

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2019

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.

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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 March 31, 2019.

For and on behalf of the Board

W. Wells
Chairman
May 30, 2019

A. Ogunsemi
Director
May 30, 2019

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at March 31, 2019	December 31, 2018
Non-current assets			
Intangible assets		29,271	29,423
Property, plant and equipment		70,386	71,183
Restricted cash		3	3
Trade and other receivables		1,439	1,423
		101,099	102,032
Current assets			
Cash and cash equivalents		2,379	3,460
Trade and other receivables		6,819	2,932
Inventories		520	307
Restricted cash		-	1
		9,718	6,700
Total assets		110,817	108,732
Non-current liabilities			
Financial liabilities - borrowings		-	5,281
Deferred tax		7,950	8,214
Provisions		1,500	1,402
		9,450	14,897
Current liabilities			
Financial liabilities - borrowings		35,341	28,604
Current taxation		604	604
Trade and other payables		8,422	8,370
		44,367	37,578
Total liabilities		53,817	52,475
Equity			
Share capital		6,832	6,832
Share premium		360,769	360,769
Other reserves		45,556	45,556
Accumulated deficit		(356,157)	(356,900)
Total equity		57,000	56,257
Total equity and liabilities		110,817	108,732
Going concern	1		

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on May 30, 2019 and were signed on its behalf.

W. Wells

Chairman

May 30, 2019

A. Ogunsemi

Director

May 30, 2019

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 March 31	
		2019	2018
Sales and other revenues	3	4,656	1,916
Production expenses		(738)	(1,045)
Depreciation, depletion and amortisation		(1,250)	(2,714)
Administrative expenses		(615)	(987)
Share based payments		-	(16)
Other gains and losses		193	-
Foreign exchange gain		(207)	(266)
Finance costs		(1,560)	(1,612)
		(4,177)	(6,640)
Profit/(loss) before tax from continuing operations		479	(4,724)
Taxation		264	391
Profit/(loss) from continuing operations and total comprehensive income		743	(4,333)
Earnings/(loss) per share:			
Basic and diluted - from continuing operations (\$)	4	0.01	(0.09)

No dividends were paid or are declared for the period (2018: none).

The notes on pages 6 to 9 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	Other reserves		
At January 1, 2018	5,081	358,444	(357,357)	43,856	(2,082)	47,942
Comprehensive loss for the period	-	-	(4,333)	-	-	(4,333)
Transactions with shareholders						-
Share-based payments	-	-	-	17	-	17
Total transactions with shareholders	-	-	-	17	-	17
At March 31, 2018	5,081	358,444	(361,690)	43,873	(2,082)	43,626
At January 1, 2019	6,832	360,769	(356,900)	45,556	-	56,257
Comprehensive income for the period	-	-	743	-	-	743
At March 31, 2019	6,832	360,769	(356,157)	45,556	-	57,000

Other reserves include reserves arising on the issuance of options, warrants and compound instruments and are denoted together as “other reserves” on the consolidated statement of financial position. These reserves are non-distributable.

The notes on pages 6 to 9 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 March 31	
	2019	2018
Cash flow from operating activities		
Loss before tax from continuing operations	479	(4,724)
Adjustments for:		
Share based payments	-	16
Net finance cost	1,560	1,612
Depreciation, depletion and amortisation	1,250	2,714
Other gains and losses	(193)	-
Net unrealised foreign exchange gain	-	45
Net change in working capital	(4,033)	396
Net cash generated from operating activities	(937)	59
Cash flow from investing activities:		
Expenditure on exploration and evaluation assets	(2)	(288)
Expenditure on property, plant and equipment	(453)	(509)
Movement in restricted cash	1	1
Movement in advances to construction contractors	-	3
Movement in value added tax receivable	(6)	(93)
Net change in working capital	(46)	541
Net cash from/(used in) investing activities	(506)	(345)
Effects of exchange rate changes	362	238
Net increase in cash and cash equivalents	(1,081)	(48)
Cash and cash equivalents at beginning of the period	3,460	77
Cash and cash equivalents at end of the period	2,379	29

The notes on pages 6 to 9 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, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the NEX Board 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 March 31, 2019. The Company reported a profit of \$0.7 million for the three months ended March 31, 2019 (2018 full year: \$4.5 million) and an accumulated deficit as at that date of \$356.2 million (December 31, 2018: \$356.9 million) and negative working capital of \$34.6 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported negative cash flow from operating activities of \$0.9 million for the three months ended March 31, 2019 (2018 full year: positive \$1.0 million).

