

# **Tethys Petroleum Limited**

Management's Discussion and Analysis  
for the period ended March 31, 2020

## Contents

Nature of business	1
Financial highlights	2
Operational highlights	3
Operational review	4
Financial review	10
Risks, uncertainties and other information	18
Forward looking statements	19
Glossary	21

The following Management’s Discussion and Analysis (“MD&A”) is dated May 31, 2020 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, 2020 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2019. 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 2019 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](http://www.sedar.com) and the Company’s website at [www.tethys-group.com](http://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		
	2020	2019	Change
Oil and gas sales and other revenues	3,501	4,656	(25%)
(Loss)/profit for the period from continuing operations	(7,432)	743	(1100%)
Basic and diluted (loss)/earnings (\$) per share from continuing operations	(0.09)	0.01	(1000%)
Adjusted EBITDA <sup>1</sup>	1,448	3,289	(56%)

  

	As at March 31		
	2020	2019	Change
Total assets	96,421	110,817	(13%)
Cash & cash equivalents	4,519	2,379	90%
Short & long term borrowings	24,342	35,341	(31%)
Total non-current liabilities	15,659	9,450	66%
Net debt <sup>1</sup>	19,823	32,962	(40%)
Number of ordinary shares outstanding	86,955,999	68,324,430	27%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 16 for details.

### First quarter 2020 versus first quarter 2019

- Oil and gas sales and other revenues decreased by 25% to \$3.5 million from \$4.7 million due to lower gas revenues and no oil sales in the current period compared with \$0.5 million in 2019. Gas revenues decreased from \$4.2 to \$3.5 million due to 7% lower production and a 9% lower average price. Oil revenues reduced from \$0.7 million to \$0.5 million due to significantly lower production although this was compensated for by a near trebling of the oil price received;
- The loss for the quarter was \$7.4 million compared to a profit of \$0.7 million in the comparative quarter in 2019. The current period includes an impairment of oil assets of \$15.3 million due to the fall in oil prices and a \$8.3 million gain arising from the renegotiation of borrowings. An increase in costs was offset by lower finance costs;
- Adjusted EBITDA was \$1.5 million compared with \$3.3 million as a result of the lower revenue and higher production and general & administrative expenses.

## Operational Highlights

	Units	Quarter ended March 31		
		2020	2019	Change
<b>Kazakhstan</b>				
Oil	bopd	-	150	(100%)
Gas	boe/d	2,091	2,259	(7%)
<b>Total</b>	boe/d	<b>2,091</b>	<b>2,409</b>	<b>(13%)</b>
<b>Oil</b>				
Net production	Bbls	-	13,496	(100%)
Net revenue	\$'000	-	482	(100%)
Production costs	\$'000	229	377	(39%)
<b>Gross margin</b>	\$'000	<b>(229)</b>	<b>105</b>	<b>(318%)</b>
<b>Gas</b>				
Gross production	Mcm	31,976	34,548	(7%)
Gas revenue net	\$'000	3,501	4,174	(16%)
Production costs	\$'000	686	361	90%
<b>Gross margin</b>	\$'000	<b>2,815</b>	<b>3,813</b>	<b>(26%)</b>

### Oil

- There was no oil production in the quarter compared with an averaged of 150 bopd in Q1 2019. Production from the AKD-01 well ceased in March 2019;
- Oil production costs continue to be incurred as the Company maintains some capacity.

### Gas

- Gas production averaged 2,091 boe/d compared with 2,259 boe/d in Q1 2019, a 7% decrease reflecting a natural decline in production;
- Gas production costs per higher in the current quarter mainly due to materials costs and which are not expected to be incurred at the same level in future periods;
- Gas revenues decreased from \$4.2 to \$3.5 million, a 16% reduction, due to 7% lower production and a 9% lower average price.

## Operational Review

### Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 19 – “*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:

- Implement the transactions required by the settlement agreement signed with Olisol and DSFK signed in February 2020, as described in note 20 of the 2019 consolidated financial statements;
- Finish testing of the newly drilled KBD-02 (“Klymene”) 2,750m exploration well and, if successful, commence oil production;
- Drill new oil & gas wells to increase production levels and revenues; and
- Secure funding required to meet 2020 capital expenditure plans to the extent that these cannot be funded from existing cash generation. The Company has begun discussions with banks regarding the provision of funding.

