03)	167%
Basic and diluted loss (USD) per share – discontinued ops [1]	-	-	-	-	-	-
EBITDA - adjusted for share based payments [2]	(4,425)	(2,509)	76%	(5,684)	(7,346)	(23%)
Capital expenditure	4,034	4,835	(17%)	5,981	12,101	(51%)
				As at 30 June		
				2015	**2014**	**Change**
Total assets				225,991	242,878	(7%)
Cash & cash equivalents				4,942	11,642	(58%)
Cash & cash equivalents – held in a disposal group [3]				-	6,036	(100%)
Short & long term borrowings				26,719	7,581	252%
Short & long term borrowings – held in a disposal group [3]				-	5,911	(100%)
Total non-current liabilities				23,197	6,370	264%
Total non-current liabilities – held in a disposal group[3]				-	7,691	(100%)
Net funds / (debt) [4]				(21,777)	4,186	(620%)
Number of common shares outstanding				336,712,385[5]	336,452,667	-

Note 1 At the end of 2013 the Company made a decision to exit Uzbekistan (refer to page 9) and thus the results of the Uzbekistan segment were disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia

Note 2 Non-GAAP Measure refer to page 21 of the MD&A

Note 3 All assets and liabilities of the Kazakh segment were designated as "Assets and Liabilities of a disposal group held for sale" due to the conditional sale of 50% (plus one share) to SinoHan. On May 1, 2015, the Company announced that the sale would no longer be taking place, hence the assets and liabilities of the Kazakh segment reverted back to their original positions on the Statement of Financial Position as of that date. For further information – refer to note 10 of the Condensed Consolidated Interim Financial Statements

Note 4 Non-GAAP Measure refer to page 21 of the MD&A

Note 5 Includes 259,718 shares issued in connection with the Executive Chairman's remuneration package whereby 30% of base salary is paid in shares at a price of 16.84 pence per share calculated by reference to the 15 day weighted average closing rate prior to the date of his employment (November 26, 2014).

Current quarter

- Gas revenue more than doubled in the current quarter compared with the comparative period, however the increase was offset by a decrease in oil revenue primarily as a result of both volume and price decline;
- The loss for the quarter ended June 30, 2015, of USD25.3m from continuing operations is greater than the comparative period (USD3.7m) due to depletion of USD19.4m of Kazakh assets following their re-classification from Assets Held For Sale (note 3 above);
- EBITDA - adjusted for share based payments for the current quarter (Note 2 above) compared with the comparative period 2014 declined as a result of increased costs during the quarter;
- Failure of the SinoHan transaction to complete resulted in the re-classification of Assets Held for Sale back to their original positions on the Statement of Financial Position;
- Capital expenditure during the quarter was less than the comparative quarter as a result of the completion of the new shallow gas programme in Q4 2014;
- Borrowings increased in the current quarter as a result of new loans which raised net proceeds of USD9.1m;
- The increase in net debt is due to the overall cash outflow of the Company and is analysed on page 17 of this MD&A.

Period to date

- Gas revenue more than doubled period to date compared with the comparative period as a result of the new shallow gas programme and increased pricing, however the increase is offset by a decrease in oil revenue as a result of both volume and price decline;
- The loss for the period to June 30, 2015, of USD27.3m from continuing operations is greater than the comparative period (USD8.0m) due to depletion of USD19.4m of Kazakh assets following their re-classification from Assets Held For Sale (note 3 above);
- EBITDA adjusted for share based payments (Note 2 above) at negative USD5.7m improved by 23% compared with negative USD7.3m for the prior period as a result of reduced overall costs;

Operational highlights

	Quarter ended 30 June			Six months ended 30 June		
	2015	2014	Change	2015	2014	Change
Kazakhstan						
Oil (bopd)	1,954	2,473	(21%)	1,576	2,242	(30%)
Gas (boe/d)	3,250	1,839	77%	3,212	1,927	67%
Total (boe/d)	**5,204**	**4,312**	**21%**	**4,788**	**4,169**	**15%**
Kazakhstan						
Oil – net production – barrels	177,785	225,024	(21%)	285,314	405,825	(30%)
Oil – net revenue (USD'000)	2,008	4,992	(60%)	3,253	9,215	(65%)
Oil – gross sales price per barrel	USD13.00	USD26.50	(51%)	USD13.00	USD27.00	(52%)
Oil – production costs (USD'000)	1,388	2,246	(38%)	2,879	5,066	(43%)
Oil – cost per barrel	USD7.81	USD9.98	(22%)	USD10.09	USD12.48	(19%)
Gas – gross production - Mcm	50,255	27,444	77%	98,778	59,264	67%
Gas – revenue net of sales expense and VAT (USD'000)	4,827	2,036	137%	9,533	4,429	115%
Gas – sales price net of marketing commission (Mcm)[1]	USD73.70	USD52.60	40%	USD73.70	USD52.60	40%
Gas – production costs (USD'000)	1,151	828	39%	2,193	1,719	28%
Gas – cost per Mcm	USD22.90	USD29.11	(21%)	USD22.20	USD29.01	(23%)

Note 1 Using a 2015 average exchange rate of USD 1 = Tenge 185.22 (2014: USD 1 = Tenge 183.51)

Oil

- Current quarter oil production averaged 1,954 bopd compared with 2,473 in 2014, reflecting a natural decline in overall production and the disruption of trucking in the spring;
- Oil production cost per barrel in the current quarter has reduced compared with the comparative period despite lower production volume as a result of decreases in staffing levels and other operational overheads;
- Oil prices remained consistent at USD13 during the current quarter reflecting the decline in world oil price experienced at the end of 2014;

Gas

- Gas production more than doubled as of January 1, 2015 as a result of the new shallow gas programme undertaken in 2014;
- An increase in gas price was achieved for 2015 from USD52.60 per Mcm to USD73.70 per Mcm net of marketing commission;
- Gas production costs increased although cost per Mcm reduced as a result of economies of scale associated with greater volume.

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

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on pages 29 and 30 of this MD&A.

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

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

- complete the due diligence process with Nostrum Oil & Gas PLC ("Nostrum") and for the Board to evaluate any potential offer by Nostrum for the entire issued and to be issued shares capital of the Company in order to be in a position to provide a recommendation to shareholders in the event that Nostrum does decide to proceed with making a firm offer for the entire issued and to be issued share capital of the Company;
- to continue to evaluate farm-out opportunities with respect to Tajikistan and Georgia;
- continue to review and implement further cost reductions across the business;
- maintain and increase shallow gas production with the objective to supply gas to China through the newly built pipeline once operational, once additional funding is secured;
- drill the Klymene exploration well in Kazakhstan, subject to the extension of the Kul-Bas contract and to the Company securing additional funding for the purpose.

Significant events and transactions for the six months ended 30 June 2015

- *Kazakhstan - Akkulka Exploration Contract Extension*

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

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

- *Corporate - New loan financing*

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

  In connection with the loan financing, the Company issued the lender with 35,600,000 warrants over the Company's shares with a price of CAD0.19. The loan financing also provided that if the Company completed the issuance of any additional new ordinary shares (or options, warrants or other securities convertible into ordinary shares) equal to 7.5% or more of the cumulative aggregate number of outstanding shares, the lender would have the option of surrendering the warrant for a "surrender value" which would be added to the principal amount of the loan and be repayable on the 2 year maturity date. The initial surrender value was set at USD2.1 million and had been due to decrease by 25% every 6 months over the term of the loan. On July 14, 2015, the lender exercised its option to surrender the warrants as a result of the entry into by the Company of convertible loan agreements with AGR Energy Limited Number I ("AGR Energy") and Annuity and Life Reassurance Limited ("ALR", a company controlled by Pope Asset Management, LLC ("PAM"), which currently controls the voting rights over approximately 19% of the shares in Tethys). As a consequence of the exercise of this option by the lender, the surrender value of USD2.1 million was added to the principal loan amount and the warrants were cancelled. The total amount of principal now due under the loan agreement is USD8.1 million. The loan agreement contains event of default and change of control provisions.

