Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2019

Contents

The following MD&A is dated May 7, 2020 and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 2019. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Amounts are stated in US dollars unless otherwise noted. Additional information relating to the Company can be found on the SEDAR website *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 ("TSX"). 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)

	Twelve months ended December 31				
	2019	**2018**	**Change**	**2017**	**Change**
Oil and gas sales and other revenues	12,717	10,339	23%	7,998	29%
Profit/(loss) for the period					
– continuing operations	(8,803)	(9,355)	(6%)	(46,242)	(80%)
– discontinued operations	-	13,876	(100%)	(1,234)	(1224%)
	(8,803)	4,521	(295%)	(47,476)	(110%)
Basic and diluted profit/(loss) ($) per share					
– continuing operations	(0.13)	(0.17)	(24%)	(0.91)	(81%)
– discontinued operations	-	0.21	(100%)	(0.02)	(1150%)
	(0.13)	0.04	(425%)	(0.93)	(104%)
Adjusted EBITDA[1]	6,558	4,515	45%	(2,073)	(318%)

	As at 31 December				
	2019	**2018**	**Change**	**2017**	**Change**
Total assets	108,834	108,732	(0%)	116,923	(7%)
Cash & cash equivalents	694	3,460	(80%)	77	4394%
Short & long term borrowings	40,196	33,885	19%	31,588	7%
Total non-current liabilities	9,776	14,897	(34%)	13,737	8%
Net debt[1]	39,502	30,425	30%	31,511	(3%)
Number of ordinary shares outstanding	68,324,430	68,324,430	-	50,813,609	34%

Note 1 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 22 for details.

Twelve months 2019 versus twelve months in 2018

- Oil and gas sales and other revenues increased by 23% to $12.7 million from $10.3 million due to significantly higher oil and gas prices received from September 1, 2018. Gas revenues increased to $12.1 million from $7.7 million due to the higher gas prices although gas production was 5% lower due to the shutdown of 13 wells between September-December 2019 due to a legal dispute. Gas revenues in 2019 were approximately $2.7 million lower than expected due to the shutdown. Oil revenues decreased to $0.6 million from $2.6 million due to oil production ceasing in March 2019 as the AKD-01 well reached the end of its producing life;
- The loss for 2019 of $8.8 million from continuing operations was lower than the loss of $9.4 million in 2018 due to the higher gas revenues and lower production expenses. In 2019, a $3.8 million proposed settlement payment was expensed and non-cash finance costs were higher due to default interest rates accruing on past due loans. In 2018 exploration & evaluation expenditure of $3.8 million was written off and there was a profit from discontinued operations of $13.9 million in relating to derecognition of the assets and liabilities of the Tajikistan segment;
- Adjusted EBITDA was $6.6 million, an improvement from the $4.5 million in 2018 reflecting the increase in gas revenues from higher prices and the lower production expenses, although administrative expenses were higher due to legal fees and a release of tax accruals in 2018;
- Total assets increased marginally to $108.8 million with capital expenditure higher than depletion of producing properties, temporarily higher inventory and a lower cash balance;

Financial highlights

- Short & long term borrowings increased to $40.2 million from $33.9 million. The increase is due to accrued interest with no principal or interest payments made during the year;
- Net debt increased by 30% to $39.5 million which includes the increase in short & long term borrowings and the decrease in cash;
- The number of ordinary shares remained unchanged at 68.3 million.

Twelve months 2018 versus twelve months in 2017

- Oil and gas sales and other revenues increased by 29% to $10.3 million from $8.0 million due to significantly higher oil and gas prices received from September 1, 2018. Gas revenues increased to $7.7 million from $4.8 million due to the higher gas prices and marginally higher gas production from the addition of new wells which more than offset the decline in production from existing wells. Oil revenues decreased to $2.6 million from $3.2 million despite the higher oil prices as a result of a steep decline in oil production which was in line with expectations following the installation of a pump in the only oil producing well in May 2017 as it nears the end of its producing life;
- The profit for 2018 of $4.5 million was higher than the loss of $47.5 million in 2017 due to the higher oil and gas revenues, lower depletion charges from the lower oil production and lower operating and general and administrative costs. The 2017 result also included a loss of $4.8 million from the revaluation of two drilling rigs which were held for sale. The sale completed during 2018 resulting in a positive adjustment of $0.4 million. There was a $0.2 million deferred tax credit in 2018 compared with a credit of $3.2 million in 2017. Exploration & evaluation expenditure written off and oil & gas asset impairment charges were lower totaling $3.8 million in 2018 compared with $24.9 million in 2017. The profit for the period includes a profit from the Tajikistan business segment of $13.9 million (2017: $1.2 million loss) which has been classified as a discontinued operation.
- Adjusted EBITDA was $4.5 million, a significant improvement from the negative $2.1 million in 2017. This reflects the increase in gas revenues from higher prices and the reduced cost base of the business. This improvement is expected to continue into 2019;
- Total assets reduced to $108.7 million from $116.9 million mainly due to exploration & evaluation asset write-offs, depletion charges and a reduction in the drilling rig assets held for sale. These movements were offset by a $3.4 million increase in cash;
- Short & long term borrowings increased to $33.9 million from $31.6 million. This includes a $3.0 million reduction from repayment of rig loans offset by accrued interest on other loans, including default interest on the loans which are past due. Other than the rig loans there were no loan repayments made during the year;
- Net debt reduced by 3% to $30.4 million which includes the increase in short & long term borrowings offset by the increase in cash;
- The number of ordinary shares at the end of 2018 was 68.3 million (2017: 50.8 million). Private placements completed in September and the exercise of warrants added 17.5 million shares for approximately $4.1 million in cash and shareholders approved a 10 for 1 share consolidation on November 28, 2018 which was a requirement of the NEX.