## Operational Review - continued

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

- *Loan Restructuring*

On January 6, 2020 the Company announced that it had agreed with one of its lenders (Khan Energy (Cayman) SPV Limited) to restructure a loan with current outstanding balance of \$14.1 million, the key terms of which are described below:

- (1) The lender has provided a waiver of all past defaults;
- (2) The maturity date has been extended from January 31, 2017 to December 31, 2021;
- (3) Repayment of \$1,000,000 contingent upon certain future events;
- (4) A discount of \$500,000 will be applied to the outstanding balance upon payment of the \$1,000,000;
- (5) The Company shall be required to use 15% of any gas sales receipts (net of VAT) received by its subsidiary companies, subject to a minimum of two hundred thousand dollars (\$200,000) per month, to repay a portion of the outstanding balance;
- (6) The interest rate has changed from 20% to 10.5%, payable monthly;
- (7) An early payment discount will apply if Tethys makes any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance will be reduced by two times the amount of the repayment i.e. an effective discount of up to 50% of the outstanding balance; and
- (8) A discount of \$2,000,000 will apply to the outstanding balance upon full repayment of the loan on or prior to the maturity, less the amount of any early payment discount already received.

On April 16, 2020 the Company announced that it had fully repaid the loan by remitting approximately \$7.7 million.

- *Second Loan Restructuring*

On January 17, 2020 the Company announced that it had signed a loan amendment agreement ("Amendment Agreement") with one of its lenders to restructure the loan originally made to the Company by AGR Energy Limited No. 1 (the "Loan") with current outstanding balance of approximately \$12.1 million, the key terms of which are described below:

- (1) The lender has provided a waiver of all past defaults;
- (2) The maturity date has been extended from June 30, 2017 to June 30, 2021;
- (3) The outstanding loan balance has been reduced from \$12.1 million to \$9.0 million;
- (4) The Loan which bore a default interest rate of 18% will no longer bear interest; and
- (5) Twelve monthly repayments of \$750,000 will be due commencing July 31, 2020.

The monetary claims under the Loan were assigned by AGR Energy Limited No. 1 to a private individual in 2016. In conjunction with the Amendment Agreement, further assignments have been made. The Amendment Agreement can be terminated if any of these assignments is declared by a court of competent jurisdiction as invalid, void or is otherwise terminated, in which case the Amendment Agreement would have no effect and the original loan agreement signed with AGR Energy Limited No. 1, as assigned to this individual, would continue in force and effect as if never amended by the Amendment Agreement.

## Operational Review - continued

- *Loan Conversion*

On January 27, 2020 the Company announced that holders of the loans originally made to Annuity and Life Reassurance Ltd had elected to convert in full, the principal and accrued interest outstanding on the Loans of \$5,775,787 into 18,631,569 Tethys ordinary shares.

- *Settlement Agreement*

On February 8, 2020 the Company announced that it had reached a legally binding settlement agreement with Olisol and certain of its affiliated companies and their principals and DSFK, (hereinafter the "Settlement Agreement").

The key terms of the Settlement Agreement insofar as they affect Tethys are:

- (1) Tethys and Olisol agree that they shall seek to discontinue the Canadian lawsuit commenced by Tethys on January 27, 2017 with no order as to costs and the parties agree not to bring any further claims in respect of the disputed matters in the Canadian lawsuit;
- (2) Tethys agrees to issue 18,000,000 ordinary shares to Olisol in full satisfaction, and in exchange for full repayment, of all amounts owing under the facility agreement between the parties. Based on the amount claimed by Olisol to be owing at December 31, 2019 of \$7,396,812, this would equate to a price of \$0.41 per ordinary share;
- (3) Olisol agrees to sell a total of 2,809,036 Tethys ordinary shares to existing shareholder Gemini IT Consultants DMCC ("Gemini") for an aggregate of \$1,151,705, at a price of \$0.41 per Share. The proceeds of the sale shall be delivered by Olisol to DSFK;
- (4) Olisol agrees for a period of three years to always exercise the voting rights attaching to its ordinary shares in Tethys in accordance with the recommendation of the Tethys Board of Directors;
- (5) Tethys subsidiary, TethysAralGas LLP ("TAG"), agrees to pay DSFK a settlement payment of KZT 1,434,692,762 (approximately \$3.8 million) to cancel and release TAG from all obligations under the pledge agreements under which TAG's gas transportation assets are pledged to DSFK;
- (6) The settlement payment referred to in (5) above will be funded from the proceeds of a convertible debenture which Tethys has agreed to issue to Gemini and which Gemini has agreed to subscribe for (the "Debenture"). The Debenture will be for an amount of no less than \$4.6 million with a three year term, interest and principal due at maturity, interest rate of 9% payable if held to maturity or 4% if converted prior to maturity. The issuance of the Debenture will be subject to the approval of the TSXV, assuming that Tethys is able to move its listing from the NEX to the TSXV;
- (7) Olisol agrees to pay TAG KZT 227,223,284 (approximately \$0.6 million) to settle unpaid oil sales debts owing to TAG;
- (8) DSFK and Olisol agree to release Tethys and TAG from all claims, and not to sue Tethys and TAG, in respect of the disputed matters, and vice versa; and
- (9) Those parties to the Settlement Agreement, which are also parties to Kazakhstan court proceedings brought by DSFK, will seek to execute a mediation agreement reflecting their



