Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended March 31, 2023

Contents

The following Management's Discussion and Analysis ("MD&A") is dated May 18, 2023 and should be read in conjunction with the Group's unaudited condensed consolidated interim financial statements and related notes for the period ended March 31, 2023 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2022. The accompanying unaudited condensed consolidated interim financial statements of the Group have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The 2022 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 incorporated in the Cayman Islands and the address of the Company's registered office is Grand Pavilion Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the 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)

	Quarter ended March 31		
	2023	2022	Change
Oil and gas sales revenues	9,900	13,903	(29%)
Profit for the period	2,503	7,385	(66%)
Earnings ($) per share - basic	0.02	0.07	(71%)
Adjusted EBITDA[1]	6,070	11,525	(47%)
Capital expenditure	2,167	3,301	(34%)

	As at March 31		
	2023	2022	Change
Total assets	81,161	77,361	5%
Cash & cash equivalents	7,264	11,651	(38%)
Short & long term borrowings	2,675	6,872	(61%)
Total non-current liabilities	32,335	15,335	111%
Net (cash)/debt[1]	(4,536)	14,863	(131%)
Number of ordinary shares outstanding	115,075,013	107,339,814	7%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 14 for details.

First quarter 2023 versus first quarter 2022

- Oil and gas sales revenues decreased by 29% to $9.9 million from $13.9 million. Oil sales were $9.9 million compared with $12.6 million in the prior period and gas sales were $30 thousand compared with $1.3 million in the prior period. The gas price from January 1, 2022 has been recorded on an estimated basis as it has not yet been confirmed, refer page 8 for further details;
- The profit for the quarter was $2.5 million compared with $7.4 million in Q1 2022. The lower profit in the quarter is a result of the lower oil and gas revenues and higher operating costs, although depletion was lower due to the shut-in of gas wells in January 2023. The prior period included a $1.1 million impairment charge relating to an unsuccessful exploration well and a $1.1 million foreign exchange gain versus a loss of $0.5 million in the current period;
- Adjusted EBITDA was $6.1 million compared with $11.5 million as a result of the lower oil and gas revenues and higher operating costs;
- Total assets increased by 5% to $81.2 million due mainly to a $3.1 million increase in property, plant and equipment. The reduction in cash was matched by an increase in the gas sales receivable;
- The Group had net cash of $4.5 million compared with net debt of $14.9 million at Q1 2022 reflecting net cash generated from operations and the conversion of debt to shares;
- The number of ordinary shares outstanding increased by 7% to 115.1 million following the conversion of debt to shares and the cancellation of some shares in the period.

Operational Highlights

	Units	Quarter ended March 31 2023	2022	Change
Kazakhstan				
Oil	bopd	2,939	4,658	(37%)
Gas	boe/d	16	1,729	(99%)
Total	boe/d	**2,955**	**6,387**	**(54%)**
Oil				
Oil production	bbls	264,483	419,205	(37%)
Oil sold	bbls	266,898	407,005	(34%)
Revenue	$'000	9,868	12,611	(22%)
Cost of production	$'000	3,044	2,797	9%
Contribution before tax	$'000	**6,824**	**9,814**	**(30%)**
Revenue	$/bbl	36.97	30.98	19%
Cost of production	$/bbl	11.51	6.67	(73%)
Contribution before tax	$/bbl	**25.46**	**24.31**	**5%**
Gas				
Gross production	Mcm	242	26,453	(99%)
Gas sold	Mcm	232	25,847	(99%)
Revenue	$'000	30	1,292	(98%)
Cost of production	$'000	895	1,158	(23%)
Contribution before tax	$'000	**(865)**	**134**	**(746%)**
Revenue	$/Mcm	129.31	50.00	159%
Cost of production	$/Mcm	3,698.35	43.78	8342%
Contribution before tax	$/Mcm	**(3,569.04)**	**6.22**	-

Oil

- Oil production averaged 2,939 bopd compared with 4,658 bopd in Q1 2022. The Group produced oil from four wells in the Kul-bas field during the quarter, three wells under a pilot production project and one exploration well during testing;
- Oil revenue for the quarter was $9.9 million compared with $12.6 million in Q1 2022 or $36.97/bbl (Q1 2022: $30.98/bbl);
- Oil production costs were $3.0 million compared with $2.8 million in Q1 2022 or $11.51/bbl (Q1 2022: $6.67/bbl) resulting in a contribution before tax of $25.46/bbl (Q1 2022: $24.31/bbl).