Operational highlights

	Units	Quarter ended December 31 2019	2018	Change	Twelve months ended December 31 2019	2018	Change
Kazakhstan							
Oil	bopd	-	250	(100%)	37	526	(93%)
Gas	boe/d	823	1,908	(57%)	1,858	1,959	(5%)
Total	**boe/d**	**823**	**2,158**	**(62%)**	**1,895**	**2,485**	**(24%)**
Oil							
Production	Bbls	-	23,032	(100%)	13,496	191,912	(93%)
Oil revenue	$'000	-	691	(100%)	580	2,584	(78%)
Production costs	$'000	169	479	(65%)	1,302	2,401	(46%)
Gross margin	**$'000**	**(169)**	**212**	**(180%)**	**(722)**	**183**	**(494%)**
Gas							
Production	Mcm	12,860	29,825	(57%)	115,260	121,537	(5%)
Gas revenue net	$'000	1,252	3,203	(61%)	12,137	7,740	57%
Production costs	$'000	394	636	(38%)	1,488	1,881	(21%)
Gross margin	**$'000**	**858**	**2,567**	**(67%)**	**10,649**	**5,859**	**82%**

Oil

- There was no oil production in Q4 2019 compared with 250 bopd in Q4 2018 and for the year oil production averaged 37 bopd compared with 526 bopd in 2018, reflecting a rapid decline in production from the AKD-01 well which ceased in March 2019;
- Some oil related production costs continued to be incurred after March 2019 as the Company maintained some capacity. A gross loss from oil activities of $0.2m was incurred in Q4 2019 compared with a gross profit $0.2 million in Q4 2018 and for 2018 the loss was $0.7 million compared with a $0.2m gross profit in 2018.

Gas

- Q4 2019 gross gas production averaged 823 boe/d compared with 1,908 boe/d in Q4 2018 and 2018 gross gas production averaged 1,858 boe/d compared with 1,959 boe/d in 2017. The reduction was a result of the closing of 13 gas wells between September – December 2019 due to a legal dispute;
- Gas production costs for Q4 2019 were 65% lower whereas production was 57% lower and for the year gas production costs were 21% whereas production was only 5% lower reflecting cost reduction initiatives;
- Gas was sold at lower average prices for the quarter but for the full year gas prices were higher reflecting a significantly improved price from September 1, 2018. The price varies from month-to-month due to seasonal and supply and demand factors.
- The higher average gas price and lower production costs resulted in the gross margin from gas activities being 82% higher in 2019 than in 2018 although for Q4 2019 the margin was lower due to the closure of gas wells referred to above.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to Forward Looking Statements on page 26 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 below under - *Significant events and transactions subsequent to the year-end*;
- Finish testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and, if successful, commence oil production. Initial production during the testing period will be under a pilot testing allowance and then the wells will be shut in for a period until the production license is approved;
- Drill new oil & gas wells to increase production levels and revenues; and
- Use cash flow from operations to meet 2020 capital expenditure plans, operating expenses and debt obligations and to the extent that these cannot be funded from existing cash generation, the Company will attempt to secure outside funding. The Company has begun discussions with new parties regarding the provision of funding with the hope this can be used to prepay the former AGR loan obligation at a discounted price.

Significant events and transactions for the year

- *Definitive Agreement for Acquisition of Control*

  On March 29, 2019 the Company announced that it had signed a binding arrangement agreement with respect to a potential acquisition by Jaka Partners FZC (“Jaka”) of Tethys’ outstanding ordinary shares it did not already own pursuant to a scheme of arrangement under the companies law of the Cayman Islands, and applicable Canadian securities laws. Such proposed acquisition is referred to hereafter as the "Proposed Transaction".

  The Proposed Transaction received the required approval of the NEX board of the TSX Venture Exchange (the "NEX"), shareholders at a special meeting convened for the purpose held on June 28, 2019, the Grand Court of the Cayman Islands on July 16, 2019 and the Ministry of Energy of the Republic of Kazakhstan on August 29, 2019.