  On March 10, 2015, the Company announced it had entered into a USD3.5 million loan agreement with ALR. PAM currently controls the voting rights over approximately 19% of the shares in Tethys. The principal of the loan is due to be repaid at the end of 2 years with interest payments at the rate of 8% per annum payable every 6 months. The loan agreement contains events of default and change of control provisions. The loan has been fully drawn down by the Company. In connection with the loan financing, the Company has issued the lender with 23,333,333 warrants over the Company's shares with a price of CAD0.19. These remain outstanding.

- *Georgia – Reduction in interests*

  On January 22, 2015, the Company announced that it had reached agreement, subject to finalising documentation with its partner, Georgia Oil and Gas Limited ("GOG"), to remove its current funding obligations of approximately USD4 million under the farm-out agreement signed in July 2013, through reducing its interest in these projects. Under the terms of the new agreement Tethys reduced its interest in licence Blocks XIA, XIM and XIN to 49% (from 56%) as of January 30, 2015 and GOG became Operator of each of those Blocks from February 1, 2015.

  In connection with such restructuring, Tethys agreed with GOG that if the State of Georgia did not agree to amend the minimum work programme for licence Block XIN and imposed a US$1 penalty for non-fulfillment of minimum work commitments on that Block, Tethys would pay such penalty and indemnify GOG in respect of such penalty; if as a result the State of Georgia cancelled the PSC for Block XIN, pursuant to the agreement with GOG the Company would in addition be obligated to issue Tethys shares with a market value of US$1 million, or to the extent Tethys is not publicly listed or it is otherwise not practicable to issue such shares, pay an aggregate amount of US$1 million to GOG within one month of the notification being received by the State. In circumstances where the State of Georgia agrees to amend the minimum work programme for licence Block XIN and one of the contractor parties subsequently fails to meet its obligations, resulting in the State imposing a US$1 million penalty, the non defaulting contractor party and its parent company (TPL or GOG as the case may be) would pay such penalty and indemnify the other party in respect of such penalty; if as a result the State of Georgia cancelled the PSC for Block XIN, pursuant to the agreement between the contractor parties, TPL and GOG, the defaulting party would be obligated to pay an additional amount of US$1 million; if the defaulting party is Tethys and to the extent practicable, such payment would take the form of issued shares.

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

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

  The Ministry of Energy granted this contract extension following the Kazakh State Reserves Committee's approval of the new State Reserves for Kyzyloi previously announced in May 2014. The Kyzyloi contract area has been increased by 56 percent to 449 km2 (110,950 acres) and now encompasses a larger gas bearing area including the AKK05 well (successfully worked over in Q2 2015) and also the successful, but currently suspended, AKK08 & AKK10 gas wells.

- *SinoHan Transaction*

  On May 1, 2015, the Company announced that the main approval required from the Ministry of Energy of the Republic of Kazakhstanin relation to the sale of 50% of its Kazakhstan oil and gas assets to SinoHan Oil & Gas Investment Number 6 B.V. ("SinoHan"), part of HanHong, a Beijing, PRC, based private equity fund, for USD75 million, was not received by the longstop date of May 1, 2015 and that SinoHan had confirmed that it did not wish to enter into a further extension on the transaction.

  As a result, the sale did not proceed and the Company therefore retained a 100% in its Kazakhstan oil and gas assets. During the period the Company repaid the USD3.9 million deposit provided by SinoHan as a loan and subsequent to the end of the period end paid the USD0.65 million due to SinoHan for transaction fees.

- *Unsecured convertible loan facility from AGR Energy*

  On May 15, 2015, the Company announced that it had signed and closed a binding agreement for a USD7.5 million convertible loan facility with AGR Energy. The loan is unsecured and bears interest at a rate of 9 percent per annum. Interest is payable twice a year on June 30 and December 31 whereas the principal is repayable on June 30, 2017 (the maturity date). The principal and accrued interest, subject to certain conditions, may be converted into ordinary shares in the

Company at the option of the lender, in whole or in part, at any time up to the maturity date at a conversion price of USD0.10 per share.

- *Unsecured convertible loan facility from ALR*

  On May 22, 2015, the Company announced that it had signed a binding agreement for a further USD1.76 million convertible loan facility, this time with ALR. The loan was drawn down in full on June 1, 2015. The loan is unsecured and bears interest at a rate of 9 percent per annum. Interest is payable twice a year on June 30 and December 31 whereas the principal is repayable on June 30, 2017 (the maturity date). The principal and accrued interest, subject to certain conditions, may be converted into ordinary shares in the Company at the option of the lender, in whole or in part, at any time up to the maturity date at a conversion price of USD0.10 per share.

- *Closure of Guernsey office*

  On June 11, 2015, the Company announced its intention to proceed with the closure of the Guernsey office with an anticipated transition to London occurring over a period of three to six months. Full provision for associated severance costs and onerous contracts relating to the closure has been made in the June 2015 Condensed Consolidated Interim Financial Statements. Please refer to "Restructuring costs" on page 15 for more information.

Significant events and transactions subsequent to the period end

- *Strategic collaboration with AGR Energy*

  On July 1, 2015, the Company announced that it had signed an agreement for a USD47.7 million private placement of up to 318,003,951 new ordinary shares (the "AGR Placing") at a price of CAD0.192 per ordinary share with AGR Energy Holdings Limited ("AGR Energy Holdings"), a subsidiary of AGR Energy. In connection with the AGR Placing, the Company also entered into a further convertible loan for up to USD5 million with AGR Energy, whereby the Company was entitled to draw down an advance on the placing proceeds before closing of the AGR Placing to support short term liquidity.

  On August 10,2015, the Company announced that this Placing would not be proceeding following AGR Energy indicating to the Company that it would require certain changes to the structure and terms of the financing announced on July 1, 2015.

- *Surrender of warrants*

  On July 14, 2015, the Company announced that the lender of the January 2015 USD6 million loan financing exercised its option to surrender the 35,600,000 warrants that had been issued in connection with the financing. The surrender value was for USD2.1 million which was added to the principal amount of the loan and which is repayable on the two year maturity date or earlier in circumstances where there is an event of default or a change of control giving rise to early repayment of the loan.

- *Shareholder subscription*

  On July 14, 2015, the Company announced that further to its announcement of July 1, 2015, it had agreed with Pope Asset Management LLC ("Pope"), the Company's largest shareholder, that Pope would subscribe for 100,000,000 new ordinary shares on substantially the same terms as the AGR Placing and that the number of shares for which AGR Energy would subscribe under the AGR Placing would be reduced correspondingly to 218,003,951. As noted above, on August 10, 2015, the Company announced that this subscription would no longer proceed.

- *USD5 million loan financing and possible offer from Nostrum*

  On July 13, 2015 the Company acknowledged the announcement made that day by Nostrum in respect of its approach to the Board of Tethys regarding a possible offer for the entire issued and to be issued share capital of the Company, which provided for a potential price of C$0.2185 per Tethys share, subject to various conditions including completion of due diligence, a site visit and approval of the Board of Nostrum. The Company announced the following day that the Board of

Tethys, having considered the approach by Nostrum in light of the previously announced AGR Placing and the non-solicitation provisions relating to the AGR Placing, the Board of Tethys had resolved not to pursue or engage in discussions with Nostrum.

On August 10, 2015, the Company announced that it had received a further non-binding indicative proposal from Nostrum regarding a possible offer for the entire issued and to be issued share capital of the Company (the "Possible Offer"). The Possible Offer provides for a price of CAD0.2185 per Tethys share, which would be satisfied in cash or, at the election of each eligible shareholder of Tethys, fully paid ordinary shares in Nostrum, or a combination of both cash and shares. This price represents a premium of 15% to the price at which AGR Energy Holdings had agreed to subscribe for new ordinary shares in Tethys pursuant to the AGR Placing and a premium of 56% to the closing market price of an ordinary share of Tethys on the TSX of CAD0.14 on Friday August 7, 2015.