## Operational Review - continued

rights and obligations under the Settlement Agreement and have this approved by the Republic of Kazakhstan Court.

The obligation of Tethys and TAG to complete the transactions contemplated by the Settlement Agreement is subject to prior receipt of any approvals required by relevant securities laws or stock exchange rules, Gemini having subscribed and paid for the Debenture and Tethys satisfaction that all necessary DSFK corporate approvals have been obtained. Whilst not part of the Settlement Agreement, Tethys understands that Gemini plans to grant William Wells a six month option to purchase 50% of the Debenture at cost, plus accrued interest.

- *Kul-bas Exploration Contract*

Also on February 8, 2020 the Company announced that it had received confirmation of an extension of its Kul-bas Exploration Contract until December 31, 2022. This will allow the Company to test the KBD-02 exploration well (“Klymene”) which the Company finished drilling in December.

- *Covid-19*

The Covid-19 global pandemic emerged during the reporting period. Possible adverse effects from Covid-19 could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas development activities becoming uneconomic due to lower prices, difficulty in obtaining future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine measures. However, the Company’s oil & gas operations are in a remote region of Kazakhstan where, at the time of writing, no cases of Covid-19 have been reported and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company’s operations over the next twelve months.

- *Reduction in oil prices*

Brent and domestic spot and future oil prices fell significantly during the period due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. The effect of the reduction in prices on the value of the Company’s oil assets has been considered in note 5, of the Company’s condensed consolidated interim financial statements.

## Significant events and transactions subsequent to the period end

- *Gas Sales Prepayment*

On April 16, 2020, the Company announced that its Kazakhstan subsidiary TethysAralGas LLP (“TAG”) had received a prepayment of approximately \$7.6 million from its gas customer. TAG will continue to invoice its gas customer monthly in the normal way and the price of gas sold will be determined each month in accordance with the terms of the existing gas sales contract.

- *Completion of Debenture*

## Operational Review - continued

Also on April 16, 2020, the Company announced that it had completed the issuance of the Debenture described above under *Settlement Agreement* in the amount of \$4.8 million. The proceeds of the Debenture will be used to make the settlement payment to DSFK, repay the outstanding balance of the Corporate Loan referred to above and for general working capital purposes.

- *Repayment of Corporate Loan*

Also on April 16, 2020, the Company announced that it had completed the issuance of the Debenture described above under *Settlement Agreement* in the amount of \$4.8 million. The proceeds of the Debenture will be used to make the settlement payment to DSFK, repay the outstanding balance of the Corporate Loan referred to above and for general working capital purposes.

- *TSX Venture Exchange Application*

Tethys received conditional approval from the TSX Venture Exchange (“TSXV”) to graduate from the NEX Board to the TSXV as a Tier 2 Oil & Gas Issuer. Graduation to the TSXV is conditional on completion of the convertible debenture with Gemini and the previously announced shares for debt transaction with Olisol. Now that the convertible debenture has been completed the Company plans to complete in short order the shares for debt transaction with Olisol and will then request the TSXV to promote Tethys to the TSXV.