  On September 9, 2019 the Company announced that Jaka had exercised its contractual right to terminate the arrangement agreement by delivering a termination notice to Tethys. The Proposed Transaction was therefore cancelled and the scheme of arrangement will not be implemented. Tethys understands that the Acquiror was not prepared to proceed with the Proposed Transaction whilst the dispute with DSFK Special Finance Company LLP (“DSFK”) remained unresolved, see below for further details.

- *Drilling Plans for Klymene Prospect*

  On June 25, 2019 the Company announced plans to drill the KBD-02 (“Klymene”) prospect commencing mid-July 2019. The well was planned to be drilled to a depth of between 2,500 – 3,000 metres and was expected to take around four months to drill with testing to follow.

  Drilling was completed in December and on February 8, 2020 the Company announced that the testing process was underway but was delayed whilst awaiting notification of the contract extension (see subsequent events below) and due to challenging winter weather and poor roads leading to the well-site. A further announcement will be made when testing results are available.

  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.

- *Annual General and Special Meeting*

  On June 28, 2019 the Company held its 2019 Annual General and Special Meeting and all resolutions were passed on a poll at the meeting.

- *Update on Kazakhstan Loan*

  On August 24, 2019 the Company provided an update to its announcement of April 20, 2018 regarding its Kazakhstan subsidiary, Tethys Aral Gas LLP ("TAG"), DSFK and a loan originally provided to Eurasia Gas Group LLP ("EGG") by RBK Bank JSC ("RBK") in 2012.

In 2012, TAG pledged certain of its oil and gas assets as collateral for RBK loans to EGG including gas pipelines, gas compressors and other property assets. The assets of the Aral Oil Terminal LLP (“AOT”) in which the Company has a 50% interest were also pledged. TAG’s exploration and production contracts under which it is entitled to produce oil and gas were not pledged. EGG was TAG's former oil customer and acted as a conduit, advancing certain of the funds received from RBK to TAG and AOT as loans, which were used by TAG to fund its oil & gas operations, including the drilling of wells, and by AOT in the construction of an oil terminal. Tethys management believes EGG’s loan to TAG has been fully repaid by TAG (although the AOT loan remains outstanding) but understands that EGG has not fully repaid its loans to RBK.

Tethys understands that the ordinary shares in the Company which Olisol Petroleum Limited (“Olisol” an affiliate of EGG) owns have been pledged as security for further loans made by RBK Bank to EGG in 2016 of $11 million and that the owners of EGG and Olisol gave personal guarantees to RBK for these further loans. Tethys does not believe DSFK has any rightful claim against TAG’s assets in respect of these further loans by DSFK to EGG. The Company understands that part of this loan was used by Olisol to provide a working capital loan to Tethys. This loan was expected to be converted into Tethys ordinary shares pursuant to an investment agreement in 2016, however, Olisol failed to fulfil its obligations under the investment agreement by the longstop date in October 2016 and the working capital loan which has a current balance of approximately USD7 million remained outstanding.

In December 2017, RBK's loans to EGG were assigned to DSFK (an affiliated company of RBK) following a restructuring of RBK. DSFK wrote to EGG on April 5, 2018 to demand repayment of the loans because of EGG's failure to make certain scheduled repayments. On the same date, DSFK wrote to TAG regarding EGG's default and subsequent failure to repay the loans and informed TAG that it would take all measures to collect the debts, including but not limited to court collateral collection on the pledged assets.

Following a ruling by the Supreme Court of the Republic of Kazakhstan on December 29, 2017 in favour of TAG, which established that TAG had paid back the monies it had received from EGG, TAG sought to have its asset pledges cancelled but was unsuccessful, in part, due to EGG not having repaid its loans to RBK.

Tethys did not have transparency into what payments or loan drawdowns were being made by EGG to RBK and whether payments made by TAG to EGG went to make loan payments to RBK.

Tethys received further information following a court ruling on January 4, 2019 where DSFK applied for and received court approval to take enforcement action against EGG, its principals Alexander Skripka, Fedor Ossinin and Alexander Abramov as well as TAG and AOT (the “Defendants”). The Defendants appealed against the court decision however the appeal court upheld the earlier decision on July 1, 2019.

Tethys had understood that EGG and DSFK would be prepared to enter into a settlement agreement as proposed and set out in draft form as Schedule H to the arrangement agreement dated March 19, 2019 between the Company and Jaka Partners FZC, which provided for Tethys issuing 18 million ordinary shares to Olisol in exchange for settlement of the circa. $7 million working capital loan and a release of TAG’s asset pledges, however, Olisol and DSFK made subsequent demands beyond the terms of Schedule H.

Operational Review - continued

EGG and DSFK subsequently proposed a different workout solution whereby TAG would agree to provide oil production to EGG in sufficient volumes and at prices that would allow EGG to repay the full amounts still owing to DSFK and would involve TAG implicitly guaranteeing EGG's repayment obligations to DSFK including the $11 million loan which TAG has no responsibility for. This would also have required Tethys to issue 18 million ordinary shares to Olisol to repay the c.$7 million working capital loan. While the Tethys board and shareholders approved the issuance of 18 million shares to Olisol to settle the working capital loan and for a full release of TAG's asset pledges as part of the proposed Schedule H settlement agreement, it did not agree to provide oil in volumes and at prices that would allow EGG to repay the full amount of its approximately $18 million loan owing to DSFK. The board refused this additional obligation and Tethys made alternative proposals to have TAG's asset pledges released including a buy-out of the pledge agreements or a purchase of the EGG loan from DSFK but so far Tethys proposals have been rejected by DSFK.