Following receipt of the Possible Offer, the Company entered into discussions with Nostrum. Any decision by the Board of Nostrum to make a formal offer would be conditional upon, amongst other things (i) satisfactory completion by Nostrum of confirmatory due diligence, which shall be limited to a period ending 9.00am London time on August 24, 2015 (or such later date as may be agreed) and (ii) the Board of Tethys, having been so advised by its financial adviser, agreeing unanimously to recommend the formal offer to shareholders of Tethys. Nostrum shall have two business days following completion of its confirmatory due diligence within which to announce its intention to make a formal offer.

In connection with the Possible Offer, Nostrum and Tethys entered into an unsecured USD5 million loan facility that will support the short term liquidity of Tethys during the period in which any formal offer may be implemented. The loan was available immediately to the Company and was drawn in full on August 10, 2015. The loan shall be repayable on February 28, 2016 or, in the event that Nostrum does not announce an intention to make a formal offer within two business days of the conclusion of its confirmatory due diligence, on August 31, 2016. Interest shall accrue on the loan at a rate of 9% per annum, repayable on the maturity date of the loan. Pursuant to the terms of the loan, the Company is subject to certain negative covenants and events of default and change of control provisions apply. In consideration for Nostrum agreeing to advance the loan, the Company agreed to grant Nostrum a limited period of exclusivity to undertake its confirmatory due diligence in connection with the Possible Offer and any potential resulting formal offer. This period of exclusivity concludes at the end of the two business day period after completion of Nostrum's confirmatory due diligence, which will be at 11:59 p.m. London time on August 25, 2015 (unless such date is mutually agreed to be extended).

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2015					2014				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	19,666	123,683	107,529	90	1,195	42,503	267,334	180,801	90	2,009
Q2	31,745	199,682	177,785	91	1,954	53,005	333,390	225,024	91	2,473
Total	**51,411**	**323,365**	**285,314**	**181**	**1,576**	**95,508**	**600,724**	**405,825**	**181**	**2,242**

- 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 Ministry of Energy of the Republic of Kazakhstan 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 currently expected to be in place during 2016. In order to obtain this full production contract, as the Company will no longer be able to flare gas, a gas utilization system needs to be installed which will require significant capital investment (approximately USD5.6m) and has a lead time for delivery and installation of 14 months, as the Company will no longer be able to flare gas. This will be implemented when funding permits;

- The Company produces oil from three wells under the Pilot Production licence: AKD01, AKD05 and AKD06. These wells have been performing to expectation although AKD05 & AKD06 have been off during most of the winter, spring and currently due to restricted transshipment and trucking and higher water cuts, but one or two of these wells are expected to be back on production in Q3 / Q4 2015, depending on the oil price at that time, with the first one being AKD05, which is due to be back on production in August 2015. This will involve bringing staff back who are currently on unpaid leave. 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 but this has not yet been sourced due to capital constraints. It is expected that this will be ordered as funds become available.

Oil operations update

General

Oil production is currently at 1,550 barrels per day on a 12mm choke (since July 24) from AKD01 only. During May and June it was producing around 2,150 bopd on a 15mm choke but has since been choked back to prevent water-cut increase. An average rate of 1,638 barrels per day is expected to be achieved for 2015. The transportation issues from Aral Oil Terminal resulted from a fall in the oil price in Kazakhstan that caused the temporary closure of some refineries. The realized oil price fell in December 2014 and again in January 2015 to a price of USD13 per barrel. This lower price is the result of both a fall in world oil prices and an increase in refined products being imported from Russia because of recently imposed sanctions that restricted them selling into other markets. A price of USD14.50 per barrel has been agreed for July 2015.

Joint Venture – Aral Oil Terminal (“AOT”)

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd to 6,300 bopd with the installation of two 1000 m^3 storage tanks (12,500 bbls) and associated pumping equipment. Phase 3, which includes the incorporation of an electrical dehydrator for the commercial treatment of crude oil is currently suspended due to low volumes. 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. Phase 3, which includes the incorporation of an electrical dehydrator for the commercial treatment of crude oil is currently suspended due to low volumes. Whilst current levels of oil production have meant AOT throughput has been lower than is optimal for the terminal to generate an acceptable rate of return the AOT joint venture has continued to operate since 2013 without recourse to additional loan funding from the JV partners. Principal payments on an external loan have been deferred with the agreement of the lender, however, and the loan is repayable by February 2016 if not rescheduled prior to that date.

Gas production – Kyzyloi and Akkulka Contracts

	2015				2014			
Kyzyloi	Mcm [1]	Mcf [2]	Mcm/d [3]	Boe/d [4]	Mcm [1]	Mcf [2]	Mcm/d [3]	Boe/d [4]
Q1	9,283	327,835	103	607	23,390	825,901	260	1,530
Q2	10,700	377,817	118	692	22,780	804,362	250	1,473
Total	**19,983**	**705,652**	**110**	**650**	**46,170**	**1,630,263**	**255**	**1,501**
Akkulka								
Q1	39,239	1,385,735	436	2,566	7,430	262,353	83	486
Q2	39,556	1,396,930	435	2,558	5,664	199,996	62	366
Total	**78,795**	**2,782,665**	**435**	**2,562**	**13,094**	**462,349**	**72**	**426**
TOTAL	**98,778**	**3,488,317**	**546**	**3,212**	**59,264**	**2,092,612**	**327**	**1,927**

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

- Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325mm outside diameter export pipeline from the Kyzyloi field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station was constructed at 910 km on that trunkline. The gas flows into the main trunkline which is owned by IntergasCentralAsia (ICA), a division of the Kazakh state natural gas company KazTransGas (KTG);

- Production commenced from the Akkulka field on October 6, 2010;
- Gas volume has increased by 77% in the current quarter compared with prior year (67% period to date compared with prior period) as a result of incremental production from the new shallow gas programme that came on stream as of January 1, 2015.

Gas operations update

Shallow Gas Drilling programme

During the second half of 2014 a new pipeline system was installed in order to tie in AKK15, 16, 17, 18 and 19, for which final State approvals were received in February 2015. In parallel, a dehydration system was installed at the Booster Compressor Station and is performing well and outputting gas sufficient to make not only Kazakh but also export standard. Final State approval and commissioning of this unit was achieved in March 2015.

Currently the Company produces dry gas from a total of 16 wells at a depth of approximately 480-600m below surface, comprising eight producers in the Kyzyloi field and eight in the Akkulka field. Current combined production capacity is around 550 Mcm per day, however, as at the date of this report, it is 480Mcm per day due to Compressor #1 being offline for an engine overhaul.

During Q2 2015 wells AKK14 and AKK05 were worked over and put on to production and Compressor #5 was overhauled.

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 the more populous south eastern part of Kazakhstan and, ultimately to China, and the existing Bukhara Urals trunk line that transports gas from Central Asia into Russia. Currently the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent and it is not known at this time when exports to China will commence. The Company expects to realise a higher net sales price to China should exports commence but it is unknown at this time what the price will be. Recently, gas prices have been seen to be lower in China, especially imported LNG prices from the coast, which have been reduced along with world prices. The Company still believes that the long term price for gas will rise in the region, in particular dry gas imported via pipeline from Central Asia and that Chinese demand will increase over the medium to long term, especially with the substitution in China of a greater percentage of energy use by gas instead of coal.

During Q1 2015, the Company signed a Memorandum of Understanding ("MOU") with PetroChina with respect to co-operation in potential future gas sales.

