# Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2022

## Contents

The following MD&A is dated April 26, 2023 and should be read in conjunction with the Group's audited consolidated financial statements and related notes for the year ended December 31, 2022. The accompanying consolidated financial statements of the Group have been prepared by management and approved by the Group's Audit Committee and Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Amounts are stated in thousands of US dollars unless otherwise noted. Additional information relating to the Group can be found on the SEDAR website *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 Grand Pavilion Hibiscus Way, 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 TSX Venture Exchange ("TSXV"). The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

## Financial highlights

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

| | Twelve months ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2020 | Change |
| Oil and gas sales revenues | 65,492 | 15,906 | 312% | 13,040 | 22% |
| Profit/(loss) for the year | 12,300 | (3,989) | - | (38,521) | (90%) |
| Earnings/(loss) ($) per share -basic | 0.11 | (0.04) | - | (0.40) | (90%) |
| Adjusted EBITDA[1] | 52,459 | 9,674 | 442% | 7,012 | 38% |
| Capital expenditure | 12,043 | 15,491 | (22%) | 9,515 | 63% |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2020 | Change |
| Total assets | 87,266 | 73,944 | 18% | 53,817 | 37% |
| Cash & cash equivalents | 14,538 | 9,277 | 57% | 1,747 | 431% |
| Short & long term borrowings | 2,510 | 6,578 | (62%) | 5,549 | 19% |
| Total non-current liabilities | 32,488 | 16,603 | 96% | 11,867 | 40% |
| Net (cash)/debt[1] | (6,834) | 11,583 | (159%) | 11,939 | (3%) |
| Number of ordinary shares outstanding | 116,107,233 | 107,548,114 | 8% | 104,955,999 | 2% |

Note 1 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 20 for details.

## Twelve months 2022 versus twelve months in 2021

- Oil and gas sales revenues increased by 312% to $65.5 million from $15.9 million. Oil sales were $60.4 million compared with $6.0 million in the prior period and gas sales were $5.1 million compared with $9.9 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 agreed, refer to page 7 for further details;
- The profit for the year was $12.3 million compared with a loss of $4.0 million in 2021. The profit for the year 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 $1.8 million impairment charge relating to unsuccessful wells (2021: $1.0 million) and a tax charge of $29.0 million (2021: $7.7 million) comprising current tax of $9.2 million and deferred tax of $19.8 million;
- Adjusted EBITDA, a non-GAAP measure, was $52.5 million, a significant improvement from the $9.7 million in 2021, reflecting the better contribution from oil production partly offset by a lower contribution from gas;
- Capital expenditure reduced to $12.0 million from $15.5 million due to fewer wells drilled in the current year although a significant portion of the 2021 drilling costs were paid in 2022;
- Total assets increased by 18% to $87.3 million due mainly to the $5.3 million increase in cash and $5.1 million increase in trade and other receivables due to non-payment for gas since January 1, 2022;
- Cash & cash equivalents increased by $5.3 million to $14.5 million. Cash inflow from operating activities was $34.1 million (2021: $14.9 million), net cash inflow from investing activities was $22.5 million (2021: $8.7 million) and net cash used in financing activities was $5.2 million (2021: positive $1.4 million) including repayment of borrowings of $2.8 million and the Company's first dividend payment of $1.7 million;

**Financial highlights** - continued

- Short & long term borrowings decreased to $2.5 million from $6.6 million due to repayment of the Gemini unsecured loan during the year;
- Total non-current liabilities increased to $32.5 million from $1.6 million mainly due to the increase in provision for deferred taxes of $19.6 million partly offset by the reduction in non-current borrowings of $3.9 million;
- Net debt (which includes deferred revenue) reduced from $11.6 million to $6.8 million net cash reflecting the cash generated from operations;
- The number of ordinary shares outstanding increased by 8% to 116.1 million as a result of shares issued on conversion of half of the Gemini debenture.

**Twelve months 2021 versus twelve months in 2020**

- Oil and gas sales and other revenues increased by 22% to $15.9 million from $13.0 million due to significantly higher oil revenue, partially offset by lower gas revenue. Oil revenue increased from $2.0 million to $6.0 million. In 2020, there was an additional $2.6 million of oil sales received during the testing phase of the KBD-02 well which was offset against the exploration asset. Gas revenues decreased from $11.0 million to $9.9 million due to lower production volumes and lower average prices in 2021;
- The loss for the year was $4.0 million against a loss of $38.5 million in 2020. Profit before tax for the year was $3.8 million with a tax charge of $7.7 million. The 2020 result included an impairment charge of $57.6 million and gains of $15.0 million, mainly from early settlement of borrowings on favourable terms, and a tax credit of $3.3 million;
- Adjusted EBITDA, a non-GAAP measure, was $9.6 million, an improvement from the $7.0 million in 2020 reflecting the increase in revenues. Production and administrative expenses which were higher in 2021 by $0.5 million were offset by foreign exchange gains which were $0.4 million higher;
- Total assets increased by $20.1 million to $73.9 million due to an increase in cash of $7.5 million and property, plant and equipment which increased by $11.5 million due to capital expenditure on oil & gas properties exceeding depletion, depreciation and amortisation;
- Cash & cash equivalents increased by $7.5 million to $9.3 million. Cash from operating activities was $14.9 million (2020: $17.5 million), net cash from investing activities was $8.7 million (2020:$5.5 million) and $1.4 million (2020: $nil) was raised during the year from issuing new ordinary shares;
- Short & long term borrowings increased to $6.6 million from $5.5 million from accrued loan interest. There were no new loans or loan repayments due during the year.