- *DSFK Dispute and Gas Production*

On August 23, 2019 DSFK sent a letter to TAG's gas customer demanding that TAG's gas customer should discontinue its purchases of gas produced by TAG. TAG subsequently received written notification from its gas customer that, following receipt of the letter from DSFK, it intended to reduce its acceptance of gas produced by TAG by 50%.

Tethys wrote to its gas customer to explain that there was no legal basis for DSFK's demand and the Company announced on September 19, 2019 that, as of that date, TAG's gas customer had not reduced its purchases of gas and it had not been necessary for TAG to stop production from any gas wells.

Following receipt of a further letter from DSFK, TAG's gas customer notified TAG of its decision to start restricting gas transportation. Regrettably, the Tethys board was informed that production from a total of thirteen of the twenty-two producing gas wells was stopped from September 23, 2019 and overall gas production reduced from approximately 373 thousand cubic meters per day to approximately 114 thousand cubic meters per day.

Tethys continued to believe that it should be possible to resolve the disputed matters with DSFK on reasonable commercial terms for TAG, to release the pledges on TAG's assets and to return gas production and sales to previous levels. At the same time, Tethys considered what legal action it could take to protect its legitimate commercial interests and assets. Tethys also had to re-evaluate its development activities and its ability to meet its financial obligations and other commitments given the significant effect on its revenues from the reduction in gas production.

Pending implementation of the transactions contemplated by the Settlement Agreement described below, Tethys was able to resume production and sales from the gas wells which were closed in September 2019 in late December 2019.

Significant events and transactions subsequent to the year-end

- *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.

On April 29, 2020 the Company agreed and entered into a further loan amendment agreement ("Second Amendment Agreement") with the new holder of the loan ("Lender"), the key terms of which are described below:

Tethys shall have the option to either:

(i) Make a repayment of the outstanding balance in the amount of US$3,000,000 on December 31, 2020, June 30, 2021 and December 31, 2021; or

(ii) Make a repayment of US$7,000,000 by August 25, 2020 upon which Tethys will receive a US$2,000,000 early payment discount and the outstanding balance will be considered repaid in full.

- *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 at the December 31, 2019 rate of exchange) 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 respected 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 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.

- *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*

  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.

Operational Review - continued

- *Covid-19*

  The Covid-19 global pandemic emerged subsequent to the end of the December 31, 2019 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 Kazakhstan domestic spot and future oil prices fell significantly subsequent to December 31, 2019 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 11, *Oil and gas properties – impairment assessment* of the Company's Consolidated Financial Statements for the year ended December 31, 2019.

Reserves

Following the completion of the annual evaluation of the Kazakhstan reserves by an independent qualified reserves evaluator, Gustavson Associates ("Gustavson"), of Colorado, USA, in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators ("NI 51-101"), the Company announced Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of "Proved" 1P reserves of 3.99 million BOE (2018: 8.12 million BOE) and "Proved and Probable" 2P reserves of 17.61 million BOE (2018: 17.07 million BOE).

The net present value after tax of the Company's 2P Kazakh reserves as at December 31, 2019 was $91.3 million (2018: $113.8 million) based on a 10% discount rate.

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations.

Operational Review - continued

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2019					2018				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	29,462	185,312	13,496	90	150	52,034	327,285	79,217	90	880
Q2	-	-	-	91	-	47,420	298,261	55,831	91	614
Q3	-	-	-	92	-	44,465	279,673	33,832	92	368
Q4	-	-	-	92	-	45,698	287,430	23,032	92	250
Total	**29,462**	**185,312**	**13,496**	**365**	**37**	**189,617**	**1,192,649**	**191,912**	**365**	**526**

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 (Q4 2018: 250 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 four new deep wells AKD-12, 13, 14 and 15.

During the year the Company worked over the nearby AKD-03 well, however, whilst oil was confirmed present the water content was approximately 96% and it was not been possible to establish commercial production from this well.

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.

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 Company's oil buyer. The Company is considering its options with regard to the future of its interest in the terminal since other transportation routes are now available.