Due to the facts and circumstances described below, there are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and has various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

In order to support the Company's short term liquidity position and improve the Company's financial situation, we will need to:

- Complete the proposed change of control transaction with Jaka Partners FZC;
- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;
- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;

Tethys Petroleum Limited

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

(in thousands of US dollars)

- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and
- Formalise repayment terms for overdue debts to lenders and suppliers.

In September and October 2018, the Company announced it had raised funds of approximately \$4.1m from the issuance of shares to a new investor. Some of these proceeds have been used to upgrade gas compressor facilities and to tie in previously drilled gas wells to increase production and cash flow.

On March 19, 2019 the Company announced that it had signed a definitive agreement with the same investor for the acquisition of control of the Company at a significant premium to the trading price of the Company's shares before the proposed transaction was first announced in December 2018. The Proposed Transaction is subject to a number of approvals, including shareholder approval, which are outside the Company's control although, if completed, it is anticipated that the new investor will provide the Company with the financial support required to continue to operate as a going concern. There is material uncertainty as to whether the definitive agreement will be approved and result in additional funding being made available to the Company. This casts significant doubt on the ability of the Company to continue as 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 reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realise 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, 2018.

The condensed consolidated interim financial statements are presented in United States Dollars ("\$").

Tethys Petroleum Limited

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

New accounting policies

There were no new and revised standards adopted by the Company during the three months ended March 31, 2019 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.

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 two geographical markets: Kazakhstan and Rest of World (or Corporate).

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. The Company also operates a corporate segment which provides 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 three months ended March 31, 2019:

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	4,174	-	4,174	-	4,174
Oil sales	482	-	482	-	482
Segment revenue and other income	4,656	-	4,656	-	4,656
Loss before taxation	2,016	(1,537)	479	-	479
Taxation	264	-	264	-	264
Loss for the period	2,280	(1,537)	743	-	743
Total assets	110,559	106,299	216,858	(106,041)	110,817
Total liabilities	123,696	36,162	159,858	(106,041)	53,817
Expenditure on exploration & evaluation					
assets, property, plant and equipment	455	-	455	-	455
Depreciation, depletion & amortization	1,250	-	1,250	-	1,250

No borrowing costs were capitalised during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2018:

Tethys Petroleum Limited

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

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	1,252	-	1,252	-	1,252
Oil sales	655	-	655	-	655
Other income	9	-	9	-	9
Other operating income	-	27	27	(27)	-
Segment revenue and other income	1,916	27	27	(27)	1,916
Loss before taxation	(1,989)	(2,735)	(4,724)	-	(4,724)
Taxation	403	(12)	391	-	391
Loss for the period	(1,586)	(2,747)	(4,333)	-	(4,333)
Total assets	105,582	113,660	219,242	(103,563)	115,679
Total liabilities	125,667	49,949	175,616	(103,563)	72,053
Expenditure on exploration & evaluation assets, property, plant and equipment	510	287	797	-	797
Depreciation, depletion & amortization	2,094	620	2,714	-	2,714

No borrowing costs were capitalised during the period.

4 Earnings/(loss) per share

Continuing operations	Units	Three months ended March 31	
		2019	2018
Profit/(loss) for the purpose of basic and diluted earnings/(loss) attributable to ordinary shareholders	\$'000	743	(4,333)
Weighted average shares	000s	68,324	50,814
Per share amount	\$	0.01	(0.09)

Basic earnings/(loss) per share is calculated by dividing the profit/(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.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended March 31, 2019

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The following Management's Discussion and Analysis ("MD&A") is dated May 30, 2019 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the period ended March 31, 2019 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2018. 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 2018 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.

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. 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, KY1-9005, 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. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Financial highlights

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

	Quarter ended March 31		
	2019	2018	Change
Oil and gas sales and other revenues	4,656	1,916	143%
Profit/(loss) for the period from continuing operations	743	(4,333)	(117%)
Basic and diluted earnings (\$) per share from continuing operations	0.01	(0.09)	(111%)
Adjusted EBITDA ¹	3,289	(382)	961%

	As at March 31		
	2019	2018	Change
Total assets	110,817	115,679	(4%)
Cash & cash equivalents	2,379	29	8103%
Short & long term borrowings	35,341	33,829	4%
Total non-current liabilities	9,450	14,784	(36%)
Net debt ¹	32,962	33,800	(2%)
Number of ordinary shares outstanding	68,324,430	50,813,609	34%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 15 for details.