## Operational Highlights

| | Units | Quarter ended December 31 2022 | 2021 | Change | Year ended December 31 2022 | 2021 | Change |
|---|---|---|---|---|---|---|---|
| **Kazakhstan** | | | | | | | |
| Oil | bopd | 4,358 | 3,329 | 31% | 4,154 | 887 | 368% |
| Gas | boe/d | 1,066 | 1,855 | (43%) | 1,350 | 1,902 | (29%) |
| **Total** | boe/d | **5,424** | **5,184** | **5%** | **5,504** | **2,789** | **97%** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***Oil*** | | | | | | | |
| Oil production | bbls | 400,941 | 306,248 | 31% | 1,516,301 | 323,647 | 369% |
| Oil sold | bbls | 402,695 | 297,140 | 36% | 1,512,259 | 314,143 | 381% |
| Revenue | $'000 | 16,845 | 5,740 | 193% | 60,402 | 6,007 | 906% |
| Cost of production | $'000 | 4,150 | 3,272 | 27% | 14,460 | 4,675 | 209% |
| **Contribution before tax** | $'000 | **12,695** | **2,468** | **414%** | **45,942** | **1,332** | **3349%** |
| Revenue | $/bbl | 41.83 | 19.32 | 117% | 39.94 | 19.12 | 109% |
| Cost of production | $/bbl | 10.35 | 10.68 | (3%) | 9.54 | 14.44 | (34%) |
| **Contribution before tax** | $/bbl | **31.48** | **8.64** | **265%** | **30.40** | **4.68** | **550%** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***Gas*** | | | | | | | |
| Gas production | Mcm | 16,661 | 28,993 | (43%) | 83,713 | 117,944 | (29%) |
| Gas sold | Mcm | 16,253 | 28,381 | (43%) | 81,802 | 115,647 | (29%) |
| Revenue | $'000 | 1,802 | 3,314 | (46%) | 5,079 | 9,899 | (49%) |
| Cost of production | $'000 | 1,696 | 699 | 142% | 5,376 | 5,051 | 6% |
| **Contribution before tax** | $'000 | **106** | **2,615** | **(96%)** | **(297)** | **4,848** | **(106%)** |
| Revenue | $/Mcm | 110.86 | 116.77 | (6%) | 62.09 | 85.60 | (27%) |
| Cost of production | $/Mcm | 101.79 | 24.11 | 322% | 64.22 | 42.83 | 50% |
| **Contribution before tax** | $/Mcm | **9.07** | **92.66** | **(90%)** | **(2.13)** | **42.77** | **(105%)** |

## Oil

- Oil production for the quarter averaged 4,358 bopd compared with 3,329 bopd in Q4 2021 and for the year averaged 4,154 bopd compared with 887 bopd in 2021. The Group produced oil from the Kul-bas field from three pilot production wells for the whole of 2022. Three exploration wells also produced during testing for an average of five months each;
- Total oil production for Q4 2022 was 400,941 barrels compared with 306,248 barrels in Q4 2021 and for the year was 1,516,301 barrels compared with 323,647 barrels in 2021;
- 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, and a fourth contract for 50,000 tons in October 2022 at $365 per ton. In each case payment was received in advance from the buyer. Oil revenue for the quarter was $16.8 million or $41.83/bbl and for the year was $60.4 million or $39.94/bbl;
- Oil production costs for the quarter were $4.2 million or $10.35/bbl resulting in a contribution before tax of $31.48/bbl and for the year production costs were $14.5 million or $9.54/bbl resulting in a contribution before tax of $30.40/bbl. There was no significant production in 2021 until Q4.

## **Operational Highlights** - continued

### Gas

- Gas production for the quarter averaged 1,066 boe/d compared with 1,855 boe/d in Q4 2021 and for the year averaged 1,350 boe/d compared with 1,902 boe/d in 2021. The reduction in production resulted from the shutting-in of some wells due to the low gas price;
- Gas revenue of $5.1 million for the year is based on an estimated average price of $62.09/Mcm (2021: $85.60/Mcm) although the price from January 1, 2022 has not yet been agreed with the customer, a State-owned gas company. Further details are provided on page 7. The Company assumed an estimated average price of $50/Mcm in its Q3 MD&A which has resulted in the anomalous $110.86/Mcm average price for Q4 shown in the table above;
- Gas production costs for the quarter were $1.7 million ($101.79/Mcm) compared with $0.7 million (2021: $24.11/Mcm) in Q4 2021 due a higher depletion charge and allocation of G&A costs. For the year gas production costs were $5.4 million ($64.22/Mcm) compared with $5.1 million (2021: $42.83/Mcm) and would have been lower except for a higher allocation of G&A costs. Further details of production costs are given on page 16.