Operational Review - continued

Gas production – Kyzyloi and Akkulka Contracts

	2019				2018			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	22,942	810,068	255	1,500	13,512	477,103	150	884
Q2	24,247	856,167	266	1,568	17,057	602,295	187	1,103
Q3	24,638	869,948	268	1,577	16,219	572,676	176	1,038
Q4	3,105	109,649	34	199	16,064	567,236	175	1,028
Total	**74,932**	**2,645,832**	**205**	**1,208**	**62,852**	**2,219,310**	**172**	**1,013**
Akkulka								
Q1	11,606	409,812	129	759	15,317	540,827	170	1,002
Q2	10,190	359,816	112	659	14,200	501,397	156	918
Q3	8,777	309,924	95	561	15,407	544,022	167	986
Q4	9,755	344,463	106	624	13,761	485,908	150	880
Total	**40,328**	**1,424,015**	**110**	**650**	**58,685**	**2,072,154**	**161**	**946**
Grand total	**115,260**	**4,069,847**	**315**	**1,858**	**121,537**	**4,291,464**	**333**	**1,959**

Gas operations update

Gas production for the quarter decreased to 140 Mcm per day compared with 325 Mcm per day in Q4 2018 due to the closure of 13 wells between September-December 2019 due to a legal dispute. Gas production for 2019 averaged 315 Mcm per day compared with 333 Mcm per day.

During the year, the Company produced dry gas from a total of 22 wells at a depth of approximately 480-600m below surface, comprising 13 producing wells in the Kyzyloi field and nine 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.

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 2019.

Two new wells KYZ-122 and 123 were drilled during the year, however, there was no gas flow and the drilling of further wells has been suspended until new targets are identified from seismic data acquisition and interpretation. The Company plans to drill three new gas wells in 2020.

There had 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 should help ensure improved overall efficiency of gas production and continuity of operations should issues arise with one of the compressors.

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 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

	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018
Oil & gas sales and other revenues	1,252	3,238	3,570	4,656	3,895	2,511	2,017	1,916
Profit/(loss) for the period	(7,517)	(496)	(1,533)	743	11,074	(324)	(1,895)	(4,334)
Earnings/(loss) per share ($):	(0.11)	(0.01)	(0.02)	0.01	0.18	(0.01)	(0.04)	(0.09)
Adjusted EBITDA	(472)	1,940	1,801	3,289	2,945	1,386	529	(382)
Capital expenditure	2,986	2,502	858	455	2,759	93	365	797
Total assets	108,834	109,713	110,667	110,817	108,732	112,251	113,622	115,679
Cash & cash equivalents	694	2,368	4,002	2,379	3,460	2,800	467	29
Short & long term borrowings	40,196	38,459	36,850	35,341	33,885	32,851	32,103	33,829
Total non-current liabilities	9,776	9,723	9,994	9,450	14,897	14,247	14,359	14,784
Net debt[1]	39,502	36,091	32,848	32,962	30,425	30,051	31,636	33,800
Number of common shares outstanding	68,324,430	68,324,430	68,324,430	68,324,430	68,324,430	63,517,013	50,813,609	50,813,609

Note 1 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 22 for details.

Q4, 2019 versus Q4, 2018

- Oil and gas sales and other revenues decreased to $1.3 million from $3.9 million due to no oil sales in Q4 2019 and a 61% reduction in gas sales to $1.3 million from $3.2 million due to 13 gas wells being closed between September-December 2019 due to a legal dispute;
- The loss for Q4 2019 of $7.5 million was significantly lower than the profit of $11.1 million in 2018 due to expensing a $3.8 million proposed settlement payment, the lower oil and gas revenues, higher depletion charges, administrative expenses and finance costs. The 2018 result also included exploration & evaluation expenditure written off of $3.8 million and a profit from the Tajikistan business segment of $13.9 million which was classified as a discontinued operation;
- Adjusted EBITDA was negative $0.5 million, significantly lower than the positive $2.9 million in 2018. This reflects the decrease in oil & gas revenues and higher administrative expenses which were unusually low in 2018 due to reversals of prior years' accrued costs no longer expected to be incurred
- Total assets increased marginally to $108.8 million as capital expenditure more than offset depletion on the producing oil & gas properties. These movements were offset by a $2.8 million decrease in cash;
- Short & long term borrowings increased to $40.2 million from $33.9 million from accrued interest on loans as there were no payments of principal or interest during the period;
- Net debt increased by 30% to $9.5 million which includes the increase in short & long term borrowings and the decrease in cash;
- The number of ordinary shares at the end of 2019 remained unchanged at 68.3 million.

Financial Review

Profit/(loss) for the period

	Quarter ended December 31 2019	2018	Change	Twelve months ended December 31 2019	2018	Change
Sales and other revenue	1,252	3,895	(68%)	12,717	10,339	23%
Production expenses	(563)	(489)	15%	(2,790)	(3,667)	(24%)
Depreciation, depletion & amortisation	(797)	891	(189%)	(4,533)	(4,968)	(9%)
Exploration & evaluation expenditure written off	-	(3,752)	(100%)	-	(3,752)	(100%)
Administrative expenses	(796)	(136)	485%	(2,916)	(2,322)	26%
Share based payments	-	(13)	(100%)	-	(57)	(100%)
Gain on assets held for sale	-	-	-	-	419	(100%)
Other gains and losses	(4,302)	(883)	387%	(4,109)	(883)	365%
Foreign exchange (loss)/gain	(172)	(325)	(47%)	(453)	165	(375%)
Finance costs	(1,765)	(999)	77%	(6,401)	(4,820)	33%
	(8,395)	(5,706)	47%	(21,202)	(19,885)	7%
Loss before taxation	**(7,143)**	**(1,811)**	**294%**	**(8,485)**	**(9,546)**	**(11%)**
Taxation	(373)	(1,028)	(64%)	(318)	191	(266%)
Loss for the period from continuing operations	**(7,516)**	**(2,839)**	**165%**	**(8,803)**	**(9,355)**	**(6%)**
Profit for the period from discontinued operations net of tax	**-**	**13,913**	**(100%)**	**-**	**13,876**	**(100%)**
(Loss)/profit for the period	**(7,516)**	**11,074**	**(168%)**	**(8,803)**	**4,521**	**(295%)**