First quarter 2019 versus first quarter 2018

- Oil and gas sales and other revenues increased by 143% to USD4.6 million from USD0.9 million due significantly gas revenues. Gas revenues increased from USD1.3 to USD4.2million due to 20% higher production and a 177% increase in price. Oil revenues reduced from USD0.7 million to USD0.5 million due to significantly lower production although this was compensated for by a near trebling of the oil price received;
- The profit for the quarter was USD0.7 million compared to a loss of USD4.3 million in the comparative quarter in 2018. This reflects the higher revenue and lower costs across all cost categories;
- Adjusted EBITDA was USD3.3 million compared with negative USD0.4 million as a result of the higher gross margin from oil & gas sales and lower production and general & administrative expenses.

Operational Highlights

		Quarter ended March 31		
	Units	2019	2018	Change
Kazakhstan				
Oil	bopd	150	880	(83%)
Gas	boe/d	2,259	1,885	20%
Total	boe/d	2,409	2,765	(13%)
Oil				
Net production	Bbls	13,496	79,217	(83%)
Net revenue	\$'000	482	655	(26%)
Production costs	\$'000	377	721	(48%)
Gross margin	\$'000	105	(66)	(259%)
Oil price net	\$/bbl	33.91	8.75	287%
Cost	\$/bbl	27.93	9.10	207%
Gross margin	\$/bbl	5.98	(0.35)	(1829%)
Gas				
Gross production	Mcm	34,548	28,829	20%
Gas revenue net	\$'000	4,174	1,252	233%
Production costs	\$'000	361	324	11%
Gross margin	\$'000	3,813	928	311%
Sales price net	\$/Mcm	122.48	44.18	177%
Cost	\$/Mcm	10.45	11.24	(7%)
Gross margin	\$/Mcm	112.03	32.94	240%

Oil

- Oil production averaged 150 bopd compared with 880 bopd in Q1 2018 reflecting a rapid decline in production after an ESP was installed in the AKD-01 well in early May 2017 to maximise production over its remaining life. Production from the well ceased producing in March 2019;
- Oil production cost per barrel was \$27.93 compared with US\$9.10 in Q1 2018 reflecting the lower levels of production and a significant element of fixed costs;
- Oil prices averaged \$33.91/bbl compared with \$8.75/bbl in Q1 2018, an increase of 287% reflecting improved market pricing and the end of a fixed price contract.

Gas

- Gas production averaged 2,259 boe/d compared with 1,885 boe/d in Q1 2018, a 20% increase from new wells coming onto production and upgrading of gas compression facilities;
- Gas production cost per Mcm in the current quarter decreased to \$10.45 from \$11.24 in Q1 2018, reflecting the higher level of production;
- Gas was sold at a net average price equivalent to \$122.48 per Mcm for the quarter compared with \$44.18 in Q1 2018. The increases reflect a significantly improved price from September 1, 2018 and a further price increase from January 1, 2019.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 18 – “*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 Kazakhstan.

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 proposed change of control transaction with Jaka Partners FZC, as more particularly described on page 5;
- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;
- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;
- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and
- Formalise repayment terms for overdue debts to lenders and suppliers.

Significant events and transactions for the three months ended March 31, 2019

- *Definitive Agreement for Acquisition of Control*

On March 29, 2019 the Company announced that it had signed a binding arrangement agreement (the "Definitive Agreement") with respect to a potential acquisition by Jaka Partners FSC ("Acquiror") of Tethys' outstanding ordinary shares ("Ordinary Shares") it does not already own pursuant to a scheme of arrangement under the Companies Law (2018 Revision) of the Cayman Islands (the "Companies Law"), and applicable Canadian securities laws. Such proposed acquisition is referred to hereafter as the "Proposed Transaction".