### Outlook

The information provided under this heading is considered as forward looking information; as such please refer to Forward Looking Statements on page 23 of this MD&A.

The Group's objective is to become one of the 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 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.

## Operational Review

### Significant events and transactions for the year

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

  The Group's "Proved" 1P reserves at December 31, 2022 were 45.8 million BOE (2021: 41.9 million BOE) and "Proved + Probable" 2P reserves were 82.2 million BOE (2021: 79.3 million BOE). The net present value after tax of the Group's 2P reserves as at December 31, 2022 was $610.5 million (2021: $533.4 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 issues 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 engaged ATB Capital Markets as its member broker to conduct the purchases. Purchases are being effected through the facilities of the Exchange. Purchase and payment for the securities are being made by the Company in accordance with Exchange requirements. The price which the Company pays is the market price at the time of acquisition. The Board of Directors believes the shares are undervalued and the repurchases will provide a positive return on investment and enhance shareholder value.

- *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. To date, these events have not had a material impact on the activities of the Group.

- *Oil sales agreements*

  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. The $19.25 million due was received in advance from the buyer.

  On August 22, 2022, the Group announced that it had concluded an agreement to sell a further 50,000 tons for $384.50 USD per ton. The $19.225 million due was received in advance from the buyer.

  October 26, 2022, the Group announced that it had concluded an agreement to sell an additional 50,000 tons of oil at a price of $365 USD per ton. The prepayment provided Tethys with $18.25 million.

  The funds received have been used to settle outstanding payables, share repurchases, tax obligations, infrastructure spending, dividends and other disbursements.

- *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. 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.

- *Extension of Pilot production project*

  On August 22, 2022 the Group announced that the Ministry of Energy approved an extension of the pilot production period for the three wells KBD-02, KBD-06 and KBD-07 until October 2023 when the related Kul-bas Exploration & Production Contract expires. The Group is working towards obtaining a commercial production license by the end of 2023.

- *Annual General Meeting and new director*

  On September 16, 2022, the Group announced that resolutions put to shareholders at the AGM were passed on a poll at the meeting.

  The Company also announced the appointment of Don Streu to the Board of Directors. Don is the President and CEO of Condor Energies Inc., a TSX-listed energy developer in Kazakhstan and Turkey since 2008. Prior to 2008 he spent 22 years with Chevron Corporation.

- *Dividend*

  On October 26, 2022, the Group announced the approval of a dividend of 2 CAD cents per share with a record date of November 2, 2022 and payment date of November 10, 2022. The Company plans to assess the ability to pay dividends on an ongoing basis, but given the range of uncertainty regarding the potential capital expenditure needs and cash flow availability no set regular dividend has been established.

- *New exploration blocks acquired*

  On August 22, 2022, the Company announced that it participated in a subsoil use rights auction for a license that lies adjacent on the east side of the Company's existing Kul-Bas license. The Company has successfully obtained the rights to this Aralsky 4 block that consists of approximately 3,350 square kilometers. The area has had very little exploration work done to date and has no current production or proven reserves. The plan is to shoot seismic when the approval is received and have the work interpreted to identify prospects to potentially drill in 2023.

  On December 23, 2022, Kazakhstan conducted an auction for a number of oil and gas exploration blocks. The Group participated and secured the rights to three relatively unexplored blocks covering approximately 5,500 square kilometers or 1.4 million acres. The licenses (Dyir, Nurzhau and Zhanasu) are to the west of the Group's Kul-bas block and are contiguous with each other but not to the Group's current blocks.

- *Progress toward commercial license update*

  Tethys is currently allowed to sell oil under its exploration license. This license expires on October 16, 2023. Unless an approval is received for production during the preparation period between the maturity of the exploration license and the issuance of the commercial license, Tethys will need to shut down its oil production after the exploration license expires until it receives the commercial license. Management hopes to have the commercial license issued by the 2023 year end and is working on the required necessary steps for the approval. This includes the reserve report, the field development plan and a plan to utilize the associated gas produced with the oil production. Approval of the commercial license may allow for increased production as shut in wells (KBD-03 and KBD-08) can be brought into production and some of the other limitations are removed. In addition, this may allow Tethys to export some of the oil at a higher price than domestic prices. Getting the commercial license is a priority for the company.

## Significant events and transactions subsequent to the year-end

- *Dividend declared*

  On January 18, 2023, the Company announced the approval of a quarterly dividend of 3 CAD cents per ordinary share with a record date of January 26, 2023 and payment date of February 9, 2023.

- *Suspension of gas production*

  Also on January 18, 2023, the Group announced that following the Department of Ecology's refusal to issue permission for emissions related to Kylzloi and Akkulka gas operations, that it had temporarily shut down the gas field operations.

  On March 29, 2023, the Group announced that the gas field production remains shut in while it continues to pursue a resolution with QazaqGaz in regards to payment and price. The Group is hoping to achieve a successful negotiation, but may be forced to take the matter to arbitration if an acceptable agreement cannot be reached.