The Company recorded a net loss after taxation of $7.5 million for Q4 2019 compared with a net profit of $11.1 million in Q4 2018 and loss of $8.8 million for 2019 (2018: $4.5 million profit), the principal variances being:

- Lower revenue in the quarter due to no oil sales and restricted gas sales due to a legal dispute now resolved. Revenue was higher for the 2019 year due to significantly improved pricing from September 1, 2018 offset by lower oil revenue due to lower production from the AKD-01 well which ceased production in March 2019 when it reached end of its producing life;

- Higher production expenses in Q4 2019 due to the large reversal of prior years' accrued costs in Q4 2018 which were no longer expected to be incurred. Notwithstanding this factor, production expenses were 22% lower for the 2019 year due to significantly lower oil production and cost reductions of 21% in gas production where production was only 5% lower for the year;

- Lower depreciation, depletion and amortization charges due to the lower levels of both oil and gas productions;

- Higher administrative expenses in Q4 2019 due to the large reversal of prior years' accrued costs in Q4 2018 which were no longer expected to be incurred and for the 2019 year due to this same factor as well as higher legal fees in relation to the terminated scheme of arrangement and legal disputes;

- A $3.8 million proposed settlement payment to DSFK Special Finance Company LLP was expensed in 2019, for further details refer to the section above *Significant events and transactions subsequent to the year-end*;

Financial Review

- No write off of exploration and evaluation expenditure in 2019 compared with $3.8 million in 2018 relating to the Georgia assets;

- Higher non-cash finance costs relating to accrued interest on borrowings; and

- In 2018, a gain on discontinued operation of the Tajikistan segment.

Further variances between the periods are discussed below.

Sales & other revenue

	Quarter ended December 31			Twelve months ended December 31		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
By region and type						
Kazakhstan - Oil	-	691	(100%)	580	2,584	(78%)
Kazakhstan - Gas	1,252	3,203	(61%)	12,137	7,740	57%
Kazakhstan - Other	-	1	(100%)	-	15	(100%)
Total	**1,252**	**3,895**	**(68%)**	**12,717**	**10,339**	**23%**

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 is determined at the wellhead where the oil is sold and therefore the Company incurred no transportation or marketing costs;
- There were no oil sales in the current quarter compared with revenue of $0.7 million in Q4 2018. For the 2019 year revenue was $0.6 million compared with $2.6 million in 2018. An ESP was installed in the AKD-01 well in May 2017 and production initially increased significantly to around 2,500 bopd before declining steadily until March 2019 when the well reached the end of its producing life and production ceased.

Kazakhstan - Gas revenue

- Gas revenues were 61% lower for the quarter due to 13 out of the 22 wells being closed between September-December 2019 due to a legal dispute and 5% lower for the year due to the same facto. The natural decline in production was offset by gas well and gas compressor station optimisation initiatives;
- Gas production for the quarter was sold in local currency, Kazakhstan Tenge . A significantly higher gas price was received from September 1, 2018 and the price varies from month-to-month depending on local supply and demand factors. The price received is higher over the winter months;
- Gas contracts are subject to exchange rate risk – refer to page 25 – "*Sensitivities*".

Financial Review

Production expenses

	Units	Quarter ended December 31 2019	2018	Change	Twelve months ended December 31 2019	2018	Change
Kazakhstan							
Oil production	$000's	169	479	(65%)	1,302	2,401	(46%)
Gas production	$000's	394	636	(38%)	1,488	1,881	(21%)
Other	$000's	87	(626)	114%	87	(615)	(114%)
Total	**$000's**	**650**	**489**	**33%**	**2,877**	**3,667**	**(22%)**
Oil							
Net production	bbls	-	23,032	(100%)	13,496	191,912	(93%)
Cost	$/bbl	n/a	20.80	n/a	96.47	12.51	671%
Gas							
Production	boe	75,690	175,535	(57%)	678,351	715,289	(5%)
Cost	$/boe	5.21	3.62	44%	2.19	2.63	(17%)
Weighted average cost per boe	$/boe	7.44	5.62	32%	4.03	4.72	(15%)

Kazakhstan – oil production

Oil production costs incurred in Q4 2019 were much reduced following the end of production from the AKD-01 well in March 2019. Whilst there was no production in the current quarter the Company continued to incur some costs as it seeks to re-establish production from other wells and maintain capability. Production costs were $0.2 million for the quarter compared with $0.5 million in Q4 2018 and $1.3 million for the year compared with $2.4 million for 2018, a reduction of 46%.

