Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended June 30, 2022

Contents

The following Management's Discussion and Analysis ("MD&A") is dated August 25, 2022 and should be read in conjunction with the Group's unaudited condensed consolidated interim financial statements and related notes for the period ended June 30, 2022 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2021. The accompanying unaudited condensed consolidated interim financial statements of the Group have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The 2021 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Additional information relating to the Group can be found on the SEDAR website at *www.sedar.com* and the Group'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 (hereinafter "Tethys" or the "Company", together with its subsidiaries "the Group") 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 802 West Bay Road, Grand Cayman, KY1–1205, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

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

Financial highlights

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

	Quarter ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Oil and gas sales revenues	16,578	1,952	749%	30,481	4,336	603%
Profit/(loss) for the period	6,532	(848)	-	13,918	(858)	-
Earnings/(loss) ($) per share - basic	0.06	(0.01)	-	0.13	(0.01)	-
Adjusted EBITDA[1]	13,322	512	2502%	26,030	1,638	1489%
Capital expenditure	976	2,766	(65%)	4,276	3,603	19%

	As at June 30		
	2022	2021	Change
Total assets	73,133	54,691	34%
Cash & cash equivalents	6,137	508	1108%
Short & long-term borrowings	7,185	6,034	19%
Total non-current liabilities	14,008	12,657	11%
Net debt[1]	4,709	10,691	(56%)
Number of ordinary shares outstanding	107,548,114	107,548,114	-

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 18 for details.

Second quarter 2022 versus second quarter 2021

- Oil and gas sales revenues increased by 749% to $16.6 million from $2.0 million. Oil sales were $15.4 million compared with nil in the prior period and gas sales were $1.1 million compared with $2.0 million in the prior period. Gas revenue from January 1, 2022 has been recorded on an estimated basis as the price has not yet been confirmed, refer to page 8 for further details;
- The profit for the quarter was $6.5 million compared with a loss of $0.8 million in Q2 2021. The profit in the quarter is a result of the higher oil revenues partly offset by higher costs of production and the lower gas revenues. The result also includes a $0.6 million foreign exchange loss from movements in the tenge dollar exchange rate compared with a gain of $0.1 million in Q2 2021;
- Adjusted EBITDA was $13.3 million compared with $0.5 million as a result of the contribution from oil production partly offset by a lower contribution from gas;
- Total assets increased by 34% to $73.1 million due mainly to a $8.6 million increase in property, plant and equipment, $5.6 million increase in cash and $3.9 million increase in trade and other receivables due to non-payment for gas since January 1, 2022;
- Net debt (which includes deferred revenue) reduced from $10.7 million to $4.7 million reflecting net cash generated from operations;
- The number of ordinary shares outstanding remained unchanged at 107.5 million, although 757,360 shares were repurchased by the Company and held in treasury at June 30, 2022.

Financial highlights

Period to date

- Oil and gas sales revenues increased by 603% to $30.5 million from $4.3 million. Oil sales were $28.0 million compared with $0.1 million in the prior period and gas sales were $2.4 million compared with $4.2 million in the prior period. As noted above, gas revenue from January 1, 2022 has been recorded on an estimated basis as the price has not yet been confirmed, refer to page 8 for further details;
- The profit for the period was $13.9 million compared with a loss of $0.9 million in 2021. The profit for the period is a result of the higher oil revenues partly offset by higher costs of production and the lower gas revenues. The result also includes a $1.2 million impairment charge relating to the unsuccessful AKD-13 exploration well and a $0.5 million foreign exchange gain from movements in the tenge/dollar exchange rate compared with a $0.2 million gain on 2021;
- Adjusted EBITDA was $26.0 million compared with $1.6 million as a result of the contribution from oil production partly offset by a lower contribution from gas.

Operational Highlights

	Units	Quarter ended June 30 2022	2021	Change	Six months ended June 30 2022	2021	Change
Kazakhstan							
Oil	bopd	3,852	-	-	4,253	45	9351%
Gas	boe/d	1,513	1,930	(22%)	1,621	1,963	(17%)
Total	boe/d	**5,365**	**1,930**	**178%**	**5,874**	**2,008**	**193%**
Oil							
Oil production	bbls	350,523	-	-	769,728	8,229	9254%
Oil sold	bbls	339,045	-	-	746,050	8,396	8786%
Revenue	$'000	15,433	-	-	28,044	113	24718%
Cost of production	$'000	2,939	429	585%	6,871	866	693%
Contribution before tax	$'000	**12,494**	**(429)**	**-**	**21,173**	**(753)**	-
Revenue	$/bbl	45.52	-	-	37.59	13.73	174%
Cost of production	$/bbl	8.38	-	-	8.93	105.24	(92%)
Contribution before tax	$/bbl	**37.14**	**-**	**-**	**28.66**	**(91.51)**	-
Gas							
Gas production	Mcm	23,399	29,837	(22%)	49,852	60,362	(17%)
Gas sold	Mcm	22,900	29,282	(22%)	48,748	59,224	(18%)
Revenue	$'000	1,145	1,952	(41%)	2,437	4,223	(42%)
Cost of production	$'000	1,297	1,557	(17%)	2,460	2,939	(16%)
Contribution before tax	$'000	**(152)**	**395**	**(138%)**	**(23)**	**1,284**	**(102%)**
Revenue	$/Mcm	50.00	66.66	(25%)	50.00	71.31	(30%)
Cost of production	$/Mcm	55.43	52.18	6%	49.35	48.69	1%
Contribution before tax	$/Mcm	**(5.43)**	**14.18**	**(138%)**	**0.65**	**22.62**	**(97%)**