Gas

- There was only a small amount of gas production in the period as the gas fields were shut-in in early January 2023 due, initially, to the lack of an ecological permit and they remain shut-in pending a resolution of the gas price issue, refer to page 8 for further details. In Q1 2022 gas production averaged 1,730 boe/d;
- Gas revenue for the quarter was $30 thousand compared with $1.3 million in Q1 2023;
- Gas production costs for the quarter were $0.9 million compared with $1.2 million in Q1 2022. A large proportion of the gas costs are fixed and continued to be incurred in the period notwithstanding the shut-in of the gas fields.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 17 – "*Forward Looking Statements*" 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.

Significant events and transactions for the three months ended March 31, 2023

- *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 the section below headed *Reserves* for further details and basis of preparation.

- *Oil & gas operations*

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

- *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.

Significant events and transactions subsequent to the period end

In April 2023, the Company repaid in full the Gemini debenture which, with accrued interest, amounted to $3,125,424. The Group no longer has any loans outstanding.

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.

Operational Review - continued

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

	2023					2022				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	42,049	264,483	264,483	90	2,939	66,648	419,205	419,205	90	4,658
Total	**42,049**	**264,483**	**264,483**	**90**	**2,939**	**66,648**	**419,205**	**419,205**	**90**	**4,658**

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. In the current quarter the Group produced from four wells as shown on page 7.

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 current quarter was 131,165 barrels and from the commencement of production up to the end of Q1 2023 was 1,904,751 barrels. The Group expects to meet or exceed its quota under the pilot production project of 1,056,257 barrels (132,729 tons).

In addition to the pilot production wells, the Group has drilled a number of successful appraisal wells outside the pilot production project which can produce for a maximum of 90 days from each zone, after which the wells must be closed for the required reporting and approval process.

The Group produced 33,317 barrels from the KBD-04 appraisal well during the quarter and 112,617 barrels from the commencement of testing to the end of Q1 2023.

The KBD-03 and KBD-08 appraisal wells completed their testing in 2022 and produced a total of 253,184 barrels and 226,090 barrels respectively and are now closed until the Group obtains a full commercial production license. The Group is working towards obtaining a commercial 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 investment in additional infrastructure, including for utilisation of associated gas, but should allow a percentage of oil to be sold for higher export prices.

The Group commenced drilling two new appraisal wells during the current quarter, KBD-10 and KBD-11 and, if testing is successful, will able to produce from these two wells for 90 days from each zone.

Operational Review - continued

Well name	Drilling start & end dates	Zone	Perforation date (testing days)	Perforation intervals meters	Production during testing bbls	Commission date	Q1 2023 production (Cumulative) bbls
KBD-02	19/07/2019 06/10/2019	Jurassic	05/04/2020 (90 days)	38.9	32,268	08/09/2022	40,983 (733,591)
		Barremian	11/07/2020 (84 days)	15.5	204,394	-	
		Aptian	10/10/2020 (87 days)	18.3	160,321	15/10/2021	
KBD-03	01/05/2021 27/07/2021	Jurassic	31/08/2021 (90 days)	38	41,142	Awaiting FDP to convert into commercial	Nil (253,184)
		Barremian	15/12/2021 (90 days)	15.5	157,397		
		Aptian	24/03/2022 (69 days)	2.0	54,645		
KBD-06	19/05/2021 25/07/2021	Barremian	14/10/2021	9.4	-	15/10/2021	122,269 (909,742)
KBD-07	08/10/2021 20/12/2021	Jurassic	27/12/2021 (204 days)	34.7	-	28/12/2021	67,913 (261,418)
		Aptian	28/07/2022	14.5	-	29/07/2022	
KBD-08	19/10/2021 01/01/2022	Jurassic	26/02/2022 (5 days)	34.5	67	Awaiting FDP to convert into commercial	Nil (226,090)
		Upper Barremian	28/05/2022 (47 days)	5.5	56,257		
		Barremian	07/07/2022 (Ongoing)	10	169,767		
KBD-04	22/04/2022 08/07/2022	Jurassic	28/07/2022 (87 days)	40.5	47,988	Awaiting FDP to convert into commercial	33,317 (112,617)
		Hauterivian	11/11/2022 (83 days)	2.0	54,929		
		Upper Barremian	07/03/2023 (25 days)	2.0	9,700		

