

Tethys Petroleum Limited

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

Contents

Nature of business	1
Financial highlights	2
Operational highlights	4
Operational review	6
Financial review	12
Risks, uncertainties and other information	20
Forward looking statements	21
Glossary	23

The following Management’s Discussion and Analysis (“MD&A”) is dated October 26, 2022 and should be read in conjunction with the Group’s unaudited condensed consolidated interim financial statements and related notes for the period ended September 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 Group’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 September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Oil and gas sales and other revenues	16,364	2,516	550%	46,845	6,852	584%
Profit/(loss) for the period from continuing operations	7,605	(108)	-	21,522	(965)	-
Basic earnings/(loss) (\$) per share from continuing operations	0.07	(0.00)	-	0.20	(0.01)	-
Adjusted EBITDA ¹	13,932	1,064	1209%	39,961	2,702	1379%
Capital expenditure	3,863	4,004	(4%)	8,139	7,607	7%

	As at September 30		
	2022	2021	Change
Total assets	84,131	58,553	44%
Cash & cash equivalents	15,009	658	2181%
Short & long term borrowings	4,711	6,298	(23%)
Total non-current liabilities	14,602	13,050	12%
Net (cash)/debt ¹	(2,342)	15,101	(155%)
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.

Third quarter 2022 versus third quarter 2021

- Oil and gas sales revenues increased by 550% to \$16.4 million from \$2.5 million. Oil sales were \$15.5 million compared with \$0.2 million in the prior period and gas sales were \$0.8 million compared with \$2.4 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 \$7.6 million compared with a loss of \$0.1 million in Q3 2021. The profit in the quarter is a result of the higher oil revenues partly offset by lower gas revenues, and higher production and administrative expenses. The result also includes a \$0.5 million impairment charge relating to unsuccessful wells and a \$0.5 million foreign exchange gain from movements in the tenge dollar exchange rate;
- Adjusted EBITDA was \$13.9 million compared with \$1.1 million as a result of the contribution from oil production partly offset by a lower contribution from gas;
- Total assets increased by 44% to \$84.1 million due mainly to a \$7.0 million increase in property, plant and equipment, \$14.4 million increase in cash and \$4.0 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 \$15.1 million to \$2.3 million net cash reflecting the cash generated from operations;
- The number of ordinary shares outstanding remained unchanged at 107.5 million, although 939,300 shares were repurchased by the Company and held in treasury at September 30, 2022.

Financial highlights - continued

Period to date

- Oil and gas sales revenues increased by 584% to \$46.8 million from \$6.9 million. Oil sales were \$43.6 million compared with \$0.3 million in the prior period and gas sales were \$3.3 million compared with \$6.6 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 \$21.5 million compared with a loss of \$1.0 million in 2021. The profit for the period is a result of the higher oil revenues partly offset by lower gas revenues, and higher production and administrative expenses. The result also includes a \$1.7 million impairment charge relating to unsuccessful wells and a \$1.0 million foreign exchange gain from movements in the tenge dollar exchange rate;
- Adjusted EBITDA was \$40.0 million compared with \$2.7 million as a result of the contribution from oil production partly offset by a lower contribution from gas.

Operational highlights

	Units	Quarter ended September 30			Nine months ended September 30		
		2022	2021	Change	2022	2021	Change
Kazakhstan							
Oil	bopd	3,757	100	3657%	4,086	64	6284%
Gas	boe/d	1,100	1,829	(40%)	1,445	1,917	(25%)
Total	boe/d	4,857	1,929	152%	5,531	1,981	179%

Oil							
Oil production	bbls	345,632	9,173	3668%	1,115,360	17,402	6309%
Oil sold	bbls	354,307	8,608	4016%	1,109,563	17,004	6425%
Revenue	\$'000	15,513	154	9973%	43,557	267	16213%
Cost of production	\$'000	3,442	537	541%	10,311	1,403	635%
Contribution before tax	\$'000	12,071	(383)	-	33,246	(1,136)	-
Revenue	\$/bbl	43.78	17.89	145%	39.26	15.70	150%
Cost of production	\$/bbl	9.96	58.54	(83%)	9.24	80.62	(89%)
Contribution before tax	\$/bbl	33.82	(40.65)	-	30.02	(64.92)	-

