

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended June 30, 2018

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The following Management's Discussion and Analysis ("MD&A") is dated September 5, 2018 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, 2018 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2017. 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 2017 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Additional information relating to the Company can be found on the SEDAR website at www.sedar.com and the Company's website at www.tethys-group.com.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A and also the Company's Annual Information Form ("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 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 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

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

Financial highlights

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

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Oil and gas sales and other revenues	2,017	2,855	(29%)	3,933	3,335	18%
Loss for the period from continuing operations	(1,894)	(3,905)	(51%)	(6,230)	(8,295)	(25%)
Basic and diluted loss (USD) per share from continuing operations	-	(0.01)	(100%)	(0.01)	(0.02)	(50%)
Adjusted EBITDA ¹	529	(186)	(384%)	147	(1,611)	(109%)

	As at June 30		
	2018	2017	Change
Total assets	113,622	153,901	(26%)
Cash & cash equivalents	467	817	(43%)
Short & long term borrowings	32,103	33,739	(5%)
Total non-current liabilities	14,359	18,929	(24%)
Net debt ¹	31,636	32,922	(1%)
Number of ordinary shares outstanding	508,136,098	508,136,098	0%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 19 for details.

Second quarter 2018 versus second quarter 2017

- Oil and gas sales and other revenues decreased by 29% to USD2.0 million from USD2.9 million, mainly due to lower gas revenues. Q2 2017 gas revenues were higher due to production from mid-December 2016 to end April 2017 being placed into storage before being sold in May 2017. The gas price in local Kazakhstan currency has remained constant since that date. Oil revenues were 50% higher at USD0.7m due to higher volumes sold as well as a higher price.
- The loss of USD1.9 million was lower than the Q2 2017 loss of USD3.9 million due to lower administrative expenses, lower depreciation, depletion and amortisation (DD&A) and a foreign exchange gain compared with a foreign exchange loss in Q2 2017. These more than offset the lower gross margin from oil & gas sales and higher finance costs. There was also a deferred tax credit compared with a tax charge in Q2 2017;
- Adjusted EBITDA improved marginally to USD0.5 million from negative USD0.2 million mainly due to the lower administrative expenses which offset the lower gross margin from oil & gas sales and the foreign exchange gain compared with the foreign exchange loss in Q2 2017.

Financial highlights (continued)

Period to date

- Oil and gas sales and other revenues for the half year increased by 18% to USD3.9 million from USD3.3 million. Oil revenue was up 65% to USD1.3m due to a higher price as well as higher production following the installation of an ESP in May 2017, although production has declined quickly since that date. Gas revenue was marginally higher due to a higher volume of gas sold in H1 2018;
- The loss for the period of USD6.2 million was lower than the loss in 2017 of USD8.3 million due to a higher gross margin from oil & gas sales, lower administrative expenses and lower DD&A as well as a foreign exchange gain in the current half year compared with a small loss in H1 2017. These items more than offset the higher finance costs. There was also a higher deferred tax credit;
- Adjusted EBITDA was USD0.1 million compared with negative USD1.6 million in 2017 mainly due to the higher gross margin from oil & gas sales, lower administrative expenses and the foreign exchange gain compared with the foreign exchange loss in Q2 2017;
- Net debt decreased marginally following repayment of the rig loan and the resolution of Kazakhstan loans partly offset by accrued interest on other loans.

Operational highlights

	Units	Quarter ended June 30			Six months ended June 30		
		2018	2017	Change	2018	2017	Change
Kazakhstan							
Oil	bopd	614	752	(18%)	746	718	4%
Gas	boe/d	2,021	2,104	(4%)	1,954	2,099	(7%)
Total	boe/d	2,635	2,856	(8%)	2,700	2,817	(4%)
Oil							
Net production	Bbls	55,831	68,469	(18%)	135,048	129,887	4%
Net revenue	USD'000	680	332	105%	1,335	809	65%
Production costs	USD'000	653	434	50%	1,374	1,015	35%
Gross margin	USD'000	27	(102)	(126%)	(39)	(206)	(81%)
Oil price net	USD/bbl	11.85	7.91	50%	10.09	7.81	28%
Cost	USD/bbl	11.70	6.34	85%	10.17	7.81	30%
Gross margin	USD/bbl	0.15	1.57	(90)%	(0.08)	0.00	-
Gas							
Gross production	Mcm	31,257	32,526	(4%)	60,086	64,547	(7%)
Gas revenue net	USD'000	1,335	2,510	(47%)	2,587	2,510	3%
Production costs	USD'000	471	1,065	(56%)	795	1,065	(25%)
Gross margin	USD'000	864	1,445	(40%)	1,792	1,445	24%
Sales price net	USD/Mcm	43.36	45.33	(4%)	43.76	44.83	(2%)
Cost	USD/Mcm	15.07	16.68	(10%)	13.23	16.50	(20%)
Gross margin	USD/Mcm	28.29	28.65	(1%)	30.53	28.33	8%

Oil

- Oil production in Q2 2018 averaged 614 bopd compared with 752 bopd in Q2 2017 and 746 bopd in H1 2018 compared with 718 bopd in H1 2017, reflecting a natural decline in overall production. The ESP installed in early May 2017 produced up to 2,483 bopd although this level of production declined fairly steadily to the current level of production;
- Oil production cost per barrel in Q2 2018 increased to USD11.70 compared with USD6.34 in Q2 2017 and was USD10.17 in H1 2018 compared with USD7.81 in H1 2017. This was partly due to the higher diesel costs of running the ESP;
- Oil prices averaged USD11.85 in the quarter compared with USD7.91/bbl in Q2 2017, an increase of 50% and USD10.17 in H1 2018 compared with USD7.81 in H1 2017, reflecting better contract terms agreed with the customer.

Gas

- Current quarter gross gas production averaged 2,021 boe/d compared with 2,104 boe/d in Q2 2017 and H1 2018 gross gas production averaged 1,954 boe/d compared with 2,099 boe/d in H1 2017, reflecting a natural decline in overall production compensated for by production from the new wells which came on-line in January 2018;
- Gas production cost per Mcm in the current quarter decreased to USD15.07 compared with USD16.68 in Q2 2017 and for H1 2018, decreased to USD13.23 compared with USD16.50 in H1 2017, reflecting the decrease in gas production and lower repairs and maintenance costs;
- Gas was sold at a net price equivalent to USD43.36 per Mcm for the quarter compared with USD45.33 in Q2 2017 and USD43.76 per Mcm for H1 2018 compared with USD44.83 in H1 2017. These variances are due foreign exchange conversion differences as the local currency price in Kazakhstan remain unchanged.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 23 – “*Forward Looking Statements*” of this MD&A.