Oil

- Oil production for the quarter averaged 3,852 bopd compared with nil bopd in Q2 2021 and for the period to date averaged 4,253 bopd compared with 45 bopd in 2021. The Group produced oil from four wells in the Kul-bas (Klymene) field from January to April 2022 with a fifth well added to production in May, three wells under a pilot production project and two exploration wells during testing;
- The Group concluded a contract for the sale of 50,000 tons of crude oil at $265 per ton, including 12% VAT, in December 2021 and a further contract for 50,000 tons in March 2022 at $385 per ton. In each case payment was received in advance from the buyer. The delivery obligation was completed in August 2022. Oil revenue for the quarter was $15.4 million or $45.52/bbl and for the period to date was $28.0 million or $37.59/bbl;
- Oil production costs for the quarter were $2.9 million or $8.38/bbl resulting in a contribution before tax of $37.14/bbl and for the period production costs were $6.9 million or $8.93/bbl resulting in a contribution before tax of $28.66/bbl. In 2021 there was only a small amount of test production.

Operational Highlights

Gas

- Gas production for the quarter averaged 1,513 boe/d compared with 1,930 boe/d in Q2 2021 and for the period to date averaged 1,621 boe/d compared with 1,963 boe/d in 2021;
- Gas revenue of $1.1 million for the quarter and $2.4 million for the period to date is based on a price of $50/Mcm although the price from January 1, 2022 has not been confirmed, refer to page 8 for further details. This compares with an average price of $66.66/Mcm in Q2 2021 and $71.31/Mcm for the 2021 period to date;
- Gas production costs for the quarter and period to date were marginally higher in 2021 on a unit of production basis at $55.43/Mcm in Q2 2022 and $49.35/Mcm resulting in a negative contribution before tax of $5.43/Mcm (Q2 2021: $14.18). For the period to date unit production costs were $49.45/Mcm resulting in a contribution before tax of $0.65/Mcm (2021: $22.62).

Operational Review

Outlook

The information provided under this heading is considered forward-looking information; as such please refer to page 21 – "*Forward-Looking Statements*" of this MD&A.

The Group's objective is to become a leading oil and gas exploration and production company in Central Asia. The goal is to exercise capital discipline and generate cash flow from new and existing discoveries within our acreage under license. The Group seeks to provide good employment opportunities, support for the local communities and seeks to be a leading company in the economically and ecologically sensitive Aral Sea area.

The Group's long-term ambition is to achieve a significant role in the production and delivery of hydrocarbons from the Central Asian region. The specific focus of management in the short term is to:

- Continue our development of the Group's oil & gas fields and licenses to increase production levels and revenues. The particular focus is the Kul-bas (Klymene) oil field where we are working towards a full commercial production license;
- Continue to improve the marketing of oil and gas to achieve best prices; and
- Continue to improve the logistics where the Company can increase its ability to ship oil volumes at reduced costs; and
- Continue to fund the Group's development plans from operations while exploring potential financing and partnership alternatives.

Significant events and transactions for the six months ended June 30, 2022

- *McDaniel & Associates estimates of oil & gas reserves and economic evaluation*

  The Group's "Proved" 1P reserves at December 31, 2021 were 41.9 million BOE (2020: 36.7 million BOE) and "Proved + Probable" 2P reserves were 79.3 million BOE (2020: 78.6 million BOE). The net present value after tax of the Group's 2P Kazakh reserves as at December 31, 2021 was $533.4 million (2020: $364.3 million), based on a 10% discount rate. Refer to section below headed *Reserves* for further details and basis of preparation.

- *Drilling operations*

  For details of drilling operations during the year, refer to sections below headed *Results of Operations and Operational Review – Kazakhstan, Oil operations update and Gas operations update.*

- *State of emergency due to protests in Kazakhstan*

  On January 2, 2022, rallies were held in the Mangistau region against a sharp increase in the price of liquefied gas, which later turned into mass protests across the country with economic and political demands. On January 4 and 5, 2022 protesters clashed with law enforcement officers in the city of Almaty, which resulted in damage to public and private property, looting and other crimes.