Gas							
Gas production	Mcm	17,200	28,589	(40%)	67,052	88,951	(25%)
Gas sold	Mcm	16,801	28,041	(40%)	65,549	87,266	(25%)
Revenue	\$'000	840	2,362	(64%)	3,277	6,585	(50%)
Cost of production	\$'000	1,223	1,413	(13%)	3,680	4,352	(15%)
Contribution before tax	\$'000	(383)	949	(140%)	(403)	2,233	(118%)
Revenue	\$/Mcm	50.00	84.23	(41%)	50.00	75.46	(34%)
Cost of production	\$/Mcm	71.10	49.42	44%	54.88	48.93	12%
Contribution before tax	\$/Mcm	(21.10)	34.81	(161%)	(4.88)	26.53	(119%)

Oil

- Oil production for the quarter averaged 3,757 bopd compared with 100 bopd in Q3 2021 and for the period to date averaged 4,086 bopd compared with 64 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 and a sixth well in August, three wells under a pilot production project and three 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, a second contract for 50,000 tons in March 2022 at \$385 per ton and a third contract for 50,000 tons in August 2022 at \$384.50 per ton. In each case payment was received in advance from the buyer. Oil revenue for the quarter was \$15.5 million or \$43.78/bbl and for the period to date was \$43.6 million or \$39.26/bbl;
- Oil production costs for the quarter were \$3.4 million or \$9.96/bbl resulting in a contribution before tax of \$33.82/bbl and for the 9-month period production costs were \$10.3 million or \$9.24/bbl resulting in a contribution before tax of \$30.02/bbl. In 2021 there was only a small amount of test production.

Operational highlights - continued

Gas

- Gas production for the quarter averaged 1,100 boe/d compared with 1,829 boe/d in Q3 2021 and for the period to date averaged 1,445 boe/d compared with 1,917 boe/d in 2021;
- Gas revenue of \$0.8 million for the quarter and \$3.3 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 \$84.23/Mcm in Q3 2021 and \$75.46/Mcm for the 2021 period to date;
- Gas production costs for the quarter were 13% lower due to the lower level of production but on a unit of production were higher at \$71.10/Mcm (Q3 2021: \$49.42/Mcm) due to an element of fixed costs resulting in a negative contribution before tax of \$21.10/Mcm (Q3 2021: positive \$34.81). For the period to date gas production costs were 15% lower and on a unit of production basis costs were \$54.88/Mcm (Q3 2021: \$48.93/Mcm) resulting in a negative contribution before tax of \$4.88/Mcm (2021: positive \$26.53).

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;
- Continue to improve the logistics where the Group 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 nine months ended September 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.

Operational Review - continued

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 to 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.

Operational Review - continued

- *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.

- *Extension of Pilot production project*

On August 22, 2022 the Group announced that the Ministry of Energy has approved an extension of 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 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.

Significant events and transactions subsequent to the period end

There are no subsequent events to report.

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 m ³	barrels	Net barrels	Net production days	bopd	Gross fluid m ³	barrels	Net barrels	Net production days	bopd
Q1	66,648	419,205	419,205	90	4,658	1,574	9,898	8,229	90	91
Q2	55,729	350,523	350,523	91	3,852	-	-	-	91	-
Q3	54,951	345,632	345,632	92	3,757	1,764	11,096	9,173	92	100
Total	177,328	1,115,360	1,115,360	183	4,086	3,338	20,994	17,402	183	64

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. 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. A further well, KBD-08, was added to production in May 2022. Accordingly, the Group was producing from up to six oil wells in the Kul-bas (Klymene) field during the 2022 period to date.

The KBD-02, KBD-06 and KBD-07 wells are in the approved pilot production project which initially ran until the end of 2022 but in August 2022 was extended until October 2023. Production from these wells for the period January 1 to September 30, 2022 was 80,005 tons (668,512 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 early June 2022 when the testing period ended. Production from the second appraisal well, KBD-08 commenced in May 2022 and produced in total produced 27,370 tons (217,810 bbls) up to September 30, 2022. The third appraisal well KBD-04 began testing in August 2022 and produced 3,618 tons (28,792 bbls) up to September 30, 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 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.

Operational Review - continued

Well name	Drilling start & end date	Development object	Perforation date (testing days)	Perforation intervals	Oil production volumes upon objects testing bbls	Commission date	Cumulative production volume to 30 Sept 2022 bbls
KBD-02	19/07/2019 06/10/2019	Jurassic	05/04/2020 (90 days)	2394.6-2432.5 38.9 meters	32,268	15/10/2021	634,642
		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	253,170
		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	557,480
KBD-07	08/10/2021 20/12/2021	Jurassic	27/12/2021 (204 days)	2399-2420.3 2424.3-2437.7 34.7 meters	-	28/12/2021	139,747
		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	217,814
		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	161,491		
KBD-04	22/04/2022 08/07/2022	Jurassic	28/07/2022 (Ongoing)	2418.5-2459 40.5 meters	28,792	Awaiting FDP to convert into commercial	28,792