## Results of Operations and Operational Review - Kazakhstan

### Oil production – Akkulka Contract

	Gross fluid		2020			Gross fluid		2019		
	m <sup>3</sup>	barrels	Net barrels	Net production days	bopd	m <sup>3</sup>	barrels	Net barrels	Net production days	bopd
Q1	-	-	-	-	-	29,462	185,312	13,496	90	150
<b>Total</b>	-	-	-	-	-	<b>29,462</b>	<b>185,312</b>	<b>13,496</b>	<b>90</b>	<b>150</b>

### Oil operations update

The Company stopped producing oil from the AKD-01 well in March 2019 and there was no oil production in the quarter (Q1 2019: 150 bopd). The well had been producing with an ESP installed in May 2017 and this initially boosted oil production significantly but thereafter production declined steadily and the water content reached 93% until production was no longer economic.

The Company reviewed its five year development in late 2018 following contract extensions through to March 2022 and the priority is to conduct the works required to fulfil the work programs and maintain the licence. Subject to funding, these works will include the drilling of new deep wells commencing with AKD-12.

Historically, the Company has produced oil under a pilot production license which requires all production to be sold domestically. Depending on the success of future drilling activity 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.

## 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 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

	2020				2019			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
<b>Kyzylai</b>								
Q1	24,643	870,144	274	1,611	22,942	810,068	255	1,500
<b>Total</b>	<b>24,643</b>	<b>870,144</b>	<b>274</b>	<b>1,611</b>	<b>22,942</b>	<b>810,068</b>	<b>255</b>	<b>1,500</b>
<b>Akkulka</b>								
Q1	7,333	258,930	81	480	11,606	409,812	129	759
<b>Total</b>	<b>7,333</b>	<b>258,930</b>	<b>81</b>	<b>480</b>	<b>11,606</b>	<b>409,812</b>	<b>129</b>	<b>759</b>
<b>Grand total</b>	<b>31,976</b>	<b>1,129,074</b>	<b>355</b>	<b>2,091</b>	<b>34,548</b>	<b>1,219,880</b>	<b>384</b>	<b>2,259</b>

### Gas operations update

Gas production for the quarter decreased to 355 Mcm per day compared with 384 Mcm per day in Q1 2019.

During the period, the Company produced dry gas from a total of 22 wells at a depth of approximately 480-600m below surface, comprising 10 producing wells in the Kyzylai field and 12 in the Akkulka field.

The completed Bozoi-Shymkent-China gas pipeline means that Tethys has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the 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.

The Company plans to drill new gas wells in 2020, subject to funding.

### Exploration - update

The Klymene prospect is located in the Kul-Bas Exploration and Production Contract to the west of the Company's previously producing assets in the Akkulka exploration contract area. The prospect was identified from 2D seismic and indicates a four-way closure with bright spots at two of three prospective stratigraphic levels within the Cretaceous and Jurassic sequence, both of which were productive in the Company's Doris oilfield some 60 km to the east.

Drilling of the KBD02 (“Klymene”) prospect commenced in July and was completed in December 2019 targeting a large structure in the south west of the Kul-Bas block and targeting three horizons in the Lower Cretaceous and Upper Jurassic. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects in the Akkulka contract area which has produced over four million barrels of oil (the geographical area of the prospect is up to ten

### Operational Review - continued

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.

On February 8, 2020 the Company announced that the testing process was underway but was delayed whilst awaiting notification of the contract extension and due to challenging winter weather and poor roads leading to the well-site. The Kul-bas Exploration Contract has now been extended until December 31, 2022 which will allow the Company to test the testing of the Klymene exploration well.

## Financial Review

### Summary of Quarterly Results

	Q1, 2020	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018
Oil & gas sales and other revenues	3,501	1,252	3,238	3,570	4,656	3,895	2,511	2,017
Loss for the period	(7,432)	(7,517)	(496)	(1,533)	743	11,074	(323)	(1,894)
Basic & diluted loss (\$) per share	(0.09)	(0.11)	(0.01)	(0.02)	0.01	0.18	(0.01)	(0.04)
Adjusted EBITDA <sup>1</sup>	1,448	(472)	1,940	1,801	3,289	2,945	1,386	529
Capital expenditure	165	2,986	2,502	858	455	2,759	93	365
Total assets	96,421	108,834	109,713	110,667	110,817	108,732	112,251	113,622
Cash & cash equivalents	4,519	694	2,368	4,002	2,379	3,460	2,800	467
Short & long term borrowings	24,342	40,196	38,459	36,850	35,341	33,885	32,851	32,103
Total non-current liabilities	15,659	9,776	9,723	9,994	9,450	14,897	14,247	14,359
Net debt <sup>1</sup>	19,823	39,502	36,091	32,848	32,962	30,425	30,051	31,636
Number of common shares outstanding	86,955,999	68,324,430	68,324,430	68,324,430	68,324,430	68,324,430	63,517,013	50,813,609

