TETHYS Petroleum

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2009

March 31, 2010

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GLOSSARY OF TERMS

In this Annual Information Form, the capitalized terms set forth below have the following meanings:

"**Akkulka**" or "**Akkulka Block**" means the area that is subject to the Akkulka Exploration Licence and Contract;

"**Akkulka Exploration Licence and Contract**" means TAG's exploration licence and contract in respect of the Akkulka Block;

"**Akkulka Production Contract**" means the Akkulka Production Contract dated December 23, 2009 between TAG and MEMR which gives TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years;

"**Annual Information Form**" means the annual information form of Tethys dated March 31, 2010;

"**Antimonopoly Agency**" means the Agency of Kazakhstan on Protection of Competition;

"**Asht POI**" means a protocol of intent dated May 17, 2009 originally entered into between the Company and MEI which gives the Company certain conditional rights to negotiate a production sharing contract for certain areas in the north of Tajikistan in the Asht District and Khodja Bokirghon area of Konibodom District in the Soghd (Sogdiana) Region;

"**BCS**" means booster compression station, a compressor station constructed by TAG at km910 on the Bukhara-Urals gas trunkline for the export of natural gas production from the Kyzyloi Field and the Akkulka Block;

"**BHCL**" means Baker Hughes (Cyprus) Limited, a company incorporated in Cyprus and a wholly owned subsidiary of the Company;

"**Board of Directors**" means the board of directors of the Company, as constituted from time to time;

"**Bokhtar PSC**" means the production sharing contract entered into between KPL and the Government of Tajikistan, represented by MEI, on June 13, 2008 covering the Bokhtar area of southwest Tajikistan;

"**CanArgo**" means CanArgo Energy Corporation, formerly a US public oil and gas company, listed on both the NYSE Alternext US LLC in New York and the Oslo Stock Exchange in Norway;

"**CDN$**" or "**Canadian Dollar**" means Canadian dollars, the lawful currency of Canada;

"**CIS**" means the Commonwealth of Independent States;

"**Company**" or "**Tethys**" means Tethys Petroleum Limited and includes, except where the context otherwise requires, the Company's direct and indirect wholly-owned subsidiaries;

"**GazImpex**" means GazImpex S.A., an unaffiliated company registered in the British Virgin Islands;

"**GazProm**" means OAO GasProm, a major Russian gas company majority owned by the government of the Russian Federation;

"**Georgia**" means the Republic of Georgia;

"**Group**" or "**Tethys Group**" means the Company, its subsidiaries and interests in limited liability partnerships, including for the avoidance of doubt the subsidiaries set out herein under the heading "Corporate Structure";

"**IFRS**" means International Financial Reporting Standards;

"**IPO**" means the initial public offering of the Company of 18,181,818 Ordinary Shares at a price of $2.75 per Ordinary Share for gross proceeds of $50,000,000, which closed on June 27, 2007;

"**JNOC**" means Japanese National Oil Company;

"**KASE**" means Kazakhstan Stock Exchange JSC (see *RFCA*);

"**Kazakh Gas Supply Contract**" means the gas supply contract originally entered into between TAG and GazImpex on January 5, 2006 in relation to the supply of natural gas produced from the Kyzyloi Field;

"**Kazakhstan**" or "**Kazakh State**" means the Republic of Kazakhstan;

"**KPL**" means Kulob Petroleum Limited, a company incorporated in Jersey and a subsidiary of TTL in which the Company, through TTL has a 51% interest;

"**Kul-Bas**" means Kul-Bas LLP, a limited liability partnership registered in Kazakhstan in which the Company through TKL has a 100% interest;

"**Kul-Bas Block**" means the area that is subject to the Kul-Bas Exploration and Production Contract in Kazakhstan;

"**Kul-Bas Exploration and Production Contract**" means Kul-Bas' exploration licence and production contract in respect of the Kul-Bas Block;

"**Kyzyloi**" or "**Kyzyloi Field**" means the area that is subject to the Kyzyloi Field Licence and Production Contract in Kazakhstan;

"**Kyzyloi Field Licence and Production Contract**" means Tethys' field licence and production contract in respect of the Kyzyloi Field;

"**McDaniel**" means McDaniel & Associates Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"**McDaniel Reserve Report**" means the independent engineering evaluation of the Company's natural gas reserves prepared by McDaniel, dated March 17, 2010 and effective December 31, 2009;

"**MEI**" means the Ministry of Energy and Industry of Tajikistan;

"**MEMR**" means the Ministry of Energy and Mineral Resources of Kazakhstan;

"**MET**" or "**Mineral Extraction Tax**" means the mineral extraction tax payable to the government of Kazakhstan in respect of oil and gas production in Kazakhstan;

"**NI 51-101**" means National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

"**NI 51-102**" means National Instrument 51-102 – *Annual information Form*;

"**NI 52-110**" means National Instrument 52-110 - *Audit Committees* of the Canadian Securities Administrators;

"**North Urtabulak PEC**" means the production enhancement contract dated August 19, 1999 entered into among BHCL, joint stock companies Uzneftegazdobycha (formerly known as Uzgeoneftegazdobycha) and Uznefteproduct (formerly known as Uzneftepererabotka) in respect of the North Urtabulak Oil Field as amended by supplementary agreements dated September 13, 2004, November 30, 2006 and December 19, 2007 and is for an indefinite term;

"**OJSC Kulyabgaz**" means Open Joint Stock Company Kulyabgaz, an unaffiliated state owned company incorporated in Tajikistan;

"**Ordinary Shares**" means the ordinary shares of $0.10 par value in the share capital of the Company;

"**PCK**" means Kazakhstani Petrochemical Company Kemikal LLP;

"**Pound Sterling**" or "**£**" means British pounds sterling;

"**Pre-Consolidation Ordinary Shares**" means the £0.01 par value ordinary shares of the Company as they were constituted prior to the Share Consolidation;

"**RFCA**" means Regional Financial Center Almaty Special Trading Floor which is merged with and replaced by KASE;

"**Share Consolidation**" means the consolidation of the 134,674,390 issued Pre-Consolidation Ordinary Shares into 26,934,878 Ordinary Shares, on the basis of one new Ordinary Share for five existing Pre-Consolidation Ordinary Shares effected on May 8, 2007;

"**Somoni**" means Tajik Somoni, the lawful currency of Tajikistan;

"**Soum**" means Uzbekistan Soum, the lawful currency of Uzbekistan;

"**TAG**" means TethysAralGaz LLP (formerly known as BN Munai LLP), a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

"**Tajik Gas Supply Contract**" means the gas supply contract signed between KPL and OJSC Kulyabgaz;

"**Tajikistan**" or "**Tajik State**" means the Republic of Tajikistan;

"**Tajikistan Contract Area**" means the total net area covered by the Bokhtar PSC, as further described under "*Description of the Business-Tajikistan*";

"**Tenge**" means Kazakh Tenge, the lawful currency of Kazakhstan;

"**TKL**" means Tethys Kazakhstan Limited, a wholly owned subsidiary of the Company;

"**TPI**" means Tethys Petroleum Incorporated, a wholly owned subsidiary of the Company;

"**TRACS**" means TRACS International Consultancy Ltd., independent oil and gas reservoir engineers of U.K.;

"**TRACS Reserve and Resource Report**" means for reserves, the independent evaluation report of the Group's oil and natural gas reserves attributable to the Beshtentak Oil Field and the Komsomolsk Field; for resources, the independent evaluation report of the contingent and/or prospective resources of the Group attributable to the Beshtentak Oil Field, the Khoja Sartez Field and the Komsomolsk Field prepared by TRACS dated March 24, 2010 and effective as of December 31, 2009;

"**TSK**" means Tethys Services Kazakhstan LLP, a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

"**TSTL**" means Tethys Services Tajikistan Limited, a wholly owned subsidiary of TTL;

"**TSX**" means the Toronto Stock Exchange;

"**TTL**" means Tethys Tajikistan Limited, a wholly owned subsidiary of the Company;

“**UNG**” means NHC Uzbekneftegas, the Uzbek State oil and gas company;

“**United States**” or “**U.S.**” means the United States of America;

“**U.S. Dollar**” or “**$**” means U.S. dollars, the lawful currency of the United States of America;

“**U.S. GAAP**” means U.S. generally accepted accounting principles;

“**Uzbekistan**” or “**Uzbek State**” means the Republic of Uzbekistan;

“**Uzbek State Partners**” means the joint stock company Uznefteproduct and joint stock company Uzneftegazdobycha, each an associated entity (as defined in the North Urtabulak PEC) of UNG;

“**VAT**” means value added tax; and

“**Vazon**” means Vazon Energy Limited, a company incorporated in Guernsey that is owned by the President and Chief Executive Officer of the Company.

GLOSSARY OF ABBREVIATIONS AND TECHNICAL TERMS

In this Annual Information Form, the abbreviations and technical terms set forth below have the following meanings:

"**2D**" means seismic data recorded along discrete tracks;

"**Albian**" means a geological stage of the Cretaceous period from 112.0 to 99.6 million years ago;

"**API**" means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density;

"**Aptian**" means a geological stage of the Cretaceous period from 125.0 to 112.0 million years ago;

"**atm**" means atmospheres, a measurement of pressure equivalent to 102.667 kilopascals;

"**AVO**" means amplitude versus offset, a specialist seismic processing technique used in the detection of hydrocarbons;

"**Barremian**" means a geological stage of the Cretaceous period from 130.0 to 125.0 million years ago;

"**bbl**" means barrel;

"**Bcf**" means billion cubic feet;

"**Bcfpd**" means billion cubic feet per day;

"**Bcm**" means billion cubic metres;

"**Bcmpd**" means billion cubic metres per day;

"**boe**" means barrels of oil equivalent;

"**bopd**" means barrels of oil per day;

"**Carboniferous**" means the geological period from 359.2 to 299 million years ago;

"**Cenomanian**" means a geological stage of the Cretaceous period from 99.6 to 93.5 million years ago;

"**Cenozoic**" means the geological era from 65.5 million years ago to the present time which includes the Paleogene and the Neogene periods;

"**cf**" means cubic feet;

"**cm**" means cubic metres;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society), as amended from time to time;

"**Cretaceous**" means the geological period from 145.5 to 65.5 million years ago;

"**°C**" means degrees, Celsius;

"**Devonian**" means the geological period from 416 to 359.2 million years ago;

"**Eocene**" means the geological epoch from 55.8 to 33.9 million years ago within the Paleogene system of the Cenozoic era, immediately after the Paleocene;

"**ft**" means feet;

"**gross**" means:

(i) in relation to the Company's interest in production or reserves, its "company gross reserves", which represent the Company's working interest (operating or non-operating) share of gross reserves before deduction of royalties and MET, and without including any royalty interests of the Company;

(ii) in relation to wells, the total number of wells obtained by aggregating the Company's current working interest in each of its gross wells; and

(iii) in relation to the Company's interest in properties, the total area of properties in which the Company has an interest multiplied by the working interest owned by the Company;

"**Hauterivian**" means a geological stage of the Cretaceous period from 136.4 to 130 million years ago;

"**hp**" means horsepower;

"**Jurassic**" means the geological period from 199.6 to 145.5 million years ago;

"**km**" means kilometre;

"**km^2**" means square kilometres;

"**kW**" means kilowatt;

"**Kyzyloi Sandstones**" or "**Kyzyloi Sand**" means Eocene age fine to very fine grained sandstone, sheet type and non-marine in origin, with typical gas saturated thicknesses of between 2 m to 6 m (7 ft to 20 ft) that are generally found in the interval between 400 m to 600 m (1,312 ft to 1,969 ft) below surface and have a high porosity range (26% to 35%), with a high bound-water content;

"**m**" means metres;

"**M$**" means thousands of U.S. dollars;

"**Mbbl**" means thousands of barrels;

"**Mbblpd**" means thousands of barrels per day;

"**Mboe**" means thousand barrels of oil equivalent;

"**Mcf**" means thousand cubic feet;

"**Mcfpd**" means thousand cubic feet per day;

"**Mcm**" means thousand of cubic metres;

"**Mcmpd**" means thousand cubic metres per day;

"**MD**" means millidarcies;

“**Mesozoic**” means the geological era from 248 to 65 million years ago which lies between the Paleozoic and Cenozoic eras;

“**millidarcy** or **(mD)**” means one thousandth of a darcy, a unit of measure of permeability;

“**mm**” means millimetre;

“**MM$**” means millions of U.S. dollars;

“**MMbbl**” means million barrels;

“**MMboe**” means million barrels of oil equivalent;

“**MMcf**” means million cubic feet;

“**MMcfpd**” means million cubic feet per day;

“**MMcm**” means million cubic metres;

“**MMcmpd**” means million cubic metres per day;

“**Neogene**” means a geological period of the Cenozoic era, from 23.03 to 5.33 million years ago, which followed the Paleogene period;

“**net**” means:

(i) in relation to the Company’s interest in production or reserves, its working interest (operating or non-operating) share after deduction of amounts payable in respect of the Mineral Extraction Tax;

(ii) in relation to wells, the number of wells obtained by aggregating the Company’s current working interest in each of its gross wells; and

(iii) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

“**NGL**” means natural gas liquids;

“**Paleocene**” means the lower most epoch within the Paleogene period, from 65.5 to 61.7 million years ago, immediately after the Cretaceous period;

“**Paleogene**” means the geological period from 65.5 to 23 million years ago;

“**Paleozoic**” means the geological era from 542 to 251 million years, which includes the Devonian, Carboniferous and Permian periods;

“**Permian**” means the geological period from 299 to 251 million years ago and it is the last period of the Paleozoic era;

“**PNN logging**” means pulsed neutron-neutron logging, a modern wireline logging technique which can be used in cased hole and subject to interpretation may indicate the presence of hydrocarbons;

“**psi**” means pounds per square inch, a measure of pressure and equivalent to 0.068 atm;

“**super-giant**” means the estimated ultimate recoverable reserves of 5 billion bbl of oil or 30 TCF (0.85 TCM) of natural gas;

"**syn-rift**" means rocks deposited during an extensional geological regime (i.e. where rocks are under tension) which results in the general widening and deepening of sedimentary basins and allows significant infilling of sediments from the edges of the basin;

"**Tasaran or Tasaran Sand**" means Eocene age continental to non-marine fine to very fine grained sandstone, with some significant clay content, slightly stratigraphically older than the Kyzyloi Sandstone that are generally found in the interval between 500m to 600m (1,641 ft to 1,969 ft) below surface;

"**Tcf**" means trillion cubic feet;

"**Tcm**" means trillion cubic metres;

"**Tertiary**" means the geological period from 65 to 1.8 million years ago; and

"**Triassic**" means the geological period from 251 to 199.6 million years ago.