Operational Review - continued

Gas production – Kyzyloi and Akkulka Contracts

	2023				2022			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	177	6,246	2	12	18,678	659,531	208	1,221
Total	**177**	**6,246**	**2**	**12**	**18,678**	**659,531**	**208**	**1,221**
Akkulka								
Q1	65	2,305	1	4	7,775	274,542	86	508
Total	**65**	**2,305**	**1**	**4**	**7,775**	**274,542**	**86**	**508**
Grand total	**242**	**8,551**	**3**	**16**	**26,453**	**934,073**	**294**	**1,729**

Gas operations update

On April 28, 2022 the Group received a letter from its gas customer QazaqGaz, a Kazakhstan state-owned enterprise, proposing a new gas sales pricing mechanism to apply with effect from January 1, 2022 with a minimum and maximum gas price that in the Group's view is likely to be uneconomic for Tethys. 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.

Due to the impasse with QazaqGaz the Group has not received payment for the gas it has delivered since January 1, 2022.

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.

Prior to the shut-down of the gas field operations, 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 was negligible compared to Q1 2022 when production averaged 294 Mcm/d.

The Group had planned to conduct 900km of 2D seismic 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, however, these plans are being re-evaluated with further gas development on-hold until negotiations matters with QazaqGaz have been resolved.

Financial Review

Summary of Quarterly Results

	Q1, 2023	Q4, 2022	Q3, 2022	Q2, 2022	Q1, 2022	Q4, 2021	Q3, 2021	Q2, 2021
Oil & gas sales and other revenues	9,900	18,647	16,364	16,578	13,903	9,054	2,516	1,952
Profit/(loss) for the period	2,503	(9,223)	7,605	6,532	7,386	(3,023)	(108)	(765)
Basic earnings/(loss) ($) per share	0.02	(0.09)	0.07	0.06	0.07	(0.04)	(0.00)	(0.01)
Adjusted EBITDA[1]	6,070	12,497	13,932	14,505	11,525	6,973	1,064	512
Capital expenditure	2,167	3,904	3,863	976	3,301	7,884	4,004	2,766
Total assets	81,161	87,266	84,131	73,133	77,361	73,944	58,553	54,691
Cash & cash equivalents	7,264	14,538	15,009	6,137	11,651	9,277	658	508
Short & long-term borrowings	2,675	2,510	4,711	7,185	6,872	6,578	6,298	6,034
Total non-current liabilities	32,335	32,489	14,602	14,008	15,335	16,603	13,050	12,657
Net (cash)/debt[1]	(4,536)	(6,834)	(2,342)	4,709	14,863	11,583	15,101	10,691
Number of common shares outstanding	115,075,013	116,107,233	107,548,114	107,548,114	107,548,114	107,548,114	107,548,114	107,548,114

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 14 for details.

Profit for the period

	Three months ended March 31		
	2023	**2022**	**Change**
Sales revenues	9,900	13,903	(29%)
Production expenses	(1,980)	(1,429)	39%
Depreciation, depletion & amortisation	(941)	(2,002)	(53%)
Impairment charges	-	(1,140)	(100%)
Administrative expenses	(1,363)	(888)	53%
Share-based payments	(31)	(42)	(26%)
Other gains and losses	(108)	11	(1082%)
Foreign exchange gain	(456)	1,121	(1406%)
Finance costs	(32)	(287)	(89%)
	(4,911)	**(4,656)**	**5%**
Profit before tax	**4,989**	**9,247**	**(46%)**
Taxation	(2,486)	(1,862)	34%
Profit for the period	**2,503**	**7,385**	**(66%)**

Profit after tax for the quarter was $2.5 million compared with $7.4 million in Q1 2022, the principal variances being:

- Lower profit contribution from oil production due to lower production volume and loss from gas production due to the shut-down of gas field operations in early January 2023;

Financial Review - continued

- Higher production expenses from oil production;

- A $1.1 million impairment charge in Q1 2022 relating to the unsuccessful AKD-13 exploration well;

- Higher administration expenses, mainly staff related;

- A $0.5 million foreign exchange loss (Q1 2022: $1.1 million gain) from changes in the Kazakhstan tenge and US dollar exchange rate; and

- Higher tax charge due to estimated tax on profits from oil operations and withholding taxes.