Kazakhstan – gas production

Gas production costs decreased in the current quarter by 38% and 21% for the year due to a weakening of the Kazakhstan Tenge and also cost efficiencies, 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.

Other production expenses

In Q4 2018, the company released accruals it made more than five years' ago for estimated taxes which are no longer considered to be required. The resulting credit of $0.6 million in Q4 2018 was been shown separately from oil and gas production expenses as 'Other production expenses'. Other production expenses in 2019 comprised estimated accruals penalties for work program penalties.

Depreciation, depletion and amortization (DD&A)

DD&A for the quarter was $0.8 million compared with a $0.9 million credit in Q4 2018, reflecting a revision of estimate in 2018, and was $4.5 million for 2019 (2018: $5.0 million) relating to the Kazakh producing oil & gas properties. The decrease in DD&A expense for 2019 expense is mainly a result of the lower level of both oil and gas production.

Financial Review

Administrative expenses

	Quarter ended December 31			Twelve months ended December 31		
	2019	2018	Change	2019	2018	Change
Staff	369	353	5%	1,271	1,904	(33%)
Non-executive director fees	69	17	306%	220	212	4%
Professional fees	197	12	1542%	690	286	141%
Other taxes and fees	65	(160)	(141%)	26	(274)	(109%)
Other administrative expenses	96	(86)	(212%)	709	194	265%
Total	**796**	**136**	**485%**	**2,916**	**2,322**	**26%**
G&A expenses per boe ($)	10.52	0.68	1447%	4.21	2.56	64%

- Staff costs increased marginally in the quarter but were 33% lower for the 2019 year reflecting personnel reductions;
- Professional fees were higher due to legal fees associated with the scheme of arrangement and legal disputes. 2018 also included a credit from release of accruals no longer required; and
- Other administrative expenses include office costs, travel, regulatory costs, insurance, investor relations, mandatory socio-economic contributions in Kazakhstan, vehicles costs and bank charges. The prior year amount was lower than normal due to releases of prior years' accrued costs no longer expected to be incurred.

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the functional 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 also 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 higher due to accumulating interest on loans where no repayments of principal or interest have been made in either period, apart from the rig loans which were fully repaid in May 2018.

Taxation

Taxation is mainly non-cash revision of deferred tax estimates due to property, plant & equipment timing differences for accounting and tax purposes and tax losses carried forward.

Liquidity and Capital Resources

The Company reported a loss of $8.8 million for the year ended December 31, 2019 (2018: $4.5 million profit) and an accumulated deficit as at that date of $365.7 million (December 31, 2018: $356.9 million) and negative working capital of $47.1 million (December 31, 2018: negative $30.9 million). In addition, the Company reported cash flow from operating activities before tax of $5.0 million for the year ended December 31, 2019 (2018: $1.0 million). The Company also has various commitments and contingencies as described in note 19 of the 2019 consolidated financial statements. These include work program commitments for its oil & gas licenses which have not been fully met potentially putting those licenses at risk of being revoked.

Financial Review

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 and test 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 new parties regarding the provision of funding.

The Company's financial position materially improved when the Company's loan obligations were all restructured and/or converted into Tethys ordinary shares in January 2020 and a settlement agreement was signed with Olisol and DSFK in February to resolve all disputed matters with those parties. Further details are given above under the section *"Significant events and transactions subsequent to the year-end"* and details of the loans are provided in note 13 of the consolidated financial statements. Notwithstanding these transactions, 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 planned capital expenditure program which includes drilling new shallow gas wells and one deep well.

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

Financing and Going Concern

Details of the Company's financing and going concern assessment are provided in note 1 of the Consolidated Financial Statements.

Cash Flow

	Quarter ended December 31			Twelve months ended December 31		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Net cash from operating activities	**475**	**624**	**(24%)**	**5,015**	**1,144**	**338%**
Capital expenditure	(2,985)	(1,504)	98%	(6,801)	(2,759)	147%
Net changes in working capital	757	(448)	(269%)	(1,213)	(151)	703%
Other investing cash flows	150	(98)	253%	(52)	4,084	(101%)
Net cash (used in)/from investing activities	**(2,078)**	**(2,050)**	**1%**	**(8,066)**	**1,012**	**(897%)**
Loan principal and interest payments	-	-	-	-	(3,261)	(100%)
Proceeds from equity, net of costs	-	1,490	(100%)	-	4,076	(100%)
Net cash from financing activities	**-**	**1,490**	**(100%)**	**-**	**815**	**(100%)**
Effect of exchange rates	(71)	596	(112%)	285	415	(31%)
Net (decrease)/increase in cash	**(1,674)**	**660**	**(354%)**	**(2,766)**	**3,383**	**(182%)**
Cash & cash equivalents at beginning of period	2,368	2,800	(15%)	3,460	77	4394%
Cash & cash equivalents at end of period	**694**	**3,460**	**(80%)**	**694**	**3,460**	**(80%)**

Financial Review

Operating activities

Net cash from operating activities in the current quarter and year was higher due to higher receipts for gas sales and lower payments for operating costs following cost reductions.