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

### (Loss)/profit for the period

	Three months ended March 31		
	2020	2019	Change
Sales and other revenue	3,501	4,656	(25%)
Production expenses	(915)	(738)	24%
Depreciation, depletion & amortization	(1,141)	(1,250)	(9%)
Impairment charges	(15,282)	-	-
Administrative expenses	(737)	(615)	20%
Other gains and losses	8,303	193	4202%
Foreign exchange loss	(101)	(207)	(51%)
Finance costs	(1,250)	(1,560)	(20%)
	<b>(11,123)</b>	<b>(4,177)</b>	<b>166%</b>
<b>(Loss)/profit before taxation from continuing operations</b>	<b>(7,622)</b>	<b>479</b>	<b>(1691%)</b>
Taxation	190	264	(28%)
<b>(Loss)/profit for the period</b>	<b>(7,432)</b>	<b>743</b>	<b>(1100%)</b>

Loss after tax for the quarter was \$7.4 million compared with a profit of \$0.7 million in Q1 2019, the principal variances being:

- Lower gas revenues from naturally declining production and a lower average gas price, offset by lower oil revenue due to lower production from the AKD01 well which ceased producing in March 2019;

## Financial Review

- Higher production expenses mainly due to the timing of materials costs required for gas production;
- A \$15.3 million impairment charge on the Akkulka Oil assets due to the significant fall in oil prices during the period;
- Higher administrative expenses due to higher Kazakhstan staff costs;
- A gain of \$8.3 million arising from the favourable renegotiation of the terms of the Company's borrowings; and
- Lower finance costs due to reduced interest rates on the Company's borrowings.

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		
	2020	2019	Change
<i>Summary by product &amp; region</i>			
Kazakhstan - Oil	-	482	(100%)
Kazakhstan - Gas	3,501	4,174	(16%)
<b>Total</b>	<b>3,501</b>	<b>4,656</b>	<b>(25%)</b>

## Kazakhstan – Oil revenue

- 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 has historically been determined at the wellhead where the oil is sold and therefore the Company incurred no transportation or marketing costs;
- There was no oil revenue in the current quarter since production from the AKD-01 well ceased in March 2019 when the well reached the end of its producing life.

## Kazakhstan - Gas revenue

- Gas revenues were 16% lower due to lower production, which was 7% lower reflecting a natural decline with no new wells being added and the effect of lower average prices for gas sold;
- Gas contracts are subject to price risk – refer to page 18 – “Sensitivities”.

## Financial Review

### Production expenses

	Units	Quarter ended March 31		
		2020	2019	Change
<b>Kazakhstan</b>				
Oil production	\$000's	229	377	(39%)
Gas production	\$000's	686	361	90%
<b>Total</b>	<b>\$000's</b>	<b>915</b>	<b>738</b>	<b>24%</b>
<b>Oil</b>				
Net production	bbls	-	13,496	(100%)
Cost	\$/bbl	-	27.93	(100%)
<b>Gas</b>				
Production	boe	188,191	203,326	(7%)
Cost	\$/boe	3.64	1.78	104%
Weighted average cost per boe	\$/boe	4.86	3.40	43%

#### 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 continued during the period despite there being no production as the Company maintained some capacity in anticipation of production resuming.

#### Kazakhstan – gas production

Gas production costs increased in the current quarter by 90% mainly due to the timing of materials costs which are not expected to be incurred at the same level in future quarters. There was a significant weakening of the Kazakhstan Tenge during the quarter although this happened towards the end of the quarter and had a limited effect during the quarter. 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 \$1.1 million (Q1 2019: \$1.3 million) mainly relating to the Kazakh producing assets. The decrease in DD&A expense mainly reflects lower production during the quarter of oil and gas.

#### Administrative expenses

	Quarter ended March 31		
	2020	2019	Change
Staff costs	387	232	67%
Non-executive director fees	61	52	17%
Professional fees	150	179	(16%)
Other administrative expenses	139	152	(9%)
<b>Total</b>	<b>737</b>	<b>615</b>	<b>20%</b>
G&A expenses per boe (\$)	3.92	2.84	38%

## Financial Review

- Staff costs increased in the quarter as a result of higher personnel costs in Kazakhstan;
- Other general & administrative expenses were broadly in line with those in Q1 2019.