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

Sales revenue

	Quarter ended March 31		
	2023	**2022**	**Change**
Summary by product & region			
Kazakhstan - Oil	9,868	12,611	(22%)
Kazakhstan - Gas	30	1,292	(98%)
Kazakhstan other revenue	2	-	-
Total	**9,900**	**13,903**	**(29%)**

Kazakhstan – Oil revenue

- Oil revenue for the quarter was $9.9 million (Q1 2022: $12.6 million) or $36.97/bbl (Q1 2022: $30.98).

- Production was from four wells in the Kul-bas field, three wells under a pilot production project and one appraisal well and was 264,483 barrels (2,939 bopd) compared with 419,205 barrels (4,658 bopd) in Q1 2022.

Kazakhstan - Gas revenue

- Gas revenue was $30 thousand for the quarter (Q1 2022: $1.3 million). The gas field operations were shut down in early January 2023 and remains shut while the Group seeks a resolution to pricing and payment issues with customer QazaqGaz, refer to page 8 for further details.

Oil and gas contracts are subject to price risk – refer to page 16 – "*Sensitivities*".

Financial Review - continued

Production expenses

		Quarter ended March 31		
	Units	**2023**	**2022**	**Change**
Kazakhstan direct production expenses				
Oil production	$000's	1,344	1,028	31%
Gas production	$000's	636	401	59%
Total	**$000's**	**1,980**	**1,429**	**39%**
Administrative expenses				
Oil production	$000's	764	262	192%
Gas production	$000's	254	262	(3%)
Corporate	$000's	345	364	(5%)
Total	**$000's**	1,363	888	53%
Depreciation, depletion & amortisation				
Oil production	$000's	936	1,507	(38%)
Gas production	$000's	5	495	(99%)
Total	**$000's**	941	2,002	(53%)
Oil				
Total cost of production	$000's	3,044	2,797	9%
Production	bbls	264,483	419,205	(37%)
Cost per unit of production	$/bbl	11.51	6.67	(73%)
Gas				
Total cost of production	$000's	895	1,158	(23%)
Production	boe	1,425	155,689	(99%)
Cost per unit of production	$/boe	628.07	7.44	8342%
Production	Mcm	242	26,453	(99%)
Cost per unit of production	$/Mcm	3,698.35	43.78	8342%
Oil and gas weighted average cost	$/boe	14.81	6.88	115%

Kazakhstan – oil production

Oil production costs comprising direct production costs, administrative expenses and depreciation, depletion and amortisation were $3.0 million (Q1 2022: $2.8 million) or $11.51/bbl (Q1 2022: $6.67). These costs reflect production from four wells in the quarter and in Q1 2022.

Kazakhstan – gas production

Gas production costs comprising direct production costs, administrative expenses and depreciation, depletion and amortisation were $0.9 million (Q1 2022: $1.2 million). A large proportion of the gas costs are fixed and continued to be incurred in the period notwithstanding the shut-down of the gas field operations.

Financial Review - continued

Administrative expenses

	Quarter ended March 31		
	2023	**2022**	**Change**
Staff and director costs	960	474	103%
Professional fees	198	241	(18%)
Other administrative expenses	205	173	18%
Total	**1,363**	**888**	**53%**
G&A expenses per boe ($)	5.13	1.54	233%

Administrative costs higher in the quarter due to higher staff costs in Kazakhstan as the Group's oil production and development increases in scale and complexity and due to local wage cost pressures.

Foreign exchange gain

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 in Kazakhstan from variations in the KZT:$ exchange rate.

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 $2.8 million (Q1 2022: $1.9 million) reflecting the expected full year effective tax rate for Kazakhstan Corporate Income Tax and Excess Profits Tax and withholding taxes.

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.

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 condensed consolidated interim financial statements.