- *Normal course issuer bid*

  On February 7, 2023 the Company announced that it intends to make another normal course issuer bid that is subject to exchange approval. The Company may acquire up 5,805,361 common shares (roughly 5% of the shares outstanding of the Company) during the period on or about February 10, 2023 to February 10, 2024. 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 Group believes the shares are undervalued and any repurchases will provide a positive return on investment and enhance shareholder value. The securities being bought are to be cancelled and returned to the treasury.

- *Prosecutor's claim against Kul-bas LLP*

  On February 9, 2023, the Group announced that the Prosecutor's Office of the Aktobe region in the Republic of Kazakhstan initiated a claim against Kul-Bas LLP, a Tethys' subsidiary registered in the Republic to cancel the subsoil rights for the Kul-Bas license.

  On February 27, 2023, the Group announced that the Astana Specialized Economic Court ruled that there were not sufficient grounds for satisfying the claim made by the Prosecutor's Office. The time period for filing an appeal has now passed, and no appeal has been filed. Management is of the understanding that this issue has now been dropped and believe the removal of this risk will allow Tethys to better focus on growing the Group and its operations.

## Reserves

Following the completion of the annual evaluation of the Group's reserves in Kazakhstan 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 45.8 million BOE (2021: 41.9 million BOE) and "Proved + Probable" 2P reserves were 82.2 million BOE (2021: 79.3 million BOE).

The net present value after tax of the Group's 2P reserves as at December 31, 2022 was $610.5 million (2021: $533.4 million) based on a 10% discount rate.

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

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

## Results of Operations and Operational Review - Kazakhstan

### Oil production

| | 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 | 8,227 | 8,227 | 90 | 91 |
| Q2 | 55,729 | 350,523 | 350,523 | 91 | 3,852 | - | - | - | 91 | - |
| Q3 | 54,951 | 345,632 | 345,632 | 92 | 3,757 | 1,462 | 9,197 | 9,172 | 92 | 100 |
| Q4 | 63,744 | 400,941 | 400,941 | 92 | 4,358 | 48,690 | 306,248 | 306,248 | 92 | 3,329 |
| **Total** | **241,072** | **1,516,301** | **1,516,301** | **365** | **4,154** | **51,460** | **323,672** | **323,647** | **365** | **887** |

*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 field during 2022.

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 year was 127,001 tons (1,010,674 bbls) versus the production quota of 123,000 tons (978,834 bbls). 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 for utilisation of associated gas, 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 28,409 tons (226,079 bbls) until the well was closed in October. The third appraisal well KBD-04 began testing in August 2022 and produced 9,965 tons (79,301 bbls) up to December 31, 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.

On January 18, 2023 the Group announced that the KBD-02, KBD-04, KBD-06, and KBD-07 wells are continuing to produce at a combined rate exceeding 600 tons/day (4,800 bopd) on average in January; the KBD-04 well would complete its testing period on the current zone (Hauterivian formation) on February 2, and the next zone (Upper Barremian) would be tested starting mid-February. Further, that the Group would commence drilling KBD-11 starting on January 19 and KBD-10 on February 25.

Further details on the oil 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 | 31 Dec 2022 Production 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 | 197,144 |
| | | 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 | 622,196 |
| 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 | 191,334 |
| | | 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 | 226,079 |
| | | 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 | 79,301 |

* Field Development Plan (FDP)

## **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 |
| Q3 | 12,909 | 455,801 | 140 | 826 | 20,182 | 712,615 | 219 | 1,291 |
| Q4 | 12,946 | 457,137 | 141 | 828 | 20,933 | 739,138 | 228 | 1,339 |
| **Total** | **62,315** | **2,200,366** | **171** | **1,005** | **83,204** | **2,937,921** | **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 |
| Q4 | 3,715 | 131,191 | 40 | 238 | 8,060 | 284,613 | 88 | 516 |
| **Total** | **21,398** | **755,553** | **59** | **345** | **34,740** | **1,226,711** | **95** | **560** |
| **Grand total** | **83,713** | **2,955,919** | **230** | **1,350** | **117,944** | **4,164,632** | **323** | **1,902** |

### *Gas operations update*

The Group produced dry gas from a total of up to 17 wells at a depth of approximately 480-600m below surface, comprising 9 producing wells in the Kyzyloi field and 8 in the Akkulka field. Gas production for the quarter decreased to 181 Mcm per day compared with 316 Mcm per day in Q4 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. 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.

On January 18, 2023, the Group announced that the Department of Ecology refused to issue permission for emissions related to the Kylzloi and Akkulka gas operations and the Group had temporarily shut down the gas field operations.