### Other gains and losses

Other gains and losses represents the gain arising from modifications of the terms of the Company's borrowings where more favourable repayment terms were agreed in January 2020. The Q1 2019 amount represents 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 arise mainly in Kazakhstan from variations in the KZT:USD exchange rate.

### Finance costs - net

Finance costs comprise interest expense net of interest income and lower due to lower interest rates and loan balances in the current quarter as the Company's borrowings were renegotiated, converted into shares and partly repaid during the 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 loss of \$7.4million for the three months ended March 31, 2020 (2019 year: \$8.8 million loss) and an accumulated deficit as at that date of \$371.5 million (December 31, 2019: \$365.7 million) and negative working capital of \$26.5 million (December 31, 2019: negative \$47.1 million). In addition, the Company reported cash flow from operating activities before tax of \$7.3 million for the three months ended March 31, 2020 (2019 year: \$5.0 million).

The Company's financial position materially improved when the Company's loan obligations were all restructured, repaid and/or converted into Tethys ordinary shares in January 2020 and a settlement agreement was signed with Olisol Petroleum Limited ("Olisol") and DSFK Special Finance Company LLP ("DSFK") in February 2020 to resolve all disputed matters with those parties. On April 16, 2020 the Company announced that it had completed the issuance of a \$4.8 million convertible debenture and received the proceeds which will be used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. Further details of these transactions are provided in note 20 of the Company's 2019 consolidated financial statements – *Subsequent events*.

Nevertheless, the Company does not have sufficient funding to fund its obligations for the next twelve months and will need to raise funds to meet any shortfall and to fund its planned capital expenditure program. The Company also has various commitments and contingencies as disclosed in note 19 of the 2019 consolidated financial statements. These circumstances indicate the existence of a material uncertainty which cast significant doubt on the Company's ability to continue as a going concern.

Possible adverse effects from the Covid-19 pandemic could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas development activities becoming uneconomic due to lower prices, difficulty in obtaining



## Financial Review

future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine measures. However, the Company's oil & gas operations are in a remote region of Kazakhstan where no cases of Covid-19 have been reported and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company's operations over the next twelve months.

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

- Implement the transactions required by the settlement agreement signed with Olisol and DSFK signed in February 2020, as described in note 20 of the 2019 consolidated financial statements;
- Finish testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and, if successful, commence oil production;
- Drill new oil & gas wells to add to increase production levels and revenues; and
- Secure funding required to meet 2020 capital expenditure plans to the extent that these cannot be funded from existing cash generation. The Company has begun discussions with banks regarding the provision of funding.

## 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		
	2020	2019	Change
<b>Net cash from/(used in) operating activities</b>	<b>7,276</b>	<b>(937)</b>	<b>877%</b>
Capital expenditure	(165)	(455)	(64%)
Net changes in working capital	(116)	(46)	152%
Other investing cash flows	11	(5)	320%
<b>Net cash used in investing activities</b>	<b>(270)</b>	<b>(506)</b>	<b>(47%)</b>
Loan principal and interest payments	(3,000)	(46)	6422%
<b>Net cash used in financing activities</b>	<b>(3,000)</b>	<b>(506)</b>	<b>493%</b>
Effect of exchange rates	(181)	362	(150%)
<b>Net increase/(decrease) in cash</b>	<b>3,825</b>	<b>(1,081)</b>	<b>(454%)</b>
Cash & cash equivalents at beginning of period	694	3,460	(80%)
<b>Cash &amp; cash equivalents at end of period</b>	<b>4,519</b>	<b>2,379</b>	<b>90%</b>

## Operating activities

Net cash from operating activities in the current quarter was significantly higher due to the receipt during the quarter of a \$7.6 million prepayment received from the Company's gas customer. The Company will continue to invoice the customer monthly and the price will be determined in the normal way until the prepayment has been earned.

## Financial Review

### Investing activities

No significant capital expenditure was incurred during the period.

### Financing activities

An initial \$3.0 million repayment was made against the loan due to Khan Energy and the loan was fully repaid in April 2020.