Exploration - update

The KBD02 ("Klymene") prospect is planned to be drilled to a total depth of 2,750 metres targeting a large structure in the south west of the Kul-Bas block, and will target three horizons in the Lower Cretaceous and Upper Jurassic. State approval for the Klymene exploration well drill project and associated emissions are now in place, and commencement of drilling operations is planned upon receipt of funds and extension to the Kul-Bas Contract beyond November 2015; a drill tender having been completed in December 2014. The Company is seeking to extend the Kul-Bas contract for an additional two year period but a requirement to do so prior to the expiry of the contract is to have moveable hydrocarbons to surface which has not been achieved to date. The Company has a successful history of extending contracts in Kazakhstan and hopes that it will be able to extend this contract too, but this is not guaranteed. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects (the geographical area of the prospect is up to ten times the areal extent of the Doris oil field). It appears to have good four-way structural closure and positive amplitude effects which may be indicative of enhanced porosity on the recently acquired and interpreted seismic. Independent prospective resources assessment by Gustavson Associates assign total unrisked mean recoverable oil resources of 422 million barrels to the structure and total risked mean recoverable oil resources of 106 million barrels. Total SA has recently acquired the acreage to the south and west of Klymene and currently has a drilling program underway.

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. Remaining field equipment was handed over in May 2015 and the final 4 members of staff were released. There are some vehicles to be handed over in Q3 2015. The Company was not expected to benefit from any production or earn any revenues in 2014 and therefore, in view of the circumstances described, the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia.

Results of Operations and Operational Review - Tajikistan

Operations update

Since completion of the farm-out to Total and CNPC in 2013, the new joint arrangement has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area, particularly targeted at deeper exploration potential. In Q4 2013, the joint operating company went out to tender for the acquisition of seismic data which was awarded to BGP of China in April 2014 and commenced field acquisition in late October 2014. This new wide line 2D survey is specially designed to image the deep targets described in the Independent Resource Report and consists of a first phase of 826 kms with an option for an additional 200 kms, all to be acquired by the end of 2015. As well as 2D acquisition and processing, a concurrent low cost passive seismic survey is planned and commenced in March whilst a Magnetotellurics survey is also being acquired now along the dip lines. Processing of all these data will be concurrent and interpretation and mapping has been underway from Q2 2015. This whole data set will enable the identification of the best possible drilling location to be agreed on at the end of 2015 / early Q1 2016. As at the end of July more than 64% of the 2D seismic has been acquired.

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 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 license areas: Blocks XIA, XIM and XIN, activities performed since the 2013 2D seismic acquisition have focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XIA and XIM with some geochemical and structural geology work having been completed across all three blocks with ground gravity data acquisition in 2015.

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 meters) of gas.
Geochemical and rock mechanics were completed to further evaluate the unconventional play on the Company's acreage which Tethys believes has substantial upside potential. In addition, several conventional targets have been identified from seismic as well as potential drilling locations for unconventional wells.

During Q2 and early Q3 2015 operator NOC has been overseeing ground gravity acquisition on all three blocks and field acquisition was completed in late July 2015. In parallel, approvals to the changes in the work programme have been passed successfully through several State entities and final governmental approval is expected later in Q3 2015.

Financial Review

Summary of Quarterly Results

	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014	Mar 31 2014	Dec 31 2013	Sep 30 2013
Oil and gas revenue [1]	6,838	5,954	6,224	7,261	7,123	6,781	8,527	9,082
Loss for the period								
– continuing ops [1]	(25,278)	(2,034)	(5,034)	(2,362)	(3,668)	(4,409)	(4,208)	(4,887)
– discontinued ops [1]	(36)	(41)	(210)	(57)	(153)	(492)	(6,406)	(501)
Basic & diluted loss (USD) per share – continuing ops	(0.08)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Basic & diluted loss (USD) per share – discontinued ops	-	-	-	-	-	-	(0.02)	-
EBITDA – adjusted for share based payments [2]	(4,425)	(1,259)	(3,806)	(1,134)	(2,509)	(4,837)	(3,348)	(507)
Capital expenditure	4,034	1,947	7,752	6,216	4,835	7,266	16,510	4,985
Total assets	226,024	243,560	238,695	241,059	242,878	232,881	234,618	246,536
Cash & cash equivalents	4,942	5,280	3,112	7,914	11,642	13,698	25,109	51,207
Cash & cash equivalents – held in a disposal group[3]	-	1,707	757	2,153	6,036	1,627	622	-
Short & long term borrowings	(26,719)	(16,637)	(10,628)	(11,032)	(7,581)	(6,715)	(4,965)	(17,852)
Short & long term borrowings – held in a disposal group[3]	-	(4,641)	(4,871)	(5,166)	(5,911)	(6,755)	(8,947)	-
Total non-current liabilities	(23,197)	(11,468)	(5,489)	(5,923)	(6,370)	(5,744)	-	(11,914)
Total non-current liabilities – held in a disposal group[3]	-	(814)	(7,937)	(7,412)	(7,691)	(8,019)	(10,913)	-
Net funds / (debt)[2]	(23,197)	(14,291)	(11,630)	(6,131)	4,186	1,855	11,819	33,355
Number of common shares outstanding	336,712,385[6]	336,543,145[5]	336,452,667[4]	336,452,667[4]	336,452,667[4]	299,557,744	299,557,744	299,557,744

Note 1 Amounts have been re-stated to exclude Uzbek operations discontinued during 2013

Note 2 Non-GAAP Measure – refer to page 21 of this MD&A

Note 3 All assets and liabilities of the Kazakh segment were designated as "Assets and Liabilities of a disposal group held for sale" due to the conditional sale of 50% (plus one share) to SinoHan. On May 1, 2015, the Company announced that the sale would no longer be taking place, hence the assets and liabilities of the Kazakh segment reverted back to their original positions on the Statement of Financial Position as of that date. For further information – refer to note 10 of the Condensed Consolidated Interim Financial Statements

Note 4 Includes the issue in May and June of 36,894,923 new ordinary shares which raised gross proceeds of USD 15m for the Kazakh shallow gas programme

Note 5 Includes 90,478 shares issued in Q1 2015 and a further 169,240 in Q2 2015 in connection with the Executive Chairman's remuneration package whereby 30% of base salary is paid in shares calculated at a 15 day weighted average closing rate prior to the date of his employment (November 26, 2014) which was 16.84 pence

Loss for the period

The Company recorded a loss for the six months ended June, 2015 of USD27.4m 30, 2015 (2014: USD8.7m), the principal variance between the two periods being the depletion charge calculated on the Kazakh oil and gas properties as part of the unwinding of Assets Held for Sale. Further variances between the two periods are summarized below together with a discussion of variances greater than 10%:

	Quarter ended 30 June			Six months ended 30 June		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Sales and other revenues	6,838	7,123	(4%)	12,792	13,904	(8%)
Sales expenses	(1,279)	(498)	157%	(2,381)	(1,242)	92%
Production expenses	(4,159)	(3,214)	41%	(6,767)	(7,012)	(3%)
Depreciation, depletion and amortization	(20,614)	(148)	13,828%	(21,288)	(299)	7,020%
Business development expenses	-	(580)	(100%)	-	(1,320)	(100%)
Restructuring costs	(1,613)	-	-	(1,932)	-	-
Administrative expenses	(3,103)	(5,082)	(39%)	(5,924)	(10,207)	(42%)
Transaction costs of assets held for sale	(945)	(116)	715%	(1,065)	(131)	713%
Share based payments	(118)	(77)	55%	(265)	(196)	35%
Profit on sale of fixed assets	29	-	-	43	-	100%
Foreign exchange loss - net	(208)	(77)	170%	(215)	(70)	207%
Fair value (loss) / gain on derivative financial instruments - net	(1,547)	36	(4,397%)	(469)	17	2,859%
Profit / (loss) from jointly controlled entity	15	(65)	(123%)	(235)	(1,268)	(81%)
Finance costs - net	(1,949)	(382)	410%	(2,527)	(985)	157%
Loss before taxation	**(28,653)**	**(3,080)**	**830%**	**(30,233)**	**(8,809)**	**243%**
Taxation	3,375	(588)	(674%)	2,921	732	299%
Loss for the period from continuing operations	(25,278)	(3,668)	589%	(27,312)	(8,077)	238%
Loss for the period from discontinued operations	(36)	(153)	(76%)	(77)	(645)	(88%)
Loss for the period	**(25,314)**	**(3,821)**	**562%**	**(27,389)**	**(8,722)**	**214%**