## Financial Review

### Summary of Quarterly Results

| | Q4, 2022 | Q3, 2022 | Q2, 2022 | Q1, 2022 | Q4, 2021 | Q3, 2021 | Q2, 2021 | Q1, 2021 |
|---|---|---|---|---|---|---|---|---|
| Oil & gas sales and other revenues | 18,647 | 16,364 | 16,578 | 13,903 | 9,054 | 2,516 | 1,952 | 2,384 |
| Profit/(loss) for the period | (9,223) | 7,605 | 6,532 | 7,386 | (3,023) | (108) | (765) | (93) |
| Basic earnings/(loss) ($) per share | (0.09) | 0.07 | 0.06 | 0.07 | (0.04) | (0.00) | (0.01) | (0.00) |
| Adjusted EBITDA[1] | 12,497 | 13,932 | 14,505 | 11,525 | 6,973 | 1,064 | 512 | 1,127 |
| Capital expenditure | 3,904 | 3,863 | 976 | 3,301 | 7,884 | 4,004 | 2,766 | 836 |
| Total assets | 87,266 | 84,131 | 73,133 | 77,361 | 73,944 | 58,553 | 54,691 | 52,751 |
| Cash & cash equivalents | 14,538 | 15,009 | 6,137 | 11,651 | 9,277 | 658 | 508 | 433 |
| Short & long-term borrowings | 2,510 | 4,711 | 7,185 | 6,872 | 6,578 | 6,298 | 6,034 | 5,785 |
| Total non-current liabilities | 32,489 | 14,602 | 14,008 | 15,335 | 16,603 | 13,050 | 12,657 | 15,574 |
| Net (cash)/debt[1] | (6,834) | (2,342) | 4,709 | 14,863 | 11,583 | 15,101 | 10,691 | 11,239 |
| Number of common shares outstanding | 116,107,233 | 107,548,114 | 107,548,114 | 107,548,114 | 107,548,114 | 107,548,114 | 107,548,114 | 104,955,999 |

Note 1 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 19 for details.

- The increase in oil & gas revenue from Q4 2021 is due to the commencement of oil production initially from the three pilot production wells and successful exploration wells added to production during 2022. Quarterly gas revenue has fluctuated in the range $1.3 to $3.3 million range from Q1 2021 with a reduction in 2022 as some wells were shut in due to the lower estimated gas price;
- Profit/(loss) for the quarter was lower in Q4 2021 due to a $7.1 million tax charge from the -re-measurement of deferred tax liabilities. Quarterly profits increased in 2022 due to profits from oil production. Q4 2022 was impacted by an $18.6 million tax charge, mainly deferred tax;
- Adjusted EBITDA, a non-GAAP measure, increased from Q4 2021 due to the contribution from oil production which commenced at the end of Q3 2021;
- Total assets has increased each quarter due to ongoing capital expenditure and cash/receivables generated from oil and gas sales. The reduction in Q2 2022 was due to a reduction in cash balances used to settle current liabilities;
- The increase in cash & cash equivalents is a result of the cash generated from oil sales in excess of operating and capital expenditure requirements;
- Short & long term borrowings reduced in Q3 2022 due to the repayment of the Gemini unsecured loan and in Q4 2022 due to conversion of a 50% share of the Gemini debenture;
- Total non-current liabilities increased in Q4 2022 mainly due to the recognition of additional deferred tax liabilities;
- Net (cash)/debt, a non-GAAP measure, includes deferred revenue. The reduction in net debt from Q2 2022 is due to the abovementioned increase in cash and reduction in borrowings;
- Shares were issued for a private placement in Q1 2021 and in Q4 2022 on conversion of a 50% share of the Gemini debenture.

## Financial Review - continued

### Profit/(loss) for the period

| | Quarter ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| Sales revenues | 18,647 | 9,054 | 106% | 65,492 | 15,906 | 312% |
| Production expenses | (2,311) | (1,317) | 74% | (7,035) | (3,253) | 116% |
| Depreciation, depletion and amortisation | (2,154) | (990) | 118% | (7,614) | (3,277) | 132% |
| Impairment charges | (83) | (1,036) | (92%) | (1,817) | (1,036) | 75% |
| Administrative expenses | (1,720) | (897) | 91% | (4,851) | (3,209) | 51% |
| Share-based payments | (59) | (27) | 119% | (188) | (27) | 596% |
| Other gains and losses | (715) | (529) | 35% | (565) | (399) | 41% |
| Foreign exchange gains and loss | (2,119) | 133 | (1694%) | (1,147) | 230 | (599%) |
| Finance costs | (154) | (319) | (52%) | (958) | (1,177) | (19%) |
| | (9,315) | (4,982) | 87% | (24,175) | (12,148) | 99% |
| **Profit before taxation** | **9,332** | **4,072** | **129%** | **41,317** | **3,758** | **999%** |
| Taxation | (18,555) | (7,095) | 162% | (29,017) | (7,747) | 275% |
| **Profit/(loss) for the period** | **(9,223)** | **(3,023)** | **205%** | **12,300** | **(3,989)** | **-** |

The Group recorded a loss after taxation of $9.2 million for the quarter compared with a loss of $3.0 million in Q4 2021 and profit of $12.3 million for the year (2021: $4.0 million loss), 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 the significant increase in oil production;
- A $1.8 million (2021: $1.0 million) impairment charge relating to unsuccessful exploration wells; and
- A tax charge in the quarter of $18.6 million (2021: $7.1 million) and for the year of $29.0 million (2021: $7.7 million) comprising current tax of $9.2 million and deferred tax of $19.8 million.