1. Proposed Transaction Structure

The Proposed Transaction will be carried out by way of a scheme of arrangement under the Companies Law, and effected pursuant to the Definitive Agreement, the terms and conditions of which are summarised below. The Proposed Transaction shall also be subject to the approval of the holders of the Ordinary Shares, including both approval by such shareholders representing more than 75% of the Ordinary Shares voting in person or by proxy at a special meeting as well as by a majority of those shareholders, excluding shares held by Acquiror or any of its affiliates or joint actors in accordance with Multilateral Instrument 61-101 ("MI 61-101"). Approvals from the Grand Court of the Cayman Islands and the NEX board of the TSX Venture Exchange (the "NEX") will also be required.

2. Consideration

Acquiror proposes to acquire up to 70% of the Ordinary Shares that it does not already own and to offer shareholders the opportunity to exchange up to 30% of the Ordinary Shares that the Acquiror does not already own for preferred shares ("Preferred Shares") on a one-for-one basis. Each shareholder who approves the Proposed Transaction could elect to:

- (a) receive cash consideration of \$0.60 per ordinary share in exchange for up to 70% of its Ordinary Shares and to also receive Preferred Shares in exchange for up to 30% of its Ordinary Shares;
- (b) receive cash consideration of \$0.60 per ordinary share exchange for up to 70% of its Ordinary Shares and retain the remaining Ordinary Shares;
- (c) receive Preferred Shares in exchange for up to 30% of its Ordinary Shares and retain the remaining Ordinary Shares; or
- (d) retain all of its Ordinary Shares.

To the extent that the scheme of arrangement is approved and a shareholder does not make any election as to its preferred form of consideration, it shall be deemed to have elected to retain all of its Ordinary Shares.

The Preferred Shares shall be non-voting and non-convertible, and shall be automatically redeemed by Tethys on the date that is three (3) years from the closing of the Proposed Transaction at a redemption price of \$1.80 per Preferred Share (the "Redemption Amount"). To the extent that Tethys is unable to fund all or part of the payment of the Redemption Amount, Tethys will have an option to require Acquiror to provide funding for such payment by purchasing new ordinary shares in Tethys under a share purchase warrant or similar security (the "Warrant").

Operational Review - continued

Pursuant to the Definitive Agreement, Acquiror's obligations under the Warrant will be guaranteed by an affiliated company of Jaka, Inform Systems LLP.

Convertible securities (including options, warrants and convertible debt) shall remain outstanding post-closing and any such securities that are exercised or converted into Ordinary Shares prior to the record date of the special meeting shall entitle the holder to vote at such meeting.

The consideration offered per Ordinary Share of \$0.60 per share and \$1.80 per Preferred Shares represents premiums of approximately 320% and 960%, respectively to the Cdn\$0.25 price of the Ordinary Shares on the NEX on December 19, 2018, the date before the Proposed Transaction was first announced.

3. Stock Market Listing

Upon completion of the Proposed Transaction, Tethys would seek to maintain a listing of its Ordinary Shares on the NEX, or other recognised securities exchange, and apply for a listing of the Preferred Shares. Listing will be subject to satisfaction of the rules of the NEX or other applicable exchange.

4. Management and the Board

As part of the Proposed Transaction, Acquiror will propose new directors as replacements for Mr. Mattias Sjoborg and Mr. William P. Wells. Acquiror shall ensure that following the completion of the Proposed Transaction, Tethys' board of directors, which would consist of at least three (3) members and will comply with all Canadian securities laws, including the rules of the NEX, applicable to public companies. In addition, upon completion of the Proposed Transaction, Mr. Sjoborg will resign from his position as Chief Executive Officer of Tethys. Annuity and Life Reassurance Ltd ("Annuity"), a company controlled by Mr. Wells, shall have a right to appoint a board observer and the right to inspect Tethys' corporate books, records and premises, for a period of three (3) years following the closing of the Proposed Transaction.

5. Definitive Agreement

The Definitive Agreement includes conditions precedent, representations and warranties, "fiduciary outs", covenants and provisions dealing with the mechanics of completing the Proposed Transaction.

The Definitive Agreement also contains certain minority protections such as restricting Tethys from issuing shares in excess of 18,000,000 shares and not pledging, selling, encumbering or disposing any of Tethys' assets for an agreed period of time.

The Definitive Agreement also contains a proposed settlement agreement which, subject to shareholder approval, Tethys will seek to enter into with Olisol Petroleum Ltd, Olisol Investments Ltd, Eurasia Gas Group LLP, DSFK Special Finance Company LLP and certain of their principals.