* 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 – Kyzylloi and Akkulka Contracts

	2022				2021			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzylloi								
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
Q3	12,909	455,801	140	826	20,182	712,615	219	1,291
Total	49,369	1,743,229	181	1,064	62,271	2,198,783	228	1,342
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
Q3	4,291	151,502	47	274	8,407	296,868	91	538
Total	17,683	624,362	65	381	26,680	942,098	98	575
Grand total	67,052	2,367,591	246	1,445	88,951	3,140,881	326	1,917

Gas operations update

The Group produced dry gas from a total of up to 21 wells at a depth of approximately 480-600m below surface, comprising 13 producing wells in the Kyzylloi field and 8 in the Akkulka field. Gas production for the quarter decreased to 187 Mcm per day compared with 310 Mcm per day in Q3 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, pressure differences at the main gas trunk-line and some wells closed 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 Kyzylloi contract area and four in the Kul-bas contract area. In view of the current uncertainty over gas prices, these plans are being re-evaluated and further gas development plans have been reduced from eight to two wells.

Financial Review

Summary of Quarterly Results

	Q3, 2022	Q2, 2022	Q1, 2022	Q4, 2021	Q3, 2021	Q2, 2021	Q1, 2021	Q4, 2020
Oil & gas sales and other revenues	16,364	16,578	13,903	9,054	2,516	1,952	2,384	4,414
Profit/(loss) for the period	7,605	6,352	7,385	(3,023)	(108)	(848)	(93)	(34,756)
Basic (loss)/earnings (\$) per share	0.07	0.06	0.07	(0.04)	(0.00)	(0.01)	(0.00)	(0.35)
Adjusted EBITDA ¹	13,932	13,322	11,525	6,945	1,064	512	1,127	2,459
Capital expenditure	3,863	976	3,301	7,884	4,004	2,766	836	7,976
Total assets	84,131	73,133	77,361	73,944	58,553	54,691	52,751	53,817
Cash & cash equivalents	15,009	6,137	11,651	9,277	658	508	433	1,747
Short & long-term borrowings	4,711	7,185	6,872	6,578	6,298	6,034	5,785	5,549
Total non-current liabilities	14,602	14,008	15,335	16,603	13,050	12,657	15,574	11,867
Net (cash)/debt ¹	(2,342)	4,709	14,863	11,583	15,101	10,691	11,239	11,939
Number of common shares outstanding	107,548,114	107,548,114	107,548,114	107,548,114	107,548,114	107,548,114	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 September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Sales and other revenue	16,364	2,516	550%	46,845	6,852	584%
Production expenses	(1,699)	(655)	159%	(4,725)	(1,936)	144%
Depreciation, depletion & amortization	(1,593)	(781)	104%	(5,460)	(2,287)	139%
Impairment charges	(493)	-	-	(1,734)	-	-
Administrative expenses	(1,229)	(739)	66%	(3,131)	(2,312)	35%
Share-based payments	(45)	-	-	(129)	-	-
Other gains and losses	(11)	(2)	450%	151	130	16%
Foreign exchange gains and losses	496	(58)	-	972	98	892%
Finance costs	(153)	(303)	50%	(804)	(858)	(6%)
	(4,727)	(2,538)	86%	(14,860)	(7,165)	107%
Profit/(loss) before tax	11,637	(22)	-	31,985	(313)	-
Taxation	(4,032)	(86)	4588%	(10,463)	(652)	1505%
Profit/(loss) for the period	7,605	(108)	-	21,522	(965)	-

Profit for the quarter was \$7.6 million compared with a loss of \$0.1 million in Q3 2021 and for the period to date was \$21.5 million compared with a loss of \$1.0 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;

Financial Review- continued

- A \$1.7 million impairment charge relating to the unsuccessful exploration wells; and
- A \$0.5 million foreign exchange gain (Q3 2021: \$0.1 million loss) for the quarter and \$1.0 million gain for the period to date (2021: \$0.1 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 September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
<i>Summary by product & region</i>						
Kazakhstan - Oil	15,513	154	9973%	43,557	267	16213%
Kazakhstan - Gas	840	2,362	(64%)	3,277	6,585	(50%)
Kazakhstan - Other	11	-	-	11	-	-
Total	16,364	2,516	550%	46,845	6,852	584%

Kazakhstan – Oil revenue

- Oil revenue for the quarter was \$15.5 million (Q3 2021: \$0.2 million) or \$43.78/bbl (Q3 2021: \$17.89) and for the period to date was \$43.6 million (2021: \$0.3 million) or \$39.26/bbl (2021: \$15.70/bbl).
- Production in the period to date was from six wells in the Kul-bas (Klymene) field, three wells under a pilot production project and three exploration wells.
- 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, a second contract for 50,000 tons in March 2022 at \$385 per ton and a third contract for 50,000 tons in August 2022 at \$384.50 per ton. In each case payment was received in advance from the buyer.