The Company's objective is to become a leading oil and gas exploration and production Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in order to balance its product portfolio and currently has oil and gas interests in the Republic of Kazakhstan, Republic of Tajikistan and Georgia. On December 30, 2017 the Company announced that an arbitration tribunal had ordered that it should assign its interest in its Tajikistan project to its partners.

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:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas;
- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells;
- Drill two new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out arrangement;
- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation.

Operational Review - continued

Significant events and transactions for the six months ended June 30, 2018

- *TSX Listing Review*

On January 24, 2018 the Company announced that the Continued Listings Committee of the Toronto Stock Exchange ("TSX") had determined that the Company no longer meets the continued listing requirements of the TSX and will not be able to continue with its listing on the TSX after February 23, 2018 and subsequently extended this to March 23, 2018 whilst the TSX Venture Exchange ("TSXV") considered the Company's application to move its listing to that exchange. On February 26, 2018 the TSXV informed the Company that it would not meet the TSXV listing requirements and would instead need to transfer its listing to NEX, a subsidiary exchange of the TSXV.

- *Republic of Kazakhstan Supreme Court Dismisses EGG Claims*

On February 14, 2018 the Republic of Kazakhstan Supreme Court found in favour of TAG by reversing the earlier court rulings and dismissing EGG's claims.

- *Change of Management*

On March 9, 2018 Mr. Clive Oliver, Chief Financial Officer and Corporate Secretary of the Company tendered his resignation but agreed to continue to work with the Company on an advisory basis to help ensure an orderly transition. In August 2018, Mr. Oliver agreed to continue in those roles at the Company.

On March 12, 2018 the Board of Directors of the Company announced that Mr. Kenneth May, Chief Executive Officer ("CEO"), was stepping down with immediate effect.

On April 3, 2018, The Company announced the appointment of Samuel Barrows as Interim Chief Executive Officer.

On July 9, 2018 the Company announced that Samuel Barrows had decided to step down with immediate effect and was being replaced by current Board member Mattias Sjoborg as its new Interim CEO.

- *Update on Kazakhstan Loan*

On April 20, 2018 the Company announced that TAG had received notification from Special Financial Company DSFK LLP ("DSFK") relating to a loan originally provided to EGG by Bank RBK JSC ("RBK") in 2012. Also in 2012, TAG pledged certain of its oil and gas assets as collateral for the RBK loan to EGG including gas pipelines, booster compressor stations and oil gathering facility. EGG was TAG's former oil customer and advanced certain funds to TAG. In December 2017, RBK's loan to EGG was assigned to DSFK. DSFK has written to EGG to demand repayment of the loan because of EGG's failure to make certain scheduled repayments. DSFK has written separately to TAG regarding EGG's default and subsequent failure to repay the loan and informed TAG that it will take all measures to collect the debt, including but not limited to court collateral collection on the pledged assets. TAG has yet to receive full information regarding the EGG debt and is

Operational Review - continued

evaluating the legal position in order to protect its pledged assets from possible court collateral collection actions by DSFK and ultimately to have the pledges released.

- *Restructuring of Interests in Georgia*

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys' indebtedness of approximately USD1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

Significant events and transactions subsequent to the period end

- *Cease Trade Order*

On July 2, 2018 the Company announced that the Alberta Securities Commission ("ASC") had issued a Cease Trade Order against the Company and revoked the previously issued Management Cease Trade Order ("MCTO"). Accordingly, Tethys securities have been halted from trading.

The Cease Trade Order was issued because the Company had not timely filed its audited financial statements, CEO and CFO certifications, and management discussion & analysis (the "Annual Filings") for the year ended December 31, 2017 and its interim financial statements, CEO and CFO certifications, and management discussion and analysis (the "Interim Filings") for the three month period ended March 31, 2018. Once the filings have been made the Company intends to apply to the ASC to have the Cease Trade Order revoked.

- *Agreements to Acquire Shares in the Company*

On July 18, 2018 the Company announced that it had signed binding agreements for new investors to purchase 63,517,017 ordinary shares in the Company for total proceeds of USD1.2 million and warrants to acquire up to a further 63,517,017 ordinary shares for total proceeds of up to USD1.4 million. The transactions are subject to approval by the NEX Board of the TSX Venture Exchange which has been received and other regulatory approvals which may be required.

The Company also reported that the proposals to acquire shares in the Company announced on January 23, 2018 would no longer be proceeding.

- *Oil & Gas License Extensions*

Also on July 18, 2018 the Company announced extensions of two of its Oil & Gas licenses in Kazakhstan.

Contract No. 3496 for gas production in the Akkulka Field has been extended for a further eight years until December 23, 2026 and the related work program for the period 2019-2026 has been approved.

Operational Review - continued

In addition, Contract No. 265 for appraisal of the Akkulka Oil & Gas Area has received Ministry of Energy approval for a three year extension of the exploration period until March 10, 2022, provided the Company meets certain conditions. The Company currently produces oil in this contract area under a pilot production license.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	Gross fluid		2018			Gross fluid		2017		
	m ³	barrels	Net barrels	Net production days	bopd	m ³	barrels	Net barrels	Net production days	bopd
Q1	52,034	327,285	79,217	90	880	17,701	111,336	61,418	90	682
Q2	47,420	298,261	55,831	91	614	21,334	134,186	68,469	91	752
Total	99,454	625,546	135,048	181	746	39,035	245,522	129,887	181	718

Oil operations update

The Company produces oil from the AKD01 well under a pilot production license and the well has been performing to expectations. Oil production averaged 614 bopd in Q2 2018 (Q2 2017: 752 bopd) and 746 bopd in H1 2018 (H1 2017: 718 bopd) from AKD01. The well has been producing with an ESP installed in May 2017 with an approximate 78% water-cut for H1 2018 and this has been gradually increasing.

The AKD06 well has been shut in since late Q4 2014 due to the lower oil price received and the increased operating costs of a high water-cut well. The AKD05 well has been off production since November 2015. The option of using enhanced oil recovery (“EOR”) techniques for this well has recently been being evaluated by Schlumberger, which conducted a hydrodynamic study of the Jurassic Carbonates and a geomechanics study.