6. Approval of the Proposed Transaction

As noted above, the Proposed Transaction will require the approval of the Grand Court of the Cayman Islands, NEX and shareholders at a special meeting which has been convened for this purpose on June 28, 2019. It is anticipated that the Proposed Transaction will be completed around the end of July 2019.

Operational Review - continued

As Acquiror owns in excess of 10% of the Ordinary Shares, it is a related party and the Proposed Transaction would be a related party transaction under MI 61-101. The Proposed Transaction is exempt from the valuation requirements of MI 61-101 as the Ordinary Shares are not listed on certain recognised exchanges though is subject to the requirement to obtain majority of the minority shareholder approval as described above.

Since becoming a Shareholder, the Acquiror has assisted the Company in addressing legacy issues and improving its business in a number of ways including, but not limited to, contributing to cost optimisation initiatives and assisting the Company with negotiating a new gas sale contract, resulting in a significantly higher gas price received by the Company for the gas it produces. Completing the Proposed Transaction will better align the Acquiror's interests with the Company's. The Company anticipates that following the effective Date, the Acquiror will increase the level of its contribution and the financial resources it makes available to the Company's business.

Significant events and transactions subsequent to the period end

- *Annual General and Special Meeting*

On May 21, 2019 the Company announced that on May 17, 2019 the Grand Court of the Cayman Islands ordered that the Company should convene a meeting to be held at the Sheraton Hotel, Frankfurt Airport, 1 Hugo-Eckener-Ring 15, 60549 Frankfurt, Germany on 28 June 2019 at 10:30am (local time) of the holders of the Ordinary Shares of the Company, for the purpose of considering and, if thought fit approving (with or without modification) the scheme of arrangement.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2019					2018				
	Gross fluid m ³	barrels	Net barrels	Net production days	bopd	Gross fluid m ³	barrels	Net barrels	Net production days	bopd
Q1	29,462	185,312	13,496	90	150	52,034	327,285	79,217	90	880
Total	29,462	185,312	13,496	90	150	52,034	327,285	79,217	90	880

Oil operations update

The Company produced oil from the AKD01 well under a pilot production license and the well has performed to expectations. Oil production averaged 150 bopd (Q1 2018: 880 bopd). The well has been producing with an ESP installed in May 2017 with an approximate 93% water-cut for the quarter and this has been increasing as the well has approached the end of its life. Due to the low level of production which was uneconomic the Company ceased production from AKD01 in March 2019.

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 been evaluated by Schlumberger in 2017, which conducted a hydrodynamic study of the Jurassic Carbonates and a geomechanics study.

The Company has reviewed its development plans for the next five years. Following the contract extensions through to March 2022 announced in July 2018 the priority will be to conduct the works

Operational Review - continued

required to fulfil the work programs and maintain and the licence and subject to funding, these works would include the drilling of three new deep wells AKD12, 13 and 14. The Company is currently re-entering and testing the nearby AKD03 well which was drilled by Tethys in 2011 but at that time work has been suspended due to technical issues. It is anticipated that the AKD03 work will provide information useful in determining the best locations and chance of success for the new wells.

Depending on the success of those wells it may be possible to apply for a full commercial production licence in future if production reaches commercial levels and the necessary infrastructure is put in place such as a gas utilisation facility for associated gas and transportation. A commercial production licence would enable a percentage (possibly around 75%) of oil to be exported and higher prices to be realised than on the internal market where the Company is currently required to sell its production under its pilot production license.

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 from late 2016 through to late 2018 was not transhipped via the AOT although in late 2018 this resumed until oil production from AKD01 ceased in March 2019. The Company is considering its options with regard to disposing of its interest in the terminal.

Gas production – Kyzylai and Akkulka Contracts

	2019				2018			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzylai								
Q1	22,942	810,068	255	1,500	13,512	477,103	150	884
Total	22,942	810,068	255	1,500	13,512	477,103	150	884
Akkulka								
Q1	11,606	409,812	129	759	15,317	540,827	170	1,001
Total	11,606	409,812	129	759	15,317	540,827	170	1,001
Grand total	34,548	1,219,880	384	2,259	28,829	1,017,930	320	1,885

Gas operations update

Gas production increased by 20% to 384 Mcm per day compared with Q1 2018 reflecting the natural decline in production from existing wells offset by the increase in production from the new wells which came on line following the shallow gas drilling program in 2017.