Kazakhstan - Gas revenue

- Gas revenues were 64% lower in the quarter and 50% period to date due to lower production (40% lower for the quarter and 25% lower for the period to date) and the lower estimated price of \$50/Mcm from January 1, 2022 compared with the average price of \$84.23/Mcm in Q3 2021 and \$75.46/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 September 30			Nine months ended September 30		
		2022	2021	Change	2022	2021	Change
Kazakhstan direct production expenses							
Oil production costs	\$000's	1,209	185	554%	3,360	542	520%
Gas production	\$000's	490	470	4%	1,365	1,394	(2%)
Total	\$000's	1,699	655	159%	4,725	1,936	144%
Administrative expenses							
Oil production	\$000's	440	257	71%	1,036	766	35%
Gas production	\$000's	440	257	71%	1,036	766	35%
Corporate	\$000's	349	225	55%	1,059	780	36%
Total	\$000's	1,229	739	66%	3,131	2,312	35%
Depreciation, depletion, amortisation & impairment							
Oil production	\$000's	1,793	95	1787%	5,915	95	6126%
Gas production	\$000's	293	686	(57%)	1,279	2,192	(42%)
Total	\$000's	2,086	781	167%	7,194	2,287	215%

Oil							
Total cost of production	\$000's	3,442	537	541%	10,311	1,403	635%
Production	bbls	345,632	9,173	3668%	1,115,360	17,402	6309%
Cost per unit of production	\$/bbl	9.96	58.54	(83%)	9.24	80.62	(89%)

Gas							
Total cost of production	\$000's	1,223	1,413	(13%)	3,680	4,352	(15%)
Production	boe	101,224	168,258	(40%)	394,623	523,513	(25%)
Cost per unit of production	\$/boe	12.08	8.40	44%	9.33	8.31	12%
Production	Mcm	17,200	28,589	(40%)	67,052	88,951	(25%)
Cost per unit of production	\$/Mcm	71.10	49.42	44%	54.88	48.93	12%

Oil and gas weighted average cost	\$/boe	10.44	10.99	(5%)	9.27	10.64	(13%)
-----------------------------------	--------	-------	-------	------	------	-------	-------

Kazakhstan – oil production

Oil production costs comprising direct production costs, administrative expenses, impairment charges and depreciation, depletion and amortisation for the quarter were \$3.4 million (Q3 2021: \$0.5 million) or \$9.96/bbl (Q3 2021: \$58.54/bbl) and for the period to date were \$10.3 million (2021: \$1.4 million) or \$9.24/bbl (2021: \$80.62/bbl). These costs reflect production from five wells in the quarter compared with only a small amount of test production in 2021.

Kazakhstan – gas production

Gas production costs comprising direct production costs, administrative expenses and depreciation, depletion and amortisation for the quarter were \$1.2 million (Q3 2021: \$1.4 million) or \$71.10/Mcm (Q3 2021: \$49.42/Mcm) and for the period to date were \$3.7 million (2021: \$4.4 million) or \$54.88/Mcm (2021: \$48.93/Mcm).

Financial Review- continued

Administrative expenses

	Quarter ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Staff and director costs	789	432	83%	1,834	1,301	41%
Professional fees	296	142	108%	748	406	84%
Other administrative expenses	144	165	(13%)	549	605	(10%)
Total	1,229	739	66%	3,131	2,312	35%
G&A expenses per boe (\$)	2.75	4.16	(41%)	2.07	4.27	(51%)

Administrative costs were higher in the quarter and period to date due to salary increases and bonuses 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 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 477.

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 \$4.0 million (Q3 2021: \$0.1 million) and period to date was \$10.5 million (2021: \$0.7 million) reflecting the expected full year effective tax rate, adjusted for one-off items which were recognised in Q1 2022.

Liquidity and Capital Resources

The Group reported a profit before tax of \$32.0 million (2021 full year: \$3.8 million) and a profit after tax of \$21.5 million (2021 full year: \$4.0 million loss) while Adjusted EBITDA, a non-GAAP measure, was \$40.0 million (2021 full year: \$9.6 million). Cash flow from operating activities was \$28.1 million (2021 full year: \$14.9 million).