The Company is currently reviewing its development plans for the next two years. Following the recently announced contract extensions through to March 2019 the priority will be to conduct the works required to fulfil the work programs and maintain and further extend the licence. There is no guarantee that an extension will be achieved since the Company has been operating the pilot production licence since 2011 with multiple licence extensions obtained since then and has not yet moved to a commercial production licence. Subject to funding which is uncertain, these works would include the drilling of two new deep wells AKD12 and AKD13. Prior to this the Company plans to re-analyse the available data from previously drilled wells and to retest the adjacent AKD03 well.

Where possible, in parallel with these works, steps will be undertaken to apply for a full commercial production licence which would enable a percentage of oil to be exported and higher prices to be realised than on the internal market where the Company is currently required to sell all oil produced under its pilot production licence. The Company has been evaluating the options for a gas utilisation facility, for associated gas, which is one of the requirements for commercial production.

The horizontal drilling of AKD05 and other possible enhancement projects would follow, only once there is greater certainty if a commercial licence can be obtained and higher sales prices achieved to make it economically viable.

Operational Review - continued

Joint Venture – Aral Oil Terminal (“AOT”)

The Company has a 50% interest in the AOT which was previously used to tranship oil produced by the Company after it was trucked to the AOT by the buyer. Oil sold in 2017 has not been transhipped via the AOT and the Company is considering its options with regard to disposing of its interest in the terminal.

Gas production – Kyzylloi and Akkulka Contracts

	2018				2017			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzylloi								
Q1	13,512	477,103	150	884	17,370	613,325	193	1,136
Q2	17,057	602,295	187	1,103	19,327	682,427	212	1,250
Total	30,569	1,079,398	169	994	36,697	1,295,752	203	1,193
Akkulka								
Q1	15,317	540,827	170	1,001	14,651	517,319	163	958
Q2	14,200	501,397	156	918	13,199	466,067	145	854
Total	29,517	1,042,224	163	960	27,850	983,386	154	906
Grand total	60,086	2,121,622	332	1,954	64,547	2,279,138	357	2,099

Gas operations update

Production commenced from the Kyzylloi field in 2007, following the construction of a 56 km, 325mm outside diameter export pipeline from the Kyzylloi 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 Intergas Central Asia JSC (“ICA”), a division of the Kazakh State natural gas company KazTransGas JSC (“KTG”);

Production commenced from the Akkulka field on October 6, 2010.

Gas production decreased by 7% or 25 Mcm per day in H1 2018 compared with H1 2017 reflecting the natural decline in production from existing wells offset by the increase in production from the new wells which came on line in January 2018.

During the period, the Company produced dry gas from a total of 16 wells at a depth of approximately 480-600m below surface, comprising ten producing wells in the Kyzylloi field and six in the Akkulka field with combined current average production for Q2 2018 being 343 Mcm/d (Q2 2017 : 357 Mcm/d) and for H1 2018 being 332 Mcm/d (H1 2017 : 357 Mcm/d).

The completed Bozoi-Shymkent-China gas pipeline means that Tethys now has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara-Urals trunk line that transports gas from Central Asia into Russia. Export to China, if this can be achieved, would allow the Company to realise a higher net sales price. The Company believes that the long-term price for gas will rise in the region, in particular dry gas exported via pipeline from Central Asia and that Chinese demand will increase over the medium to long term, especially with the substitution in China of a greater percentage of energy use from gas instead of coal .

On January 11, 2018 the Company announced that it had completed drilling seven new shallow gas wells out of the previously announced eight well program. Due to weather conditions, the eighth well is expected to be drilled in the spring of 2018. All seven wells were tested successfully for gas at a depth of between 470 and 550 meters. In addition to the new wells drilled, one existing well has been successfully worked over.

Operational Review - continued

By January 1, 2018 five wells, comprising one existing well and four new wells, had been tied in to the Company's existing pipelines and added to production. The other new wells, which are further from the Company's existing pipelines, are expected to be tied in during 2018, subject to funding.

Three of the new wells will be on production for three months after which production is required to cease whilst the mandatory reserves evaluation and reporting process is carried out.

There is also a need for repairs and parts replacement at the compressor station to increase capacity which the Company plans to do during 2018, subject funding. Until these works are carried out the overall production increase from the new wells will be limited by existing compression capacity.

Given the need to cease production from certain wells whilst reserves evaluation and reporting takes place and the need for compressor repair and replacement works, it is anticipated that optimum production levels from all the new wells would not be achieved until around the end of 2018.

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 in place and the Company is seeking a partner to fund the cost of the well on a production sharing or joint venture basis. 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.

In May 2017 the Company received a positive decision from the Ministry of Energy to extend the license (appraisal period) for the next two years up to November 11, 2019. This extension of appraisal period for two years includes an obligation to drill and test KBD-02 (Klymene) and test KBD-01 (Kalypso). On November 6, 2017 Addition #9 to the contract was signed which includes the work program for 2018 and 2019 and is the final stage in the extension of the contract. The Company is dependent on better pricing for its oil & gas sales and outside funding in order to meet all its obligations under the contracts.

Results of Operations and Operational Review - Tajikistan

On December 30, 2017 the Company announced that its subsidiary, Kulob Petroleum Limited ("Kulob"), had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract ("Participating Interest") and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total E&P Tajikistan B.V. ("Total") and CNPC Central Asia B.V. ("CNPC") pertaining to oil and gas exploration and production rights in Tajikistan.

The Arbitral Tribunal of the International Court of Arbitration of the International Chamber of Commerce (the "ICC") has declared and/or ordered that:

- Kulob breached its obligations under the JOA by not paying its share of cash calls since August 2015;
- Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them at no cost and Kulob should do so; and

Operational Review - continued

- Kulob should pay Total and CNPC an amount of damages equivalent to the unpaid cash calls plus costs and interest which in the aggregate amounts to approximately USD13.7 million.

The Company does not expect the decisions of the ICC to have a significant effect on the results, cash flows or financial position of the Company since Tethys Petroleum Limited was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob.

The value of Kulob's Participating Interest was fully written down in the Company's Consolidated Financial Statements for the 2016 financial year and the amount awarded by the ICC was fully provided for in the Company's Consolidated Financial Statements for 2017. Since Kulob is unable to pay the damages claim awarded by the ICC and, in the event that the Company elects not to do so, the Company expects to deconsolidate Kulob and/or recognise an accounting gain for the amount provided for that is no longer payable by the Tethys group.