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 Kyzylai field and six in the Akkulka.

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.

Operational Review - continued

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. 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 was successfully worked over.

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 were furthest from the Company's existing pipelines, were connected in December 2018 and January 2019 resulting in average production of over 400 Mcm per day in February.

There has been a longstanding need for repairs and parts replacement of parts at the compressor station to increase capacity. There are five compressors at the compressor station of which three are operating 24 hours a day at any one time. An offsite overhaul of Engine No. 3 was completed in Q1 2019. In addition, eight new cylinders were installed in January 2019 and a further four new cylinders in late March 2019. Together these works will ensure improved overall efficiency of gas production and continuity of operations should issues arise with one of the compressors.

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. 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 seismic acquired and interpreted.

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 was the final stage in the extension of the contract. The Company plans to drill this well in 2019, subject to having the funding in place for the drilling cost.

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Summary of Quarterly Results

	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q4, 2017	Q3, 2017	Q2, 2017
Oil & gas sales and other revenues	4,656	3,895	2,511	2,017	1,916	2,070	2,593	2,855
Loss for the period	743	11,074	(324)	(1,895)	(4,333)	(36,302)	(2,879)	(3,905)
Basic & diluted loss (\$) per share	0.01	0.18	(0.01)	(0.04)	(0.09)	(0.70)	(0.06)	(0.08)
Adjusted EBITDA ¹	3,289	2,945	1,734	529	(382)	(2,216)	1,735	(175)
Capital expenditure	455	2,759	93	365	797	3,705	465	109
Total assets	110,817	108,732	112,251	113,622	115,679	116,923	149,076	153,901
Cash & cash equivalents	2,379	3,460	2,800	467	29	77	186	817
Short & long term borrowings	(35,341)	(33,885)	(32,851)	(32,103)	(33,829)	(31,588)	(32,520)	(33,739)
Total non-current liabilities	(9,450)	(14,897)	(14,247)	(14,359)	(14,784)	(13,737)	(18,051)	(18,929)
Net debt ¹	(32,962)	(30,425)	(30,051)	(31,636)	(33,800)	(31,511)	(32,334)	(32,922)
Number of common shares outstanding	68,324,430	68,324,430	63,517,013	50,813,609	50,813,609	50,813,609	50,813,609	50,813,609

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 15 for details.

Profit/(loss) for the period

	Three months ended March 31		
	2019	2018	Change
Sales and other revenue	4,656	1,916	143%
Production expenses	(738)	(1,045)	(29%)
Depreciation, depletion & amortization	(1,250)	(2,714)	(54%)
Administrative expenses	(615)	(987)	(38%)
Share based payments	-	(16)	(100%)
Other gains and losses	193	-	-
Foreign exchange loss	(207)	(266)	(22%)
Finance costs	(1,560)	(1,612)	(3%)
	(4,177)	(6,640)	(37%)
Profit/(loss) before taxation from continuing operations	479	(4,724)	(110%)
Taxation	264	391	(32%)
Profit/(loss) for the period	743	(4,333)	(117%)

Profit after tax for the quarter was \$0.7 million compared with a loss of \$4.3 million in Q1 2018, the principal variances being:

- Higher gas revenues from higher production and significantly improved pricing, offset by lower oil revenue due to lower production from the AKD01 well which ceased producing in March 2019;

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- Lower production expenses from lower oil production volumes and cost cutting;
- Lower administrative expenses from cost cutting; and
- Lower depreciation, depletion and amortization charges following due to the lower oil production.

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 March 31		
	2019	2018	Change
<i>Summary by product & region</i>			
Kazakhstan - Oil	482	655	(26%)
Kazakhstan - Gas	4,174	1,252	233%
Kazakhstan - Other	-	9	(100%)
Total	4,656	1,916	143%

Kazakhstan – Oil revenue and price

	Gross sales bbls	Gross sales \$000	Realised price at wellhead \$/bbl	VAT \$000	Net sales revenue \$000	Net price \$/bbl
2019						
Q1	14,213	540	37.99	58	482	33.91
Total	14,213	540	37.99	58	483	33.91
2018						
Q1	74,850	734	9.80	79	655	8.75
Total	74,850	734	9.80	79	655	8.75

- 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 incurred no transportation or marketing costs;
- Current quarter revenue benefited from a higher realised price of \$33.91/bbl (Q1 2018: \$8.75/bbl) but this was more than offset by lower production sold after the ESP was installed in the AKD01 well in May 2017 and production has declined significantly since that time as the well reached the end of its producing life and ceased producing in March 2019.