### 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 2019 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
	2020	2019	
(Loss)/profit before taxation	(7,622)	479	(1691%)
Depreciation, depletion and amortization	1,141	1,250	(9%)
Impairment charges	15,282	-	-
Other gains and losses	(8,303)	-	-
Finance costs - net	1,250	1,560	(20%)
<b>Adjusted EBITDA</b>	<b>1,448</b>	<b>3,289</b>	<b>(56%)</b>

#### 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
	2020	2019	
Total financial liabilities - borrowings	24,342	35,341	(31%)
Less: cash and cash equivalents	(4,519)	(2,379)	89%
<b>Net debt</b>	<b>19,823</b>	<b>32,962</b>	<b>(40%)</b>
Total equity	45,799	57,000	(20%)
<b>Total capital</b>	<b>65,622</b>	<b>89,962</b>	<b>(27%)</b>

## Financial Review

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 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, 2020 the Company had authorised share capital of 145,000,000 (2019: 145,000,000) ordinary shares of which 86,955,999 (March 31, 2019: 68,324,430) had been issued and 50,000,000 (March 31, 2019: 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 86,955,999 and the number of preference shares issued and outstanding was nil.

The number of options issued under the Company’s Long Term Stock Incentive Plan and outstanding as at March 31, 2020 was 1,362,188 (March 31, 2019: 1,362,188) and the number of warrants outstanding was nil (March 31, 2019: 14,422,500). Loan facilities were in place which were convertible into a total of up to 18,000,000 (March 31, 2019: 18,361,606) ordinary shares.

## 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	24,342	18,242	6,100	-	-
Kazakhstan work programme commitments	53,207	15,628	17,187	5,188	15,204
Trade and other payables	9,611	9,611	-	-	-
Provisions	1,721	-	596	-	1,125
<b>Total contractual obligations</b>	<b>88,881</b>	<b>43,481</b>	<b>23,883</b>	<b>5,188</b>	<b>16,329</b>

## 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 2020 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, 2019. 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 and is sensitive to a fluctuation gas prices. A 20% net price reduction from the 2019 average sales price, would result in a reduction of \$2.5 million in gas revenues based on the 2019 gas sales volume of 115,000 Mcm.

The Company ceased oil production in March 2019 as the AKD-01 well reached the end of its producing life and the is not currently exposed to oil price risk.

## 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 2019 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 17 of the consolidated financial statements for the year ended December 31, 2019.

## 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; 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

<b>AKD</b>	Akkulka Deep development well in the Akkulka Exploration Contract area
<b>AOT</b>	Aral Oil Terminal LLP
<b>Bbls</b>	Barrels of oil
<b>boe/d</b>	Barrel of oil equivalent per day
<b>bopd</b>	Barrels of oil per day
<b>DSFK</b>	DSFK Special Finance Company LLP
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortisation
<b>ESP</b>	Electrical submersible pump
<b>GAAP</b>	Generally accepted accounting principles
<b>Gemini</b>	Gemini IT Consultants DMCC
<b>IFRS</b>	International Financial Reporting Standards
<b>KASE</b>	Kazakhstan Stock Exchange
<b>Klymene</b>	KBD-02 exploration well in the Kul-Bas Exploration Contract area
<b>KZT</b>	Kazakhstani Tenge
<b>m<sup>3</sup></b>	Cubic metre
<b>Mcf</b>	Thousand cubic feet
<b>Mcf/d</b>	Thousand cubic feet per day
<b>Mcm</b>	Thousand cubic metres
<b>Mcm/d</b>	Thousand cubic metres per day
<b>MD&amp;A</b>	Management's Discussion & Analysis
<b>NPV</b>	Net present value
<b>NEX</b>	NEX Board of the TSX Venture Exchange
<b>Olisol</b>	Olisol Investments Limited and Olisol Petroleum Limited
<b>Q1</b>	Three month period commencing January 1 and ending 31 March
<b>Q2</b>	Three month period commencing April 1 and ending 30 June
<b>Q3</b>	Three month period commencing July 1 and ending 30 September
<b>Q4</b>	Three month period commencing October 1 and ending 31 December
<b>sq.km</b>	Square kilometre
<b>TAG</b>	Tethys Aral Gas LLP
<b>Tethys</b>	Tethys Petroleum Limited and subsidiary companies
<b>TSX</b>	Toronto Stock Exchange
<b>TSXV</b>	TSX Venture Exchange
<b>VAT</b>	Value added tax
<b>YTD</b>	Year to date cumulative
<b>\$</b>	United States Dollar
<b>\$/bbl</b>	\$ per barrel
<b>\$/Mcm</b>	\$ per thousand cubic metre