Results of Operations and Operational Review - Georgia

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys' indebtedness of approximately USD1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

Financial Review

Summary of Quarterly Results

	Q2, 2018	Q1, 2018	Q4, 2017	Q3, 2017	Q2, 2017	Q1, 2017	Q4, 2016	Q3, 2016
Oil & gas sales and other revenues	2,017	1,916	2,070	2,593	2,855	480	1,631	3,119
Loss for the period	(1,894)	(4,333)	(34,320)	(2,879)	(3,905)	(4,390)	(32,203)	(4,036)
Basic & diluted loss (\$) per share	-	(0.01)	(0.06)	(0.01)	(0.01)	(0.01)	(0.08)	(0.01)
Adjusted EBITDA ¹	529	(382)	(3,157)	1,727	(186)	(1,425)	(1,093)	(838)
Capital expenditure		797	3,705	465	109	999	354	318
Total assets	113,622	115,679	117,929	149,076	153,901	156,298	159,904	187,323
Cash & cash equivalents	467	29	77	186	817	69	449	1,800
Short & long term borrowings	(32,103)	(33,829)	(32,255)	(32,520)	(33,739)	(33,460)	(33,249)	(34,167)
Total non-current liabilities	(14,359)	(14,784)	(15,072)	(18,051)	(18,929)	(19,053)	(12,867)	(12,908)
Net debt ¹	(31,636)	(33,800)	(32,178)	(32,334)	(32,922)	(33,391)	(32,800)	(32,367)
Number of common shares outstanding	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	400,004,848

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 19 for details.

Loss for the period

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Sales and other revenue	2,017	2,855	(29%)	3,933	3,335	18%
Production expenses	(1,135)	(1,513)	(25%)	(2,180)	(2,108)	3%
Depreciation, depletion & amortization	(1,454)	(2,503)	(42%)	(4,169)	(5,070)	(18%)
Administrative expenses	(912)	(1,392)	(34%)	(1,899)	(2,566)	(26%)
Restructuring costs	-	17	(100%)	-	(101)	(100%)
Share based payments	(16)	(51)	(69%)	(33)	(107)	(69%)
Foreign exchange gain/(loss)	559	(153)	(465%)	293	(171)	(271%)
Finance costs	(1,378)	(977)	(41%)	(2,991)	(2,080)	44%
	(4,336)	(6,572)	(34%)	(10,979)	(12,203)	(10%)
Loss before taxation from continuing operations	(2,319)	(3,717)	(38%)	(7,046)	(8,868)	(21%)
Taxation	425	(188)	(326%)	816	573	42%
Loss for the period	(1,894)	(3,905)	(51%)	(6,230)	(8,295)	(25%)

The Company recorded a net loss after taxation of USD1.9m for the current quarter compared with USD4.9m in Q2 2017 and USD6.2m for the six months ended June 30, 2018 (2017: USD8.3m), the principal variances being:

- Lower revenue in the quarter due to gas sales revenue in Q2 2017 including sales of production from mid-December 2016 through to May 2017 and higher revenue in the first six months due to higher oil production following installation of an ESP in May 2017 combined with a higher sales price;

Financial Review

- Lower administrative expenses 2018 from further cost cutting;
- Lower depreciation, depletion and amortization charges following the reclassification of the Company's drilling rigs to assets held for sale;
- Higher finance costs from interest on overdue borrowings being accrued for at default interest rates.

Further variances between the two periods are summarized below together with a discussion of significant variances between the two periods.

Sales & other revenue

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
<i>Summary</i>						
Oil	680	332	105%	1,335	809	65%
Gas	1,335	2,510	(47%)	2,587	2,510	3%
Other	2	13	(85%)	11	16	(31%)
Total	2,017	2,855	(29%)	3,933	3,335	18%
<i>By region</i>						
Kazakhstan - Oil	680	332	105%	1,335	809	65%
Kazakhstan - Gas	1,335	2,510	(47%)	2,587	2,510	3%
Kazakhstan - Other	2	13	(85%)	11	16	(31%)
Total	2,017	2,855	(29%)	3,933	3,335	18%

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue \$000	Realised price at wellhead \$/bbl	VAT \$000	Net sales \$000	Net price \$/bbl
2018						
Q1	74,850	734	9.80	79	655	8.75
Q2	57,389	762	13.28	82	680	11.85
Total	132,239	1,496	11.31	161	1,335	10.09
2017						
Q1	61,575	534	8.67	57	477	7.75
Q2	41,970	373	8.89	41	332	7.91
Total	103,545	907	8.76	98	809	7.81

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market and is priced in local currency, the Tenge;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs;
- Current quarter revenue was higher due a higher realised price of USD11.85/bbl (Q2 2017: USD7.91/bbl) and higher production sold after the ESP was installed in the AKD01 well in May 2017, although production has reduced significantly since that time.

Financial Review

Kazakhstan - Gas revenue and price

- There were no gas sales in Q1 2017 due to the placing of production in storage whilst seeking to attain better pricing. Gas production continued throughout the quarter and was sold in May 2017 at a fixed Tenge price of KZT 16,000 per 1,000 cubic metres, including 12% VAT. All gas sales since May 2017 have been at the same price (USD43.36 excl. VAT at an average Q2 2018 exchange rate of 329.5 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 21 – “Sensitivities”.

Production expenses

	Units	Quarter ended June 30			Six months ended June 30		
		2018	2017	Change	2018	2017	Change
Kazakhstan							
Oil production	USD000's	653	434	50%	1,374	1,015	35%
Gas production	USD000's	471	601	(22%)	795	1,065	(25%)
Gas costs from Q1 recognised Q2	USD000's	-	464	(100%)	-	-	-
Other	USD000's	11	14	(21%)	11	28	(61%)
Total	USD000's	1,135	1,513	(25%)	2,180	2,108	3%
Oil							
Net production	bbls	55,831	68,469	(18%)	135,048	129,887	4%
Cost	USD/bbl	11.70	6.34	85%	10.17	7.81	29%
Gas							
Production	boe	183,960	191,428	(4%)	353,626	379,880	(7%)
Cost	USD/boe	2.56	3.14	(18%)	2.25	2.80	(20%)
Weighted average cost per boe	USD/boe	4.73	3.98	19%	4.44	4.08	9%

Kazakhstan – oil production

A significant proportion of costs associated with oil production are fixed, so costs are not generally expected to reduce in the same proportion as a decline in production. Oil production costs increased in the quarter and in the first six months partly due to increased diesel costs to run the ESP.

Kazakhstan – gas production

Gas production costs decreased in the current quarter by 22% partly as a result of lower production volume which reduced by 4% and cost reduction initiatives, and costs per boe decreased quarter-on-quarter by 18% due to an element of fixed costs. Gas production, generally more so than the oil, has a significant fixed cost element which includes compressor supplies denominated in US dollars and consequently, as production declines, the production cost per Mcm (or boe) generally increases.