Sales & other revenue

	Quarter ended 30 June			Six months ended 30 June		
Summary	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Oil	2,008	4,992	(60%)	3,253	9,215	(65%)
Gas	4,827	2,036	137%	9,533	4,429	115%
Other	3	95	(97%)	6	260	(98%)
Total	**6,838**	**7,123**	**(4%)**	**12,792**	**13,904**	**(8%)**
By region:						
Kazakhstan						
Oil	2,008	4,992	(60%)	3,253	9,215	(65%)
Gas	4,827	2,036	137%	9,533	4,429	115%
Other	3	3	-	6	8	(25%)
Total	**6,838**	**7,031**	**(3%)**	**12,792**	**13,652**	**(6%)**
Other	-	92	(100%)	-	252	(100%)
Total	**-**	**92**	**(100%)**	**-**	**252**	**(100%)**
Total	**6,838**	**7,123**	**(4%)**	**12,792**	**13,904**	**(8%)**

Kazakhstan Oil revenue and price

	Gross sales		Realized price at wellhead	Compensation	VAT	Net sales
2015	**bbls**	**Revenue**	**USD/bbl**			
Q1	100,773	1,424	13.00	30	149	1,245
Q2	177,178	2,275	13.00	26	241	2,008
Total	**277,951**	**3,699**	**13.00**	**56**	**390**	**3,253**
2014						
Q1	174,381	4,827	27.1	97	507	4,223
Q2	215,535	5,704	26.5	114	598	4,992
Total	**389,916**	**10,531**	**27.0**	**211**	**1,105**	**9,215**

- 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 kilometres and then railed hundreds of kilometres. According to figures provided by local oil buyers if the price was the oil price when sold at the refinery, the reported price would be significantly higher;
- 2015 revenue, both in the current quarter and year to date, has been affected by the decrease in world oil prices that took place at the end of 2014.

Kazakhstan Gas revenue and price

- Gas revenue increased in the current quarter compared with the comparative quarter as a result of incremental volume from the new shallow gas programme that was implemented on January 1, 2015 and an increase in gas price;
- The 2014 gas contract was for an annual volume up to 150 million cubic metres at a fixed Tenge price of KZT 9,652.50 per 1,000 cubic metres, net of VAT and sales expenses, (USD52.60 at a 2014 period to date average exchange rate of 183.51);
- On December 31, 2014, a new contract was signed with respect to 2015 production for a minimum 100 million cubic metres at a fixed Tenge price of KZT 13,650 per 1,000 cubic metres, net of VAT and sales expenses, (USD73.70 at a 2015 period to date average exchange rate of 185.22 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 28 – *Sensitivities.*

Sales expenses

Sales expenses represent Kazakh marketing agent commissions paid in relation to the gas sale contracts. There was a change of marketing agent with respect to 2015 with commission payable at KZT4,550 per Mcm, net of 12% VAT, (USD24.56 at a 2015 period to date average exchange rate of 185.22 Tenge), (2014: KZT 3,712.50 per Mcm, net of 12% VAT, (USD20.23 at a 2014 period to date average exchange rate of 183.51 Tenge).

Production expenses

	Quarter ended 30 June			Six months ended 30 June		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Kazakhstan						
Oil production	1,388	2,246	(38%)	2,879	5,066	(43%)
Gas production	1,151	828	39%	2,193	1,719	28%
Prior year production taxes	1,517	-	-	1,517	-	-
Other	103	140	(26%)	178	227	(22%)
Total	**4,159**	**3,214**	**29%**	**6,767**	**7,012**	**(3%)**
Kazakhstan						
Oil production - net bbls	177,785	225,024	(21%)	285,314	405,825	(30%)
Oil production - cost per bbl	USD7.81	USD9.98	(22%)	USD10.09	USD12.48	(19%)
Gas production – boe	295,410	167,349	77%	580,980	348,789	67%
Gas production - cost per boe	USD3.90	USD4.95	(21%)	USD3.77	USD4.93	(23%)
Total – average cost per boe	USD5.86	USD7.46	(21%)	USD6.93	USD8.71	(22%)

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 reduced during both the current quarter and period to date, compared with comparative periods due to reduction in staffing, reduction in salaries and placement of staff on unpaid leave.

Kazakhstan – gas production

- Gas production costs decreased both in the current quarter and period to date as a result of economies of scale achieved with the new shallow gas programme;

Kazakhstan – prior year production taxes

In the three months ended June 30, 2015 the company recorded an accrual of additional production taxes along with interest charges incurred. Production expenses of USD 1,517,000, finance costs of USD 892,000 and a tax benefit of USD of 303,000 were recognized relating to prior years.

Depreciation, depletion and amortization (DD&A)

DD&A for the quarter ending June 30, 2015 was USD20.6m (2014: USD0.15m) reflecting depletion on the Kazakh assets for the period when they were moved into Assets Held for Sale, at which point depletion ceased, to the date the assets reverted back to their original position on the Statement of Financial Position when the sale fell through i.e. November 2, 2013 to May 1, 2015. DD&A for the year to date was USD21.3m (2014: USD0.3m) reflecting the “catch up” depletion charge booked in the current quarter.

Business development expenses

Business development expenses were nil for both the quarter and year to date (2014: USD0.58m and USD1.32m respectively), reflecting earlier decisions to cease activity in relation to potential new projects.

Administrative expenses

	Quarter ended 30 June			Six months ended 30 June		
	2015	2014	% Change	2015	2014	Change
Staff	1,261	2,471	(49%)	2,506	4,771	(47%)
Travel	229	654	(65%)	471	1,456	(68%)
Office	253	419	(40%)	484	1,074	(55%)
Professional fees	792	710	12%	1,391	1,235	14%
Regulatory fees	155	49	216%	282	138	104%
Non-executive director fees	83	100	(17%)	294	199	48%
Marketing costs	147	279	(47%)	224	794	(72%)
Other costs	183	400	(54%)	272	540	(50%)
Total	**3,103**	**5,082**	**(39%)**	**5,924**	**10,207**	**(42%)**
G&A expenses per boe (USD)	6.55	12.95	(49%)	6.84	13.53	(49%)

- Staff costs have significantly reduced both in the current quarter and period to date compared with the respective comparative periods as a result of staff terminations and re-allocation of costs to "Restructuring costs" – see below;

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

- Office costs have reduced both in the current quarter and period to date as a result of decisions made to close the Dubai, Washington and Toronto offices. Rental commitments with respect to these offices have been re-allocated to "Restructuring costs". Further reductions are anticipated in Q3 with office costs associated with the closure of the Guernsey office re-allocated to "Restructuring" (see below);

- Although reductions have been made with respect to Professional fees in terms of a reduction of audit fees, savings have been offset by increases in legal fees associated with claims and actions (refer to "Commitments and contingencies on page 19);

- Regulatory fees are higher for the quarter and period to date compared with the comparative periods reflecting additional advice taken in connection with a significant number of regulatory issues arising as a result of 2015 funding and strategic transactions requiring regulatory approvals;

- Marketing costs are lower for both the current quarter and period to date compared with the comparative periods reflecting the termination of investor relation service contracts;

- Non-executive director fees were consistent in the current quarter compared with the comparative period, although are higher in the period to date as a result of fees paid for additional work undertaken by certain non-executive directors at the request of the Chairman;

- Other costs are lower during the quarter and period to date primarily due to reduced bank fees as a result of closure of offices and bank accounts.