Kazakhstan - Gas revenue and price

- Gas revenues were 233% higher due to higher production, which was up by 20% following new wells coming on line, a significantly higher gas price from September 1, 2018 and a further price increase on January 1, 2019;
- Gas production was sold at a fixed Tenge price of KZT 51,857 per 1,000 cubic metres, including 12% VAT compared with KZT 16,000 per 1,000 cubic metres in Q1 2018, representing an increase of 324% in local currency terms;
- Gas contracts are subject to exchange rate risk – refer to page 17 – “Sensitivities”.

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Production expenses

		Quarter ended March 31		
	Units	2019	2018	Change
Kazakhstan				
Oil production	\$000's	377	721	(48%)
Gas production	\$000's	361	324	11%
Total	\$000's	738	1,045	(29%)
Oil				
Net production	bbls	13,496	79,217	(83%)
Cost	\$/bbl	27.93	9.10	207%
Gas				
Production	boe	203,326	169,666	20%
Cost	\$/boe	1.78	1.91	(7%)
Weighted average cost per boe	\$/boe	3.40	4.20	(19%)

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 were lower for the quarter reflecting significantly lower production as the producing well AKD01 neared the end of its producing life. Production from the well ceased in March 2019.

Kazakhstan – gas production

Gas production costs increased in the current quarter by 11% partly due to a weakening of the Kazakhstan Tenge and also the increase in production, although 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 \$1.3 million (Q1 2018: \$2.7 million) mainly relating to the Kazakh producing assets. The decrease in DD&A expense mainly reflects lower oil production volumes.

Administrative expenses

	Quarter ended March 31		
	2019	2018	Change
Staff costs	232	607	(62%)
Non-executive director fees	52	62	(16%)
Professional fees	179	206	(13%)
Other administrative expenses	152	112	36%
Total	615	987	(38%)
G&A expenses per boe (\$)	2.84	3.97	(28%)

- Staff costs decreased significantly in the quarter as a result of personnel and salary reductions;
- Professional and regulatory reduced mainly due to lower legal and audit fees; and

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- Other costs, which include bank charges, vehicles costs and insurance are higher in the current quarter due to higher vehicle costs.

Share based payments

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

Other gains and losses

Other gains and losses includes the gain arising on deconsolidating the liabilities of subsidiaries which have been dissolved.

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 in 2018 from the revaluation of the GBP denominated rig loans.

Finance costs - net

Finance costs comprise interest expense net of interest income and are at a similar level to the comparative quarter.

Taxation

The deferred tax credit was at a similar level and arises mainly due to property, plant & equipment timing differences for accounting and tax purposes.

Liquidity and Capital Resources

The Company reported a profit of \$0.7 million for the three months ended March 31, 2019 (2018 full year: \$4.5 million) and an accumulated deficit as at that date of \$356.2 million (December 31, 2018: \$356.9 million) and negative working capital of \$34.6 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported negative cash flow from operating activities before tax of \$0.9 million for the three months ended March 31, 2019 (2018 full year: positive \$1.0 million).

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and has various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

In order to support the Company's short term liquidity position and improve the Company's financial situation, we will need to:

- Complete the proposed change of control transaction with Jaka Partners FZC;

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- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;
- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;
- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and
- Formalise repayment terms for overdue debts to lenders and suppliers.

In September and October 2018, the Company announced it had raised funds of approximately \$4.1m from the issuance of shares to a new investor. Some of these proceeds have been used to upgrade gas compressor facilities and to tie in previously drilled gas wells to increase production and cash flow.

On March 19, 2019 the Company announced that it had signed a definitive agreement with the same investor for the acquisition of control the Company at a significant premium to the trading price of the Company's shares before the proposed transaction was first announced in December 2018. The proposed transaction is subject to a number of approvals, including shareholder approval, which are outside the Company's control although, if completed, it is anticipated that the new investor will provide the Company with the financial support required to continue to operate as a going concern. There is material uncertainty as to whether the definitive agreement will be approved and result in additional funding being made available to the Company.