Depreciation, depletion and amortization (“DD&A”)

DD&A for the quarter was USD1.5 million (2016: USD2.5 million) and for H1 2018 was USD4.2 million (2017: USD5.1 million) mainly relating to the Kazakh production assets but also on oil and gas equipment in 2017. The decrease in DD&A expense mainly reflects lower depreciation of drilling rigs which are classified as held for sale.

Financial Review

Administrative expenses

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Staff	629	684	(8%)	1,236	1,218	1%
Travel	3	92	(97%)	24	158	(85%)
Office	85	51	67%	125	120	4%
Professional fees	102	326	(69%)	308	611	(50%)
Regulatory	6	46	(87%)	19	144	(87%)
Marketing costs	46	66	(30%)	91	116	(22%)
Non-executive director fees	52	55	(5%)	114	100	14%
Other costs	(11)	72	(115%)	(18)	99	(118%)
Total	912	1,392	(34%)	1,899	2,566	(26%)
G&A expenses per boe (USD)	3.80	5.36	(29%)	3.89	5.03	(23%)

- Staff costs increased marginally in the first six months as a result of accrued costs in respect of the former CEO who left the Company in March. Staff costs for the quarter were lower due closure of the Company's main administrative office in Almaty in June 2017 and reductions in Head Office staff in May 2018;
- Reductions in travel expenses reflect management's focus to reduce costs in this area, less international travel and a lower travel requirement following relocation of the Company's main administrative office from Almaty to Aktobe in June 2017;
- Office costs were at a similar level for the six months but were higher for the quarter due to timing of recognition of costs between Q1 and Q2 2018;
- Professional and regulatory fees reduced mainly due to lower legal fees with a number of legal cases having been concluded or in abeyance;
- Marketing costs which include mandatory corporate social responsibility obligations in Kazakhstan and also investor relations costs were lower in the quarter and first six months due to lower activity levels;
- Non-executive director fees were higher for the six months due to the adjustment of accrual levels and foreign exchange variations since fees were agreed for historical reasons in GBP. The number of directors was four in both periods and fee levels have not changed. In addition, one of the directors was appointed part way through Q1 2017;
- Other costs, which include bank charges, vehicles costs and insurance are lower in the current quarter due to lower activity levels and cost reduction initiatives and release of accruals no longer required.

Restructuring costs

There were no restructuring costs in the current period. Costs associated with the restructuring programme undertaken in 2015-2017 were shown separately from administrative expenses. These include legal and financial advisory fees and office closures costs as well as staff terminations costs.

Share based payments

Share based payments were lower in the current quarter as no option awards have been made since March 2016.

Financial Review

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. These have mainly arisen in Kazakhstan and from the revaluation of the GBP denominated rig loans.

Finance costs - net

Finance costs comprise interest expense net of interest income and are significantly higher in the current quarter due default interest rates being accrued on several overdue loans.

Taxation

The deferred tax credit was higher in the current quarter and first six months mainly due to property, plant & equipment timing differences for accounting and tax purposes.

Liquidity and Capital Resources

The Company reported a loss of USD6.2 million for the six months ended June 30, 2018 (year ended December 31, 2017: USD45.5 million) and an accumulated deficit as at that date of USD363.6 million (December 31, 2017: USD357.4 million) and negative working capital of USD50.9 million (December 31, 2017: negative USD47.2 million). In addition, the Company reported flow from operating activities before tax of USD0.6 million for the six months ended June 30, 2018 (year ended December 31, 2017: positive USD1.3 million).

The Company also has various commitments and contingencies as described in note 25 of the 2017 consolidated financial statements. These include work program commitments for its oil & gas licenses which have not met been fully met potentially putting those licenses at risk of being revoked.

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas;
- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells;
- Drill two new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out partnership;
- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation.

Three of the Company's loans falling due in 2017 were restructured during 2017, the Company plans to negotiate restructurings with certain other lenders and other loans are subject to legal proceedings. Some of these loans as well as other creditors are now past due and there is a risk that lenders or other creditors could take recovery action potentially affecting the Company's ability to continue to operate. Further details of loans are provided in note 18 of the 2017 consolidated financial statements.

The Company is currently the subject of a Cease Trade Order ("CTO") issued by the Alberta Securities Commission on June 29, 2018 due to the late filing of its consolidated financial statements and related filings for the year ended December 31, 2017 as well as its late filings for these condensed consolidated

Financial Review

interim financial statements and related documents. This prevents the trading in and purchasing of the Company's ordinary shares in Canada while the order remains in effect.

On July 18, 2018 the Company announced it had entered into share acquisition agreements to raise approximately USD1.2m from the sale of shares and warrants which if exercised would provide the Company with further funds of USD1.4m. The CTO does not apply to this transaction and the Company has received conditional approval for the transaction from the NEX Board of the Toronto Venture Exchange. Some of these proceeds are expected to be used to upgrade gas production facilities to increase production and cash flow from the newly tied in wells announced by the Company on January 11, 2018.

Tethys' future operations and earnings will depend upon the success of these efforts and the results of its operations in the Republic of Kazakhstan and Georgia.

Net debt

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 Consolidated Financial Statements.

	As at June 30		
	2018	2017	Change
Total financial liabilities - borrowings	32,103	33,739	(5%)
Less: cash and cash equivalents	(467)	(817)	(43%)
Net debt	31,636	32,922	(4%)
Total equity	41,745	85,040	(51%)
Total capital	73,381	117,962	(38%)

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

Financing and Going Concern

Details of the Company's financing and going concern assessment are provided in note 1 of the condensed consolidated interim financial statements.

Financial Review

Cash Flow

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Net cash from operating activities	529	2,042	(74%)	588	694	(15%)
Proceeds from assets held for sale	3,498	-	-	3,498	-	-
Capital expenditure	(365)	(109)	235%	(1,162)	(1,108)	5%
Net changes in working capital	(139)	(214)	(35%)	402	(228)	(276%)
Other investing cash flows	266	(221)	(202%)	174	2,746	(94%)
Net cash from/(used in) investing activities	3,260	(544)	(699%)	2,912	1,410	107%
Loan principal and interest payments	(3,148)	(636)	395%	(3,148)	(1,498)	110%
Other financing cash flows	-	-	-	-	(21)	(100%)
Net cash used in financing activities	(3,148)	(636)	395%	(3,148)	(1,519)	(233%)
Effect of exchange rates	(203)	(114)	78%	38	(217)	118%
Net increase in cash	438	748	(41%)	390	368	6%
Cash & cash equivalents at beginning of period	29	69	(58%)	77	449	(83%)
Cash & cash equivalents at end of period	467	817	(43%)	467	817	(43%)

Operating activities

The decrease in net cash from operating activities in the current quarter is primarily due to timing of oil & gas receipts and of payments to employees and suppliers. For the first six months cash from operations at USD0.6m was at a similar level to H1 2017.