Restructuring costs

Costs associated with the restructuring programme announced on December 1, 2014, have been shown separately from administrative expenses. A provision for costs associated with staff reductions and closure of offices was made at the end of 2014. Costs incurred in the quarter incorporate fees in relation to the appointment of a strategic financial advisor, time-writing of technical staff involved in farm-out discussions and a further provision of USD1.2m was made during the quarter with respect to staff terminations and office lease costs related to the closure of the Guernsey office.

Transaction costs of assets held for sale

Transaction costs of USD0.95m were incurred during the quarter (2014: USD0.12m) with respect to pre-completion actions in relation to the SinoHan deal, which included USD0.65m in relation to SinoHan's own transaction costs agreed to be reimbursed by the Company in the event that the deal did not complete. Period to date costs related to the SinoHan deal were USD1.056m (2014: USD0.131m).

Share based payments

Share based payments for the quarter ending June 30, 2015, amounted to USD0.118m (2014: USD0.77m) and USD0.265m (2014: USD0.196m) for the period to date reflecting the issue of new options at the beginning of 2015**.**

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. The losses are principally as a result of the revaluation of GBP Sterling cash and cash equivalents and borrowings into US Dollars.

Fair value (loss) / gain on derivative financial instruments

The fair value loss of USD1.5m arising in the current quarter compared with a small gain of USD0.036m in the comparative quarter was mainly due to the revaluation of the warrants issued in connection with new corporate loans arranged during the period (refer to notes 11 and 12 of the June 2015 Condensed Consolidated Interim Financial Statements).

Loss from jointly controlled entity

A small profit of USD0.015m was generated by the Aral Oil Terminal during the quarter (2014: USD0.065m). Period to date, AOT generated a loss of USD0.235m (2014: USD1.268m). Since the last quarter of 2013, the terminal has generated losses as a result of lower volume throughput. Actions have been taken at the Terminal to reduce operating costs and financing has been re-structured with effect from August 2014 resulting in reduced interest expense over a period to the end of October 2015 being a grace period on repayment of principal amounts.

Finance costs - net

Finance costs consist of loan interest expense net of interest income. Late payment interest of USD0.89m relating to unpaid Kazakh taxes (see Production) was accrued during the quarter, which together with higher effective interest charges on new corporate loans also accounts for the significant variance period to date – USD2.9m (2014: USD0.98m).

Taxation

The overall current tax recovery for the quarter was USD3.4m (2014: tax charge USD0.588m) arising as a result of the Kazakh depletion of oil and gas properties which has reduced the deferred tax liability. A reconciliation of the loss before income tax to the current tax expense is provided in note 5 of the June 2015 Condensed Consolidated Interim Financial Statements.

Loss for the period from discontinued operations

As a result of the Company's decision at the end of 2013 to exit from Uzbekistan, all revenues and costs associated with this segment have been excluded from the Company's results and separately disclosed. The loss of USD0.04m is with respect to costs associated with the exit and handover process. Refer to page 8.

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 (refer to Non-GAAP measures) is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the June 2015 Condensed Consolidated Statements of Financial Position.

	Quarter ended 30 June		
	2015	**2014**	**Change**
Total financial liabilities - borrowings	26,719	7,581	
Total financial liabilities – borrowings of a disposal group	-	5,911	
Less: cash and cash equivalents	(4,942)	(11,642)	
Less: cash and cash equivalents – of a disposal group	-	(6,036)	
Net debt / (funds)	21,777	(4,186)	(620%)
Total equity	178,034	213,518	(17%)
Total capital	**199,811**	**209,332**	**(5%)**

Should the Company be in a net debt position, it will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through alternative methods such as the issue of equity, farm-down of assets or sale of the Company.

Financing and Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Condensed Consolidated Interim Financial Statements in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidate Interim Financial Statements for the period ended June 30, 2015. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these consolidated financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties arising subsequent to the balance sheet date and which are discussed below, raise substantial doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company reported a loss of USD27.4 million for the six months ending June 30, 2015 (2014: USD8.7 million) and an accumulated deficit as at that date of USD225.9 million (2014: USD198.6 million) and negative working capital of USD5.9 million (December 31 2014: negative USD7.5 million) excluding items classified as held for sale.

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. ("SinoHan"), part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund, for USD75 million. Completion was dependent on the Company receiving Kazakh governmental permission and waiver of the States' pre-emptive right (article 36 of Kazakhstan law on Subsoil and Subsoil Use).

In view of the delay in obtaining local regulatory consents for the transaction, the Company agreed an extension of the Longstop Date under the Sale and Purchase Agreement with SinoHan until May 1, 2015. The Company had an obligation to undertake a number of significant Conditions Precedent ("CPs") prior to completion of the sale, including receipt of the approval from the Ministry of Energy of the Republic of Kazakhstan, which the Company was actively pursuing up until the Longstop Date, however on May 1, 2015, the Company announced that the main approval required from the Ministry of Energy had not been received. Although the Company explored the possibility of further extending the Longstop Date with SinoHan, SinoHan confirmed that it did not wish to enter into a further extension of the agreement.

In July 2014, the Company and SinoHan agreed the release to the Company of the USD3.88 million deposit placed by SinoHan into escrow upon signature of the Sale and Purchase Agreement to assist with the further implementation of the Kazakh capex programme. This was in the form of a minimal interest bearing loan intended to be deducted from the consideration due from SinoHan on completion.

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

As the deal did not complete by the Longstop Date of May 1, 2015, the above described USD3.88m advance became repayable and was paid by June 30, 2015. Transaction costs were agreed at USD650,000 with repayment scheduled by August 1, 2015. These costs have been accrued in the June 2015 Condensed Consolidated Interim Financial Statements.

Tethys' future operations and earnings will depend upon the results of its operations in the Republic of Kazakhstan, Tajikistan and Georgia. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

These circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to support the Company's short term liquidity position, which has been adversely affected by the recent decrease in world oil prices, management has been implementing a cost reduction programme with respect to its operational and G&A costs and during the six months to date it has sourced three separate loans under which it raised total net proceeds of USD18.2 million, (refer to note 17 of the Condensed Consolidated Interim Financial Statements).

Subsequent to the period end, the Company announced on July 1, 2015 a strategic collaboration with AGR Energy Holdings whereby it had signed an agreement for a USD47.7 million private placement of 318,003,951 new ordinary shares (the "AGR Placing") at a price of CAD0.192 per ordinary share with AGR Energy Holdings. In connection with this placing, the Company also entered into a convertible loan for up to USD5 million with AGR Energy Holding's parent company, AGR Energy, whereby the Company could draw down an advance on the placing proceeds before closing to support short term liquidity. Pursuant to this agreement, it had also agreed with PAM, the Company's largest shareholder, that PAM would subscribe (the "PAM Subscription") for 100,000,000 new ordinary shares on substantially the same terms as the AGR Placing. However, following further correspondence and discussions with AGR Energy during which AGR Energy indicated changes to the proposed structure and terms, the Company announced on August 10, 2015 that it would no longer be proceeding with the AGR Placing or the PAM Subscription.

On the same date, the Company announced that it had received a further non-binding indicative proposal from Nostrum regarding a possible offer for the entire issued and to be issued share capital of the Company (the "Possible Offer"). The Possible Offer provides for a price of CAD0.2185 per Tethys share, which would be satisfied in cash or, at the election of each eligible shareholder of Tethys, fully paid ordinary shares in Nostrum, or a combination of both cash and shares. This price represents a premium of 15% to the price at which AGR Energy Holdings had agreed to subscribe for new ordinary shares in Tethys pursuant to the Financing and a premium of 56% to the closing market price of an ordinary share of Tethys on the TSX of CAD0.14 on Friday August 7, 2015.

Following receipt of the Possible Offer, the Company entered into discussions with Nostrum. Any decision by the Board of Nostrum to make a formal offer would be conditional upon, amongst other things, satisfactory completion by Nostrum of confirmatory due diligence, which shall be limited to a period ending at 9.00 a.m. London time on August 24, 2015 (or such later date as may be agreed) and the Board of Tethys, having been so advised by its financial adviser, agreeing unanimously to recommend the formal offer to shareholders of Tethys. Nostrum shall have two business days following completion of its confirmatory due diligence within which to announce its intention to make a formal offer.