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.

Cash Flow

	Quarter ended March 31		
	2019	2018	Change
Net cash from operating activities	(937)	59	(1688%)
Capital expenditure	(455)	(797)	(43%)
Net changes in working capital	(46)	541	(109%)
Other investing cash flows	(5)	(89)	(94%)
Net cash used in investing activities	(506)	(345)	47%
Effect of exchange rates	362	238	52%
Net decrease in cash	(1,081)	(48)	2152%
Cash & cash equivalents at beginning of period	3,460	77	4394%
Cash & cash equivalents at end of period	2,379	29	8103%

Operating activities

Net cash from operating activities in the current quarter was lower due to the build-up of gas sales receivables in Q1 2019 and differences in the timing of payments to suppliers.

Investing activities

Capital expenditure comprised payments for the tie-in of gas wells and the re-entry of the AKD03 oil well and in the prior year related to the shallow gas well drilling program.

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Financing activities

There were no cash flows from financing activities in either period.

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 March 31, 2019 condensed consolidated interim financial statements. Refer to note 4 of the 2018 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 "Profit or loss 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 profit/(loss) for the period is as follows:

	Quarter ended March 31		Change
	2019	2018	
Profit/(loss) before taxation	479	(4,724)	(110%)
Depreciation, depletion and amortization	1,250	2,714	(54%)
Share based payments	-	16	(100%)
Finance costs - net	1,560	1,612	(3%)
Adjusted EBITDA	3,289	(382)	(961%)

Net debt

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.

	As at March 31		Change
	2019	2018	
Total financial liabilities - borrowings	35,341	33,829	4%
Less: cash and cash equivalents	(2,379)	(29)	8103%
Net debt	32,962	33,800	(2%)
Total equity	57,000	43,626	31%
Total capital	89,962	77,426	16%

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

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

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regarding the Company's financial results. These measures may not be comparable to similar measures presented by other entities.

Stockholder Equity

As at March 31, 2019 the Company had authorised share capital of 145,000,000 (2018: 145,000,000) ordinary shares of which 68,324,430 (March 31, 2018: 50,813,609) had been issued and 50,000,000 (March 31, 2018: 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.

The number of ordinary shares issued and outstanding at the date of this MD&A was 68,324,430 and the number of preference shares issued and outstanding was nil.

As at March 31, 2019, a total of 4,037,432 (March 31, 2018: 4,037,432) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at March 31, 2019 was 1,362,188 (March 31, 2018: 1,371,187) all of which were exercisable (March 31, 2018: 945,458) and the number of warrants outstanding is 14,422,500 (March 31, 2018: 19,230,000) all of which were exercisable. Loan facilities are in place which were convertible into a total of up to 18,361,606 (March 31, 2018: 18,361,606) ordinary shares.

On November 28, 2018 the Company completed a 10 for 1 share consolidation and all figures shown above are on a post-consolidation basis.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

There were no transactions with related parties requiring disclosure.

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 21 of the 2018 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	35,341	35,341	-	-	-
Kazakhstan work programme commitments	62,262	18,432	22,295	4,924	16,611
Trade and other payables	8,422	8,422	-	-	-
Provisions	1,500	109	346	-	1,045
Total contractual obligations	107,525	62,304	22,641	4,924	17,656

Risks, uncertainties and other information

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 2019 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, 2018. The Company’s overall risk management program 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 is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from KZT380 to the \$ to KZT456 for example, would result in a net price reduction of \$22.74 per Mcm. Based on a sales volume of 110,000 Mcm per annum, this would result in a reduction of \$2.5 million in gas revenues.

The price of oil sales is sensitive to movements in the market price. On a production level of 250 bopd, a movement of \$1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of \$0.1 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 2018 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Company has not recognised any derivative financial instruments.

Significant equity investees

Details of significant equity investees are discussed in note 19 of the consolidated financial statements for the year ended December 31, 2018.

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; 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.

Forward-looking statements - continued

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, 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

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
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
IFRS	International Financial Reporting Standards
KASE	Kazakhstan Stock Exchange
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
NPV	Net present value
NEX	NEX Board of the TSX Venture Exchange
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
\$	United States Dollar
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
\$/bbl	\$ per barrel
\$/Mcm	\$ per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative