Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2020

Contents

The following MD&A is dated April 30, 2021 and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 2020. 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 TSX Venture Exchange ("TSXV"). 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				
	2020	**2019**	**Change**	**2018**	**Change**
Oil and gas sales and other revenues	13,040	12,717	3%	10,339	23%
(Loss)/profit for the period					
– continuing operations	(38,521)	(8,803)	(338%)	(9,355)	(6%)
– discontinued operations	-	-	-	13,876	(100%)
	(38,521)	(8,803)	(338%)	4,521	(95%)
Earnings/(loss) ($) per share					
– continuing operations	(0.40)	(0.13)	(208%)	(0.17)	(24%)
– discontinued operations	-	-	-	0.21	(100%)
	(0.40)	(0.13)	(208%)	0.04	(425%)
Adjusted EBITDA[1]	7,012	6,471	8%	4,515	43%

	As at 31 December				
	2020	**2019**	**Change**	**2018**	**Change**
Total assets	53,817	108,834	(51%)	108,732	0%
Cash & cash equivalents	1,747	694	153%	3,460	(80%)
Short & long term borrowings	5,549	40,196	(86%)	33,885	19%
Total non-current liabilities	11,867	9,776	21%	14,897	(34%)
Net debt[1]	3,802	39,502	(90%)	30,425	30%
Number of ordinary shares outstanding	104,955,999	68,324,430	54%	68,324,430	-

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

Twelve months 2020 versus twelve months in 2019

- Oil and gas sales and other revenues increased by 3% to $13.0 million from $12.7 million due to significantly higher oil revenue partially offset by lower gas revenue. Oil revenue increased from $0.6 million to $2.0 million. There was an additional $2.6 million of oil sales received during the testing phase of the KBD-02 well which have been offset against the exploration asset. Gas revenues decreased from $12.1 million to $11.0 million notwithstanding production volumes being 11% higher due to lower average prices;
- Loss for the year was $38.5 million against a loss of $8.8 million in 2019. This includes an impairment charge of $57.6 million and gains of $15.0 million, mainly from early settlement of borrowings on favourable terms versus a one-off loss of $4.1 million in 2019, mainly relating to the DSFK settlement. As mentioned above, revenue was $0.3 million higher in 2020. DD&A was $0.8 million lower and finance costs were $3.8 million lower due to significantly lower debt from early 2020 when borrowings were repaid and converted to shares. There was also a net tax credit of $3.3 million related to the impairment versus a tax charge of $0.3 million in 2019;
- Adjusted EBITDA, a non-GAAP measure, was $7.0 million, an improvement from the $6.6 million in 2019 reflecting the increase in revenues and a lower foreign exchange loss. Production and administrative expenses were at a similar level to 2019;
- Total assets decreased by $55.0 million mainly due to the impairment. In addition, capital expenditure was higher than depletion of oil & gas properties, cash balance was higher and trade and other receivable balance was lower;

Financial highlights

- Short & long term borrowings decreased to $5.5 million from $40.2 million after the majority of borrowings were repaid or converted into shares of the Company in early 2020;
- Net debt, a non-GAAP measure, reduced to $3.8 million from $39.5 million which includes the decrease in short & long term borrowings and the increase in cash;
- The number of ordinary shares increased by 54% to 105.0 million due to the shares for debt transactions.

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, a non-GAAP measure, 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;
- 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, a non-GAAP measure, 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.

Operational highlights

	Units	Quarter ended December 31 2020	2019	Change	Twelve months ended December 31 2020	2019	Change
Kazakhstan							
Oil	bopd	1,743	-	-	1,053	37	2746%
Gas	boe/d	2,129	823	159%	2,071	1,858	11%
Total	**boe/d**	**3,872**	**823**	**370%**	**3,124**	**1,895**	**65%**
Oil							
Production	Bbls	160,373	-	-	384,228	13,496	2747%
Oil revenue	$'000	1,993	-	-	1,993	580	244%
Production costs	$'000	216	169	28%	421	1,302	(68%)
Gross margin	**$'000**	**1,777**	**(169)**	**(1151%)**	**1,572**	**(722)**	**(318%)**
Gas							
Production	Mcm	33,292	12,860	159%	128,436	115,260	11%
Gas revenue net	$'000	2,419	1,252	93%	11,045	12,137	(9%)
Production costs	$'000	505	394	28%	2,338	1,488	57%
Gross margin	**$'000**	**1,914**	**858**	**386%**	**8,707**	**10,649**	**(18%)**

Oil

- There was no oil production in Q4 2019 compared with 1,743 bopd in Q4 2020 and for the year oil production averaged 1,053 bopd compared with 37 bopd in 2019. In 2019 production from the AKD-01 well ceased in March 2019 whereas in 2020 test production from the KBD-02 exploration well commenced in April;
- Some oil related production costs continued to be incurred after March 2019 as the Company maintained some capacity in anticipation of recommencing production which began again in April 2020. A gross loss from oil activities of $0.2 million was incurred in Q4 2019 compared with a gross profit $1.8 million in Q4 2020 and for 2018 the loss was $0.7 million compared with a $1.6m gross profit in 2020.