Cash Flow

	Quarter ended March 31		
	2023	**2022**	**Change**
Net cash (used in)/from operating activities	**(2,603)**	**15,180**	**(117%)**
Capital expenditure	(2,167)	(3,301)	(34%)
Net changes in working capital	(154)	(8,892)	(98%)
Other investing cash flows	199	86	131%
Net cash used in investing activities	**(2,122)**	**(12,107)**	**(82%)**
Dividend paid	(2,621)	-	-
Share repurchases	(44)	(161)	(73%)
Net cash used in financing activities	**(2,665)**	**(161)**	**1555%**
Effect of exchange rates	116	(538)	-
Net (decrease)/increase in cash	**(7,274)**	**2,374**	**406%**
Cash & cash equivalents at beginning of period	14,538	9,277	57%
Cash & cash equivalents at end of period	**7,264**	**11,651**	**(38%)**

Operating activities

Net cash from operating activities for the quarter was significantly lower than in Q1 2022 principally due to the receipt during that quarter of a $19.3 million prepayment received from the Group's oil customer. This was partly utilized to meet supplier obligations, including the drilling contractor.

Financial Review - continued

Investing activities

Capital expenditure payments made during the quarter and in Q1 2022 were mainly to the Group's drilling contractor as well as for well testing and geophysical services.

Financing activities

A dividend of $2.6 million (3 CAD cents per ordinary share) was paid on February 9, 2023.

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 March 31, 2022 condensed consolidated interim financial statements. Refer to note 4 of the 2022 audited consolidated financial statements for information on the Group's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

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 for the period is as follows:

	Quarter ended March 31		
	2023	**2022**	**Change**
Profit before taxation	4,989	9,247	(46%)
Depreciation, depletion and amortization	941	2,002	(53%)
Other gains and losses	108	(11)	-
Finance costs - net	32	287	(89%)
Adjusted EBITDA	**6,070**	**11,525**	**(47%)**

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 March 31		
	2023	**2022**	**Change**
Total financial liabilities - borrowings	2,675	6,872	(61%)
Deferred revenue	53	19,642	(100%)
Less: cash and cash equivalents	(7,264)	(11,651)	(38%)
Net (cash)/debt	**(4,536)**	**14,863**	**(131%)**
Total equity	34,985	29,625	18%
Total capital	**30,449**	**44,488**	**(32%)**

Financial Review - continued

Adjusted EBITDA and Net debt shown in this MD&A do not have any standardised meaning as prescribed under IFRS and, therefore, are considered non-GAAP measures. These measures have been described and presented to provide shareholders and potential investors with additional information regarding the Group's financial results. These measures may not be comparable to similar measures presented by other entities.

Stockholder Equity

As at March 31, 2022 the Company had authorised share capital of 145,000,000 (2020: 145,000,000) ordinary shares of which 115,075,013 (March 31, 2022: 107,548,114) had been issued and 50,000,000 (March 31, 2022: 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 options issued under the Company's Long Term Stock Incentive Plan and outstanding as at March 31, 2022 was (March 31, 2022: 1,877,188). Loan facilities were in place which were convertible into a total of up to 8,718,677 (March 31, 2022: 17,437,354) ordinary shares.

There were no changes after March 31, 2023 and up to the date of this MD&A.

Dividends

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. The total amount of the dividend was $2.6 million.

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 and work programme commitments are provided in note 18 of the 2022 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:

	Total	**Payments due by period**			
Contractual obligations		**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	2,675	2,675	-	-	-
Kazakhstan work programme commitments	31,483	10,466	9,107	6,854	5,056
Trade and other payables	5,291	5,291	-	-	-
Provisions	2,247	892	-	846	509
Total contractual obligations	**41,696**	**19,324**	**9,107**	**7,700**	**5,565**

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 2023 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.

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 2022 audited consolidated financial statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Group does not have any derivative financial instruments.

Significant equity investees

The Group does not have any significant equity investees.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Group, including management's assessment of the Group's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Group's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks, uncertainties and assumptions include, among other things: the significant uncertainty over the Group's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; risks of exploration and production licenses, contracts and permits being cancelled due to non-fulfilment of contractual commitments or not being renewed when they expire; the Group will not be successful obtaining governmental approvals for the export of oil at prices significantly higher than price currently realised; volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; ability to realise current market oil and gas prices; risks inherent in the Group's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Group's ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the timing and the costs of well and pipeline construction; the Group's ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Group operates; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Group operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Group operates; risks associated with existing and potential future lawsuits and regulatory actions made against the Group; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

Forward-looking statements - continued

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; future prices for oil and natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Glossary

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