Investing activities

The company begun marketing its two drilling rigs in 2017 and reclassified these to assets held for sale. Sale contracts were signed in February 2018 and USD3.5m which represents the majority of proceeds were received in the current quarter. Capital expenditure mainly comprises advances to construction contractors for pipes to tie-in gas wells. Exploration costs on the Georgian asset were also incurred but not paid during the six month period resulting in the positive working capital movement from investing activities.

Financing activities

Loan principal and interest payments represent the repayment in full of all amounts owed under the rig loan in May 2018 following receipt of proceeds from the sale of the two drilling rigs.

Financial Review

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 June 30, 2018 condensed consolidated interim financial statements. Refer to note 4 of the 2017 consolidated financial statements for 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

Adjusted EBITDA

Adjusted EBITDA 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 Adjusted EBITDA to Loss for the Period is as follows:

	Quarter ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Adjusted EBITDA	529	(186)	(384%)	147	(1,611)	(109%)
Depreciation, depletion and amortization	(1,454)	(2,503)	(42%)	(4,169)	(5,070)	(18%)
Share based payments	(16)	(51)	(69%)	(33)	(107)	(69%)
Finance costs - net	(1,378)	(977)	41%	(2,991)	(2,080)	44%
Loss before taxation	(2,319)	(3,717)	(38%)	(7,046)	(8,868)	(21%)

Net debt / (funds)

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

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

Stockholder Equity

As at June 30, 2018 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 508,136,098 (2017: 508,136,098) 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 of the Company.

As at June 30, 2018, a total of 40,374,320 (2015: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at June 30, 2018 is 13,711,875 of which 9,454,583 were exercisable. The number of warrants outstanding is 192,300,000, of which all were exercisable. Loan facilities are in place which are convertible into a total of 186,316,064 ordinary shares, excluding accrued interest.

Financial Review

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

Disclosure of the Company's transactions with related parties are provided in note 12 of the condensed consolidated interim financial statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments, work programme commitments and operating leases are provided in note 25 of the 2017 consolidated financial statements.

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

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Borrowings	32,103	26,432	5,671	-	-
Operating leases	15	15	-	-	-
Kazakhstan work programme commitments	20,032	19,232	800	-	-
Trade and other payables	30,504	30,504	-	-	-
Total contractual obligations	82,654	76,183	6,471	-	-

Risks, uncertainties and other information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2017 AIF 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 Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as well as the Board of Directors. The Company has identified its principal risks for 2018 to include:

- (1) Liquidity and going concern;
- (2) Retention and extension of existing licences;
- (3) Production volumes and pricing – both oil and gas; and
- (4) Political, fiscal, litigation and related risks.

Financial Risk Management

The Company’s activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate, commodity price and foreign exchange risk. Details of the Company’s exposure to these risks and how this is managed is given in note 3 to the consolidated financial statements for the year ended December 31, 2017. 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.

Sensitivities

The price of gas sales from gas produced from both the Kyzylai and Akkulka gas fields under gas sales contracts denominated in Tenge and is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from KZT323 to the USD to KZT388 for example, would result in a net price reduction of USD8.30 per Mcm. Based on a sales volume of 120,000 Mcm per annum, this would result in a reduction of USD1.0 million in gas sales receipts.

The price of oil sales is sensitive to movements in the market price. On a production level of 500 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD0.2 million per annum.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2017 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details..

Risks, uncertainties and other information - continued

Derivative Financial Instruments

The Company has not recognised any derivative financial instruments.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing a system of internal controls over financial reporting (“ICFR”), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards.

During the review of the design and effectiveness of the Company’s control system over financial reporting it was noted that due to reductions in the number of staff at the Company’s Corporate Head Office after the financial period end, there is a material weakness in the design and operating effectiveness in the system of internal controls due to the Company’s inability to achieve appropriate segregation of duties. The limited number of staff may also result in weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources. Based on this evaluation, management concluded that the Company’s ICFR has not been effective throughout the period December 31, 2017 to the date of this MD&A.

While management of the Company has put in place certain procedures, including management and Audit Committee oversight and review, to mitigate the risk of a material misstatement in the Company’s financial reporting, there is no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. Management is of the opinion that none of these control deficiencies has resulted in a material misstatement in the Company’s interim and annual financial statements. The Company is investigating ways in which this material weakness might be remediated without the need to hire additional staff in the Corporate Head Office finance function, for example by utilising resources elsewhere in the Tethys group. The effectiveness of this action will then be assessed to determine whether it is adequate to remediate the material weakness.

Furthermore, the Chief Executive Officer and the Chief Financial Officer of the Company are also responsible for ensuring the Company has appropriate disclosure controls and procedures (“DCP”). Given the weakness in ICFR noted above, coupled with the fact the Company has not filed the Annual or Interim Filings within the required timeline leading to the Cease Trade Order (See Cease Trade Order section), management has concluded that there is a material weakness in the Company’s DCP.

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 ended June 30, 2018.

Significant equity investees

Details of significant equity investees are discussed in note 23 of consolidated financial statements for the year ended December 31, 2017.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of the Company's and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks, uncertainties and assumptions include, among other things: the significant uncertainty over the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; risks of exploration and production licenses, contracts and permits being cancelled due to non-fulfilment of contractual commitments or not being renewed when they expire; the Company will not be successful in negotiating binding terms for the export of oil and gas at prices significantly higher than prices currently realised; volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed debt or equity financings or restructuring; product supply and demand; market competition; ability to realise current market oil and gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; the proposed increase in the selling price for the delivery of gas to China; future prices for oil and natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes,

Forward-looking statements

royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Glossary

AIF	Annual Information Form
AKD	Akkulka Deep
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNPC	CNPC Central Asia B.V.
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
GOG	Georgia Oil and Gas Limited
IFRS	International Financial Reporting Standards
ICA	Intergas Central Asia JSC
ICC	International Court of Arbitration of the International Chamber of Commerce
JOA	Joint Operating Agreement and Shareholders' Agreement
KASE	Kazakhstan Stock Exchange
KTG	KazTransGas
Kulob	Kulob Petroleum Limited
KZT	Kazakhstani Tenge
m³	Cubic metre
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Mcm	Thousand cubic metres
Mcm/d	Thousand cubic metres per day
MD&A	Management's Discussion & Analysis
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
Q1	Three month period commencing January 1 and ending 31 March
Q2	Three month period commencing April 1 and ending 30 June
Q3	Three month period commencing July 1 and ending 30 September
Q4	Three month period commencing October 1 and ending 31 December
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
USD	United States Dollar
TOTAL	Total E&P Tajikistan B.V.
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
USD/bbl	USD per barrel
USD/Mcm	USD per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
June 30, 2018

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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Responsibility Statement of the Directors in Respect of the Condensed Consolidated Interim Financial Statements

We confirm on behalf of the Board that to the best of our knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended June 30, 2018.