The Group's accumulated deficit at September 30, 2022 was \$385.0 million (December 31, 2021: \$406.6 million) and working capital (current assets minus current liabilities) was negative \$3.4 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 nine months ended September 30, 2022 was \$46.8 million, profit after tax was \$21.5 million and net cash generated from operating activities was \$28.1 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 September 30, 2022.

Financial Review- continued

Cash Flow

	Quarter ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Net cash from operating activities	17,298	5,319	225%	28,117	3,946	613%
Capital expenditure	(3,863)	(4,004)	(4%)	(8,139)	(7,607)	7%
Net changes in working capital	(1,847)	(1,009)	83%	(10,739)	1,402	(866%)
Other movements	58	(217)	-	149	(257)	-
Net cash used in investing activities	(5,652)	(5,230)	8%	(18,729)	(6,462)	190%
Repayment of borrowings	(2,772)	-	-	(2,772)	-	-
Proceeds from share issuance	-	-	-	-	1,401	(100%)
Share repurchases	(77)	-	-	(592)	-	-
Net cash (used in)/from financing activities	(2,849)	-	-	(3,364)	1,401	(340%)
Effect of exchange rates	75	61	23%	(292)	26	(1223%)
Net increase/(decrease) in cash	8,872	150	5815%	5,732	(1,089)	-
Cash & cash equivalents at beginning of period	6,137	508	1108%	9,277	1,747	431%
Cash & cash equivalents at end of period	15,009	658	2181%	15,009	658	2181%

Operating activities

Net cash from operating activities in the quarter was \$17.3 million due to receipt of \$19.2 million in August of prepayment for oil sales of 50,000 tons. For the period to date, net cash from operating activities was lower than Adjusted EBITDA mainly due to the lack of gas receipts and the settlement of payment obligations. Oil sales prepayments of \$19.2 million were received in March and August 2022.

Investing activities

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

Financing activities

In the current quarter the Company repaid in full the unsecured Gemini loan for \$2.8 million. In the prior period to date the Company made a placement to one of its shareholders for \$1.4 million to meet working capital requirements. In accordance with the previously announced share re-purchase program the Company purchased 181,940 of its shares during the quarter for \$0.1 million and 942,360 in the period to date for \$0.6 million.

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 September 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.

Financial Review- continued

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is defined as “Profit or loss before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments” and is calculated on the results of continuing operations. It provides an indication of the results generated by the 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 loss for the period is as follows:

	Quarter ended September 30			Nine months ended September 30		
	2022	2021	Change	2022	2021	Change
Profit/(loss) before taxation	11,637	(22)	-	31,985	(313)	-
Depreciation, depletion and amortization	1,593	781	104%	5,460	2,287	139%
Impairment charges	493	-	-	1,734	-	-
Share-based payments	45	-	-	129	-	-
Other gains and losses	11	2	450%	(151)	(130)	16%
Finance costs - net	153	303	(50%)	804	858	(6%)
Adjusted EBITDA	13,932	1,064	1209%	39,961	2,702	1379%

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 September 30		
	2022	2021	Change
Total financial liabilities - borrowings	4,711	6,298	(25%)
Deferred revenue	7,956	9,461	(16%)
Less: cash and cash equivalents	(15,009)	(658)	2181%
Net (cash)/debt	(2,342)	15,101	(155%)
Total equity	43,418	25,356	71%
Total capital	41,076	40,457	2%

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.

Financial Review- continued

Stockholder Equity

As at September 30, 2022 the Company had authorised share capital of 145,000,000 (September 30, 2021: 145,000,000) ordinary shares of which 107,548,114 (September 30, 2021: 104,955,999) had been issued and 50,000,000 (September 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.

The number of ordinary shares issued and outstanding at the date of this MD&A was 107,548,114 and the number of preference shares issued and outstanding was nil.

The number of options issued under the Group's Long Term Stock Incentive Plan and outstanding as at September 30, 2022 was 1,902,188 (September 30, 2021: 1,277,188) and the number of warrants outstanding was nil (September 30, 2021: nil). Loan facilities were in place which were convertible into a total of up to 17,437,353 (September 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 19 of the 2021 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	4,711	4,711	-	-	-
Kazakhstan work programme commitments	38,546	9,803	11,897	9,448	7,398
Trade and other payables	7,123	7,123	-	-	-
Provisions	2,984	557	331	1,204	892
Total contractual obligations	53,364	22,194	12,228	10,652	8,290

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 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 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 of the Company 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 Kyzylai 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 2022 average sales price, would result in a reduction of \$11.6 million in annual oil revenues based on the 2022 year to date oil sales volume of 1,109,563 bbls (1,479,417 annualized).

Critical Accounting Policies and Estimates

The annual 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 has not recognised 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 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 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 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 Group operate; 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 operate; 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
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