### Sales & other revenue

| | Quarter ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| *By region and type* | | | | | | |
| Kazakhstan - Oil | 16,845 | 5,740 | 193% | 60,402 | 6,007 | 906% |
| Kazakhstan - Gas | 1,802 | 3,314 | (46%) | 5,079 | 9,899 | (49%) |
| Other revenue | - | - | - | 11 | - | - |
| **Total** | **18,647** | **9,054** | **106%** | **65,492** | **15,906** | **312%** |

### Kazakhstan – Oil revenue

- Oil revenue for the quarter was $16.8 million (Q4 2021: $5.7 million) or $41.83/bbl (Q4 2021: $19.32) and for the year was $60.4 million (2021: $6.0 million) or $39.94/bbl (2021: $19.12/bbl).
- Production during 2022 was from six wells in the Kul-bas field, three wells under a pilot production project and three exploration wells.

## Financial Review - continued

- 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. The Company uses a conversion factor from tons to barrels of 7.958.

### Kazakhstan - Gas revenue

- Gas revenues were 46% lower in the quarter and 49% for the year due to lower production (43% lower for the quarter and 29% lower for the year) and the lower estimated price of $62.09/Mcm from January 1, 2022 compared with the average price of $85.60/Mcm in 2021. The price for 2022 has not yet been agreed with the customer, a state-owned enterprise, refer to page 7 for further details.

Oil and gas sales are subject to exchange rate risk – refer to page 22 – "*Sensitivities*".

### Production expenses

| | | Quarter ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|---|
| | **Units** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Kazakhstan direct production expenses** | | | | | | | |
| Oil production costs | $000's | 1,761 | 857 | 105% | 5,121 | 1,399 | 264% |
| Gas production | $000's | 550 | 460 | 20% | 1,914 | 1,854 | 4% |
| **Total** | $000's | **2,311** | **1,317** | **74%** | **7,035** | **3,253** | **116%** |
| **Administrative expenses** | | | | | | | |
| Oil production | $000's | 649 | 314 | 107% | 1,685 | 1,080 | 56% |
| Gas production | $000's | 649 | 314 | 107% | 1,685 | 1,080 | 56% |
| Corporate | $000's | 422 | 269 | 57% | 1,481 | 1,049 | 41% |
| **Total** | **$000's** | **1,720** | **897** | **91%** | **4,851** | **3,209** | **51%** |
| **Depreciation, depletion, amortisation & impairment** | | | | | | | |
| Oil production | $000's | 1,740 | 2,101 | (17%) | 7,654 | 2,196 | 249% |
| Gas production | $000's | 497 | (75) | - | 1,777 | 2,117 | (16%) |
| **Total** | **$000's** | **2,237** | **2,026** | **10%** | **9,431** | **4,313** | **119%** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***Oil*** | | | | | | | |
| Total cost of production | $000's | 4,150 | 3,272 | 27% | 14,460 | 4,675 | 209% |
| Production | bbls | 400,941 | 306,248 | 31% | 1,516,301 | 323,647 | 369% |
| Cost per unit of production | $/bbl | 10.35 | 10.68 | (3%) | 9.54 | 14.44 | (34%) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***Gas*** | | | | | | | |
| Total cost of production | $000's | 1,696 | 699 | 142% | 5,376 | 5,051 | 6% |
| Production | boe | 98,061 | 170,636 | (43%) | 492,687 | 694,149 | (29%) |
| Cost per unit of production | $/boe | 17.29 | 4.10 | 322% | 10.91 | 7.28 | 50% |
| Production | Mcm | 16,661 | 28,993 | (43%) | 83,713 | 117,944 | (29%) |
| Cost per unit of production | $/Mcm | 101.79 | 24.11 | 322% | 64.22 | 42.83 | 50% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Oil and gas weighted average cost | $/boe | 11.71 | 8.33 | 41% | 9.87 | 9.56 | 3% |

| | 2022 | 2021 |
|---|---|---|
| *Kazakhstan oil production:* | | |
| Taxes and other mandatory payments | 2,592 | 731 |
| Staff costs | 1,697 | 363 |
| Contractors | 329 | 145 |
| Materials | 300 | 28 |
| Transportation | 120 | 38 |
| Other | 83 | 94 |
| **Oil production expenses** | **5,121** | **1,399** |
| *Kazakhstan gas production:* | | |
| Taxes and other mandatory payments | 271 | 284 |
| Staff costs | 854 | 963 |
| Contractors | 375 | 371 |
| Materials | 392 | 205 |
| Other | 22 | 31 |
| **Gas production expenses** | **1,914** | **1,854** |
| **Production expenses** | **7,035** | **3,253** |

### *Kazakhstan – oil production*

Oil production costs comprising direct production costs, administrative expenses, impairment charges and depreciation, depletion and amortisation for the quarter were $4.2 million (Q4 2021: $3.3 million) or $10.35/bbl (Q4 2021: $10.68/bbl) and for the year were $14.5 million (2021: $4.7 million) or $9.54/bbl (2021: $14.44/bbl). These costs reflect production from up to six wells in 2022 compared with three wells commencing at the end of Q3 2021.