For and on behalf of the Board

W. Wells

Chairman

5 September, 2018

A. Ogunsemi

Director

5 September, 2018

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at	
		June 30, 2018	December 31, 2017
Non-current assets			
Intangible assets		33,619	33,318
Property, plant and equipment		70,768	74,090
Restricted cash		3	5
Trade and other receivables		2,562	2,734
Deferred tax		75	75
		107,027	110,222
Current assets			
Cash and cash equivalents		467	77
Trade and other receivables		2,067	3,530
Assets held for sale		3,473	3,473
Inventories		587	626
Restricted cash		1	1
		6,595	7,707
Total assets		113,622	117,929
Non-current liabilities			
Financial liabilities - borrowings		5,671	5,587
Deferred tax		7,672	8,505
Provisions		1,016	980
		14,359	15,072
Current liabilities			
Financial liabilities - borrowings		26,432	26,668
Current taxation		582	582
Trade and other payables		30,504	27,665
		57,518	54,915
Total liabilities		71,877	69,987
Equity			
Share capital		5,081	5,081
Share premium		358,444	358,444
Other reserves		43,889	43,856
Accumulated deficit		(363,587)	(357,357)
Non-controlling interest		(2,082)	(2,082)
Total equity		41,745	47,942
Total equity and liabilities		113,622	117,929
Going concern	1		

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on 5 September, 2018 and were signed on its behalf.

W. Wells
Chairman
5 September, 2018

A. Ogunsemi
Director
5 September, 2018

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (unaudited)
(in thousands of US dollars except per share information)

	Note	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
Sales and other revenues	3	2,017	2,855	3,933	3,335
Production expenses		(1,135)	(1,513)	(2,180)	(2,108)
Depreciation, depletion and amortisation		(1,454)	(2,503)	(4,169)	(5,070)
Administrative expenses		(912)	(1,392)	(1,899)	(2,566)
Restructuring costs		-	17	-	(101)
Share based payments		(16)	(51)	(33)	(107)
Foreign exchange gain/(loss)		559	(153)	293	(171)
Finance costs		(1,378)	(977)	(2,991)	(2,080)
		(4,336)	(6,572)	(10,979)	(12,203)
Loss before tax from continuing operations		(2,319)	(3,717)	(7,046)	(8,868)
Taxation		425	(188)	816	573
Loss from continuing operations and total comprehensive income		(1,894)	(3,905)	(6,230)	(8,295)
Loss and total comprehensive income attributable to:					
Shareholders		(1,894)	(3,905)	(6,230)	(8,295)
Non-controlling interest		-	-	-	-
Loss and total comprehensive income		(1,894)	(3,905)	(6,230)	(8,295)
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations (USD)	4	-	(0.01)	(0.01)	(0.02)

No dividends were paid or are declared for the period (2017: none).

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Attributable to shareholders					Non-controlling interest	Total equity
	Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
At January 1, 2017	5,081	358,444	(312,046)	27,047	16,601	(1,899)	93,228
Comprehensive loss for the period	-	-	(8,295)	-	-	-	(8,295)
Transactions with shareholders							
Share-based payments	-	-	-	107	-	-	107
Total transactions with shareholders	-	-	-	107	-	-	107
At June 30, 2017	5,081	358,444	(320,341)	27,154	16,601	(1,899)	85,040
At January 1, 2018	5,081	358,444	(357,357)	27,255	16,601	(2,082)	47,942
Comprehensive loss for the period	-	-	(6,230)	-	-	-	(6,230)
Transactions with shareholders							
Share-based payments	-	-	-	33	-	-	33
Total transactions with shareholders	-	-	-	-	-	-	-
At June 30, 2017	5,081	358,444	(363,587)	27,288	16,601	(2,082)	41,745

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

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash flow from operating activities				
Loss before tax from continuing operations	(2,319)	(3,717)	(7,046)	(8,868)
Adjustments for:				
Share based payments	16	51	33	107
Net finance cost	1,378	977	2,991	2,080
Depreciation, depletion and amortisation	1,454	2,503	4,169	5,070
Net unrealised foreign exchange gain	(45)	51	-	67
Movement in provisions	-	(155)	-	(275)
Net change in working capital	45	2,342	441	2,531
Cash generated from operating activities	529	2,052	588	712
Corporation tax paid	-	(10)	-	(18)
Net cash generated from operating activities	529	2,042	588	694
Cash flow from investing activities:				
Proceeds from assets held for sale	3,498	-	3,498	-
Expenditure on exploration and evaluation assets	(13)	(51)	(301)	(104)
Expenditure on property, plant and equipment	(352)	(58)	(861)	(1,004)
Movement in restricted cash	1	108	2	2,788
Movement in advances to construction contractors	3	14	2	-
Movement in value added tax receivable	262	(343)	170	(42)
Net change in working capital	(139)	(214)	402	(228)
Net cash from/(used in) investing activities	3,260	(544)	2,912	1,410
Cash flow from financing activities:				
Repayment of borrowings	(2,864)	(502)	(2,864)	(744)
Interest paid on borrowings	(284)	(134)	(284)	(754)
Movement in other non-current liabilities	-	-	-	(21)
Net cash used in financing activities	(3,148)	(636)	(3,148)	(1,519)
Effects of exchange rate changes on cash and cash equivalents	(203)	(114)	38	(217)
Net increase in cash and cash equivalents	438	748	390	368
Cash and cash equivalents at beginning of the period	29	69	77	449
Cash and cash equivalents at end of the period	467	817	467	817

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company had its primary listing on the Toronto Stock Exchange ("TSX") until March 23, 2018 when it transferred to NEX, a subsidiary of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the three months ended June 30, 2018. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise 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.