To ensure order and normalize the situation in the country, the President of the Republic of Kazakhstan introduced a State of Emergency for the period from January 5 to January 19, 2022, throughout the territory of Kazakhstan, and also received assistance from countries that are members of the Collective Security Treaty Organization. The measures taken by the President included the imposition of a curfew, strengthening measures to protect especially important state and strategic facilities, as well as facilities that ensure the vital activity of the population and the functioning of transport, the imposition of restrictions on movement, holding meetings and rallies, and other measures aimed at ensuring the safety of the population.

The Group increased salaries and wages to its employees to address affordability of fuel and has taken other appropriate measures to reduce the impact of the state of emergency in Kazakhstan on operating and financial results.

- *Normal Course Issuer Bid*

In February 2022, the Company announced that it had received TSXV approval to make a Normal Course Issuer Bid. The Company may acquire up 5,377,000 ordinary shares (roughly 5% of the shares outstanding of the Company) during the period on or about February 7, 2022 to February 7, 2023. The Company plans to use ATB Capital Markets as its member broker to conduct the purchases. Purchases will be effected through the facilities of the Exchange. Purchase and payment for the securities will be made by the Company in accordance with Exchange requirements. The price which the Company will pay will be the market price at the time of acquisition. The Board of Directors believes the shares are undervalued and any repurchases will provide a positive return on investment and enhance shareholder value.

- *The situation in Ukraine*

On February 24, 2022, the Russian Federation announced the recognition of the self-announced Luhansk People's Republic and Donetsk People's Republic independence, and the Russian military mobilized its troops to the territory of Ukraine. As a response to Russian actions, the United States, Canada, the European Union, and other states imposed severe sanctions against Russia including the banning of a number of Russian financial institutions from SWIFT, restricted transportation to and from territory of the Russian Federation, and many others, which led to the sharp devaluation of the Russian ruble and the Kazakhstani tenge. Kazakhstan and Russia have many close economic connections, for example, the vast majority of Kazakhstan oil is exported through pipelines and ports in Russia. The Group's financial position is currently not materially affected by the events in Ukraine as the Group's oil revenues are from domestic sales and made in US dollars, which reduces the Group's foreign exchange risk. The management of the Group is continuing to assess the potential impact of these events on the Group.

- *Oil sales agreement*

On March 3, 2022 the Group agreed a contract for the sale of 50,000 tons of crude oil at a minimum price of $385 per ton ($48 per bbl), including 12% VAT. In accordance with the terms of the contract, payment of $19,250,000 was received in advance from the buyer.

- *Gas sales*

  On April 28, 2022 the Group received a letter from its gas customer, a Kazakhstan state-owned enterprise, proposing (i) a new gas sales pricing mechanism to apply with effect from January 1, 2022, (ii) a minimum and maximum gas price and (iii) further negotiation of the pricing mechanism at its offices. The proposed pricing mechanism would result in a substantially lower gas price than the Group received during 2021 and is likely to be uneconomic. The Group plans to engage with the customer to reach a mutually acceptable outcome on gas pricing while, at the same time, considering other options for the sale of its gas production and the possible impact on its future development plans.

Significant events and transactions subsequent to the period end

- *Extension of Pilot production project*

  On August 22, 2022 the Group announced that the Ministry of Energy has approved an extension on the pilot production period for the three wells KBD-02, KBD-06 and KBD-07 until October 2023.

- *Oil sales prepayment*

  Also on August 22, 2022, the Group announced that it had recently concluded an agreement to sell an additional 50,000 tons of oil at a price of $384.50 USD per ton. This prepayment has been received and provides Tethys with approximately $19.225 million. The primary use of proceeds will be to go toward a combination of the outstanding payables, share repurchase, tax obligations, upcoming payments for infrastructure spending, possible dividends and other disbursements.

Reserves

Following the completion of the annual evaluation of the Kazakhstan reserves by the independent qualified reserves evaluator, McDaniel & Associates, of Calgary, Canada, in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators ("NI 51-101"), the Group's Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of "Proved" 1P reserves were 41.9 million BOE (2020: 36.7 million BOE) and "Proved + Probable" 2P reserves were 79.3 million BOE (2020: 78.6 million BOE).

The net present value after tax of the Group's 2P Kazakh reserves as at December 31, 2021 was $533.4 million (2020: $364.3 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.

Operational Review - continued

Results of Operations and Operational Review - Kazakhstan

Oil production

	2022					2021				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	66,648	419,205	419,205	90	4,658	1,308	8,229	8,229	90	91
Q2	55,729	350,523	350,523	91	3,852	-	-	-	91	-
Total	**122,377**	**769,728**	**769,728**	**181**	**4,254**	**1,308**	**8,229**	**8,229**	**181**	**45**

Oil operations update

Test production from the successful KBD-02 exploration well commenced in April 2020 and continued until early January 2021 when it was closed for the required reporting and approval process. As a result, there was only a small amount of production in the first half of 2021.