In connection with the Possible Offer, Nostrum and Tethys entered into an unsecured USD5 million loan facility that will support the short term liquidity of Tethys during the period in which any formal offer may be implemented. The loan was made available to the Company immediately and was drawn down in full on August 10, 2015. The loan shall be repayable on February 28, 2016 or, in the event that Nostrum does not announce an intention to make a formal offer within two business days of the conclusion of its confirmatory due diligence, the loan shall be repayable on August 31, 2016. Interest shall accrue on the loan at a rate of 9% per annum, repayable on the maturity date of the loan. Pursuant to the terms of the loan, the Company is subject to certain negative covenants and events of default and change of control provisions apply. In consideration for Nostrum agreeing to advance the loan, the Company agreed to grant Nostrum a limited period of exclusivity to undertake its confirmatory due diligence in connection with the Possible Offer and any potential resulting formal offer. This period of exclusivity concludes at the end of the two business day period after completion of Nostrum's confirmatory due diligence, which will be at 11:59 p.m. London time on August 25, 2015 (unless such date is mutually agreed to be extended).

The Company will need to secure significant additional strategic funding in order to meet its contractual obligations which include the Tajik Bokhtar licence and Kazakh Exploration and Production licences in full (refer to note 16 of the Condensed Consolidated Interim Financial Statements). The cessation of cash call payments to the Bokhtar Joint Operating Company would potentially dilute the Company's equity interest and failure to meet its Kazakh commitments could potentially result in the forfeiture of licences.

The Company has been and, subject to the period of exclusivity granted to Nostrum, actively continues to explore strategic initiatives which include the potential sale of the Company, further equity financing and/or farm downs of its Kazakh, Tajik or Georgian assets.

There can be no assurances that management will be successful with these initiatives or any of them.

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver the above-described additional funding required to meet capital expenditure programs including its contractual obligations, its ability to renew and maintain access to debt facilities, equity issuances, manage risks associated with depressed oil prices and potential Tenge devaluation and ability to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Cash Flow

	Quarter ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
Cash & cash equivalents at beginning of period	**6,987**	**15,325**	**3,868**	**25,731**
Cash inflow				
Proceeds from financing (net)	9,100	1,013	18,235	7,720
Proceeds from issuance of equity (net)	-	13,749	-	13,701
Interest received	46	48	91	98
Other (includes change in working capital)	1,185	-		-
Total	**10,331**	**14,810**	**18,326**	**21,519**
Cash outflow				
Operating activities – before tax (including discontinued operations)	(4,081)	(3,340)	(5,418)	(7,510)
Capital expenditure	(4,034)	(4,835)	(5,981)	(12,101)
Repayment of borrowings – including interest	(4,752)	(1,502)	(5,573)	(8,014)
Repayment of historic costs	(27)	(27)	(56)	(99)
Corporation tax paid	(4)	(10)	(134)	(148)
Movement in restricted cash	(147)	(460)	(151)	(460)
Other (includes change in working capital)	-	(1,950)	(500)	(1,009)
Total	**(13,045)**	**(12,124)**	**(17,813)**	**(29,341)**
Effect of exchange rates on cash & cash equivalents	669	(333)	561	(231)
Cash & cash equivalents at end of period	**4,942**	**17,678**	**4,942**	**17,678**

Operating activities

The increase in cash outflow from operating activities in the current quarter compared with the comparative period, is primarily due to increased costs. Period to date, the reduction in cash outflow from operating activities is due primarily to an overall reduction in revenue.

Proceeds from financing – net of issue costs

2014 financing consists of the proceeds of USD7.7m raised from the new rig loan issued in February 2014.

2015 financing consists of the proceeds of two new loans completed during quarter one amounting to gross proceeds of USD9.5m and two convertible loans issued during quarter two raising gross proceeds of USD9.26m. Refer to note 11 of the June 2015 Condensed Consolidated Interim Financial Statements for further information regarding the Company's borrowings.

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:

	Quarter ended 30 June			Six months ended 30 June		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Kazakhstan						
Fire-safety	-	-		-	299	
AKD08	-	-		244	533	
AKD09	-	-		-	768	
Pumps	-	-		-	548	
2D & 3D Seismic	-	-		-	228	
New shallow gas wells & tie-ins	314	1,683		857	2,783	
Gas dehydration	-	1,894		-	1,894	
Rig mobilization	112	-		112	148	
KBD01 – testing	-	-		-	636	
Compressors, rotor and pumps	298	-		298	-	
Kul-Bas contract extension	149	-		149	-	
Other	503	-		544	1,115	
Total	**1,376**	**3,577**	**(62%)**	**2,204**	**8,952**	**(75%)**
Tajikistan						
Bokhtar exploration	2,341	669		3,208	1,546	
Total	**2,341**	**669**	**250%**	**3,162**	**1,546**	**107%**
Georgia	**317**	**544**	**(42%)**	**569**	**1,322**	**(57%)**
Corporate & other	**-**	**45**	**(100%)**	**-**	**281**	**(100%)**
Total	**4,034**	**4,835**	**(18%)**	**5,981**	**12,101**	**(51%)**

Accounting policies, changes to accounting standards and critical estimates

The Company's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 of the Notes to the June 2015 Condensed Consolidated Interim Financial Statements. Refer to note 4 of the Notes to the 2014 Consolidated Financial Statements for further information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Non-GAAP Measures

EBITDA adjusted for share based payments

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

The reconciliation of EBITDA adjusted for share based payment to Loss for the Period is as follows:

	Quarter ended June 30			Period ended June 30		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
EBITDA adjusted for share based payments	(4,425)	(2,509)	76%	(5,684)	(7,346)	(23%)
Depreciation, depletion and amortization	(20,614)	(148)	13,828%	(21,288)	(299)	7,020%
Share based payments	(118)	(77)	55%	(265)	(196)	35%
Fair value (loss) / gain on derivative financial instrument - net	(1,547)	36	(4,397%)	(469)	17	(2,859%)
Finance costs - net	(1,949)	(382)	410%	(2,527)	(985)	157%
Loss before taxation	**(28,653)**	**(3,080)**	**830%**	**(30,233)**	**(8,809)**	**243%**

Net debt / (funds)

Net debt / (funds) is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the June 30, 2015 Condensed Consolidated Interim Financial Statements.

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

Stockholder Equity

As at August 14, 2015 the Company had authorized share capital of 700,000,000 ordinary shares of which 336,775,850 (2014: 336,452,667) 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 August 14, 2015, a total of 40,374,320 (2014: 34,388,129) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at August 14, 2015 is 15,560,500 and the number of warrants outstanding is 25,423,333. Loan facilities are in place which are convertible into a total of 92,609,780 ordinary shares.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

Related party transactions with key management personnel

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.

	Quarter ended June 30		Balance as at	
	2015	2014	June 30,	June 30,
Amounts advanced by Company:				
Officer	-	-	-	26
Officer	-	-	26	65
Officer	-	68	-	23

Commitments and contingencies

Litigation, claims and assessments

The Company is involved in claims and actions arising in the course of the Company's operations and is subject to various legal actions and exposures, including tax positions taken by the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or results of operations. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

Kazakhstan

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

The work programme commitments Kazakhstan businesses can be summarised as follows:

Kazakhstan Work Programme Commitments	Expiry date	Program 2015	Spend to date 2015	Program 2016 & later
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		9,365	2,338	26,123
Investments		3,957	1,297	11,275
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		7,488	1,383	101,875
Investments		1,886	573	22,328
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		5,838	4,053	28,338
Investments		3,192	1,355	21,937
Kul-Bas Exploration Contract	2015			
Financial obligations, total		9,440	802	-
Investments		8,964	707	-
Total				
Financial obligations, total		**32,131**	**8,576**	**156,336**
Investments		**17,999**	**3,932**	**55,540**

General background

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the Production Contracts. Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture.

In addition, an assumed level of other costs forms part of the overall work programme (insurance, liquidation fund, indirect costs and taxes). Taken together with the Investments amount described above these form the Company's "Financial obligations, total" as defined in the contracts and as set out in the table above.

Apart from the Company's work programme commitments other amounts may become payable to the Kazakh State in certain circumstances. These are described below.

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD 3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totaling approximately USD 933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To June 30, 2015, the Company had reimbursed the Kazakh State USD 598,368 in respect of the Akkulka Field.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD 3,275,780. To date, the Company has paid two amounts of USD 49,137 each in relation to this balance. If and when commercial production commences, USD 80,666 is due in quarterly instalments until the remaining historical costs of USD 3,177,506 have been paid in full.

The Company is seeking to extend the Kul-Bas contract for an additional two year period but a requirement to do so prior to the expiry of the contract is to have moveable hydrocarbons to surface which has not been achieved to date. The Company has a successful history of extending contracts in Kazakhstan and hopes that it will be able to extend this contract too, but this is not guaranteed.

Tajikistan

Bokhtar Production Sharing Contract

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

Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company is only required to contribute 11.11% or USD 9 million of the first USD 80 million of the initial work programme. As at June 30, 2015, the joint venture partners had contributed USD47.0 million to the Bokhtar Operating Company of which the Company's share was USD5.2 million. At June 30, 2015, Bokhtar had contractual commitments not yet incurred or accrued of USD 53.1 million relating to seismic acquisition. Tethys share is approximately USD14.6 million.

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia and is responsible for funding its percentage interest share in the work programmes.

During 2015 the Joint Venture has completely redefined the work obligations and cost of exploration, subject to final Government approval. The forward work programme has also been reduced and deferred on all 3 blocks: XIA, XIN and XIM. For 2015 this involves ground based gravity work which was largely completed during Q2 2015 (with fieldwork completed at the end of July 2015) at a net cost to Tethys in 2015 (inclusive of G&A costs) of USD 0.6m, focussed 2D seismic acquisition in 2016 at a cost to Tethys of USD 0.9m after which the Joint Venture will make an informed decision in 2017 whether to drill or cease further activity with contingent drilling of any wells in 2018. These changes have been ratified by all levels of government and final Cabinet approval should be received later in Q3, 2015.

Operating leases

Leases as a lessee:

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

June 30, 2015	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	1,898	812	862	224

Risks, Uncertainties and Other Information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2014 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com

Risk management is carried out by senior management, in particular, the Executive Chairman, the CEO and the CFO as well as the Board of Directors. The Company has identified its principal risks for 2015 to include:

- Liquidity;
- Retention and extension of existing licences and development thereof with respect to success rates. Considerable technical work is undertaken to reduce related areas of risk and maximise opportunities;
- Production volume – both oil and gas;
- Political, fiscal and related risks.

Financial Risk Management

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

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

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:

	June 30	**December 31**
	2015	**2014**
Cash and cash equivalents	4,942	3,112
Restricted cash	2,813	739
Trade receivables	4,349	-
Loans to joint arrangements	2,456	
Total	**14,560**	**3,851**
Assets of a disposal group held for sale (Kazakhstan):		
Trade receivables	-	1,540
Cash and cash equivalents	-	757
Restricted cash	-	1,922
Loans to joint arrangements	-	1,500
Total	**-**	**5,719**
Total	**14,560**	**9,570**

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 June 30, 2015. Refer also to the section on Financing and Going Concern on pages 17 to 19.

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 June 30, 2015:

	Contractual cash flows	Less than one year	1 – 3 years	4 – 5 years	Thereafter
Trade and other payables	12,715	12,539	176	-	-
Financial borrowings	34,326	8,725	25,601	-	-
Total contractual obligations	**47,041**	**21,264**	**25,777**	**-**	**-**

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. The Company is currently reliant on obtaining additional debt or equity funding to continue as a going concern. Inability of the Company to access sufficient capital for its operations could have a material impact on the Company's financial condition, timing of activities and results of operations and prospects.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently the Company 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 on 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., Kazakhstan, Tajikistan and Georgia are denominated in local currency: GBP, Tenge, Somoni and Lari respectively. The Company also attempts to negotiate exchange rate stabilization conditions in local Tenge denominated service and supply contracts in Kazakhstan.

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

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at June 30, 2015 are as follows:

In USD equivalent	**GBP ’000**	**KZT ’000**
Cash and cash equivalents	822	322
Trade and other receivables	45	11,558
Trade and other payables	(495)	(1,319)
Financial liabilities –borrowings	(2,562)	(4,656)
Net exposure	**(2,190)**	**5,905**

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	**GBP '000**	**KZT '000**
Profit or (loss) before tax	(219)	591

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

Market risk

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

- *Marketability of Production*

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

- *Commodity price risk*

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

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

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

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

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

There were no commodity price financial derivatives outstanding as at June 30, 2015 or June 30 2014.

Environmental

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

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

Political & regulatory

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

Currently, the regulatory systems in the various jurisdictions in which the Company operates contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even the Company's best efforts to comply with applicable law may not always result in compliance. Non-compliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in local laws and their interpretation and application could have a material adverse effect on the Company's business and results of operations.

Further risk factors on the regulatory and legal environment in those countries in which the Company operates can be found in the Company's Annual Information Form dated December 31st, 2014. Political, regulatory and similar risks are reviewed regularly in meetings of the Board at which mitigating strategies and policies are discussed and agreed.

Sensitivities

The price of gas sales from gas produced from both the Kyzyloi and Akkulka gas fields under Gas Supply Contracts is fixed in Tenge until December 31, 2015 and hence will be sensitive to a fluctuation in exchange rate. A 20% devaluation of the Tenge, from 185.22 to 222.26 for example, would result in a net price reduction of USD12.29 per Mcm (i.e. USD61.41 from USD73.70). Based on a sales volume of 100,000 Mcm per annum, this would result in a reduction of USD1,229,000 in gas revenue.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 1,550 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 USD565,750 per annum.

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 2014 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 derivative financial liability relating to share warrants where the shares are denominated in a currency that is not the Company's functional currency and also convertible loans where the conversion option is treated as a derivative financial liability. Full details are disclosed in note 12 of the June 30, 2015 Condensed Consolidated Interim Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

As at June 30, 2015, an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and the CFO concluded that, as at June 30, 2015, the design and operation of the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Corporation in reports filed with, or submitted to, securities regulatory authorities were reported within the time periods specified under Canadian securities laws.

Internal control over financial reporting is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements.

Management has designed and implemented, under the supervision of the CEO and CFO, a system of internal controls over financial reporting which it believes is effective for a company of its size. Management has not identified any material weaknesses relating to the design of these internal controls and consequently, the CEO and CFO have concluded that internal control over financial reporting was effective as at June 30, 2015, and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control – Integrated Framework and related illustrative documents, which will supersede the 1992 COSO Framework as of December 15, 2014. As of June 30, 2015, the Company was utilizing the original framework published in1992, but is transitioning to the 2013 COSO Framework as it relates to its internal control over financial reporting.

The Company's CEO and CFO have filed certifications with the Canadian securities regulators regarding the quality of the Company's public disclosures relating to the period ending June 30, 2015.

Significant equity investees

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

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Tethys' and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2015 capital investments projections, and the potential source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; the ability of the Company to farm out or sell its Georgian assets; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the significant uncertainty over the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; the risk that no formal offer will be made by Nostrum for the entire issued and to be issued share capital of Tethys; the risk that indicative terms proposed by Nostrum may differ should a firm offer be made; the significant uncertainty over the Company's ability to access external sources of debt and equity capital in the event that Nostrum does not make a formal offer for the Company; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; the Company will not be successful in negotiating binding terms for the export of gas and oil to China at prices significantly higher than prices currently realized; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

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