The Company reported a loss of USD6.2 million for the six months ended June 30, 2018 (year ended December 31, 2017: USD45.5 million) and an accumulated deficit as at that date of USD363.6 million (December 31, 2017: USD357.4 million) and negative working capital of USD50.9 million (December 31, 2017: negative USD47.2 million). In addition, the Company reported cash flow from operating activities before tax of USD0.6 million for the six months ended June 30, 2018 (year ended December 31, 2017: positive USD1.3 million).

The Company also has various commitments and contingencies as described in note 25 of the 2017 consolidated financial statements. These include work program commitments for its oil & gas licenses which have not met been fully met potentially putting those licenses at risk of being revoked.

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas;
- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells;
- Drill two new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out arrangement;

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation.

Three of the Company's loans falling due in 2017 were restructured during 2017, the Company plans to negotiate restructurings with certain other lenders and other loans are subject to legal proceedings. Some of these loans as well as other creditors are now past due and there is a risk that lenders or other creditors could take recovery action potentially affecting the Company's ability to continue to operate. Further details of loans are provided in note 18 of the 2017 consolidated financial statements.

The Company is currently the subject of a Cease Trade Order ("CTO") issued by the Alberta Securities Commission on June 29, 2018 due to the late filing of its consolidated financial statements and related filings for the year ended December 31, 2017 as well as its late filings for these condensed consolidated interim financial statements and related documents. This prevents the trading in and purchasing of the Company's ordinary shares in Canada while the order remains in effect.

On July 18, 2018 the Company announced it had entered into share acquisition agreements to raise approximately USD1.2m from the sale of shares and warrants which if exercised would provide the Company with further funds of USD1.4m. The CTO does not apply to this transaction and the Company has received conditional approval for the transaction from the NEX Board of the Toronto Venture Exchange. Some of these proceeds are expected to be used to upgrade gas production facilities to increase production and cash flow from the newly tied in wells announced by the Company on January 11, 2018.

Tethys' future operations and earnings will depend upon the success of these efforts and the results of its operations in the Republic of Kazakhstan 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.

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

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

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.

2 Basis of preparation and accounting policies

The condensed consolidated interim financial statements of the Company are prepared on a going concern basis under the historical cost convention except as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss and are in accordance with International Financial Reporting Standards (“IFRSs”) issued by the IASB and IFRIC interpretations issued by the IFRS Interpretations Committee and effective or issued and early adopted as at the time of preparing these condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2017.

The condensed consolidated interim financial statements are presented in United States Dollars (“USD”).

New accounting policies

There were no new and revised standards adopted by the Company during the six months ended June 30, 2018 that had an impact on the condensed consolidated interim financial statements.

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

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

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

3 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia.

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Georgia, the Company is currently undertaking exploration and evaluation activity. The Company previously undertook exploration activity in Tajikistan, however, on December 30, 2017 an arbitration tribunal ruled it should assign its interest to its partners due to its contractual defaults.

The Company also operates a corporate segment which has provided loan funding for development activities in Kazakhstan.

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

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	2,587	-	-	-	2,587
Oil sales	1,335	-	-	-	1,335
Other income	11	-	-	-	11
Other operating income	-	-	-	54	54
Segment revenue and other income	3,933	-	-	54	3,987
Inter-segment revenue	-	-	-	(54)	(54)
Segment revenue and other income from external customers	3,933	-	-	-	3,933
Loss before taxation	(3,178)	-	-	(3,868)	(7,046)
Taxation	829	-	-	(13)	816
Loss for the period	(2,349)	-	-	(3,881)	(6,230)
Total assets ¹	102,598	8	4,088	111,037	113,622
Total liabilities ¹	127,903	13,884	-	34,199	71,877
Cash expenditure on exploration & evaluation assets, property, plant and equipment	-	-	-	-	-
Depreciation, depletion & amortization	4,139	-	-	30	4,169

Note 1 – Total is after elimination of inter-segment items of USD104,109,000.

No borrowing costs were capitalised during the period.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

The following is an analysis of the Company's revenue, results and assets by reportable segment for the six months ended June 30, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	2,510	-	-	-	2,510
Oil sales	809	-	-	-	809
Other income	16	-	-	-	16
Other operating income	-	-	-	54	54
Segment revenue and other income	3,335	-	-	54	3,389
Inter-segment revenue	-	-	-	(54)	(54)
Segment revenue and other income from external customers	3,335	-	-	-	3,335
Loss before taxation	(4,091)	(24)	-	(4,753)	(8,868)
Taxation	609	-	-	(36)	573
Loss for the period	(3,482)	(24)	-	(4,789)	(8,295)
Total assets ¹	128,407	8	13,330	116,238	153,901
Total liabilities ¹	128,749	12,683	-	31,511	68,861
Cash expenditure on exploration & evaluation assets, property, plant and equipment	97	-	99	912	1,108
Depreciation, depletion & amortisation	3,792	-	-	1,278	5,070

Note 1 – Total is after elimination of inter-segment items of USD104,082,000.

No borrowing costs were capitalised during the period.

4 Loss per share

Continuing operations	Units	Three months ended June 30		Six months ended June 30	
		2018	2017	2018	2017
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(1,894)	(3,905)	(6,230)	(8,295)
Weighted average shares	000s	508,136	508,136	508,136	508,136
Per share amount	\$	-	(0.01)	(0.01)	(0.02)

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share.

5 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There are no other related party transactions requiring disclosure.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

6 Subsequent events

Agreements to Acquire Shares in the Company

On July 18, 2018 the Company announced that it had signed binding agreements for new investors to purchase 63,517,017 ordinary shares in the Company for total proceeds of USD1.2 million and warrants to acquire up to a further 63,517,017 ordinary shares for total proceeds of up to USD1.4 million. The transactions are subject to approval by the NEX Board of the TSX Venture Exchange which has been received and other regulatory approvals which may be required.

The Company also reported that the proposals to acquire shares in the Company announced on January 23, 2018 would no longer be proceeding.

Oil & Gas License Extensions

Also on July 18, 2018 the Company announced extensions of two of its Oil & Gas licenses in Kazakhstan.

Contract No. 3496 for gas production in the Akkulka Field has been extended for a further eight years until December 23, 2026 and the related work program for the period 2019-2026 has been approved.

In addition, Contract No. 265 for appraisal of the Akkulka Oil & Gas Area has received Ministry of Energy approval for a three year extension of the exploration period until March 10, 2022, provided the Company meets certain conditions. The Company currently produces oil in this contract area under a pilot production license.