Gas

- Q4 2019 gross gas production averaged 823 boe/d compared with 2,129 boe/d in Q4 2020 and 2019 gross gas production averaged 1,858 boe/d compared with 2,071 boe/d in 2020. The low production in Q4 2019 was a result of the closure of 13 gas wells between September – December 2019 due to a legal dispute which was subsequently resolved. The higher production for the year was a result of production enhancement activities and two newly drilled wells AKK 100 and AKK 101 coming onto production in September and October respectively;
- Gas production costs for Q4 2020 were 28% higher whereas production was 159% higher due to the aforementioned well closures in Q4 2019 and for the year gas production costs were 57% higher whereas production was only 11% higher. The higher costs mainly relate to personnel and also materials costs;
- Gas was sold at lower average prices for the quarter and for 2020 were around 18% lower than in 2019. The price varies from month-to-month due to seasonal and supply and demand factors.
- The higher gas production, lower average gas price and higher production costs resulted in the gross margin from gas activities being 18% lower in 2020 than in 2019, although for Q4 2019 the margin was higher due to the effect of 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 25 of this MD&A.

The Company's objective is to become a leading oil and gas exploration and production Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in Kazakhstan.

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

- Complete testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and obtain the necessary approvals to re-commence commercial oil production;

- Secure funding required to meet capital expenditure plans to the extent that these cannot be funded from existing cash generation.

- Drill new oil & gas wells to increase production levels and revenues and in particular, further develop the Kul-bas exploration contract area which includes the successful KBD-02 exploration well.

Operational Review - continued

Significant events and transactions for the year

Oil and gas operations

The testing of the KBD-02 ("Klymene") Exploration Well proved very successful and produced over 300,000 barrels during the test period. This test was limited to 90 days per producing zone. The well produced from three different zones (Lower and Upper Aptian and the Jurassic). While Tethys completely wrote down its oil reserves on the Akkulka oil field, it significantly increased its overall reserves due to the increase from the Klymene field. We would highlight the comment on page 12 when discussing the reserves report.

"Following the completion of the annual evaluation of the Kazakhstan reserves by an independent qualified reserves evaluator, McDaniel & Associates, of Calgary, Canada (2019: Gustavson Associates, 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 36.7 million BOE (2019: 3.99 million BOE) and "Proved and Probable" 2P reserves of 78.6 million BOE (2019: 17.61 million BOE). The net present value after tax of the Company's 2P Kazakh reserves as at December 31, 2020 was $364.3 million (2019: $91.3 million) based on a 10% discount rate."

Even with the impairment of $57.6 million that relates to the oil reserves in Akkulka oil field, Tethys was able to increase its 2P reserves to 78.6 million barrels in 2020 from 17.61 million barrels in 2019 and increase the NPV to $364.3 million from $91.3 million in 2019. Tethys will not be able to add the Klymene reserves to the "Total net book amount" beyond its amount of net investment. In sum, the 2020 income statement and balance sheet reflect a significant impairment while the overall reserves show a significant increase in both volume and expected value. Management's key immediate challenge is to develop the Klymene field and bring these reserves into production as soon and profitably as possible.

- *Kul-bas Exploration Contract*

  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 allowed the Company to test the KBD-02 exploration well ("Klymene") which the Company finished drilling in December 2019.

- *Testing of KBD-02 ("Klymene") Exploration Well*

  On June 8, 2020, the Company announced that the testing of the KBD-02 well had provided indications of commercial amounts of oil. The well test produced approximately 20,000 barrels of oil to the announcement date and averaged over 400 barrels/day for the previous week (using a 9 mm choke). The testing focused first on the Jurassic zone as the widest zone of three potential zones. This zone was tested until July 7 followed by the next zone.

  On July 14, 2020, the Company announced completion of its testing of the first zone of KBD-02 and the initiation of testing of the second potential zone. The testing of the first zone was done using different choke sizes ranging from 5mm and 11mm. The 11mm choke increased production to over 700 bopd from the previously announced 400 bopd (using a 9mm choke). The testing of the second zone resulted in an average production rate of 15.5 tons per hour or 372 tons per day (approximately 2,700 barrels per day) using an 11 mm choke. Using a 9 mm choke the average production rate was 276 tons per day. The oil quality is high, the pressure very good and at present there is no water present.

On August 20, 2020, the Company announced that over the prior 20 days the second zone had produced approximately 2,000 barrels of oil per day using different choke sizes. The most recent testing used a 11 mm choke and produced approximately 2,800 barrels of oil per day over the previous 7 days. The pressure remained strong through four different choke sizes used during the testing.

On October 7, 2020, the Company announced the most recent testing continued to produce approximately 3,000 barrels per day using a 12 mm choke. In total, the well had produced over 200,000 barrels to that date.

On October 14, 2020, the Company announced that Tethys had started the production testing of the third zone of KBD-02. The well was perforated on October 11, 2020. The initial testing used chokes ranging from 5mm to 15 mm. The rate of production ranged from approximately 630 barrels per day using the 5 mm choke to 4,185 barrels per day using the 15 mm choke.

In December the well was closed whilst the mandatory reporting and approvals are obtained to commence commercial oil production. This is anticipated to be an approximately six month process with production starting from around the middle of 2021.

- *Drilling and seismic acquisition update*

On October 7, 2020, the Company announced that the recently drilled gas wells at Akkulka, AKK-100 and AKK-101 successfully produced gas at a rate of approximately 60,000 cubic meters per day and they have been tied into pipelines and are producing.

On October 14, 2020, the Company announced that activities for the drilling of AKD-12 (depth - 1200m) and AKD-33 gas wells were moving forward. The AKD-12 well was believed to have potential for an oil find in addition to gas. Spudding of the wells was announced on October 26, 2020. Unfortunately, the subsequent testing of the wells was unsuccessful and the Company has does not currently plan to perform any further work on these wells.

Management does not anticipate drilling any more wells in the Kul-bas field until after 3D seismic and interpretation has been acquired. Tethys has entered into contracts for the acquisition, interpretation and analysis for 3D seismic for the Klymene field and additional acreage in the Kyzloi/Akulka fields. The estimated cost is about $3.5 million with an expectation of this work being completed by the end of June, 2021.

- *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 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 and the Company has been taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. To date, the Company has not suffered any significant adverse effect from Covid-19 and, at this time.

- *Reduction in oil prices*

  Brent and domestic spot and future oil prices fell significantly during the period due to global 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, of the Company's consolidated financial statements.

Corporate financing transactions

During 2020, the Company settled all of the borrowings it had in place at the beginning of the year by a combination of renegotiating loan terms to achieve discounts, repayment and conversion into equity of the Company. Total gains of $13,952,000 arose from these efforts, as described in further detail below.

- *First 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 its loan with outstanding balance of $14.1 million, the key terms of which are described below:

  (1) The lender provided a waiver of all past defaults;
  (2) The maturity date was extended from January 31, 2017 to December 31, 2021;
  (3) Repayment of $1,000,000 was payable contingent upon certain future events;
  (4) A discount of $500,000 would be applied to the outstanding balance upon payment of the $1,000,000;
  (5) The Company would 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 was changed from 20% to 10.5%, payable monthly;
  (7) An early payment discount would apply if Tethys made any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance would 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 would 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. The above-mentioned loan modification and early repayment resulted in total gains of $6,935,000 being recognised by the Company.

- *Second Loan Restructuring*

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

(1) The lender provided a waiver of all past defaults;
(2) The maturity date was extended from June 30, 2017 to June 30, 2021;
(3) The outstanding loan balance was reduced from $12.1 million to $9.0 million;
(4) The Loan which bore a default interest rate of 18% no longer bears interest; and
(5) Twelve monthly repayments of $750,000 would 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 were 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 May 7, 2020, the Company announced a Second Amendment Agreement relating to the Loan whereby the outstanding loan balance became repayable in three instalments of $3.0 million on December 31, 2020, June 30, 2021 and December 31, 2021.

On August 25, 2020, the Company entered into a further amendment of the Loan. The amendment included an option to make a repayment of $4 million by August 31, 2020, which the Company duly made, and a repayment of $3 million by December 31, 2020 as full repayment of the loan.

On October 14, 2020, the Company announced that a further agreement had been signed allowing Tethys to receive a discount of $70,000 if it repaid the remaining $3 million prior to October 19, 2020. Tethys took advantage of this opportunity and retired the Loan from cash on hand. The above-mentioned loan modification and early repayment resulted in total gains of $6,114,000 being recognised by the Company.

- *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. The loan conversion resulted in total gains of $903,000 being recognised by the Company.

- *Settlement Agreement*

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

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

(1) Tethys and Olisol agreed to discontinue the Canadian lawsuit commenced by Tethys on January 27, 2017 with no order as to costs and the parties agreed not to bring any further claims in respect of the disputed matters in the Canadian lawsuit;

(2) Tethys agreed 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 equated to a price of $0.41 per ordinary share. There was no gain or loss arising from this element of the Settlement Agreement;

(3) Olisol agreed 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 were to be delivered by Olisol to DSFK;

(4) Olisol agreed, 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, Tethys Aral Gas LLP (“TAG”), agreed to pay DSFK a settlement payment of KZT 1,434,692,762 (approximately $3.4 million) to cancel and release TAG from all obligations under the pledge agreements under which TAG’s gas transportation assets were pledged to DSFK. The cost to the Company was recognised in its 2019 consolidated financial statements;

(6) The settlement payment referred to in (5) above was to be funded from the proceeds of a convertible debenture which Tethys agreed to issue to Gemini and which Gemini agreed to subscribe for (the “Debenture”). The Debenture would 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 would be subject to the approval of the TSXV, assuming that Tethys was able to move its listing from the NEX to the TSXV;

(7) Olisol agreed to pay TAG KZT 227,223,284 (approximately $0.6 million) to settle unpaid oil sales debts owing to TAG;

(8) DSFK and Olisol agreed 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, would 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 were 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, Gemini planned to grant William Wells a six month option to purchase 50% of the Debenture at cost, plus accrued interest.

On June 8, 2020, the Company announced that the Kazakhstan Supreme court had ratified the agreement effective May 26, 2020. The Company subsequently made the required financial payment of 1,434,692,762 Tenge and issued the 18 million shares necessary to complete and finalise the agreement.

Operational Review - continued

- *Completion of Debenture*

  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 were used to make the settlement payment to DSFK, repay the outstanding balance of the Khan Energy loan and for general working capital purposes.

- *Unsecured corporate loan*

  On October 26, 2020, Tethys announced that existing shareholder Gemini agreed to loan the Company approximately $2.5 million, for 2 years at a rate of 6.0%. The loan is unsecured and can be repaid without penalty if cheaper financing can be found. The loan was to fund Tethys' operations.

- *Gas sales prepayments*

  On April 16, 2020, the Company announced that its Kazakhstan subsidiary, TAG, had received a prepayment of approximately $7.6 million from its gas customer. A further prepayment of $7.6 million was received in October. These amounts were treated by the Company as deferred revenue and TAG continued to invoice its gas customer monthly in the normal way. The price of gas sold is determined each month in accordance with the terms of the existing gas sales contract and recognised as revenue when gas is delivered to the customer.

Other corporate matters

- *TSX Venture Exchange Application*

  On March 17, 2020, the Company announced that it had 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 was conditional on completion of the convertible debenture with Gemini and the shares for debt transaction with Olisol.

  On July 8, 2020, the Company announced that it had received approval to graduate to a Tier 2 'Oil & Gas' Issuer on the TSXV.

Significant events and transactions subsequent to the year-end

- *Private placement*

  In order to fund short term cash obligations, the Company completed a private equity placement for 2,592,115 ordinary shares at 0.67 CAD per share (C$1,736,717), approximately $1.4 million. These proceeds will be used to fund previously incurred drilling expenses, 3D and 2D seismic expenses as well as general and administrative expenses. The placement is to Pope Investments II, LLC, an investment fund managed by Pope Asset Management, LLC. William Wells, the Chairman of Tethys Petroleum is the President of Pope Asset Management, LLC and has a minority ownership interest in Pope Investments II, LLC.

Operational Review - continued

Reserves

Following the completion of the annual evaluation of the Kazakhstan reserves by an independent qualified reserves evaluator, McDaniel & Associates, of Calgary, Canada (2019: Gustavson Associates, 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 36.7 million BOE (2019: 3.99 million BOE) and "Proved and Probable" 2P reserves of 78.6 million BOE (2019: 17.61 million BOE).

The net present value after tax of the Company's 2P Kazakh reserves as at December 31, 2020 was $364.3 million (2019: $91.3 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.

Results of Operations and Operational Review - Kazakhstan

Oil production

	2020					2019				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	-	-	-	90	-	29,462	185,312	13,496	90	150
Q2	5,809	36,535	30,079	91	331	-	-	-	91	-
Q3	37,162	233,740	193,776	92	2,106	-	-	-	92	-
Q4	30,727	193,268	160,373	92	1,743	-	-	-	92	-
Total	**73,698**	**463,543**	**384,228**	**365**	**1,053**	**29,462**	**185,312**	**13,496**	**365**	**37**

Oil operations update

Production amounts in the table above are from the KBD-02 ("Klymene") exploration well from April 2020 and from the AKD-01 in the Akkulka area in 2019. Production from AKD-01 stopped in March 2019.

Klymene 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 which indicated 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 Klymene prospect commenced in July 2019 and was completed in December 2019 targeting a large structure in the south west of the Kul-Bas block and three horizons in the Lower Cretaceous and Upper Jurassic.

In June 2020, the Company announced that the testing of the KBD-02 well had provided indications of commercial amounts of oil. A description of the testing conducted to date is provided above under *Significant events and transactions for the nine months ended September 30, 2020.*

Operational Review - continued

On October 14, 2020, the Company announced that activities for drilling of AKD-12 (depth -1200m) was moving forward and anticipated that the drilling operations would be completed by the end of November. The AKD-12 well was believed to have potential for an oil find in addition to gas. Unfortunately, testing was unsuccessful and the Company has does not currently plan to perform any further work on the well.

Tethys also has entered into contracts for the acquisition, interpretation and analysis for 3D seismic for the Klymene field and additional acreage in the Kyzloi/Akulka fields. The estimated cost is about $3.5 million with an expectation of this work being completed by the end of June, 2021.

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 buyer until late 2016 when this arrangement ceased. The Company continues to consider its options with regard to disposing of its interest in the terminal.

Gas production – Kyzyloi and Akkulka Contracts

	2020				2019			
	Mcm	**Mcf**	**Mcm/d**	**Boe/d**	**Mcm**	**Mcf**	**Mcm/d**	**Boe/d**
Kyzyloi								
Q1	24,643	870,144	274	1,611	22,942	810,068	255	1,500
Q2	24,028	848,431	264	1,544	24,247	856,167	266	1,568
Q3	24,297	857,937	264	1,554	24,638	869,948	268	1,577
Q4	23,093	815,419	251	1,477	3,105	109,649	34	199
Total	**96,061**	**3,391,931**	**263**	**1,549**	**74,932**	**2,645,832**	**205**	**1,208**
Akkulka								
Q1	7,333	258,930	81	480	11,606	409,812	129	759
Q2	7,129	251,733	78	461	10,190	359,816	112	659
Q3	7,714	272,373	84	493	8,777	309,924	95	561
Q4	10,199	360,139	119	652	9,755	344,463	106	624
Total	**32,375**	**1,143,175**	**89**	**522**	**40,328**	**1,424,015**	**110**	**650**
Grand total	**128,436**	**4,535,106**	**352**	**2,071**	**115,260**	**4,069,847**	**315**	**1,858**

Gas operations update

Gas production for the quarter increased to 370 Mcm per day compared with 140 Mcm per day in Q4 2019.

During the period, the Company produced dry gas from a total of 23 wells at a depth of approximately 480-600m below surface, comprising 13 producing wells in the Kyzyloi field and 10 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. 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 June 8, 2020, the Company announced that it planned to drill three gas wells later in the year, assuming a relaxation of the Covid-19 quarantine restrictions. On October 7, 2020, the Company announced completion of two wells at Akkulka, AKK-100 and AKK-101 which successfully produced gas a rate of approximately 60,000 cubic meters per day and they have been tied into pipelines and are producing. Drilling of the AKD-33 gas well was completed in November but unfortunately was not successful.

On October 14, 2020, the Company announced that Tethys also has entered into contracts for the acquisition, interpretation and analysis for 3D seismic for the Klymene field and additional acreage in the Kyzloi/Akulka fields. The estimated cost is about $3.5 million with an expectation of this work being completed by the end of June, 2021.

Financial Review

Summary of Quarterly Results

	Q4, 2020	Q3, 2020	Q2, 2020	Q1, 2020	Q4, 2019	Q3, 2019	Q2, 2019	Q1, 2019
Oil & gas sales and other revenues	4,414	2,148	2,977	3,501	1,252	3,238	3,570	4,656
(Loss)/profit for the period	(35,004)	(241)	4,156	(7,432)	(7,517)	(496)	(1,533)	743
Earnings/(loss) per share ($):	(0.35)	(0.00)	0.04	(0.09)	(0.11)	(0.01)	(0.02)	0.01
Adjusted EBITDA	2,508	1,220	1,836	1,448	(472)	1,940	1,801	3,289
Capital expenditure	7,522	(1,018)	289	165	2,985	2,502	858	455
Total assets	53,817	92,304	92,678	96,421	108,834	109,713	110,667	110,817
Cash & cash equivalents	1,747	4,575	650	4,519	694	2,368	4,002	2,379
Short & long term borrowings	5,549	9,572	13,159	24,342	40,196	38,459	36,850	35,341
Total non-current liabilities	11,867	16,632	16,320	15,659	9,776	9,723	9,994	9,450
Net debt[1]	3,802	4,997	12,509	19,823	39,502	36,091	32,848	32,962
Number of common shares outstanding	104,955,999	104,955,999	104,955,999	86,955,999	68,324,430	68,324,430	68,324,430	68,324,430

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

- Quarterly gas revenue has remained relatively stable with the exception of Q4 2019 when gas wells were closed due to a legal dispute. Oil revenue from the Akkulka area ceased in Q1 2019 and oil revenue from the Kul-bas area was recognised from Q4 2020. Whilst oil sales from Kul-bas commenced in Q2 2020 they were offset against the exploration asset during the testing phase until commercial feasibility and reserves were established;
- (Loss)/profit for the period was impacted by a $15.3 million impairment charge of the Akkulka oil asset in Q1 2020 due to the lower outlook for oil prices and a further impairment of $42.4 million in Q4 2020 when the asset was fully impaired as the Company does not plan to devote investment further significant investment to the area but will instead concentrate on Kul-bas. Q4 2019 included the $4.1 million cost of the DSFK settlement; Q1 2020 included a gain of $8.3 million from loan modifications; a further $4.0 million was recognised in Q2 2020 and a further $2.8 million in Q4 2020. Finance costs were high throughout 2019 due to penalty interest rates but reduced significantly from Q1 2020 when most borrowings were repaid and/or converted to equity.
- Adjusted EBITDA, a non-GAAP measure, has been positive every quarter except for Q4 2019 when it turned negative due to the reduction in gas sales as wells were closed due to the legal dispute;
- Total assets reduced in Q1 2020 and Q4 2020 mainly due to the Akkulka impairment;
- Short & long term borrowings and net debt, a non-GAAP measure, increased until Q1 2020 due to high interest costs but thereafter reduced significantly when borrowings were restructured. Total non-current liabilities increased from Q1 2020 due to borrowings due to loan restructuring;
- Share were issued in Q1 2020 as part of the conversion of borrowings into equity.

Q4, 2020 versus Q4, 2019

- Oil and gas sales and other revenues increased to $4.4 million from $1.3 million due to $2.1 million of oil revenue in Q4 2020 compared with no oil sales in Q4 2019 and an increase in gas sales to $2.4 million from $1.3 million due to 13 gas wells being closed between September-December 2019 due to a legal dispute;

Financial Review - continued

- The loss of $35.0 million for Q4 2020 compares with a loss of $7.5 million for Q4 2019 mainly due to a $42.4 million impairment charge in Q4 2020, which was offset by higher revenue, lower finance costs and a lower DD&A expense. In addition, in Q4 2019 a loss of $3.8 million was recognised for the proposed DSFK settlement payment made in Q2 2020;
- Adjusted EBITDA, a non-GAAP measure, was $2.5 million compared with negative $0.3 million in Q4 2019, the improvement mainly being due to the higher revenue;
- Total assets decreased by $55.0 million mainly due to the impairment. In addition, capital expenditure was higher than depletion of oil & gas properties, cash balance was higher and trade and other receivable balance was lower;
- Short & long term borrowings decreased to $5.5 million from $40.2 million after the majority of borrowings were repaid or converted into shares of the Company in early 2020;
- Net debt, a non-GAAP measure, reduced to $3.8 million from $39.5 million which includes the decrease in short & long term borrowings and the increase in cash;
- The number of ordinary shares increased from 68.3 million to 105.0 million due to the conversion of borrowings into equity.

Loss for the period

	Quarter ended December 31			Twelve months ended December 31		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Sales and other revenue	4,414	1,252	253%	13,040	12,717	3%
Production expenses	(741)	(650)	14%	(2,779)	(2,877)	(3%)
Depreciation, depletion & amortisation	(150)	(710)	(79%)	(3,634)	(4,446)	(18%)
Impairment charges	(42,350)	-	-	(57,630)	-	-
Administrative expenses	(896)	(796)	13%	(3,089)	(2,916)	6%
Other gains and losses	2,769	(4,302)	(164%)	15,030	(4,109)	(466%)
Foreign exchange loss	(318)	(172)	85%	(160)	(453)	(65%)
Finance costs	(325)	(1,765)	(82%)	(2,645)	(6,401)	(59%)
	(42,011)	(8,395)	400%	(54,907)	(21,202)	(101%)
Loss before taxation	**(37,597)**	**(7,143)**	**426%**	**(41,867)**	**(8,485)**	**393%**
Taxation	2,841	(373)	(862%)	3,346	(318)	(1152%)
Loss for the period	**(34,576)**	**(7,516)**	**360%**	**(38,521)**	**(8,803)**	**338%**

The Company recorded a loss after taxation of $34.6 million for Q4 2020 compared with a net loss of $7.5 million in Q4 2019 and loss of $37.4 million for 2020 (2019: $8.8 million loss), the principal variances being:

- Higher revenue in the quarter due to $2.0 million of oil sales whereas oil sales were nil in Q4 2019 and higher gas revenue as gas sales in Q4 2019 were severely restricted to a legal dispute, now resolved. Revenue was higher for the 2020 year due to oil sales from the successful KBD-02 exploration which more than offset the reduction in gas sales. Gas sales were lower due to lower average prices in 2020 although production levels were higher than in 2019;

- Lower depreciation, depletion and amortisation charges due to a mix of factors, namely changes in oil & gas reserve estimates, higher level of gas production, cessation of oil production from Akkulka in 2019 and also commencement of oil production from the newly drilled KBD-02 well;

- Impairment charge of $57.6 million from the full impairment of the Akkulka oil assets;

Financial Review - continued

- Gains of $15.0 million for the year and $2.7 million for the quarter relating to early settlement of debt on favourable terms and reversal of cost accruals no longer required against a one off loss of just over $4 million in 2019 relating mainly to the $3.8 million DSFK settlement;

- Significantly lower finance costs due to the lower level of borrowings following settlement of most loans in early 2020; and

- A tax credit in 2020 arising from the Akkulka oil impairment against a tax charge in 2019.

Further variances between the periods are discussed below.

Sales & other revenue

	Quarter ended December 31			Twelve months ended December 31		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
By region and type						
Kazakhstan - Oil	1,993	-	-	1,993	580	244%
Kazakhstan - Gas	2,421	1,252	93%	11,047	12,137	(9%)
Total	**4,414**	**1,252**	**253%**	**13,040**	**12,717**	**3%**

Kazakhstan – Oil revenue

- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurred no transportation or marketing costs;
- All oil can only be sold in the domestic Kazakhstan market and is priced in local currency, the Tenge;
- Oil production in 2019 was from the AKD-01 well in the Akkulka area until March 2019 when the well ceased producing. In 2020 all production was from the successful KBD-02 exploration well in the Kul-bas area. Testing of this well began in April 2020 and concluded in December. In addition to the $2.0 million revenue shown in the table above there was $2.6 million of oil sales credited against the exploration asset until reserves and commerciality of the field were formally established.

Kazakhstan - Gas revenue

- Gas revenues were 93% higher for the quarter due to 13 out of the 22 wells being closed between September-December 2019 due to a legal dispute and 9% lower for the year due to a lower average price in 2020 which more than offset the increase in production which was 11% higher in 2020 than in 2019;
- Gas production is sold in local currency, Kazakhstan Tenge . The price varies from month-to-month depending on local supply and demand factors. The price received is typically higher over the winter months;
- Gas contracts are subject to exchange rate risk – refer to page 24 – "*Sensitivities*".

Financial Review - continued

Production expenses

	Units	Quarter ended December 31 2020	2019	Change	Twelve months ended December 31 2020	2019	Change
Kazakhstan							
Oil production costs	$000's	225	169	33%	430	1,302	(67%)
Gas production	$000's	516	394	31%	2,349	1,488	58%
Other	$000's	-	87	(100%)	-	87	(100%)
Total	**$000's**	**741**	**650**	**14%**	**2,779**	**2,877**	**(3%)**
Oil production costs capitalised[1]	$000's	-	-	-	179	-	-
Oil							
Net production	bbls	160,373	-	-	384,228	13,496	2747%
Cost	$/bbl	1.40	n/a	-	1.58	96.47	(96%)
Gas							
Production	boe	195,939	75,690	159%	755,899	678,351	11%
Cost	$/boe	2.63	5.21	(50%)	3.11	2.19	42%
Weighted average cost per boe	$/boe	2.08	7.44	(72%)	2.44	4.03	(39%)

Note 1 – in accordance with the Company's accounting policy and industry practice oil production costs relating to test production from the KBD-02 well were capitalised to exploration & evaluation expenditure and not shown in the Company's income statement until 30 September 2020 when commercial reserves were determined.

Kazakhstan – oil production

Oil production costs incurred in Q4 2020 were 33% higher at $0.2 million although for the year were 67% lower at $0.4 million. Direct comparisons between the respective periods are difficult for the following reasons. In 2019 production from the AKD-01 well ceased in March 2019 after which production costs reduced, although the Company continued to maintain capacity and incur costs as it anticipated re-establishing production from new wells. Testing of the newly drilled KBD-02 exploration well began in April. Production costs for the well of $0.2 million were capitalised for the testing period until September 30, 2020 when reserves and commerciality of the well were formally established after which costs of $0.4 million were included in the profit and loss account.

Kazakhstan – gas production

Gas production costs decreased in the current quarter by 31% and 58% for the year due mainly to personnel costs and materials costs relating to production enhancement activities.

Other production expenses

Other production expenses in 2019 comprised estimated work program penalties. There were no comparable costs in 2020.

Depreciation, depletion and amortisation (DD&A)

DD&A for the quarter was $0.2 million compared with a $0.7 million charge in Q4 2019. Q4 2020 included depletion of the KBD-02 oil well as well as the gas assets. In comparison there was no oil production in Q4 2019 and gas production was significantly lower due to the closure of most wells due to a legal dispute. Q4 2020 DD&A was also impacted by the reserves evaluation performed by McDaniel Associates at December 31, 2020. DD&A expense for the year was $3.6 million compared with $4.4 million in 2019, an increase of 14%. Gas production was 11% higher in 2020 and oil production was significantly higher from the KBD-02 exploration well versus production from the AKD-01 well in 2019.

Administrative expenses

	Quarter ended December 31			Twelve months ended December 31		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Staff	415	369	14%	1,611	1,271	27%
Non-executive director fees	89	69	29%	257	220	17%
Professional fees	154	197	(21%)	507	690	(26%)
Other administrative expenses	238	161	48%	714	735	(3%)
Total	**896**	**796**	**13%**	**3,089**	**2,916**	**6%**
G&A expenses per boe ($)	2.54	10.52	(76%)	2.72	4.21	(35%)

- Staff costs increased by 14% in the quarter and 27% for the 2020 year reflecting higher personnel costs in Kazakhstan. At the Corporate level staff costs were marginally lower in 2020;
- Non-executive director fees were paid at the same rate in 2020 although there was a different mix in the number of directors in place during the year as well as a foreign exchange impact;
- Professional fees were lower due to lower legal costs; and
- Other administrative expenses include office costs, travel, regulatory costs, insurance, investor relations, mandatory socio-economic contributions in Kazakhstan, vehicles costs and bank charges. Whilst higher in the quarter, this was mainly timing related and costs for the year marginally lower than for the prior year.

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 the Kazakhstan subsidiaries.

Finance costs - net

Finance costs comprise interest expense net of interest income and are significantly lower in the quarter and year due to the reduction in debt as most borrowings were repaid or converted into shares of the Company in early 2020.

Taxation

Taxation is mainly non-cash reassessment of deferred tax estimates due to property, plant & equipment timing differences for accounting and tax purposes and tax losses carried forward. The large credit of $3.3 million for the year and $2.8 million for the quarter relates to the impairment of the Akkulka oil & gas assets.

Liquidity and Capital Resources

The Company reported a loss of $38.5 million for the year ended December 31, 2020 (2019: $8.8 million loss) and an accumulated deficit as at that date of $402.6 million (December 31, 2019: $365.7 million) and negative working capital of $11.8 million (December 31, 2019: negative $47.1 million). In addition, the Company reported positive cash flow from operating activities after tax of $17.5 million for the year ended December 31, 2020 (2019: $5.0 million).

The Company's financial position has improved as a result of the Company's loan obligations being restructured, repaid and/or converted into Tethys ordinary shares during the year. Borrowings have reduced from $40.2 million at December 31, 2019 to $5.5 million at December 31, 2020, refer to note 3 for further details.

In addition, a settlement agreement was signed with Olisol Petroleum Limited ("Olisol") and DSFK Special Finance Company LLP ("DSFK") to resolve all disputed matters with those parties. In April 2020, the Company announced that it had completed the issuance of a $4.8 million convertible debenture and received the proceeds which were used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. An unsecured loan of $2.5 million was received from the same lender in October 2020

Post year end a private placement of $1.4 million was completed in April 2021. These proceeds will be used to fund previously incurred drilling expenses, 3D and 2D seismic expenses as well as general and administrative expenses.

Further, during 2020 the Company's cash flow benefitted from gross oil sales (net of VAT) of $4.6 million during the testing of the KBD-02 exploration well and prepayments received for gas sales, refer to note 6 for further details.

Nevertheless, the Company may not have sufficient funding to fund its obligations for the next twelve months and may need to raise funds to meet any shortfall and to fund its planned capital expenditure program.

There are factors relating to the ongoing COVID-19 pandemic that could impact the business. 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 future financing, failure of suppliers who are no longer 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 and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. The Company has not suffered any significant adverse effect from Covid-19 and, at this time, does not anticipate Covid-19 will have a material impact 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:

- Complete testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and obtain the necessary approvals to re-commence commercial oil production;

- Secure funding required to meet capital expenditure plans to the extent that these cannot be funded from existing cash generation.

- Drill new oil & gas wells to increase production levels and revenues and in particular, further develop the Kul-bas exploration contract area which includes the successful KBD-02 exploration well.

Financial Review - continued

Financing and Going Concern

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver additional funding required to meet its planned capital expenditure program including its contractual obligations, and ability to generate positive cash flows from operations. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

Further 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		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Net cash from operating activities	**3,097**	**475**	**552%**	**17,493**	**5,015**	**249%**
Capital expenditure	(7,976)	(2,985)	157%	(6,958)	(6,801)	2%
Net changes in working capital	2,477	757	227%	1,362	(1,213)	(212%)
Other investing cash flows	115	150	(23%)	105	(52)	(302%)
Net cash used in investing activities	**(5,384)**	**(2,078)**	**164%**	**(5,491)**	**(8,066)**	**(32%)**
Proceeds of borrowings	2,504	-	-	7,304	-	-
Repayment of borrowings	(2,930)	-	-	(14,620)	-	-
DSFK settlement	-	-	-	(3,424)	-	-
Net cash used in financing activities	**(426)**	**-**	**-**	**(10,740)**	**-**	**-**
Effect of exchange rates	(115)	(71)	(62%)	(209)	285	(173%)
Net (decrease)/increase in cash	**(2,828)**	**(1,674)**	**69%**	**1,053**	**(2,766)**	**(138%)**
Cash & cash equivalents at beginning of period	4,575	2,368	93%	694	3,460	(80%)
Cash & cash equivalents at end of period	**1,747**	**694**	**152%**	**1,747**	**694**	**152%**

Operating activities

Net cash from operating activities in the current quarter was higher due to receipts for oil sales which were nil in Q4 2019 and a prepayment of $7.6 million received for gas sales in October 2020. The Company continues to invoice the customer monthly and the gas price is determined in the normal way until the prepayment has been fully earned.

Investing activities

Capital expenditure mainly comprises payments for the drilling of the successful KBD-02 exploration well, three gas wells and the deep AKD-012 well which, unfortunately was unsuccessful. In addition, payments were made towards the planned $3.5 million seismic acquisition and interpretation. Oil sales of $2.6 million received in the current year during testing of the KBD-02 well have been offset against the exploration asset and included as a credit to capital expenditure.

Financing activities

Proceeds from borrowings comprise $4.8 million from the debenture issued to Gemini in April 2020 and the $2.5 million unsecured loan received from Gemini in October 2020. Repayments of borrowings comprise $7.7 million to settle the Khan Energy loan and $6.9 million to settle the loan originally made to AGR Energy. The settlement payment to DSFK in the amount of KZT 1.4 billion ($3.4 million) was paid in Q2 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 – *Summary of Significant Accounting Policies* of the December 31, 2020 Consolidated Financial Statements. Refer to note 4 – *Critical Judgments and Accounting Estimates* of the December 31, 2020 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, Amortisation, 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 amortised, 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		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Loss before taxation	**(37,597)**	**(7,143)**		**(41,867)**	**(8,485)**	**393%**
Depreciation, depletion and amortisation	150	797		3,634	4,446	(18%)
Impairment charges	42,350	-		57,630	-	-
Other gains and losses	(2,769)	4,302		(15,030)	4,109	(466%)
Finance costs - net	325	1,765		2,645	6,401	(59%)
Adjusted EBITDA	**2,459**	**(279)**		**7,012**	**6,471**	**8%**

Net debt

Net debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents, but excludes deferred revenues. Total capital is calculated as equity plus net debt. All figures are as stated in the December 31, 2020 Consolidated Financial Statements.

	As at December 31		
	2020	**2019**	**Change**
Total financial liabilities - borrowings	5,549	40,196	(86%)
Less: cash and cash equivalents	(1,747)	(694)	153%
Net debt	**3,802**	**39,502**	**(90%)**
Total equity	24,920	47,454	(47%)
Total capital	**28,722**	**86,956**	**(67%)**

Net debt reduced by 90% to $3.8 million in 2020 due to repayment of the Khan Energy and AGR loans and conversion of the loans to Annuity & Life and Olisol into shares of the Company. The reduction in net debt also includes an increase in cash and cash equivalents in 2020 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.

Financial Review - continued

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, 2020 the Company had authorised share capital of 145,000,000 (2019: 145,000,000) ordinary shares of which 104,955,999 (2019: 68,324,430) had been issued and 50,000,000 (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 104,955,999 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 December 31, 2020 was 1,277,188 (2019: 1,362,188) and the number of warrants outstanding was nil (2019: nil). Loan facilities were in place which were convertible into a total of up to 16,487,856 (2019: 18,361,606) ordinary shares. Loans convertible at December 31, 2019 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.

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	8,223	-	8,223	-	-
Kazakhstan work program commitments	65,532	18,910	22,215	10,205	14,202
Trade and other payables	8,352	8,352	-	-	-
Provisions	2,541	-	630	-	1,911
Total contractual obligations	**84,648**	**27,262**	**31,068**	**10,205**	**16,113**

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, 2020. 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 2020 average sales price, would result in a reduction of $2.2 million in gas revenues based on the 2020 gas sales volume of 375,000 Mcm.

Any material decline in oil prices could result in a reduction of the Company's oil revenues in Kazakhstan. For example, a 20% net price reduction from the 2020 average sales price, would result in a reduction of $0.9 million in oil revenues based on the 2020 oil sales volume of 375,000 bbls.

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, 2020.

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 obtaining governmental approvals for the export of oil at prices significantly higher than price currently realised; volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; 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
GAAP	Generally accepted accounting principles
Gemini	Gemini IT Consultants DMCC
IFRS	International Financial Reporting Standards
KASE	Kazakhstan Stock Exchange
KBD	Kul-bas Deep exploration well in the Kul-bas Exploration Contract area
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
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