### *Kazakhstan – gas production*

Gas production costs comprising direct production costs, administrative expenses and depreciation, depletion and amortisation for the quarter were $1.7 million (Q4 2021: $0.7 million) or $101.79/Mcm (Q4 2021: $24.11/Mcm) and for the year were $5.4 million (2021: $5.1 million) or $64.22/Mcm (2021: $42.83/Mcm).

### Administrative expenses

| | Quarter ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| Staff costs and director fees | 887 | 498 | 78% | 2,720 | 1,799 | 51% |
| Professional fees | 450 | 175 | 157% | 1,198 | 581 | 106% |
| Other administrative expenses | 383 | 224 | 71% | 933 | 829 | 13% |
| **Total** | **1,720** | **897** | **91%** | **4,851** | **3,209** | **51%** |
| G&A expenses per boe ($) | 3.45 | 1.88 | 83% | 2.41 | 3.15 | (23%) |

- Administrative costs were higher in the quarter and for the year due to salary increases and bonuses paid in Kazakhstan as well as additional capabilities and competencies added as the reflecting the increasing scale and complexity of the Group's oil production and development activities.
- Professional fees were higher as there was also a greater use of consultants, again relating to the Group's oil production and development activities.
- Other administrative expenses include office costs, travel, regulatory costs, insurance, investor relations, mandatory socio-economic contributions in Kazakhstan, vehicles costs, bank fees and other miscellaneous costs.

### Taxation

Taxation on corporate profits in Kazakhstan comprises Corporate Income Tax (CIT) at 20% and Excess Profits Tax (EPT) which applies at graduated rates on profits earned above certain profit thresholds. With the positive progress made in the development of the Group's oil and gas fields the Group is now earning taxable profits upon which both CIT and EPT will be due. Accordingly, the Group has measured its deferred tax liabilities using the average CIT and EPT rate expected to apply in the periods the deferred tax balances will reverse. The Group's deferred tax liability mainly arises from the different treatment of fixed asset capital allowances for tax purposes and depletion of oil & gas assets for accounting purposes. It also includes withholding taxes that are expected to apply on payment of interest due on intra-group loans.

## Liquidity and Capital Resources

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.

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.

To assess the resilience of the Group's going concern assessment in light of the sanctions imposed on certain Russian institutions and individuals by the global community in February 2022 and subsequently, that could impact the oil price received by the Group, management performed the following downside scenario that is considered reasonably possible over the next 12 months from the date of approval of the consolidated financial statements. As such, this does not represent the Group's 'best estimate' forecast, but was considered in the Group's assessment of going concern, reflecting the current evolving circumstances and the most significant and reasonably possible risk identified at the date of approving the consolidated financial statements.

## Financial Review - continued

Scenario: The Group's income and profits are materially reduced due to oil prices received during the forecast period being 25% lower than the current contractual price.

The Group would seek to mitigate this by reducing discretionary capital expenditure and deferring other payment obligations.

The Group's forecast net cashflows under the downside scenario above is considered to be adequate to meet the Group's financial obligations as they fall due over the next 12 months.

The Board of Directors is therefore satisfied that the Group's forecasts and projections, including the downside scenario above, 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 consolidated financial statements for the year ended December 31, 2022.

### Cash Flow

| | Quarter ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Net cash from operating activities** | **5,969** | **10,968** | **(46%)** | **34,083** | **14,914** | **129%** |
| Capital expenditure | (3,904) | (7,884) | (50%) | (12,043) | (15,491) | (22%) |
| Net changes in working capital | (195) | 5,602 | (103%) | (10,934) | 7,004 | (256%) |
| Other investing cash flows | 333 | 9 | 3589% | 481 | (248) | - |
| **Net cash used in investing activities** | **(3,766)** | **(2,273)** | **66%** | **(22,496)** | **(8,735)** | **158%** |
| Repayment of borrowings | - | - | - | (2,772) | - | - |
| Proceeds from issuance of shares | - | - | - | - | 1,401 | (100%) |
| Shares repurchased | (51) | - | - | (643) | - | - |
| Dividend paid | (1,741) | - | - | (1,741) | - | - |
| **Net cash (used in)/from financing activities** | **(1,792)** | **-** | **-** | **(5,156)** | **1,401** | **(468%)** |
| Effect of exchange rates | (882) | (76) | 1059% | (1,170) | (50) | 2246% |
| **Net (decrease)/increase in cash** | **(471)** | **8,619** | **(105%)** | **5,261** | **7,530** | **(30%)** |
| Cash & cash equivalents at beginning of period | 15,009 | 658 | 2181% | 9,277 | 1,747 | 431% |
| **Cash & cash equivalents at end of period** | **14,538** | **9,277** | **57%** | **14,538** | **9,277** | **57%** |

### Operating activities

Net cash from operating activities in the quarter was $6.0 million ($11.0 million) and for the year was $34.1 million (2021:$14.9 million). This was lower than Adjusted EBITDA due to $13.6 million prepayment for oil sales received in December 2021 (and recognised as revenue in 2022), lack of gas receipts in 2022, settlement of accrued payment obligations and corporate income tax payments of $6.7 million in 2022.