Investing activities

Capital expenditure comprised payment of debts due for gas wells drilled in H2 2017, the re-entry of the AKD-03 oil well, drilling costs of the Klymene exploration well and seismic acquisition in the Akkulka contract area and in the prior year payments for the shallow gas well drilling program.

Other investing cash flows in 2018 of $4.1 million included $3.9 million proceeds from the sale of two drilling rigs.

Financing activities

There were no loan payments in the quarter or current year. In the prior year loan payments comprise full repayment of the rig loans in May 2018.

The Company raised $4.1 million during the prior year from the issuance of ordinary shares. No proceeds from equity were received in 2019.

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 – *Summary of Significant Accounting Policies* of the December 31, 2019 Consolidated Financial Statements. Refer to note 4 – *Critical Judgments and Accounting Estimates* of the December 31, 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 "Loss or Profit before Interest, Tax, Depreciation, Amortization, and non-cash items" and is calculated on the results of continuing operations. It provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are depreciated and amortized, or how results are taxed in various jurisdictions. The reconciliation of Adjusted EBITDA to Loss for the Period is as follows:

	Quarter ended December 31			Twelve months ended December 31		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Loss before taxation	**(7,143)**	**(1,811)**	**294%**	**(8,485)**	**(9,546)**	**(11%)**
Depreciation, depletion and amortization	797	(891)	(189%)	4,533	4,968	(9%)
Exploration and evaluation expenditure written off	-	3,752	(100%)	-	3,752	(100%)
Share based payments	-	13	(100%)	-	57	(100%)
Loss on revaluation of assets held for sale	-	-	-	-	(419)	(100%)
Other gains and losses	4,109	883	365%	4,109	883	365%
Finance costs - net	1,765	999	77%	6,401	4,820	33%
Adjusted EBITDA	**(472)**	**2,945**	**(116%)**	**6,558**	**4,515**	**45%**

Financial Review

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 December 31, 2019 Consolidated Financial Statements.

	As at December 31		
	2019	**2018**	**Change**
Total financial liabilities - borrowings	40,196	33,885	19%
Less: cash and cash equivalents	(694)	(3,460)	(80%)
Net debt	**39,502**	**30,425**	**30%**
Total equity	47,454	56,257	(16%)
Total capital	**86,956**	**86,682**	**0%**

Net debt increased by 30% to $39.5 million in 2019 due to accrued interest on loans as there were no loan repayments made during the year. The reduction in net debt also includes a decrease in cash and cash equivalents of $2.8 million in 2019 which is analysed above in the section *Cash Flow*.

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

The number of options issued under the Company's Long Term Stock Incentive Plan and outstanding as at December 31, 2019 was 1,362,188 (2018: 1,362,188) and the number of warrants outstanding was nil (2018: 14,422,500). Loan facilities were in place which were convertible into a total of up to 18,361,606 (2018: 18,361,606) ordinary shares. These loans were converted in full in January 2020.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

Disclosure of the Company's transactions with related parties are provided in note 17 of the Consolidated Financial Statements.

Financial Review

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments and work program commitments are provided in note 19 of the Consolidated Financial Statements.

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

			Payments due by period		
Contractual obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	40,196	40,196	-	-	-
Kazakhstan work program commitments	53,207	15,628	17,187	5,188	15,204
Trade and other payables	10,367	10,367	-	-	-
Provisions	2,426	161	438	-	1,827
Total contractual obligations	**106,196**	**66,352**	**17,625**	**5,188**	**17,031**

Risks, uncertainties and other information

Risk management is carried out by senior management 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 Kyzyloi and Akkulka gas fields under gas sales contracts denominated in Tenge and is sensitive to a fluctuation in exchange rates. 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 Consolidated 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 Judgments and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Company does not have 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

AKD	Akkulka Deep development well in the Akkulka Exploration Contract area
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
DSFK	DSFK Special Finance Company LLP
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
Gemini	Gemini IT Consultants DMCC
Gustavson	Independent qualified reserves evaluator, Gustavson Associates, of Colorado, USA
IFRS	International Financial Reporting Standards
Jaka	Jaka Partners FZC
KASE	Kazakhstan Stock Exchange
Klymene	KBD-02 exploration well in the Kul-Bas Exploration Contract area
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
NI 51-101	National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators
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
RBK	RBK Bank JSC
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
Tethys	Tethys Petroleum Limited and subsidiary companies
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
VAT	Value added tax
YTD	Year to date cumulative
$	United States Dollar
$/bbl	$ per barrel
$/Mcm	$ per thousand cubic metre