Production commenced from the new KBD-03 well in September 2021, with the new KBD-06 well and KBD-02 well added in October, followed by the new KBD-07 well in December. Accordingly, the Group was producing from four oil wells in the Kul-bas (Klymene) field during Q1 2022 with a further well added to production in May 2022.

The KBD-02, KBD-06 and KBD-07 wells are in the approved pilot production project which ran to the end of 2022 but in August 2022 was extended until October 2023. Production from these wells for the period January 1 to June 30, 2022 was 64,641 tons (514,436 bbls) and the pilot production project allows a production quota of 123,000 tons (978,834 bbls) for 2022. In the medium-term the Group is working towards obtaining a full commercial production license by 2024.

Historically, the Group has produced oil under a pilot license project which requires all production to be sold domestically. A commercial production licence will require significant investment in additional infrastructure, including a gas utilisation facility, but should allow a percentage of oil to be sold for higher export prices.

KBD-03 is an appraisal well located outside the area covered by the pilot production project. Production from KBD-03 was 25,160 tons (200,223 bbls) for the period January 1 to June 30, 2022, 2022. Production from the second appraisal well, KBD-08 commenced in May 2022 and produced in total produced 6,918 tons (55,053 bbls) up to June 30, 2022. The third appraisal well KBD-04 began testing in July 2022.

The Group can produce from appraisal wells outside the pilot production project for a maximum of 90 days from each zone after which the wells must be shut in for the required reporting and approval process. Once approval has been given for these two wells they are expected to be added again to production in the second half of 2023.

Further details on these wells are shown in the following table.

Well name	Drilling start & end date	Development object	Perforation date (testing days)	Perforation intervals	Oil production volumes upon objects testing bbls	Commission date	Oil production volume as of 30 June 2022 bbls
KBD-02	19/07/2019 06/10/2019	Jurassic	05/04/2020 (90 days)	2394.6-2432.5 39 meters	32,268	15/10/2021	120,810
		Lower Cretaceous	11/07/2020 (84 days)	2127.4-2128.7 2130.2-2143.6 2144.6-2145.4 15.5 meters	204,394		
		Upper Cretaceous	10/10/2020 (87 days)	2008.6-2014.3 2022.2-2034.8 18.3 meters	160,321		
KBD-03	01/05/2021 27/07/2021	Jurassic	31/08/2021 (90 days)	2402.5-2440.5 38 meters	41,142	Awaiting FDP* to convert into commercial	200,223
		Lower Cretaceous	15/12/2021 (90 days)	2136-2151.5 15.5 meters	157,397		
		Upper Cretaceous	24/03/2022 (69 days)	2035.7-2037.7 2.0 meters	54,631		
KBD-06	19/05/2021 25/07/2021	Lower Cretaceous	14/10/2021	2136.8-2146.2 9.4 meters	-	15/10/2021	314,699
KBD-07	08/10/2021 20/12/2021	Jurassic	27/12/2021 (204 days)	2399-2420 2424-2438 34.7 meters	-	28/12/2021	78,927
		Upper Cretaceous	28/07/2022	2013-2016 2025.5-2035.2 2038.8-2041.1 14.5 meters	-	29/07/2022	
KBD-08	19/10/2021 01/01/2022	Jurassic	26/02/2022 (5 days)	2413.5-2439.6 2442.5-2450.9 34.5 meters	67	Awaiting FDP to convert into commercial	55,053
		Upper Cretaceous	28/05/2022 (47 days)	2119.5-2125 5.5 meters	56,257		
		Lower Cretaceous	07/07/2022 (Ongoing)	2145-2155 10 meters	71,372		
KBD-04	22/04/2022 08/07/2022	Jurassic	28/07/2022 (Ongoing)	2418.5-2459 40.5 meters	6,107	Awaiting FDP to convert into commercial	-

* Field Development Plan (FDP)

The Group is not drilling any wells at present but is evaluating options and timing for drilling additional wells.

Operational Review - continued

Gas production – Kyzyloi and Akkulka Contracts

	2022				2021			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	19,106	674,642	212	1,249	21,154	746,942	235	1,383
Q2	17,354	612,786	191	1,122	20,935	739,226	230	1,354
Total	**36,460**	**1,287,428**	**201**	**1,186**	**42,089**	**1,486,168**	**233**	**1,369**
Akkulka								
Q1	7,347	259,422	82	480	9,371	330,898	104	613
Q2	6,045	213,438	66	391	8,902	314,332	98	576
Total	**13,392**	**472,860**	**74**	**435**	**18,273**	**645,230**	**101**	**594**
Grand total	**49,852**	**1,760,288**	**275**	**1,621**	**60,362**	**2,131,398**	**334**	**1,963**

Gas operations update

The Group produced dry gas from a total of 21 wells at a depth of approximately 480-600m below surface, comprising 13 producing wells in the Kyzyloi field and 8 in the Akkulka field. Gas production for the quarter decreased to 257 Mcm per day compared with 328 Mcm per day in Q2 2021. No new wells were added during the year and the reduction in production from the prior year represents natural decline of the current wells as well, pressure differences at the main gas trunk-line and some wells closed temporarily pending resolution of the gas price issue.

On April 28, 2022 the Group received a letter from its gas customer, a Kazakhstan state-owned enterprise, proposing (i) a new gas sales pricing mechanism to apply with effect from January 1, 2022, (ii) a minimum and maximum gas price and (iii) further negotiation of the pricing mechanism at its offices. The proposed pricing mechanism would result in a substantially lower gas price than the Group received during 2021 and is likely to be uneconomic. The Group has been engaging with the customer to reach a mutually acceptable outcome on gas pricing while, at the same time, considering other options for the sale of its gas production and the possible impact on its future development plans.

The Group had planned to conduct 900km of 2D seismic at a cost of up to $1.7 million in 2022 and drill up to eight shallow gas wells to increase gas production, four in the Kyzyloi contract area and four in the Kul-bas contract area. In view of the currently uncertainty over gas prices, these plans are being re-evaluated with further gas development on-hold until negotiations have concluded.

Financial Review

Summary of Quarterly Results

	Q2, 2022	Q1, 2022	Q4, 2021	Q3, 2021	Q2, 2021	Q1, 2021	Q4, 2020	Q3, 2020
Oil & gas revenues	16,578	13,903	9,054	2,516	1,952	2,384	4,414	2,148
Profit/(loss) for the period	6,352	7,385	(3,023)	(108)	(848)	(93)	(34,756)	(240)
Earnings/(loss) ($) per share	0.06	0.07	(0.04)	(0.00)	(0.01)	(0.00)	(0.35)	(0.00)
Adjusted EBITDA[1]	13,322	11,525	6,945	1,064	512	1,127	2,459	1,220
Capital expenditure	976	3,301	7,884	4,004	2,766	836	7,976	1,385
Total assets	73,133	77,361	73,944	58,553	54,691	52,751	53,817	92,304
Cash & cash equivalents	6,137	11,651	9,277	658	508	433	1,747	4,575
Short & long-term borrowings	7,185	6,872	6,578	6,298	6,034	5,785	5,549	9,572
Total non-current liabilities	14,008	15,335	16,603	13,050	12,657	15,574	11,867	16,632
Net debt[1]	4,709	14,863	11,583	15,101	10,691	11,239	11,939	15,334
Number of common shares outstanding	107,548,114	107,548,114	107,548,114	107,548,114	107,548,114	104,955,999	104,955,999	104,955,999

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 18 for details.

Profit/(loss) for the period

	Quarter ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Sales revenue	16,578	1,952	749%	30,481	4,336	603%
Production expenses	(1,598)	(668)	139%	(3,026)	(1,281)	136%
Depreciation, depletion & amortization	(1,865)	(756)	147%	(3,867)	(1,506)	157%
Impairment charges	(101)	-	-	(1,241)	-	-
Administrative expenses	(1,013)	(839)	21%	(1,901)	(1,573)	21%
Share-based payments	(42)	-	-	(84)	-	-
Other gains and losses	151	130	16%	161	132	22%
Foreign exchange (loss)/gain	(645)	67	(1063%)	476	156	205%
Finance costs	(364)	(290)	26%	(651)	(555)	17%
	(5,477)	(2,356)	132%	(10,133)	(4,627)	119%
Profit/(loss) before tax	**11,101**	**(404)**	-	**20,348**	**(291)**	-
Taxation	(4,569)	(444)	929%	(6,430)	(567)	1034%
Profit/(loss) for the period	**6,532**	**(848)**	-	**13,918**	**(858)**	-

Profit for the quarter was $6.5 million compared with a loss of $0.8 million in Q2 2021 and for the period to date was $13.9 million compared with a loss of $0.9 million in 2021, the principal variances being:

- Higher profit contribution from oil production offset by lower contribution from gas production;
- Higher production expenses, DD&A and tax charge from oil production;
- A $1.2 million impairment charge relating to the unsuccessful AKD-13 exploration well; and

Financial Review - continued

- A $0.6 million foreign exchange loss (Q2 2021: $$0.1 million gain) for the quarter and $0.5 million gain for the period to date (2021: $0.2 million) from changes in the Kazakhstan tenge and US dollar exchange rate.

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

Sales & other revenue

	Quarter ended June 30			Six months ended June 30		
	2021	**2020**	**Change**	**2021**	**2020**	**Change**
Summary by product & region						
Kazakhstan - Oil	15,433	-	-	28,044	113	24718%
Kazakhstan - Gas	1,145	1,952	(41%)	2,437	4,223	(42%)
Total	**16,578**	**1,952**	**749%**	**30,481**	**4,336**	**603%**

Kazakhstan – Oil revenue

- Oil revenue for the quarter was $15.4 million (Q2 2021: nil) or $45.52/bbl and for the period to date was $28.0 million (2021: $0.1 million) or $37.59/bbl (2021: $13.73/bbl).

- Production in the period to date was from five wells in the Kul-bas (Klymene) field, three wells under a pilot production project and two exploration wells with the second appraisal well added to production in May 2022.

- The Group concluded a contract for the sale of 50,000 tons of crude oil at $265 per ton, including 12% VAT, in December 2021 and a further contract for 50,000 tons in March 2022 at $385 per ton. In each case payment was received in advance from the buyer. The delivery obligation was completed in August 2022.

Kazakhstan - Gas revenue

- Gas revenues were 41% lower in the quarter and 42% period to date due to lower production (22% lower for the quarter and 17% lower for the period to date) and the lower estimated price of $50/Mcm from January 1, 2022 compared with the average price of $66.66/Mcm in Q2 2021 and $71.31/Mcm in the 2021 period to date. The price for 2022 has not yet been agreed with the customer, a state-owned enterprise;
- Gas contracts are subject to price risk – refer to page 20 – "*Sensitivities*".

Financial Review - continued

Production expenses

	Units	Quarter ended June 30 2022	2021	Change	Six months ended June 30 2022	2021	Change
Kazakhstan direct production expenses							
Oil production costs	$000's	1,123	148	659%	2,151	357	503%
Gas production	$000's	475	520	(9%)	875	924	(5%)
Total	$000's	**1,598**	**668**	**139%**	**3,026**	**1,281**	**136%**
Administrative expenses							
Oil production	$000's	336	281	20%	598	509	17%
Gas production	$000's	336	281	20%	598	509	17%
Corporate	$000's	341	277	23%	705	555	27%
Total	**$000's**	**1,013**	**839**	**21%**	**1,901**	**1,573**	**21%**
Depreciation, depletion, amortisation & impairment							
Oil production	$000's	1,480	-	-	4,122	-	-
Gas production	$000's	486	756	(36%)	986	1,506	(35%)
Total	**$000's**	**1,966**	**756**	**160%**	**5,108**	**1,506**	**239%**
Oil							
Total cost of production	$000's	2,939	429	585%	6,871	866	693%
Production	bbls	350,523	-	-	769,728	8,229	9254%
Cost per unit of production	$/bbl	8.38	-	-	8.93	105.24	(92%)
Gas							
Total cost of production	$000's	1,297	1,557	(17%)	2,459	2,939	(16%)
Production	boe	137,713	175,604	(22%)	293,401	355,255	(17%)
Cost per unit of production	$/boe	9.42	8.87	6%	8.38	8.27	1%
Production	Mcm	23,399	29,837	(22%)	49,852	60,362	(17%)
Cost per unit of production	$/Mcm	55.43	52.18	6%	49.33	48.69	1%
Oil and gas weighted average cost	$/boe	8.68	11.31	(23%)	8.78	10.47	(16%)

Kazakhstan – oil production

Oil production costs comprising direct production costs, administrative expenses, impairment charges and depreciation, depletion and amortisation for the quarter were $2.9 million (Q2 2021: $0.4 million) or $8.38/bbl and for the period to date were $6.9 million (2021: $0.9 million) or $8.93/bbl. These costs reflect production from five wells in the quarter compared with only a small amount of test production from one well in the first half of 2021.

Kazakhstan – gas production

Gas production costs comprising direct production costs, administrative expenses and depreciation, depletion and amortisation for the quarter were $1.3 million (Q2 2021: $1.6 million) or $55.43/Mcm (Q2 2021: $52.18/Mcm) and for the period to date were $2.5 million (2021: $2.9 million) or $49.33/Mcm (2021: $48.69/Mcm).

Financial Review - continued

Administrative expenses

	Quarter ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Staff and director costs	572	435	31%	1,045	869	20%
Professional fees	210	134	57%	452	264	71%
Other administrative expenses	231	270	(14%)	404	440	(8%)
Total	**1,013**	**839**	**21%**	**1,901**	**1,573**	**21%**
G&A expenses per boe ($)	2.07	4.78	(57%)	1.79	4.33	(59%)

Administrative costs were higher in the quarter and period to date due to salary increases in Kazakhstan and additional capabilities and competencies added in Kazakhstan. There was also a greater use of consultants reflecting the need for specialist input as the Group's production and oil & gas field development activities increase in scale and complexity.

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. These arise mainly in Kazakhstan from variations in the KZT:$ exchange rate which started the year at 432 before rising as high as 512 in March and ending the period at 465.

Finance costs - net

Finance costs comprise interest expense on borrowings net of interest income on cash balances.

Taxation

The tax charge for the quarter was $4.6 million (Q2 2021: $0.4 million) and period to date was $6.4 million (2021: $0.6 million) reflecting the expected full year effective tax rate, adjusted for one-off items which were recognised in full during Q1 2022.

Liquidity and Capital Resources

The Group reported a profit before tax of $20.3 million (2021 full year: $3.8 million) and a profit after tax of $13.9 million (2021 full year: $4.0 million loss) while Adjusted EBITDA, a non-GAAP measure, was $25.9 million (2021 full year: $9.6 million). Cash flow from operating activities was $10.8 million (2021 full year: $14.9 million).

The Group's accumulated deficit at June 30, 2022 was $392.7 million (December 31, 2021: $406.6 million) and working capital (current assets minus current liabilities) was negative $9.7 million (December 31, 2021: negative $21.5 million).

The Group's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorising project expenditures and ensuring appropriate authorisation of contractual agreements. The budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Group seeks additional financing based on the results of these processes.

The Group's capital structure is comprised of shareholders' equity and borrowings, net of cash and cash equivalents.

Financial Review - continued

The Group's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Group is managed and adjusted to reflect changes in economic conditions.

The Group has funded its expenditures on commitments from existing cash and cash equivalent balances, primarily received from issuances of shareholders' equity and debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Going Concern

In assessing its going concern status, the Group has taken account of its principal risks and uncertainties, financial position, sources of cash generation, anticipated future trading performance, its borrowings, and its capital expenditure commitments and plans.

The Group's forecast net cashflow is considered to be adequate to meet the Group's financial obligations as they fall due over the next 12 months. This includes repayment of $2.8 million for the Gemini loan which was made in July 2022 and $6.3 million for repayment of the convertible debenture due in April 2023, although it is currently anticipated that the debenture will be converted into shares with no impact on the Group's cash flows. Once these loans have been repaid the Group will have no borrowings, and the Group's liabilities will mainly comprise the oil sale prepayment, taxes and trade payables. Group revenue for the six months ended June 30, 2022 was $30.5 million, profit after tax was $13.9 million and net cash generated from operating activities was $10.8 million. In August 2022, the Group received a further prepayment for oil sales of $19.2 million. The primary use of proceeds will be to go toward a combination of the outstanding payables, share repurchase, tax obligations, upcoming payments for infrastructure spending, possible dividends and other disbursements.

In the event of a downside scenario such as an unexpected reduction in future oil prices or production levels the Group would seek to mitigate this by reducing discretionary capital expenditure, including planned exploration activities.

The Board of Directors is therefore satisfied that the Group's forecasts and projections show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the period ended June 30, 2022.

Financial Review - continued

Cash Flow

	Quarter ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Net cash (used in)/from operating activities	**(4,357)**	**(709)**	**515%**	**10,822**	**(1,390)**	**(879%)**
Capital expenditure	(976)	(2,766)	(65%)	(4,276)	(3,603)	19%
Net changes in working capital	-	2,180	(100%)	(8,892)	2,411	(469%)
Other	5	(54)	-	92	(40)	-
Net cash used in investing activities	**(971)**	**(640)**	**52%**	**(13,076)**	**(1,232)**	**961%**
Proceeds from share issuance	-	1,401	(100%)	-	1,401	(100%)
Share repurchases	(354)	-	-	(515)	-	-
Net cash (used in)/from financing activities	**(354)**	**1,401**	**(125%)**	**(515)**	**1,401**	**(137%)**
Effect of exchange rates	168	23	630%	(371)	(18)	1961%
Net (decrease)/increase in cash	**(5,514)**	**75**	**(7452%)**	**(3,140)**	**(1,239)**	**153%**
Cash & cash equivalents at beginning of period	11,651	433	2591%	9,277	1,747	431%
Cash & cash equivalents at end of period	**6,137**	**508**	**1108%**	**6,137**	**508**	**1108%**

Operating activities

Net cash from operating activities in the quarter was negative and lower than profit for the period and Adjusted EBITDA as there were no oil & gas sales receipts in the quarter. For the period to date, net cash from operating activities was also lower than profit for the period and Adjusted EBITDA mainly due to the lack of gas receipts and the settlement of payment obligations. An oil sales prepayment of $19.2 million was received in March 2022 and a further prepayment of $19.2 million was received subsequent to the period end in August 2022.

Investing activities

Capital expenditure payments made during the period to date were mainly to the Group's drilling contractor.

Financing activities

In accordance with the previously announced share re-purchase program the Company purchased 549,060 of its shares during the quarter for $0.4 million and 757,360 in the period to date for $0.5 million. In the prior quarter and period to date the Company made a placement to one of its shareholders for $1.4 million to meet working capital requirements.

Accounting policies, changes to accounting standards and critical estimates

The Group's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 of the June 30, 2022 condensed consolidated interim financial statements. Refer to note 4 of the 2021 audited consolidated financial statements for information on the Group's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

Financial Review - continued

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is defined as "Profit or loss before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments" and is calculated on the results of continuing operations. It provides an indication of the results generated by the Group's principal business activities prior to how these activities are financed, assets are depreciated and amortized, or how results are taxed in various jurisdictions.

The reconciliation of Adjusted EBITDA to profit/(loss) for the period is as follows:

	Quarter ended June 30			Six months ended June 30		
	2022	2021	Change	2022	2021	Change
Profit/(loss) before taxation	11,101	(404)	-	20,348	(291)	-
Depreciation, depletion and amortization	1,865	756	147%	3,867	1,506	157%
Impairment charges	101	-	-	1,241	-	-
Share-based payments	42	-	-	84	-	-
Other gains and losses	(151)	(130)	16%	(161)	(132)	22%
Finance costs - net	364	290	26%	651	555	17%
Adjusted EBITDA	**13,322**	**512**	**2502%**	**26,030**	**1,638**	**1489%**

Net debt

Net debt is calculated as total borrowings and deferred revenue less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the statements of financial position for the respective reporting periods.

	As at June 30		
	2022	2021	Change
Total financial liabilities - borrowings	7,185	6,034	19%
Deferred revenue	3,661	5,165	(29%)
Less: cash and cash equivalents	(6,137)	(508)	1108%
Net debt	**4,709**	**10,691**	**(56%)**
Total equity	35,846	25,463	41%
Total capital	**40,555**	**36,154**	**12%**

Refer to the section above *"Liquidity and capital resources"* for a description of the Group'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 Group's financial results. These measures may not be comparable to similar measures presented by other entities.

Stockholder Equity

As at June 30, 2022 the Company had authorised share capital of 145,000,000 (June 20, 2021: 145,000,000) ordinary shares of which 107,548,114 (June 30, 2021: 107,548,114) had been issued and 50,000,000 (June 30, 2021: 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.

Financial Review - continued

The number of options issued under the Group's Long Term Stock Incentive Plan and outstanding as at June 30, 2022 was 1,753,438 (June 30, 2020: 1,277,188). Loan facilities were in place which were convertible into a total of up to 17,437,353 (June 30, 2021: 17,437,353) ordinary shares.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

There were no transactions with related parties requiring disclosure.

Commitments and contingencies

Details of the Group's commitments and contingencies including litigation, claims and assessments, work programme commitments and operating leases are provided in note 21 of the 2021 audited consolidated financial statements.

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

Contractual obligations	**Total**	**Payments due by period** **Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	7,185	7,185	-	-	-
Kazakhstan work programme commitments	37,462	11,667	10,691	7,815	7,289
Trade and other payables	8,841	8,841	-	-	-
Provisions	2,984	557	331	1,204	892
Total contractual obligations	**56,472**	**28,250**	**11,022**	**9,019**	**8,181**

Risks, uncertainties and other information

Risk management is carried out by senior management, in particular the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") as well as the Board of Directors. The Group has identified its principal risks for 2022 to include:

(1) Liquidity;

(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 Group'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 Group's exposure to these risks and how this is managed is given in note 3 to the audited consolidated financial statements for the year ended December 31, 2021. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the Group's management of risk, including the identification and analysis of risks faced by the Group 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 is denominated in tenge and is sensitive to a fluctuation in exchange rates. A 20% net price reduction from the 2021 average sales price, would result in a reduction of $1.9 million in gas revenues based on the 2021 gas sales volume of 115,647 Mcm.

Any material decline in oil prices could result in a reduction of the Group's oil revenues in Kazakhstan. For example, a 20% net price reduction from the 2021 average sales price, would result in a reduction of $1.2 million in oil revenues based on the 2021 oil sales volume of 314,143 bbls.

Critical Accounting Policies and Estimates

The audited consolidated financial statements and condensed consolidated interim financial statements of the Group are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2021 audited consolidated financial statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Group does not have any derivative financial instruments.

Significant equity investees

The Group does not have any significant equity investees.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Group, including management's assessment of the Group's 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 Group'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 Group'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 Group 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 Group's 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 Group's 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 Group's 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 Group operates; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Group operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Group operates; risks associated with existing and potential future lawsuits and regulatory actions made against the Group; 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 Group 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 Group'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 Group conducts its business, gas production levels; and the Group's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Group'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

Bbls	Barrels of oil
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
IFRS	International Financial Reporting Standards
KASE	Kazakhstan Stock Exchange
Klymene	Producing oil field 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
NPV	Net present value
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
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