### Investing activities

Capital expenditure payments made during the quarter and year were mainly to the Group's drilling contractor and also to seismic contractors.

### Financing activities

The Company repaid in full the unsecured Gemini loan for $2.8 million in Q3 2022 and paid its first dividend of $1.7 million in Q4 2022. In the prior year 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 67,380 of its shares during the quarter for $0.1 million and 1,009,740 during the year 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 – *Summary of Significant Accounting Policies* of the December 31, 2022 consolidated financial statements. Refer to note 4 – *Critical Judgments and Accounting Estimates* of the December 31, 2022 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.

## 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 December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Profit before taxation** | **9,332** | **4,072** | **129%** | **41,317** | **3,758** | **999%** |
| Depreciation, depletion and amortisation | 2,154 | 990 | 118% | 7,614 | 3,277 | 132% |
| Impairment charges | 83 | 1,036 | (92%) | 1,817 | 1,036 | 75% |
| Share-based payments | 59 | 27 | 119% | 188 | 27 | 598% |
| Other gains and losses | 715 | 529 | 35% | 565 | 399 | 41% |
| Finance costs - net | 154 | 319 | (52%) | 958 | 1,177 | (19%) |
| **Adjusted EBITDA** | **12,497** | **6,973** | **79%** | **52,459** | **9,674** | **442%** |

### *Net (cash)/debt*

Net (cash)/debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents, but excludes deferred revenues. Total capital is calculated as equity (minus)plus net (cash)/debt. All figures are as stated in the consolidated financial statements for the year ended December 31, 2022.

| | As at December 31 | | |
|---|---|---|---|
| | **2022** | **2021** | **Change** |
| Total financial liabilities - borrowings | 2,510 | 6,578 | (62%) |
| Deferred revenue | 5,194 | 14,282 | (64%) |
| Less: cash and cash equivalents | (14,538) | (9,277) | 57% |
| **Net (cash)/debt** | **(6,834)** | **11,583** | **(159%)** |
| Total equity | 35,116 | 22,359 | 57% |
| **Total capital** | **28,282** | **33,942** | **(17%)** |

Adjusted EBITDA and Net (cash)/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 December 31, 2022 the Company had authorised share capital of 145,000,000 (2021: 145,000,000) ordinary shares of which 116,107,233 (2021: 107,548,114) had been issued and 50,000,000 (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 116,107,233 and the number of preference shares issued and outstanding was nil.

The number of options issued under the Company's Long Term Stock Incentive Plan and outstanding as at December 31, 2022 and also at the date of this MD&A was 1,802,188 (2021: 1,877,188). Loan facilities were in place which are convertible into a total of up to 8,718,677 (2021: 17,437,354) ordinary shares if held to maturity and converted on the maturity date.

## Dividends

On October 26, 2022, the Group announced the approval of a dividend of 2 CAD cents per share with a record date of November 2, 2022 and payment date of November 10, 2022.

Subsequent to the end of the year, on January 18, 2023, the Company announced the approval of a quarterly dividend of 3 CAD cents per ordinary share with a record date of January 26, 2023 and payment date of February 9, 2023.

## Transactions with Related Parties

Disclosure of the Group's transactions with related parties are provided in note 17 of the consolidated financial statements.

## Commitments and contingencies

Details of the Group's commitments and contingencies including litigation, claims and assessments and work program commitments are provided in note 19 of the consolidated financial statements.

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

| | | | Payments due by period | | |
|---|---|---|---|---|---|
| **Contractual obligations** | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Borrowings | 3,125 | 3,125 | - | - | - |
| Kazakhstan work program commitments | 65,542 | 29,356 | 18,767 | 8,572 | 8,847 |
| Trade and other payables | 6,604 | 6,604 | - | - | - |
| Provisions | 2,923 | 888 | 1,165 | - | 870 |
| **Total contractual obligations** | **78,194** | **39,973** | **19,932** | **8,572** | **9,717** |

## Risks, uncertainties and other information

Risk management is carried out by senior management 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 consolidated financial statements for the year ended December 31, 2022. 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

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 $12.1 million in oil revenues based on the 2022 oil sales volume.

A 20% net price reduction from the 2022 average estimated sales price, would result in a reduction of $1.0 million in gas revenues based on the 2022 gas sales volume.

## 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  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.

| | |
|---|---|
| **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 |
| **Gemini** | Gemini IT Consultants DMCC |
| **IFRS** | International Financial Reporting Standards |
| **KASE** | Kazakhstan Stock Exchange |
| **KBD** | Kul-bas Deep well in the Kul-bas Exploration Contract area |
| **Kul-Bas** | The Kul-Bas Exploration Contract area held by Kul-Bas LLP |
| **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 |
| **MoE** | Ministry of Energy |
| **NI 51-101** | National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators |
| **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 |