Presentation of Oil and Gas Information

Unless the context otherwise requires, in this Annual Information Form, the following terms have the meanings set forth below.

"**Reserves**" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to degree of certainty associated with the estimates.

"**Proved Reserves**" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves.

"**Probable Reserves**" are those additional reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved Plus Probable Reserves.

"**Possible Reserves**" are those additional reserves that are less certain to be recovered than Probable Reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated Proved Plus Probable Plus Possible Reserves.

"**Developed Reserves**" are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

"**Developed Producing Reserves**" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"**Developed Non-Producing Reserves**" are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"**Undeveloped Reserves**" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g. when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

Certain other technical terms used in this Annual Information Form but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. See "*Statement of Reserves Data and Other Oil and Gas Information*". Unless otherwise stated, all gas and oil volumes are expressed as at standard conditions of temperature and pressure (temperature = 15 °C and pressure = 1 atm).

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

In this Annual Information Form where amounts are expressed on a BOE basis, natural gas volumes have been converted to oil equivalence at 6 Mcf:l bbl. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:l bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Unless otherwise specified, references to oil include oil and NGLs. NGLs include condensate, propane, butane and ethane.

CURRENCY AND EXCHANGE RATES

All references in this Annual Information Form to dollar amounts are to U.S. Dollars ("**$**") unless otherwise noted.

While the Company reports its results of operations in U.S. Dollars, its expenditures are paid and its income earned to a significant extent in foreign currencies. Moreover, the Ordinary Shares of the Company are listed on the TSX and trade in Canadian Dollars. Set out below is certain 2009 exchange rate data for the Tenge, Somoni, Soum, Pound Sterling and Canadian Dollar relative to the U.S. Dollar.

Canadian Dollar:

Highest rate in 2009: $1 = CDN$1.0251
Lowest rate in 2009: $1 = CDN$1.3066
Rate as of December 31, 2009: $1 = CDN$1.05

Source: Bank of Canada

British Pound Sterling:

Highest rate in 2009: $1 = £1.3666
Lowest rate in 2009: $1 = £1.6929
Rate as of December 31, 2009: $1 = £1.6148

Source: Bank of England

Kazakhstan Tenge:

Highest rate in 2009: $1 = 120.79 Tenge
Lowest rate in 2009: $1 = 151.40 Tenge
Rate as of December 31, 2009: $1 = 148.36 Tenge

Source: National Bank of Kazakhstan

Tajikistan Somoni:

Highest rate in 2009: $1 = 4.44050 Somonis
Lowest rate in 2009: $1 = 3.45190 Somonis
Rate as of December 31, 2009: $1 = 4.3710 Somonis

Source: National Bank of Tajikistan & OANDA Corporation

Uzbekistan Soum:

Highest rate in 2009: $1 = 1,525.00 Soum
Lowest rate in 2009: $1 = 1,388.51 Soum
Rate as of December 31, 2009: $1 = 1,511.40 Soum

Source: OANDA Corporation

CONVERSION

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To Convert From	**To**	**Multiply By**
Inches	Mm	0.0394
ft	m	0.305
m	ft	3.281
miles	km	1.610
km	miles	0.621
Acres	km^2	0.004
km^2	Acres	247.1
bbl	cubic metres	0.159
cm	Bbl	6.290
Mcf	Mcm	0.0283
Mcm	Mcf	35.315
Bcf	Bcm	0.0283
Bcm	Bcf	35.315
Tcf	Tcm	0.0283
Tcm	Tcf	35.315
Atm	psi	14.697

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements or information (collectively, "**forward-looking statements**"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. By its nature, forward-looking information involves 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. These statements speak only as of the date of this Annual Information Form. In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the quantity of reserves and resources;
- the performance and characteristics of the Company's oil and natural gas properties;
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- oil and natural gas production levels;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- capital expenditure programs;
- plans for facilities construction and completion of the timing and method of funding thereof;
- projections of market prices and costs;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- supply and demand for oil and natural gas;
- ability to realize forecast prices for gas production;
- access to existing pipelines;
- the quantum of, and future net revenues from, natural gas and natural gas liquids reserves;
- expectations regarding the Company's ability to raise capital and to add to reserves through acquisitions and development;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- the tax horizon of the Company;
- future acquisitions and growth expectations within the Company; and
- treatment under government regulatory and taxation regimes.

With respect to forward looking statements contained in this Annual Information Form, the Company has made assumptions regarding, among other things:

- the continued existence and operation of existing pipelines;
- future prices for natural gas and natural gas liquids;
- future currency and exchange rates;
- the Company's ability to generate sufficient cash flow from operations and access capital markets to meet its future obligations;
- the regulatory framework representing 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-efficient manner to meet the Company's demand.

Although the Company believes that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this Annual Information Form include, but are not limited to:

- failure to realize anticipated benefits of exploration activities;
- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- competition for and/or inability to retain drilling rigs and other services;
- the availability of capital on acceptable terms;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- the need to obtain required approvals and permits from regulatory authorities and third parties, when required;
- general economic conditions in Kazakhstan, Tajikistan, Uzbekistan and globally;
- changes to royalty regimes and government regulations regarding royalty payments;
- risks associated with exploring for, developing, producing, processing, storing and transporting natural gas;
- unavailability of required equipment and services;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in government regulations; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described herein can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. The Company does not intend, and does not assume any obligation, to update or revise these forward-looking statements except as required pursuant to applicable securities laws.

CORPORATE STRUCTURE

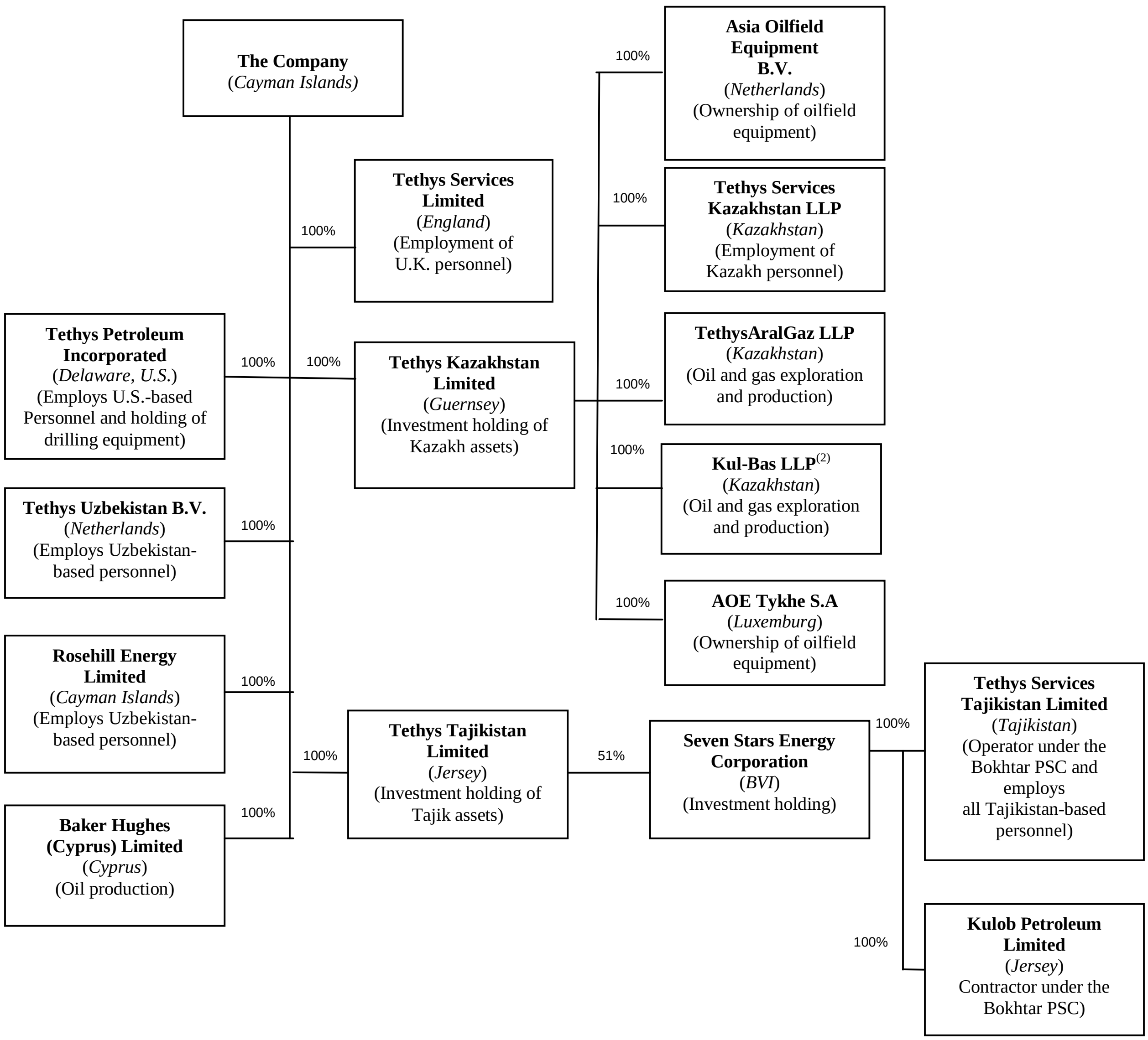
Name, Address and Incorporation

The Company was incorporated under the name "Tethys Petroleum Investments Limited" pursuant to the laws of Guernsey on August 12, 2003. On September 22, 2006, the Company changed its name to "Tethys Petroleum Limited". The Company was continued under the laws of the Cayman Islands on July 17, 2008.

The Company's registered office is located at 89 Nexus Way, Camana Bay, P.O. Box 1234, Grand Cayman, KY1-9007, Cayman Islands. The Company's principal executive office is at P.O. Box 524, St. Peter Port, Guernsey, GY1 6EL, British Isles.

Intercorporate Relationships

The corporate ownership structure of the Company and its principal active subsidiaries (including the jurisdiction of incorporation and current percentage ownership (voting and equity) by the Company or a subsidiary) is as follows[(1)]:



Notes:

(1) As at December 31, 2009, unless otherwise noted.

GENERAL DEVELOPMENT OF THE BUSINESS

Company History

Set out below is a history of Tethys from incorporation to December 31, 2009, focused on events that have influenced the general development of the Company's business.

Incorporation to IPO

Tethys is an oil and gas exploration and production company focused on projects in Central Asia. Currently the Company has projects in Kazakhstan, Tajikistan and Uzbekistan.

Tethys was incorporated in Guernsey on August 12, 2003, specifically to hold certain interests of CanArgo in Central Asia. CanArgo's principal focus was on its exploration and appraisal program in Georgia, and, given the significant capital required to develop Tethys and its Kazakh assets, in 2006 CanArgo announced its decision to spin-out Tethys from CanArgo.

On January 24, 2007, Tethys completed a private placement whereby it issued 34,674,390 Pre-Consolidation Ordinary Shares (or 6,934,378 Ordinary Shares after giving effect to the Share Consolidation) for gross proceeds of approximately $17,400,000. These shares were issued at a price of $0.50 per share ($2.50 post Share Consolidation) and the funds raised were used in connection with the Kyzyloi Field development, drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors.

On March 13, 2007, Tethys reached an agreement with the owners of the minority interest in TAG for Tethys, through its wholly-owned subsidiary TKL, to acquire the 30% of TAG it did not already own in exchange for 30,000,000 Pre-Consolidation Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making TAG an indirect wholly-owned subsidiary of Tethys. This acquisition was completed on June 14, 2007.

On June 27, 2007, the Company completed the IPO of 18,181,818 Ordinary Shares at an offering price of $2.75 per share for gross proceeds of $50,000,000, pursuant to a final long form prospectus dated June 18, 2007. The Ordinary Shares commenced trading on the TSX on June 27, 2007. The Ordinary Shares are listed on the TSX under the symbol "TPL".

IPO Until the End of 2007

On December 19, 2007, the Company announced that commercial gas production from the Kyzyloi Field in Kazakhstan had commenced. The initial production is being sold under the long-term take-or-pay contract signed between TAG and the gas trading company GazImpex in January 2006 (the "**Kazakh Gas Supply Contract**"). This contract relates to up to 30 Bcf (850 MMcm) of gas from the Kyzyloi Field, or to gas delivered from the Kyzyloi Field until December 1, 2012 (whichever is the earlier), and was assigned in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP ("**PCK**"), who will utilize the gas in the domestic Kazakh market. This contract was further assigned on May 1, 2009 to Asia Gas NG LLP. The contract price is $0.90 per Mcf ($32 per Mcm) excluding VAT or $1.02 per Mcf ($35.84 per Mcm) including VAT at the current 12% rate. The Company has the ability to offset VAT levied on the sale of gas from the Kyzyloi project against VAT costs on the Kyzyloi project.

On December 24, 2007, the Company entered into the TTL-Sangam Shareholders' Agreement (as supplemented by an agreement dated August 7, 2009) with a private investment company Sangam Limited ("**Sangam**") that formed a joint company named "Seven Stars Energy Corporation" ("**SSEC**"). Pursuant to the TTL-Sangam Shareholders' Agreement, it was agreed on December 30, 2009 that the Company, through TTL, own a 51% economic interest and the remaining 49% is owned by Sangam. TTL transferred and assigned all of the shares of KPL, Sogdiana Petroleum Limited and TSTL to SSEC on December 30, 2009.

2008 and 2009

On March 19, 2008, the Company announced that TPI had secured loan financing from a group of accredited investors in the amount of $5.3 million to fund the purchase of a new ZJ70 drilling rig (subsequently named Rig "Telesto") from a Chinese factory for use on the Company's projects.

On March 28, 2008 the Company announced that its Ordinary Shares had been approved for listing on the RFCA (now KASE). This listing is secondary to the Company's primary listing on the TSX. To date no shares have traded on this secondary market pending the implementation of a settlement process.

On June 13, 2008, the Company's then wholly-owned subsidiary KPL entered into the Bokhtar PSC with the Government of Tajikistan, represented by the MEI (collectively, the "**Tajik State**"). The Bokhtar PSC gives KPL the exclusive right, as contractor under the Bokhtar PSC, to conduct oil and gas operations in the Tajikistan Contract Area during the term of the Bokhtar PSC and to receive the Company's share of production from the Tajikistan Contract Area.

On June 27, 2008, the Company completed a public offering of 21,276,596 Ordinary Shares at an offering price of $2.35 (CDN$2.39) per share for gross proceeds of $50,000,000.

On January 9, 2009, the Company completed the purchase of a second drilling rig (this being a ZJ30 unit and subsequently named Rig "Tykhe"). The purchase price of this second rig was part-financed through a $2 million loan financing from a group of accredited investors.

On January 21, 2009, the Company also acquired a coiled tubing workover unit and paid part of the acquisition price by issuing 1.4 million Ordinary Shares.

On April 9, 2009, the Company completed an acquisition from the Isle of Man company, Rosehill Energy plc ("**Rosehill**"), of its wholly-owned subsidiary, BHCL, which held Rosehill's entire interest in the North Urtabulak Production Enhancement Contract ("**North Urtabulak PEC**") for the North Urtabulak Oil Field in Uzbekistan. The consideration for the purchase of BHCL was settled by the issue of 15,000,000 Ordinary Shares, which were restricted from resale for a period of six months (in respect of an aggregate of 7,500,000 Ordinary Shares) and one year (in respect of an aggregate of 7,500,000 Ordinary Shares) from the date of completion of the acquisition.

On June 19, 2009, the Company completed a public offering of 51,680,000 new Ordinary Shares for gross proceeds of $20 million to fund the Company's project development and capital expenditures. The Ordinary Shares were sold at a price of $0.387 (or CDN$0.425) each.

On October 19, 2009, the Company executed a project financing in the amount of $4.1 million for drilling a new development well by BHCL at the North Urtabulak Oil Field.

On December 9, 2009, TAG and MEMR signed an amendment agreement no. 7, which reflects the extension of the exploration period of the Akkulka Exploration Licence and Contract from September 17, 2009 until March 10, 2011. Addendum no. 7 also provides for a commitment by TAG to spend $850,000 for its exploration activities over the 18 months extension period.

On December 14, 2009, the Company executed an agreement with Cornhill Capital and Cornhill Capital Asset Management Limited for the provision of up to $3 million of debt finance by way of the issuance by the Company of unsecured discounted loan notes related to North Urtabulak PEC. By December 31, 2009, $1 million of these loan notes had been subsequently subscribed for.

On December 19, 2009, the Company signed a private placement agreement to issue 10 million Ordinary Shares to two investors at $0.50 per Share for proceeds of $5 million. The said Ordinary Shares were issued on January 4, 2010. The proceeds of the private placing will be used to fund the Company's drilling activities and for general corporate purposes for project development and capital expenditures.

On December 23, 2009, TAG and MEMR signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years.

On December 30, 2009, TTL and Sangam reached final agreement on certain commercial and business issues relating to the completion of the TTL-Sangam Shareholders' Agreement resulting in the deal being completed. In addition, TTL signed a loan agreement on December 30, 2009 with SSEC pursuant to which TTL agreed to lend certain funds to SSEC to finance work programs and field development plans in Tajikistan.

DESCRIPTION OF THE BUSINESS

General

The Company is engaged, through its subsidiaries, in the exploration for, and the acquisition, development and production of, oil and natural gas resources in Central Asia, currently in Kazakhstan, Tajikistan and Uzbekistan. In Kazakhstan, the Company's assets are presently located in three contiguous blocks in an area to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the south-eastern edge of the prolific Pre-Caspian sedimentary basin and is, at the Carboniferous stratigraphic level and deeper, an extension of the Pre-Caspian Sedimentary basin. In Tajikistan, the Company's projects are located in the south west of the country, in a geologic basin known as the Afghan-Tajik basin which is the easterly extension of the Amu-Darya basin which is productive in Uzbekistan and Turkmenistan. In Uzbekistan, the Company operates as the service contractor under the North Urtabulak PEC for the Uzbek State Partners, which gives incremental production rights to increase production volume of oil from wells on the North Urtabulak Oil Field in the south-central part of the country, close to the border with Turkmenistan and within the Amu Darya basin. The Company is in active discussions with the Uzbek authorities on additional projects in Uzbekistan.

Tethys' objective is to build a diversified oil and gas exploration and production company with a mix of short-term cash flow and development potential focused on Central Asia in areas with substantial oil and gas potential.

Overview of Properties

Kazakhstan

The Company owns its current interests through TAG, a wholly owned Kazakh limited liability partnership. As a result of this ownership, the Company currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field), producing from the Kyzyloi sand reservoir under the Kyzyloi Licence and Contract. TAG also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area a 100% interest in the Kul-Bas Exploration and Production Contract area and a 100% interest in the recently signed Akkulka Production Contract. These lands are all within the Aktobe Oblst region of western Kazakhstan.

The McDaniel Reserve Report estimates that Tethys has net proved plus probable reserves of 62.4 Bcf (1.76 Bcm) of natural gas in its Kazakh properties as at December 31, 2009. The Kyzyloi Field commenced production on December 19, 2007. See "*Statement of Reserves Data and Other Oil and Gas Information*". Tethys constructed a 35 mile (56 km) 325 mm (12.8 inch) diameter export pipeline from the Kyzyloi Field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station was constructed at km910 on that trunkline (known as the "**BCS**") and with gas flowing into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas. The Kyzloi field produces from Eocene age shallow marine sandstones at a depth of approximately 450 m (1,476 ft).

TAG has made 11 shallow gas discoveries in the Akkulka Exploration Contract and Licence area. Seven of these wells (now covered by the Akkulka Production Contract) are producing from a similar horizon to the Kyzyloi field and are tied into to the Company's existing pipeline infrastructure, with additional compression having been installed at the BCS. This second phase of the gas development (referred to as "**Phase 2**" of the Kyzyloi / Akkulka shallow gas development) is ready to commence production once a gas sales agreement has been signed and Intergas Central Asia allocates space in the pipeline system which is expected to be in the second quarter of 2010. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3 of the development.

The Company has recently completed drilling of its first “deep” exploration well in the area, well AKD01 on the Akkulka block. The well flowed light oil from two zones at a combined rate in excess of 6,800 bopd and data from the well indicated good reservoir properties. The two reservoir zones are in the Jurassic and lower Cretaceous sequences at depths of approximately 2,355 metres (7,726 feet) and 2,174 metres (7,133 feet) respectively. Work is now underway to appraise the mapped prospect (named “Doris”), this work involving at least two appraisal wells, a 3D seismic survey and further evaluation with the aim of applying for a Production Contract for this possible oil development. In addition further exploration drilling and 2D seismic is planned both on the Akkulka block and on the surrounding Kul-Bas block, with the results of the AKD01 well significantly improving the prospectivity of these surrounding targets.

Tajikistan

The Company, through KPL, currently holds 51% economic interest in the contractor share of the Bokhtar PSC which covers an area of approximately 35,000 km^2 in the south west of the country (representing approximately 21.6% of the total land area of Tajikistan). This PSC is for a term of 25 years of a large highly prospective region which previously produced oil and gas. The Tajikistan Contract Area includes the Khatlon Region and the area around the capital city, Dushanbe, and includes more than 130 different prospective structures which have already been identified in the area.

Tethys believes that the Tajikistan Contract Area has considerable potential for oil and gas condensate. The area includes almost the entire Tajik portion of the Afghan-Tajik basin, the eastern part of the prolific Amu Darya basin which contains giant and supergiant gas and gas condensate fields in nearby Turkmenistan and Uzbekistan. A proven hydrocarbon system exists in the Tajikistan Contract Area but only limited exploration has taken place in the past. Several reservoir horizons are present and both sweet light oil and gas condensate has been produced. Salt tectonics dominate the southern part of the area where numerous salt domes provide the potential for substantial hydrocarbon traps. The Tajikistan Contract Area includes several oil and gas condensate discoveries and KPL is involved in both appraisal and rehabilitation of these deposits as well as exploration for new targets. The rehabilitation activities are aimed at establishing early cash flow whilst exploring for high potential deeper prospects. The first work has been carried out on the Komsomolsk Field near Dushanbe and the Khoja Sartez Field near Kulob with gas being tested from both fields. In the early part of 2009, some limited gas production was undertaken from Khoja Sartez and further work is planned. In addition, small scale oil production has now commenced from the Beshtentak oilfield and further work is ongoing. In 2009, a seismic acquisition program commenced with approximately 500 km of a planned 1,000 km survey having been completed. In addition, KPL is drilling an exploration well at East Olimtoi in the south of the area. Based on the current dataset over 130 fields, discoveries and structures have been identified in the Bokhtar PSC Area with the TRACS Reserve and Resource Report estimating some 1,133 MMboe, categorized as “leads”.

Uzbekistan

The Company, through BHCL, owns a 100% contractor interest in the North Urtabulak PEC for the North Urtabulak Oil Field with subsidiaries of NHC Uzbekneftgas, the Uzbek State oil and gas company. This field is located in southern Uzbekistan in the northern portion of the Amu-Darya basin. The North Urtabulak PEC does not confer ownership of the North Urtabulak Oil Field to the contractor, being BHCL, and no reserves or resources have been attributed to the contractor’s interest under the North Urtabulak PEC to date. The North Urtabulak Oil Field produces from a Jurassic age reef structure at a depth of approximately 2,500 m and is reported as being the second largest oil field in Uzbekistan. The oil is 32° API low sulphur crude oil. There are approximately 115 wells drilled or partly drilled on the field and currently, the Company is producing over 2,000 bopd (gross) from 18 wells under the North Urtabulak PEC. Part of the North Urtabulak Oil Field is under a zone of active salt movement which has had limited production in the past due to drilling difficulties. In March 2010, BHCL completed and put on production a new well under the North Urtabulak PEC (well NUR116) with a test rate of some 610 barrels of oil per day (bopd) after acidisation.

A full field dynamic reservoir model is nearing completion and further work is planned on the North Urtabulak Oil Field to enhance oil production including radial drilling and improved oil lifting techniques.

Overview of Land Holdings

The following table summarizes the Company's principal properties in Kazakhstan, Tajikistan and Uzbekistan (and the percentage interest of the Company therein):

Property & Contract	Basin	Gross Area [km^2]	Expiry Date (assuming no extensions)
***Kazakhstan* (100%)**			
Kyzyloi Field Licence and Production Contract	North Ustyurt	287.2	June 2014
Akkulka Exploration Licence and Contract	North Ustyurt	1,380.5	March 2011
Akkulka Production Contract	North Ustyurt	109.5	December 2018
Kul-Bas Exploration and Production Contract(1)	North Ustyurt	8,480.2	November 2030
Tajikistan			
Bokhtar PSC	Afghan-Tajik	34,750	June 2033
***Uzbekistan* (100%)**			
North Urtabulak PEC(2)	Amu-Darya	N/A	Eight years from the date of the first incremental production from a final well
Total Area km^2		**44,897**	

Notes:

(1) Following the first contractual relinquishment as confirmed by the Kazakh authorities in December 2008 – a further contractual relinquishment has now been agreed in principle with the Kazakh authorities which will reduce the area to 7,632 km^2 effective November 2009 but is yet not confirmed by the Kazakh authorities.

(2) BHCL operates as contractor/service provider for the Uzbek State Partners under the North Urtabulak PEC.

Each of these properties and contracts is described further below.

Kazakhstan

Kazakhstan is an independent republic and is the largest country in Central Asia with an area of some 2.7 million km^2 and with a population of some 15 million people. In the opinion of management, Kazakhstan has abundant hydrocarbon resources with some of the world's most significant oil and gas fields, and with 2008 production being 569 MMbbl of oil and 30.2 Bcm of natural gas.[1] In Kazakhstan, Tethys' producing field (Kyzyloi) and two exploration blocks (Akkulka and Kul-Bas) and production area (Akkulka) are to the west of the Aral Sea in a geological area known as the North Ustyurt basin. These lands are all within the Aktobe Oblast region of western Kazakhstan.

[1] Source: *BP Statistical Review of World Energy June 2009*

Kyzyloi Field and the Kyzyloi Field Licence and Production Contract

Kyzyloi Field Licence and Production Contract

The Kyzyloi Field Licence and Production Contract for production of gas on the Kyzyloi Field was initially issued by the Kazakh government to the state holding company Kazakhgas on June 12, 1997 and was transferred to TAG on May 15, 2001. The contract was entered into between the MEMR and TAG on May 5, 2005, initially until June 12, 2007. However, in January 2005, the MEMR agreed to extend the contract until June 2014, subject to certain contractual amendments, which the Company finalized in 2007. Gas production commenced under the contract in December 2007.

The Kyzyloi Field Licence and Production Contract grants TAG exploration and production rights over an area of approximately 70,967 acres (287.2 km^2) and extends down to the base of the Paleogene sequence. Pursuant to the contract, TAG must reimburse the Kazakh government for approximately $1,211,000 in historical costs, to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To date, TAG has reimbursed the government $475,750 in respect of the Kyzyloi Field. Under the latest extension of the Kyzyloi Field Licence and Production Contract, TAG has committed to spending approximately $2.7 million for a workover program over the seven year period until 2014. In November 2009, the Company finalised and agreed the 2010 work program with a commitment of $100,000. The Kyzyloi Production Contract is subject to MET, which replaced royalties. MET is calculated at a rate between 0.5% to 1.5% of the value of the annual gas production for domestic sales and 10% for exports. Kyzyloi sales are currently domestic and as such MET is at 0.5%.

According to the Kyzyloi Field Production Contract, TAG is obliged to allocate annually not less than 1% of its operational costs for the professional training of Kazakh personnel participating in the work under the Kyzyloi Field Production Contract. In addition, TAG is required to provide $30,000 annually for participation in the social and economic development of the Aktobe region. TAG is also required to establish a liquidation fund for reclamation of the contract area and to contribute annually to such fund in the amount of 1% of its operational costs.

Kyzyloi Field

Kyzyloi is a shallow gas field containing sweet (no sulphur) natural gas, almost entirely methane, reservoired in sandstones of Paleogene age at depths up to approximately 610 m (2,000 ft). The field is well defined both on Soviet-era seismic data and on more recent data shot by the JNOC in 1995 to 1996, and can be clearly seen as amplitude anomalies or bright spots on this data.

Previous drilling had left several suspended wells on the field, which were drilled but not fully tested or completed. Aggregate gas production from the eight wells tested to date on the field has exceeded 70 MMcfpd (1,840 Mcmpd). These wells form the basis for the initial development of the Kyzyloi Field. The Company has successfully worked over two additional old exploration wells on the field with the G12 and G16 wells currently on production and with the Kazakhgas drilled well KYZ109 currently reserved to provide additional flow potential later in field development.

The field is, the Company believes, the first non-state dedicated dry gas development in Kazakhstan. Kyzyloi is located approximately 60 km (37.4 miles) from the village of Bozoi which is the home of one of the largest underground gas storage (“UGS”) facilities in Kazakhstan. According to the McDaniel Reserve Report, effective December 31, 2009, total Reserves in the Kyzyloi Field (Proved plus Probable plus Possible) net to the Company’s interest are 44.3 Bcf (1.3 Bcm) with Proved plus Probable Reserves being 35.97 Bcf (1.01 Bcm) and Total Proved Reserves being 21.3 Bcf (0.6 Bcm). Gas is currently being produced from 8 wells (KYZ 102,103,104,105,106,107, G12 and G16 - a ninth well KYZ109 is held in reserve) which flow gas into Tethys’ 56 km (35 mile) pipeline which carries the gas to the BCS, a compressor station which was built by Tethys and which consists of five separate reciprocating compressors with a total power of 2,615 hp (1,950 kW) and which pump gas into the main Bukhara-Urals gas trunkline. This is the current sales point for the gas, and Tethys’ control and measurement system is fully integrated with that of the trunkline which is owned and operated by the Kazakh State company Intergas Central Asia and forms part of the transcontinental Central Asia to Russia and Europe gas transportation network.

Transmission of gas through the Bukhara-Urals gas trunkline was suspended in November 2009 by the pipeline operator as a result of pressure concerns at certain points in the pipeline (which do not relate to the Company's tie in point). The Company has been advised that transmission of gas is expected to resume during the second quarter of 2010.

The production under the Kazakh Gas Supply Contract was initially sold to PCK who utilised the gas in the domestic Kazakh market. With effect from May 1, 2009, the Kazakh Gas Supply Contract was further assigned to Asia Gas NG LLP. The Kazakh Gas Supply Contract will terminate upon complete delivery of the contractual volume of gas under the contract, or December 1, 2012, or the date on which all contracts and licences pursuant to which the Company produces gas terminates (whichever is the earlier). TAG is allowed under Kazakh tax regulations to offset VAT levied on the sale of gas from the Kyzyloi project against VAT costs incurred by TAG on the Kyzyloi project. The agreed price remains at $32 per Mcm ($0.90 per Mcf) plus 12% VAT. Total production achieved up to December 31, 2009 was 10.6 Bcf.

Regarding the Kyzyloi Field Production Contract, up to December 2008, TAG has paid a royalty at the rate of 2%. The royalty payable from January 2009 was changed to MET and thus, TAG pays MET on a quarterly basis since January 2009. The rate of MET according to the Tax Code is 0.5% of the value of the annual gas production for domestic sales or 10% for export sales.

Sales of gas by the Company under the Kazakh Gas Supply Contract were suspended in November 2009 as a result of the suspension of transmission of gas through the Bukhara-Urals pipeline. Sales are expected to resume once transmission of gas by the pipeline operator resumes.

Akkulka Block and Akkulka Exploration Licence and Contract

Akkulka Exploration Licence and Contract

The Akkulka Exploration Licence and Contract was entered into between the Kazakh State Committee of Investments and TAG on September 17, 1998. The Akkulka Exploration Licence initially granted TAG exploration rights for a period of five years and both the Akkulka Exploration Licence and Contract were valid until September 17, 2003. On December 9, 2009, TAG entered into an amendment agreement with the MEMR to extend the period of the Akkulka Exploration Licence and Contract from September 17, 2009 until March 10, 2011. See "*Risk Factors*". Under the amendment agreement, TAG has committed to spending an additional $850,000 over the 18 month period and the 2010 work program for Akkulka was agreed with a capital commitment of $676,700. The original grant of the Akkulka Exploration Licence and Contract extended over an area of approximately 166.17 km^2 (41,000 acres), however, the contract was subsequently amended to cover an area of approximately 1,380.53 km^2 (341,000 acres) at Paleogene level (excluding the Kyzyloi Field Production Contract Area).

Provided that certain standards and requirements are satisfied, not less than 30% of the total costs of the goods, materials and/or equipments used in operations under this contract must be of Kazakh origin. On an annual basis, TAG must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration. TAG is also required to establish a fund for reclamation of the contract area and contribute annually to such fund; contributions must be equal to 1% of the total investment expenses incurred during exploration and shall be regarded as exploration expenses.

Akkulka Production Contract

On December 23, 2009, TAG and MEMR signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years. The initial seven wells assigned to the Akkulka Production Contract are already tied into the Company's existing Kyzyloi pipeline infrastructure and additional compression has already been installed and tested at the BCS on the Bukhara-Urals gas trunkline. As such, production of gas from the Akkulka Block under the Akkulka Production Contract can commence immediately once a gas sales agreement has been signed and Intergas Central Asia allocates space in the pipeline system which is expected to be in the second quarter of 2010. The Company has begun negotiation with potential gas buyers on pricing of the Akkulka gas. The Akkulka Production Contract is subject to the MET, which replaced royalties. MET is calculated at a rate between 0.5% to 1.5% of the value of the annual gas production for domestic sales and 10% for exports. Furthermore, contingent upon commencement of commercial production on the Akkulka contractual territory, a total amount of $3,500,000 will be due to the Kazakh government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory. For that part of the contractual territory from which production will commence in 2010 staged payments over a period of nine years totalling approximately $930,997 will also be due to the Kazakh government for the reimbursement of historical expenses.

Akkulka Block

The Akkulka Block has the potential for oil and gas deposits at several different horizons, with gas already having been discovered in shallow Paleogene sandstones similar to those of the Kyzyloi Field. In addition, the Company has been successful in finding oil in the AKD01 well. Initial results of testing on the upper zone of the AKD01 oil discovery in Kazakhstan show that oil flowed at a restricted rate of over 5,400 barrels per day. Combined with the recent testing on the lower zone the AKD01 well has now flowed oil at a combined rate in excess of 6,800 barrels per day. A description of the test results (summarized below) is included in a material change report dated February 9, 2010 filed on www.sedar.com, which is hereby incorporated by reference.

WELL	**AREA**	**FLOW RATE**	***COMMENTS***
AKD01	Akkulka (South-eastern Area)	6,819 bbls of oil per day (combined over 2 zones)	Lower zone tested 1,383 bopd (in a combined flow of 2,803 bfpd) and the upper zone 5,436 bopd

According to the McDaniel Reserve Report, effective December 31, 2009 total Reserves in the Akkulka Block (Proved plus Probable plus Possible) net to the Company's interest are 39.0 Bcf (1.1 Bcm) with Proved plus Probable Reserves being 26.5 Bcf (0.8 Bcm) and Total Proved Reserves being 14.2 Bcf (0.4 Bcm). Development of these reserves by expansion of the Kyzyloi gas development program began in 2008 with the tieing into the existing Kyzyloi export infrastructure the Central Akkulka wells and with the installation of an additional 1,046hp (780kW) of compression at the BCS to significantly increase overall gas production. This work was completed in the third quarter of 2009.

A number of additional shallow gas prospects and leads have been identified based on existing data and on the surface seismic data acquired by the Company recently.

Akkulka Block — Exploration of Deeper Oil and Gas

A number of deeper prospects were identified by the Company in the Akkulka Exploration Licence and Contract area. These prospects, located on the flanks of the major Akkulka high, had potential targets in reservoirs ranging from the Cretaceous, through Jurassic and Triassic. From 2005 to 2007, work concentrated on the re-interpretation of existing seismic to focus on the deeper potential of the contract area. These plays are located off the main structural Akkulka High which are either denuded of these sediments or were prominent during that time and facilitated onlap against it. By early 2008, the new and improved 2007 2D seismic dataset was ready for interpretation across the Kul-Bas area thus putting the previous deeper regional well tests into perspective.

The nearest deep producing fields are some 240 km (150 miles) to the south in Uzbekistan. Here the Barsa Kelmes depression is proven to contain Jurassic and even Triassic and Carboniferous gas condensate source rocks. The Jurassic section and upper Triassic section, which were not penetrated by wells on the Akkulka high because of erosion or non-deposition, regionally contain a number of potential reservoir levels. The sections become less marine and then fluvial-deltaic with better sands towards the base and flanking the highs like Akkulka. Analogies are seen in the Mangyshlak and Ustyurt basins and in the Uzbek fields such as Kuanysh and Urga. The marine Upper Jurassic section here acts as the seal and also contains potential reservoir zones extending into the overlying lower Cretaceous internal. The nearest significant oilfield is over 300 km (188 miles) distant although regional work suggested that an oil prone source rock may be present to the south and east of the Akkulka block. A robust structure was identified and the first deep well on the Akkulka block spudded late in 2008 (well AKD01 on the Doris prospect) using the Company's ZJ70 rig Telesto. The robust structure, founded on an old inverted high to the south east of the proven shallow gas fields Kyzyloi and Akkulka, is less faulted than the main high under these fields.

Well AKD01 successfully encountered and tested two oil-bearing zones, the lower zone being a Jurassic dolomite sequence at approximately 2,355 m (7,726 ft) and the upper being a lower Cretaceous sandstone at approximately 2,174 m (7,133 ft).

The lower dolomite reservoir zone flowed (after acidisation) at rates of up to 2,803 barrels of fluid per day on a 24 mm (60/64") choke with 1,373 bopd and with a flowing tubing head pressure of 14.2 atmospheres (209 psig). The oil was a 45° API light crude oil and test data indicated that the reservoir has good permeability and is laterally extensive. The total thickness of the zone has been interpreted as being approximately 25 m (82 ft) with a possible oil-water contact roughly half way through the sequence. It appears that this deeper water zone was the source of the water produced on test, this being channelled behind the casing following the acidisation. Analysis of final draw-down and build-up data indicated good permeability of 700 millidarcies and a moderate Skin of +6.1, resulting in a well PI of 14.7 stb/d/psi of fluid (with water-cuts up to 45% during the final testing period). The analysis may have shown some indications of depletion but this is not clear with the limited duration of testing and longer term testing would be required to clarify this. Given the build-up time, the distance of investigation of the test was in excess of 4 km (2.5 miles). The connected volume proved by the test is around 3.8 MMstb, assuming the connected volume is all oil. The lower zone was sealed off with a bridge plug prior to the testing of the upper zone.

The upper Cretaceous sandstone zone has interpreted net pay of 9 m (29 ft) with a porosity of 23% and was tested with downhole pressure gauges over a 13-day period. Eight metres (26 ft) were perforated and a maximum flow rate equivalent to 5,436 bopd was achieved on a 12 mm (30/64") choke with a flowing tubing head pressure of 15.7 atmospheres (230 psig) and with the well still appearing to be cleaning up. The oil is a 37° API light crude which appears to have low viscosity, low paraffin content and a low pour point. The gas-oil ratio is estimated at approximately 331 cf of gas per barrel of oil. No water was observed with the oil and no oil-water contact is interpreted in the sand. The maximum flow rate appears to have been mechanically restricted by the tubing or other downhole equipment and if these restrictions were to be removed then a higher production rate should be possible. Limited storage on site also restricted rate of oil production and the length of the flow period. Analysis of the drawdown and build-up pressure data from the test indicated a very high permeability of 1,750 millidarcies (mD) and a low "Skin" of +1.9, resulting in a high well PI (productivity index) of 29.6 stock tank barrels per day per psi (stb/d/psi) (using industry-standard correlations for the oil properties). No depletion was seen in the test data, although barriers 200 m (656 ft) away from the wellbore in two directions were interpreted which could be faulting or a stratigraphic, lithological or fluid phase change. However, given the long build-up time, the distance of investigation of the test was in excess of 10 km (6.25 miles) (i.e. more than 5 km (3.125 miles) in the other two directions). Due to the large investigated distance the connected volume proved by the test was also very large, being approximately 28.9 million stock tank barrels (MMstb) assuming the connected volume is all oil. Downhole samples have now been taken from this zone for full PVT analysis which will allow a refinement of the test results.

Current mapping indicates that the AKD01 well is in a downdip location on the Doris prospect with approximately 56 m (184 ft) of elevation updip of the well, potentially bringing all of the lower reservoir into the oil zone. The prospect (as currently mapped) covers a most likely area of roughly 60 km^2 (14,826 acres), with some possible downdip upside potential in the upper reservoir zone. The 180 m (590 ft) vertical separation between these two reservoirs and the different oil gravities suggests that they may not have a common oil-water contact but should be able to be developed simultaneously with a dual completion. The combined flow rate of these two tests in this well was over 8,200 barrels of fluid per day.

Work is now underway to appraise the Doris discovery, this work involving at least two appraisal wells, a 3D seismic survey and further evaluation with the aim of applying for a Production Contract for this possible oil development. In addition further exploration drilling and 2D seismic is planned both on the Akkulka block and on the surrounding Kul-Bas block, with the results of the AKD01 well significantly improving the prospectivity of these surrounding targets.

Oil and gas shows were also evident whilst drilling the Triassic sequence, which is below the Jurassic sequence, but no significant reservoir intervals were encountered before the well reached total depth. Now that these oil and gas shows have been encountered in the Triassic work is underway to evaluate further potential at this stratigraphic level within the Akkulka and Kul-Bas Blocks. The Triassic sequence is one of the major productive horizons in oilfields located in the Mangyshlak area to the south-west of Akkulka and further exploration drilling may be planned in the future.

Kul-Bas Block and Kul-Bas Exploration and Production Contract

Kul-Bas Block — Exploration of Shallow Gas

The Kul-Bas Exploration and Production Contract area surrounds the Akkulka Block and has similar geological, tectonic and structural features to the Akkulka Block.

The Company considers this large area to be under-explored, being subject to regional magnetic, gravity and seismic surveys in the Soviet-era, with limited stratigraphic wells, mainly very shallow, in the southern part surrounding the Akkulka Block. Since the end of the Soviet period, a state funded "Turlan vintage" program of seismic was carried out in the southern and eastern parts of the block with a later vintage (1995-1996) JNOC 2D program over 90% of the block, with the northern and north western part (approximately 25% of the territory) of the contract area having been covered in an approximate 5 mile x 5 mile (8 km x 8 km) grid, and the southern and eastern section covered with a 2.5 mile x 2.5 mile (4 km x 4 km) grid.

The Company made a preliminary assessment of the 1995-1996 vintage JNOC 2D seismic in 2007. The Company considers the shallow prospective horizons to be similar to Akkulka. A total of 15 amplitude anomalies similar to those in the Kyzyloi Field and the Akkulka Block have been mapped to date. No volumes have as yet been put on the lower Paleogene progrades. A contract was signed with a Kazakh seismic acquisition company KazGeCo who conducted a total of 535 line km (334 line miles) of 2D seismic from June to September 2007. This new improved dataset was then processed and interpreted with a view to drilling three of the shallow gas anomalies which began in the second quarter of 2008.

The improved data quality from the 2007 seismic survey was used in a new AVO inversion study in 2008 to tie in the gas wells of Akkulka and Kyzyloi to new shallow exploration leads in Kul-Bas with the aim of minimizing exploration risk pre drill.

The Kul-Bas Block — Exploration of Deeper Oil and Gas

The Company considers the much larger Kul-Bas Block to also have significant oil and gas potential in deeper horizons ranging from the Carboniferous through to the Cretaceous. Large condensate fields such as the Shakhpakhty gas/condensate field (1.7 Tcf / 48 Bcm) (Source: "*Uzbekistan-Gazprom Operations", APS Review of Market Trends, October 16, 2006*) have been discovered just to the south in northwestern Uzbekistan. The Kul-Bas Block could contain numerous deeper oil and gas prospects at the Mesozoic levels (i.e. Jurassic and Triassic) and into the lower Cretaceous, by analogy to the AKD01 "Doris" discovery. The target reservoir units are considered to be Jurassic marine and non marine sandstones, Triassic non-marine, fluvial-deltaic and lacustrine sandstones that were deposited in a syn-rift environment off the main structural highs, in addition to Upper Jurassic carbonates and dolomites, and Cretaceous marine sandstones as demonstrated by AKD01. The most likely source rocks for both plays would be the lacustrine Triassic age sediments that produce the gas condensates of nearby Uzbekistan and the waxy oils of the Mangyshlak area or else other source rocks in the area to the south and east of the block. Trapping styles are both structural and stratigraphic pinch-outs against Paleozoic highs. The prospects are typically around 3,000 m to 3,500 m (9,843 ft to 11,484 ft) below surface in the southern areas but are as shallow as 2,200 m (7,218 ft) in the northern part of the block. These prospects are similar to those in the Akkulka Block but the Kul-Bas Block is much larger. The discovery of light oil in the AKD01 well has proved the presence of an active hydrocarbon system in the area at this deeper level and as such considerably reduces the risk on prospects and leads in the Kul-Bas Block.

In the area, the Carboniferous sequence may also be prospective as the Carboniferous becomes shallower as the overlying sediments thin towards the basin edge and the Emba Ridge. Further work is necessary to firm up potential Carboniferous targets, but the Company believes that the Carboniferous is one of the most important reservoirs in the region as it is the primary reservoir in the super-giant Tengiz field to the northwest and several other large fields in the Pre-Caspian basin across the Emba Ridge. The Company also believes that the regionally prolific Domanik facies source rock could still be within the oil window of maturity in the area and could charge such prospects.

The acquisition of new 2D seismic by TAG in 2007 and the seismic reprocessing completed in 2009 was aimed at both shallow gas prospects and to highlight deeper plays.. The Company currently plans to drill a 4,000m (13,120 ft) well in the later part of 2010 to test the best of the deeper oil prospects which are sizeable but with significant exploration risk remaining at present (although recently reduced by the AKD01 oil discovery). JNOC had drilled a deep well on a structural nose in the central part of the Kul-Bas Block in 1998, but the prospect does not appear to have a valid closure.

The 2007 seismic data specifically in-filled the unexplored western side of the Kul-Bas acreage and generally gave better definition illuminating deeper exploration targets. This seismic acquisition more than fulfilled the 2007 work obligations under the terms of the Kul-Bas licence. The 2008 work program consisted of $3,030,000 of capital expenditure and involved the drilling of three shallow wells, this was completed with wells KUL01-03. Actual expenditures exceeded slightly the minimum work program. In 2009, the Company had a minimum commitment of $706,000 which was outlined for new seismic works involving detailing the leads and prospects that are expected to be identified in the JNOC re-processing.

The Company made a preliminary assessment of the 1995-1996 vintage JNOC 2D seismic and considers the deeper prospective horizons to be similar to Akkulka with the possible addition of a Palaeozoic play in the northwest of the block, where sedimentary cover thins and source rock maturity and reservoir properties would in their view most likely have been preserved. No volumes have as yet been put on the potential Carboniferous plays.

In 2010, the Company has a minimum commitment of $4 million which is outline for one new 4,000 m new exploration well. The Company is also considering shooting extra 2D seismic in order to firm up prospects.

Kul-Bas Exploration and Production Contract

The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005. This contract, which is for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six-year exploration period and a 19-year production period, grants Kul-Bas with exploration and production rights over an original 2,688,695 acres (10,881 km^2) surrounding the Akkulka Block. Pursuant to the Kul-Bas Exploration and Production Contract, 20% of the area is to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period, except with respect to combined exploration and production contracts (which mainly only contain a work program for exploration and not production) for areas in which a commercial discovery is made as this contract grants Kul-Bas an exclusive right to proceed to the production period where it has made a commercial discovery. The first relinquishment was made in November 2007 and was confirmed by the Kazakh authorities on December 21, 2008. As a result, the block is now effectively 2,009,540 acres (8,480 km^2). However, in order to allow the Company time to effectively explore the block an application was made by the Company to reduce and/or extend the relinquishments on the block. As a result, on April 27, 2009, Amendment 1 to the Kul-Bas Exploration and Production Contract was signed, according to which 20% is relinquished by the end of contract year 2 (completed), 0% in contract year 3 (2008), 10% by the end of contract year 4 (2009), 20% by the end of year 5 (2010) and all remaining contract area, outside commercial discovery areas, by the end of year 6 (2011). Effective November 2009, a relinquishment was agreed with the Kazakh authorities giving a remaining area of 7,632 km^2 but this relinquishment still remains to be confirmed by the authorities.

The work program on this area amounted to a total of approximately $7,773,500 over the initial six-year exploration period. As at December 31, 2008, $5,768,790 had been spent on work commitments under the contract and the minimum work program for 2009 was $706,000 for the acquisition and processing of new seismic. The remaining commitment of $2,894,000 relating to the contractual territory is required to be satisfied by November 11, 2011 and is included within the 2010 work program. The 2010 work program finalised in November 2009 resulted in a commitment of $3,000,000.This contract is likely to be subject to MET which is expected to be 0.5% to 1.5% of the value of the annual gas production for domestic sales or 10% of revenue for export sales. In addition to the minimum work program commitments, the Kazakh government is to be compensated for the historical costs related to the contractual territory in the amount of $3,275,780. The Company has previously paid an amount of $49,137 in relation to this balance. No further payments on this balance are required until commencement of commercial production within the contractual territory. If and when commercial production commences, $88,666 is due in quarterly instalments until the remaining historical costs of $3,226,643 has been paid in full.

Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in Kul-Bas' operations under this contract must be of Kazakh origin, and Kazakh specialists must comprise not less than 95% of the total number of Kul-Bas employees. On an annual basis, Kul-Bas must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration and not less than 0.1% of the operational costs during production. Kul-Bas is also required to establish a fund for reclamation of the contract area; contributions to this fund are required annually and must be equal to 1% of the total investment expenses incurred during exploration and 0.1% of the total amount of operational costs during production.

Tajikistan

Tajikistan is an independent republic of approximately 7 million people in Central Asia located on the fringe of the Central Asian sedimentary basin abutting the Pamir and Tien-Shan mountains. It borders Uzbekistan to the north and west, Kyrgyzstan to the north, China to the east and Afghanistan to the south. The country is primarily mountainous, with some of the world's highest mountains occurring in the Pamir chain on the edge of the Himalayas but also has extensive farmed valleys and hills. Oil was first discovered in 1909 in the Fergana valley in the north of the country but exploration and development of oil and gas was limited throughout the Soviet period. By 1996, further lack of investment and a civil war which broke out in Tajikistan in 1992 following the collapse of the Soviet Union and which lasted until 1997, resulted in oil production falling to approximately 600 bopd and gas production falling to approximately 4 MMcfpd (113 Mcmpd) (Source: *World Energy Council Report (2005)*). The oil and gas industry has suffered from extreme under-investment in Tajikistan and basic modern oilfield equipment is lacking, with drilling rigs and other equipment being of 1960s-1970s vintage. As a result, there are very few exploration activities currently being undertaken in Tajikistan.

In June 2008, the Company, through KPL, concluded the Bokhtar PSC which covers an area of some 8.6 million acres (approximately 35,000 km^2). The Bokhtar PSC is for a term of 25 years for a large highly prospective region which has existing oil and gas. The Tajikistan Contract Area includes the Khatlon Region and the area around the capital city, Dushanbe, and includes more than 130 different prospective structures which have already been identified in the area.

Bokhtar PSC - Exploration and Appraisal Potential

The Tajikistan Contract Area under the Bokhtar PSC lies within the Afghan-Tajik basin, the eastward part of the prolific Amu Darya basin in Turkmenistan and Uzbekistan. The Amu Darya basin is primarily natural gas prone (although with some significant oil fields) and contains some super-giant natural gas and condensate fields such as the Dauletabad field in Turkmenistan (reported to have had initial estimated recoverable natural gas reserves of approximately 60 Tcf (1.7 Tcm)[1] and other super-giant fields. Gaffney Cline & Associates ("**GCA**"), the UK reserve audit firm who carried out a reserve assessment on the South Yolotan field in the Turkmenistan portion of the Amu Darya basin have concluded that the South-Yolotan field may be the fourth or fifth largest in the world.[2]

The principal hydrocarbon bearing sedimentary section of the Afghan-Tajik basin lies from the Jurassic to the Paleogene, marine carbonates and clastic rocks. The latter post salt section is well developed in the Tajik part of the basin, where the Paleocene-Bukhara formation limestones form an important oil and gas reservoir. The initial regional geological review carried out by Tethys suggests that there is potential for large structures especially sub salt in the Bokhtar area, possibly containing both oil and natural gas. Reservoir rocks are present, as are mature

[1] *Source: USGS Bulletin 2210-H*
[2] *Jim Gillet, GCA Manager in interview on Turkmen State News Agency, October 2008*

source rocks. The area has significant structuring, both tectonic and through active salt movement ("**halokinesis**"), and potentially attractive prospects should occur in both the sub-salt and post-salt section. The Company believes that the area is under-explored and that it has a very real potential for significant oil and gas deposits, although some of these structures are expected to be at substantial depths.

Existing conventional oil company data in the area consisted of mainly elderly Soviet-era geological maps, well logs and limited seismic data. The first phase of the Company's work on the area is focused on development of existing gas and oil deposits, and on an active exploration work program; with exploration drilling based on modern studies planned to start in 2010 and the first partial relinquishment due in 2015. The Company is currently undertaking a program of geological and geophysical studies and the acquisition of up to 1,000 km of deep penetrating (to 6,000 m) 2D seismic data to map this potential, first regionally and then to detail drillable prospects at both pre and post-salt levels. In addition, Tajik State oil and gas company had already worked up a prospect at East Olimtoi in the south of the Bokhtar PSC Area, on the flank of a salt swell, and had commenced drilling of an exploration well (EOL 09) using a Soviet-era UralMash drilling rig. In April 2009, the Company took over this well and the operation, improving the mud system, drilling bits etc., and the well is currently at a depth of 2,941 m. The Company's recently acquired seismic data over this prospect confirms its validity with a prognosed total depth of 4,000 m. There are other similar salt swell flank prospects to be explored nearby which are one of the first subjects of the new deep seismic survey. Some of these salt swells break surface forming "salt mountains" such as the Khoja Mumin salt dome, which has oil and gas prospects around and under it.

Tajik Market

The legislative framework for oil and gas exploration and development projects is not yet well developed in Tajikistan. To date, oil and gas concessions have been owned and operated primarily by the government under a legislative regime similar to the Soviet regime whereby a licence would be issued and the operator would be responsible for payment of profit taxes and local taxes. Apart from the recently adopted Production Sharing Law (as defined below), the Tajik legislation which regulates the oil and gas sectors includes the *Law on Mineral Resources (1994)*, the *Law on Energy (2000)* and the *Government Decree on Concluding Contracts for Use of Bowels (2001)*. In addition, the *Law on Foreign Investments (1992)* gives foreign investors significant privileges including value added tax exemptions and profit tax holidays and reductions. In addition, foreign companies can establish wholly-owned enterprises in Tajikistan, foreign currency is freely convertible and the tax and customs codes have been simplified as of 2005 by taking into consideration international legislation.

In early March 2007, the Tajik government introduced production sharing legislation (the "**Production Sharing Law**"), which established the framework for production sharing in mineral extraction, with the investor providing the capital for the venture and with the product being split between the investor and the government of Tajikistan. Pursuant to the Production Sharing Law, the maximum level of cost recovery shall not exceed 70% of production, however, the law gives significant flexibility to the negotiation of commercial terms between an investor and the government of Tajikistan in any production sharing contract. For instance, an investor has the right to export their production and to utilise government owned infrastructure. Furthermore, the Production Sharing Law also provides for contract stability and for protection of investor rights.

There is currently little foreign investment in the Tajik oil and gas sector. However, the current and more stable political situation together with the recently adopted Production Sharing Law may open up the market. In early 2007, the Russian gas company RAO GazProm was granted a licence to explore and develop the Sargazon gas field (estimated recoverable 1.06 Tcf (30 Bcm)) and the Rengan gas field (estimated recoverable 1.24 Tcf (35 Bcm)) in southern Tajikistan.[3] According to GazProm, Tajikistan's total oil and gas deposits are estimated at 106 Tcf (3 Tcm) of natural gas.[4] The Russian President Dmitry A. Medvedev has publicly stated that "*If we work, in 2-2.5 years time Tajikistan would have its own gas*" and added that the country may even export it.[5] Tethys believes it is one of the first western companies to progress an oil and gas exploration and production project in the country.

[3] *Alexander's Oil and Gas Connections, January 1, 2007*
[4] *RIA Novosti, June 10, 2008*
[5] *Millot Newspaper, Issue 39 (160), September 25, 2008*

The MEI estimates Tajikistan hydrocarbon reserves to be some 285 MMbbl and 30 Tcf of natural gas,[6] however as current oil production in Tajikistan is small and the infrastructure is under-developed. Current oil production in the south is refined at small local topping plants, while in the north, there is access to the refineries in the Fergana valley which are reported to have a capacity of some 170,000 bopd. Rail routes exist from the Kulob area through both Dushanbe and Qurghonteppa into the Uzbek rail network, and extend into the overall Central Asian rail complex. Oil discovered in the Kulob area would likely be transported initially by rail to nearby regional refineries or potentially local refineries.

With regard to natural gas, the infrastructure is somewhat better developed. Tajikistan is connected to the Central Asian gas grid and currently receives the majority of its gas through this grid. Prior to independence, Tajikistan consumed approximately 202 MMcfpd (5.66 MMcmpd) of gas. However, with the economic decline which occurred during and after a civil war that followed the break-up of the Soviet Union, the current consumption is presently much lower at approximately 116 MMcfpd (3.29 MMcmpd).[7] Industry is the major user and with access to domestically produced gas, the Company expects consumption to increase. Major users include the Talco aluminum plant, the Azot fertilizer plant and the Tojikcement cement production factory. Currently most natural gas is imported from Uzbekistan which is reported to currently charge a price of $6.80 per Mcf ($240 per Mcm).[8] In the event of a large gas discovery, possible export options would include export through the Central Asian system into Uzbekistan and continuing either through one of the major trans-regional pipeline systems such as Bukhara-Urals or Asia Centre and into the Russian-European export system. Alternatively, gas could be routed through the Tashkent-Bishkek-Almaty system, or the Petrochina pipeline system from Turkmenistan into Kazakhstan and potentially onwards into the Chinese market. The Company expects that following either option through Kazakhstan would potentially further develop Tethys' niche in the rapidly growing Kazakhstan natural gas market and would open further opportunities for the development of its business. An additional alternative route for exporting a substantial amount of gas may be the planned "Nabucco" system across the Caspian Sea into Europe or the Trans-Afghan pipeline which, if completed, will take Central Asian gas to Pakistan and India.[9]

In Tajikistan, most of the Khatlon Region and the area around the capital city Dushanbe in the southwest of the country are subject to the Bokhtar PSC. Prior to entering into the Bokhtar PSC, the Company entered into the Protocol of Intent in January 2007, which gave Tethys the exclusive right to negotiate a production sharing contract in respect of the Bokhtar area. In early March 2007, the Tajik government introduced the Production Sharing Law which laid the fiscal and commercial framework for the Bokhtar PSC. As a precursor to the Bokhtar PSC, TTL signed an investment and operating agreement (the "**IOA**") relating to oil and gas fields in Southern Tajikistan in September 2007 with Southern Oil and Gas Exploration State Unitary Enterprise, a wholly state owned oil and gas company that reports to the MEI. The IOA allowed Tethys to commence initial production and rehabilitation operations in the Bokhtar area while the Tajik government finalised certain necessary legislative changes to enable the Production Sharing Law to become effective. These changes became effective in the summer of 2008. On June 13, 2008, KPL entered into the Bokhtar PSC with the MEI, as the representative of the Tajik State.

The total net area covered under the Bokhtar PSC is approximately 8.6 million acres (34,750 km^2). The Tajikistan Contract Area is located in the southwestern part of Tajikistan and covers a large prospective region which has existing oil and gas discoveries but has seen limited exploration to date. The Tajikistan Contract Area includes over 130 different prospective structures and several existing oil and gas fields, including the Beshtentak, Khoja Sartez and Komsomolsk fields.

Management of Tethys believes that the Tajikistan Contract Area has considerable potential for oil and gas condensate. The Tajikistan Contract Area includes almost the entire Tajik portion of the Afghan-Tajik basin, the eastern part of the Amu Darya basin, which contains giant and supergiant gas and gas condensate fields in nearby Turkmenistan and Uzbekistan. The Afghan portion of the Afghan-Tajik basin (which lies to the south of the

[6] *FSU Oil and Gas Monitor, August 20, 2008*
[7] *Alexander's Oil and Gas Connections, January 1, 2007*
[8] *FSU Oil & Gas Monitor, January 14, 2009*
[9] *Heritage Foundation, 2006*

Tajikistan Contract Area) has been estimated to have mean unrisked resources of 1,500 MMbbl of oil, 8.1 Tcf of natural gas and 370 MMbbl of Natural Gas Liquids.[10]

The Bokhtar PSC

The Bokhtar PSC gives KPL the exclusive right, as contractor under the Bokhtar PSC, to conduct certain oil and gas operations in the Tajikistan Contract Area during the term of the Bokhtar PSC and to receive the Company's share of production from the Tajikistan Contract Area. Under the Bokhtar PSC, KPL will recover 100% of its costs from up to 70% of total production from oil and natural gas, the maximum allowed under the Production Sharing Law. The remaining production (termed "Profit Production") will then be split 70% by KPL and 30% by the Tajik State over each calendar year. The Tajik State's share of the Profit Production include all taxes, levies and duties. The Tajik State will not receive any royalty fees from KPL. Under the Bokhtar PSC, KPL has the right to sell its share of Profit Production to any third party, whether a resident of Tajikistan or not, at a price determined by KPL. The Operator under the Bokhtar PSC is TSTL, a wholly owned subsidiary of TTL.

The terms of the Bokhtar PSC are fixed over the life of the Bokhtar PSC, which has a term of 25 years (the "**Initial Term**"). If in respect of any development area, commercial production remains possible beyond the Initial Term, the Bokhtar PSC may be extended with respect to such development area for an additional term of not less than five years or to the end of the producing life of the development area.

Pursuant to the Bokhtar PSC, KPL, as contractor, is required to select and relinquish portions of the Tajikistan Contract Area with the first relinquishment being after seven contract years. KPL is not required to relinquish any portion of the original Tajikistan Contract Area containing a development area or an area containing a declared commercial discovery for which a development plan has been sought and is awaiting approval by the Tajik State.

A Coordination Committee established by KPL and MEI is responsible for the overall supervision of oil and gas operations conducted under the Bokhtar PSC. The Coordination Committee is comprised of a total of six representatives, three of whom have been appointed by the MEI and three of whom have been appointed by KPL with KPL providing the Chairman of the committee. Decisions of the Coordination Committee are made by majority decision of the representatives present and entitled to vote. KPL and the MEI shall endeavour to reach agreement on all matters presented to the Coordination Committee. In the event that on any matter the Coordination Committee is unable to reach agreement then KPL's point of view shall prevail. However if the MEI is reasonably of the view that the proposed action would result in serious permanent damage to that field or reservoir which would materially reduce economic recovery of petroleum from the field or reservoir then the matter will be referred to an internationally recognized independent expert appointed by KPL and the MEI whose decision on accepted international Petroleum Industry practice shall be final and binding.

Pursuant to the Bokhtar PSC, KPL is required to fund a minimum work program (the "**Work Program**") in respect of the Tajikistan Contract Area. The proposed Work Program is designed to provide additional data for a focused exploration of the Tajikistan Contract Area and will involve the acquisition of additional seismic data, gravity and magnetic data and exploration drilling. The proposed Work Program will be carried out in two phases. The first phase ("**Phase I**"), to be completed within 18 months from the effective date of the Bokhtar PSC, is expected to consist of: (i) geological studies; (ii) reprocessing of existing seismic and other geophysical data; (iii) acquisition of seismic and other geophysical data; and (iv) initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. Pursuant to the PSC, Tethys committed to funding a work program designed to provide data for a focused exploration of the Tajikistan Contract Area to be carried out in two stages (the "Work Program"). The first phase of the Work Program was to include geological studies, reprocessing of existing seismic and other geophysical data, acquisition of seismic and other geophysical data and the commencement of initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The minimum spend commitment under Phase 1 of the contract was $3,000,000. This expenditure was required to be met within 18 months of the effective date of the contract, which is December 13, 2009. This commitment was satisfied through the payment on January 2, 2009 of $4,925,000 for a contract agreed on November 14, 2008 relating to a seismic survey work program. The total cost of the seismic work program agreement is $9,850,600, which can be unilaterally terminated at any point by the Company with

[10] *US Geological Survey 2006*

immediate repayment of amounts remitted in advance of the fulfilled scope of works at the moment of termination, provided the Contractor has reached Phase I Completion. By December 31, 2009, a total of $5,659,652 had been advanced (including the $4,925,000 above). Phase I was completed early February 2010. Phase 2 of the seismic survey commenced in October 2009.

To date KPL has spent more than $22,000,000 on activities under the Bokhtar PSC, exceeding the financial commitments under the Bokhtar PSC.

Phase I of the work program under the Bokhtar PSC was completed in 2009. However, certain general items of budget expenditure will continue into phase 2 of the work program. KPL has determined to proceed to Phase II. As at the date hereof, the only agreed work obligation entailed in Phase II is to commit to commence drilling an exploration well to test the Bukhara formation.

Below is a summary of operations carried out by Tethys to date on the three principal fields included in the Tajikistan Contract Area, specifically the Beshtentak Field, the Khoja Sartez Field and the Komsomolsk Field.

<u>The Beshtentak Field</u>

The Beshtentak field is located 45 km (28 miles) north of the Town of Kulob. The field was discovered in 1970 and there are currently 24 operational wells, four of which are currently producing at limited potential due to lack of investment and technology. The reservoirs are Paleocene Bukhara limestone and dolomites in a narrow anticlinal structure at a depth of up to 2,000 m, the oil is 33-35° API low sulphur crude, and oil flow rates of up to 800 bopd and up to 7 MMcfpd of gas (200 Mcmpd) have been achieved from wells in the past. No deep drilling has been carried out on the field to date. KPL began work on the BST20 well at the end of 2009 and commenced test production in January 2010 with commercial production beginning in March 2010. Work has now commenced by KPL on other wells on the field. The TRACS Reserve and Resource Report assigns gross proven plus probable oil reserves of 59.9 Mbbl and gas reserves of 0.94 Bcf, gross mid case unrisked contingent oil resources of 0.610 MMbbl and gas resources of 4.52 Bcf and gross unrisked prospective oil resources of 11.70 MMbbls to the Beshtentak Field.

<u>The Khoja Sartez Field</u>

The Khoja Sartez field is a gas condensate accumulation located some 13 km (8 miles) to the west of the town of Kulob. This deposit is developed on the flank of a clearly visible large salt dome and is at a much earlier stage of development than the Beshtentak field. Drilling has only been carried out in the surface layers to a depth of some 1,700 m (5,580 ft) with the Bukhara limestone as primary reservoir target. The Company believes that the deeper layers and other flanks of the dome have the potential to contain substantial volumes of gas condensate. Four wells have been drilled on the structure and a modern gas processing facility was installed but all the wells are currently shut in due to lack of investment and adequate technology. The Khoja Sartez deposit appears similar to some of the large salt dome related prospects in the southern part of the Kulob Area. Tajik State owned and operated gas pipelines are close to the Group's well sites in the Khoja Sartez Field. The Group also has access to separator facilities.

In December 2008, natural gas was successfully tested from the Khoja Sartez 22 (KJZ22) well at estimated rates (based on wellhead pressures) up to 2.8 MMcfpd (80 Mcmpd) on a 12 mm choke with a flowing tubing head pressure of some 40 atm (588 psi). On January 16, 2009, KPL started limited supplies of this gas to the town of Kulob but these deliveries ceased when the well began to water out in that particular zone. Further work is planned.

<u>The Komsomolsk Field</u>

The Komsomolsk Field is an abandoned and now reworked gas condensate field where production dates from the late 1960s lying just to the north and under the Tajik capital Dushanbe. There were 30 prospecting and exploration wells drilled in the area, defining a Komsomolsk anticline that was first identified at surface and that continued and steepened with depth. Wells drilled to around 1,350 m (4,430 ft) penetrated the Cretaceous and some six wells went to, and three wells went through, the Jurassic reservoir at approximately 2,120 m (7,054 ft). By 1964 flows of gas were established from the Cenomanian followed by the Albian, Aptian and Barremian (although these were seen as non commercial in scope the Company has tested gas from some of these intervals after the application of modern PNN logging). Also in 1964, the Hauterivian was established as commercial for gas condensate and by 1965 the Jurassic also. The field was shut-in in 1987, but limited production continued until 1993.

Each reservoir has a separate gas-water-contact ("**GWC**") established from logs and test data, and with an active acquifer charged most likely from the mountains to the north and north east. Faulting appears common within the reservoir and a north-south trending fault bisects the field along the line of the Vardzob river separating the field into two, namely West Komsomolsk, where the vast majority of gas production has been from to date, and East Komsomolsk, where only minor gas has been produced to date, largely as a significant part of East Komsomolsk lies under the northern suburbs of Dushanbe and where the drilling of vertical production wells was difficult in the past.

According to Tajik MEI data, the field has produced a total of approximately 70 Bcf (2.0 Bcm), during the period 1966 to 2000, more than 50% of which was recovered in the first 5 years of production. Maximum stabilised single well production rates were recorded as 7.3 MMcfpd (207 Mcmpd) and the field maximum production rate of 27 MMcfpd (767 Mcmpd) was achieved in 1968.

The Company has been evaluating and working over on West Komsomolsk and has to date carried out workover activities on three wells namely KOM007, KOM180 and KOM183. KOM007 which is close to the gas-water-contact did not yield any positive results and junk was found in KOM183. Work on KOM180 has however successfully produced gas but with considerable water flow most likely coming from deeper watered-out zones due to old and poor cement behind the production casing. Nonetheless, the Company believes that additional potential remains in West Komsomolsk either through more comprehensive workover activities or new drilling.

The Company's management believes that the eastern part of Komsomolsk is largely undrained with the potential for additional gas production. Much of East Komsomolsk lies under the suburbs of Dushanbe and with the lack of expertise in directional drilling in the past had not been developed. The Company selected a location for the initial East Komsomolsk inclined directional development well outside the urban area and which is likely to have a maximum horizontal step-out from the surface location of the well of some 1.3 km to the east and planned to intersect three reservoir zones in the Cretaceous and Jurassic. Drilling operations on KOM200 commenced in August 2009 and the well is being drilled with the Company's ZJ30 rig Tykhe, and is a directional inclined well intended to intersect three potential reservoir zones. The well has now been drilled to the top of the deepest reservoir zone (the Jurassic sequence) although not yet into the prognosed Jurassic limestone reservoir which would be expected within the next 200 m (656 ft). The current total depth is 2,044 m (6,706 ft). Gas shows have been obtained whilst drilling the current section, in particular in the Cretaceous Hauterivian zone (a target horizon) and electric logs run through this section indicate the presence of hydrocarbons. Unfortunately the drill string became stuck, probably due to differential pressures, and as a result the well will need to be sidetracked from a depth of 1,211 m (3,973 ft). Prior to beginning preparations for sidetrack operations an open hole flowback test was carried out over the whole interval to see if stable gas flow could be obtained. This test was successful with a stable flow of gas being obtained together with a considerable amount of water production from the water bearing zones in the 833 metre (2,733 ft) open hole section tested. It will need to be tested fully in the future after the water is isolated and without the stuck pipe interfering with the flow before an accurate measured rate can be stated. With isolation of the water zones and without the stuck drill pipe in the well an improved stable gas flow rate should be obtained primarily from the Hauterivian zone, this being the objective of the sidetrack. Tethys is now making arrangements to import additional specialist equipment to Tajikistan for the sidetrack.

Given that a stable gas flow has now been obtained from East Komsomolsk, Tethys is now considering plans to drill a new well (KOM201) further east in the Komsomolsk structure with the primary objective of testing the Jurassic reservoir, which previous drilling has shown to have good reservoir properties in the area. An initial target location has been identified on one of Tethys' recently acquired new seismic lines and appropriate permissions are being sought for the drilling location. If these permissions can be obtained quickly Tethys will likely move its Tykhe drilling rig off KOM200 temporarily to drill KOM201 and will return to complete the KOM200 sidetrack after the completion of KOM201 and also after the specialist equipment necessary for the sidetrack has arrived on location.

In and around Dushanbe, there is considerable industrial gas demand which is all currently supplied by imported gas at a price reported to be some $254 /Mcm ($6.94/Mcf). One of the largest cement plants in the region lies above the field, and just to the west of Dushanbe is one of the largest aluminium plants in the FSU as well as gas fired power generation this giving a good market at potentially good prices and with existing infrastructure. Tajik State owned and operated gas pipelines are close to the Group's well sites in the Komsomolsk Field. The Group also has access to separator facilities. The TRACS Reserve and Resource Report gives gross proven plus probable reserves of 1.45 Bcf gas and 2.47 Mbbl condensate together with gross unrisked mid case contingent resources of 17.28 Bcf gas and 51.16 Mbbl condensate and gross unrisked mid case prospective resources of 57.67 Bcf gas and 107.7 Mbbl condensate for the Komsomolsk Field.

TTL-Sangam Shareholders' Agreement

On December 22, 2007, TTL entered into the TTL-Sangam Shareholders' Agreement (as supplemented by an agreement dated August 7, 2009) with Sangam to set out their respective shareholding in the joint venture company SSEC which holds the projects in Tajikistan. The Group established the joint venture company SSEC with Sangam to explore for and develop oil and gas resources in Tajikistan. The management of Sangam are experienced in operating businesses in Tajikistan and the Company views this experience as being very valuable in assisting SSEC to develop its business in Tajikistan. Pursuant to the TTL-Sangam Shareholders' Agreement, it was agreed that the Company, through TTL, owns a 51% economic interest and the remaining 49% is owned by Sangam. On December 30, 2009, TTL has transferred all its rights, title and interest in any oil and/or gas exploration, development or production project it has in Tajikistan, including all of the shares of KPL, Sogdiana Petroleum Limited (established for possible projects in the north of Tajikistan) and TSTL to SSEC. The TTL-Sangam Shareholder's Agreement completed on December 30, 2009 and all transfers were made.

Sangam has contributed in terms of commercial negotiation, lobbying and assistance with negotiation with the various Tajik State entities. All capital distribution of SSEC will be shared between TTL and Sangam in proportion to their respective shareholding interest in SSEC. Each of TTL and Sangam shall be entitled to appoint, remove and replace three directors of SSEC. Cash contributed by TTL and cash and services contributed by Sangam will be capitalised into the equity of SSEC.

On December 30, 2009, TTL signed a loan agreement with SSEC pursuant to which TTL agreed to lend up to a maximum principal amount of $10 million (or such other figure at TTL's sole discretion) to SSEC to finance work programs and field development plans of its subsidiaries in Tajikistan. This loan bears interest at the rate of London inter bank offer rate plus 1% and is available for a maximum period of five years (or such other period to be decided by TTL at its sole discretion). Most of the funds already contributed by TTL to projects in Tajikistan will be regarded as shareholder's loan under the terms of the loan agreement and the loan will be repaid by SSEC from cash flow before any distribution of profit to SSEC's shareholders.

Pursuant to the TTL-Sangam Shareholders' Agreement, Sangam will assist SSEC with marketing and sales of oil and gas to achieve maximum possible prices and payments. TTL will continue to manage SSEC and subsidiaries in all day to day operations in accordance with the TTL-Sangam Shareholders' Agreement as oil and gas experts. SSEC will execute a management services contract with TTL to provide SSEC with management and technical services. SSEC is a non-wholly owned subsidiary of the Company.

Uzbekistan

Uzbekistan is the most populous country in Central Asia with a population of some 27 million and with its capital city, Tashkent, being the biggest city in Central Asia. Uzbekistan is a dry, landlocked country of which 11% consists of intensely cultivated, irrigated river valleys. More than 60% of its population lives in densely populated rural communities. Uzbekistan is now the world's second-largest cotton exporter and fifth largest producer. Other major export earners include gold, natural gas, and oil. Uzbekistan has long been a producer of oil and gas, in both the Amu-Darya basin in the Bukhara-Khiva region in the south of the country, and the Fergana valley in the east. Oil production began in the early 1900's and has developed since then. There are two refineries in the country, one in Fergana which processes mainly crude oil and one in Bukhara, which process mainly oil and condensate and two gas processing plants. The oil and gas industry is managed by the state owned company UNG who report that there are some 193 oil and gas fields in the country.

On April 9, 2009, the Company completed the acquisition from Rosehill of its wholly owned subsidiary, BHCL, which holds the entire contractor interest in the North Urtabulak PEC for the North Urtabulak Oil Field in Kashkadarya region of Uzbekistan (the "**BHCL Acquisition**"). The consideration for the purchase of BHCL was satisfied by the issue of 15,000,000 Ordinary Shares, restricted from resale for a period of six months (in respect of an aggregate of 7,500,000 Shares) and one year (in respect of the remaining 7,500,000 Ordinary Shares) from the date of completion of the BHCL Acquisition. The value ascribed to the 15,000,000 Ordinary Shares issued as consideration for the BHCL Acquisition was $4,844,000 (or $0.32 per share). The basis for determining the consideration of the BHCL Acquisition was discounted cash flows based on anticipated levels of production. A significant part of the assets consist of its rights under the North Urtabulak PEC. The North Urtabulak Oil Field is located in southern Uzbekistan and in the northern portion of the Amu-Darya basin. The nearest city is Bukhara, which is approximately 120 km north-west of the field. The North Urtabulak Oil Field produces from a Jurassic age reef structure at a depth of approximately 2,500 m. Surface elevation is approximately 320 m.

Work is underway on further production enhancement in respect of the North Urtabulak Oil Field, including workovers on existing wells and improvement of beam pumps etc. The Company is also involved in other development activities, including further development well drilling, radial drilling, more advanced production enhancement techniques and reservoir modelling. The Company is also in discussions with UNG in expanding its activities on the North Urtabulak Oil Field and potentially working on other nearby fields referenced in the North Urtabulak PEC.

North Urtabulak PEC

Under the North Urtabulak PEC, as the service contractor, BHCL provides services for the Uzbek State Partners. The objective of the North Urtabulak PEC is to increase production from wells allocated to the contractor within the North Urtabulak Oil Field by improving the efficiency of field development and by applying modern technologies and drilling and production methods. The contractor can also drill new wells. The North Urtabulak PEC does not confer ownership of the North Urtabulak Oil Field to the contractor, being BHCL, and no reserves or resources have been attributed to the contractor's interest under the North Urtabulak PEC to date. The work program and budget under the North Urtabulak PEC is approved by an operating committee which is jointly run by the contractor and joint stock company Uzneftegazdobycha. Members of the operating committee are fixed, but attendees are varied depending on the topics of discussion. Regular attendees of the operation committee comprise two members from Uzneftegazdobycha and two members from BHCL. According to the North Urtabulak PEC, the project manager, the refining agent and/or the marketing agent may attend a meeting of operating committee upon the request of Uzneftegazdobycha and BHCL (without the right to vote on any matter discussed in the meeting). Under the North Urtabulak PEC, the contractor receives 50% of all incremental production from each well from the North Urtabulak Oil Field for the first three years of production, and the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the contractor receives 20%, and the Uzbek State Partners 80% of the same. By agreement of the operating committee, if at any time certain defined work is carried out on the well then the three year initial period starts again. To date any work in which the reservoir has been penetrated has met this requirement.

Under the North Urtabulak PEC, which was originally signed in August 1999, all costs incurred in the provision of services by BHCL under the North Urtabulak PEC shall be funded solely by the contractor. The oil produced under the North Urtabulak PEC is transported to and shall be refined by joint stock company Uznefteproduct at the Fergana refinery and the contractor appoints marketing agents approved by the Uzbek State Partners to sell its share of the refined products for export. The contractor has the right to use all necessary fixed assets such as oil pipelines, water separation and gas lines that are owned or leased by Uzneftegazdobycha at the North Urtabulak Oil Field under the terms of the North Urtabulak PEC. As and when new wells are put onto production, then the local division of UNG lays pipelines to the wellhead and connect them up to the main production facilities. The North Urtabulak PEC terminates eight years after the date of the first incremental production from the final well drilled or used in the North Urtabulak Oil Field by the contractor during the term of the North Urtabulak PEC. The Company expects BHCL, being the contractor to begin downhole work on additional wells in 2010, which would have the effect of resetting this eight year period each time a well is completed and production obtained. Commercial production under the North Urtabulak PEC commenced in 1999. The revenue attributable to sales generated by BHCL under the North Urtabulak PEC from April 9, 2009 to December 31, 2009 amounted to approximately $4.7 million.

Currently there are some 115 wells on the field of which BHCL are producing from 18. Total gross field production is some 3,000 bopd of which some 2,000 bopd is being produced by BHCL under the North Urtabulak PEC. Currently, wells in the North Urtabulak Oil Field are predicted to produce for another 10 years with occasional workovers. Some of the wells BHCL works on have produced for two years to date while other have histories of up to 10 to 15 years.

Under the North Urtabulak PEC, the Group has an ongoing workover program underway and is planning to commence a radial drilling program. A new development well (NUR116) has been drilled in the north west salt zone of the field. The Group is also involved in the construction of a full field dynamic reservoir model using available data and data which the Group is currently gathering. This model will form the basis of the Company's future plans for the field, giving information to optimise overall field development and to establish what oil may remain to be recovered from the field. Specific areas to be studied would include future development well drilling, optimisation of artificial lift, reservoir pressure maintenance, water shut off using mechanical and polymer techniques and radial sidetracks. Based on these data the Company plans to begin discussions with Uzbekneftegas on the best way forward for field development which may involve BHCL taking a more active role in overall production and development activities on the field.

There are a number of other fields in the area and the Company is in discussions with Uzbekneftegas on possible participation in these. The Company has now opened a representative office in Tashkent and is discussing not only these projects but broader co-operation with Uzbekneftegas in both exploration and development in Uzbekistan.

Rigs and Equipment

Although the Company's primary business is that of oil and gas exploration and production, the Company sees significant benefit both operationally and from a cost perspective in owning and operating its own drilling and production equipment. In the areas in which the Company operates, it is often difficult and expensive to source third party drilling and related contractors, and this not only has cost implications but also has the potential for delays and lack of flexibility. The Company does not have as its strategy to become a service provider – its equipment is primarily for its own projects. However, if the equipment is not being utilised for the Company's operations, then such equipment may be hired out to third parties.

The Company has established a Dutch wholly owned subsidiary, Asia Oilfield Equipment B.V. ("**AOE**") to own some of its drilling rigs and other production equipment. At the present time, not all of the assets have been transferred to AOE and its subsidiaries.

Currently the main pieces of equipment which are owned by the Company are as follows:

Rig "Telesto"	New ZJ70/4500L 2,000 hp (1,470 kW) 450 tonne hookload diesel mechanical drilling rig constructed at the Sichuan Honghua Petroleum Equipment Co., Ltd. factory in Chengdu, China. This has a nominal drilling depth of over 7,000 m (23,000 ft) and is one of the largest rigs in Central Asia. Telesto is currently on location in the Akkulka Block of Kazakhstan where it drilled the first deep exploration well (AKD01). Telesto is currently owned by TPI. In March 2008, the Company announced that TPI had secured loan financing from a group of accredited investors in the amount of $5,300,000 toward the purchase of this rig.
Rig "Tykhe"	New ZJ30/1700 CZ 1,080 hp (792 kW) 180 tonne hookload diesel truck mounted mechanical drilling rig, constructed at the factory in Nanyang, China. This rig has a nominal drilling depth of approximately 3,000 m (9,843 ft). Tykhe is currently mobilized to Tajikistan for drilling operations on Komsomolsk. In January 2009, the Company announced that it had secured loan financing from a group of accredited investors in the amount of $2,000,000 toward the purchase of this rig.

Rig “Thoe”	UP60/80 400 hp (294 kW) 80 tonne hookload diesel truck mounted mechanical drilling rig with a nominal drilling depth of 2,000 m (6,562 ft) (with 24 kg/m drilling pipes) and workover depth of 4,000m (13,123 ft) (with 14 kg/m pipes). Currently in Kazakhstan.
Rig “Pasithoe”	A50 330 hp (243 kW) 50 tonne hookload diesel truck mounted mechanical drilling/workover rig. Currently in Beshtentak, Tajikistan.
Rig “Melite”	A37, 37 tonne diesel truck mounted workover rig primarily used for pulling tubing and light workovers in the Kyzyloi/Akkulka area.

In addition, the Company owns additional equipment such as an A370 workover rig, workover coiled tubing unit, 25 and 50 tonne cranes, GJC40-17 Cementing Unit, forklifts, trucks, technics and pipeline welding equipment.

Marketing

Kyzyloi Field — Kazakh Gas Supply Contract

Natural gas produced by TAG from the Kyzyloi Field is sold pursuant to the Kazakh Gas Supply Contract. From December 3, 2007 to April 30, 2009, TAG was a party to the Kazakh Gas Supply Contract with PCK. With effect from May 1, 2009, the Kazakh Gas Supply Contract was assigned to Asia Gas NG LLP.

The agreed price is $0.90 per Mcf plus 12% VAT. Total production achieved to December 31, 2009 was 10.6 Bcf. TAG sold 4.16 Bcf to PCK for the year ended December 31, 2009 pursuant to the Kazakh Gas Supply Contract. Gas sold to Asia Gas NG LLP pursuant to the Kazakh Gas Supply Contract for the year ended December 31, 2009 amounted to 3.05 Bcf.

The Kazakh Gas Supply Contract, has a term until the earlier of (i) complete delivery of the contracted volume of natural gas under the contract, (ii) 1 December 2012 or (iii) the date on which all contracts and licences pursuant to which the gas to be delivered under the Kazakh Gas Supply Contract terminate. The Kazakh Gas Supply Contract is based on a take-or-pay principle and covers natural gas to be produced from the Kyzyloi Field Licence and Production Contract area only. There is no obligation on TAG under the Kazakh Gas Supply Contract, to dedicate all of the natural gas produced from the licensed area to Asia Gas NG LLP. Under the terms of the Kazakh Gas Supply Contract, TAG shall notify Asia Gas NG LLP on an annual basis of the minimum monthly contract quantity for each month in the relevant contract year. If in any contract year the actual quantity of gas delivered to Asia Gas NG LLP is less than the cumulative minimum monthly contract quantity (such difference being referred to as the “shortfall”), and in any subsequent calendar year Asia Gas NG LLP has accepted obligatory quantities, Asia Gas NG LLP has the right to take the shortfall at a price of $0.28 per Mcf.

North Urtabulak Oil Field – North Urtabulak PEC

The oil produced under the North Urtabulak PEC is refined at a local refinery and the contractor uses marketing agents jointly appointed with Uzneftegasdobycha and Uzneftеproduct to sell its share of the refined products to qualified buyers in the export market with the ability to pay in hard currency, preferably in U.S. Dollars. The prices of refined products under the North Urtabulak PEC are negotiated on an arm’s length basis monthly between BHCL and marketing agents based on the prices of the local export market.

In order to maximise the price achieved for the sale of the refined products of the incremental production under the North Urtabulak PEC, the marketing agent, working together with Uzneftegasdobycha and Uzneftеproduct, shall when feasible, combine or substitute the refined products of the incremental production with other such products to increase the volume of the specific products being sold by the marketing agent.

The proceeds from the sale of the contractor’s allocation of refined products of the incremental production under the North Urtabulak PEC are calculated as the deemed price of $90 per tonne (exclusive of sales commission). In the event that the realised price per tonne is greater or less than the estimated price of $102 per tonne, the deemed dollar value per tonne product price of the contractor's allocation will increase or decrease by the ratio of 90:102 for each dollar the realised price exceeds or is less than the estimated price per tonne for the entire volume of incremental production in any given sale, exclusive of sales commission. Uzneftegasdobycha and Uzneftеproduct will pay the marketing agents, as the marketing agents' sole payment in relation to the services it provides, the commission of 3% on the entire sales volume based upon the realised product price per tonne

Marketing of Production from Other Properties

The Company is in discussion with several potential gas customers for the supply of Akkulka gas. The recent dispute between GazProm and the government of the Ukraine over the supply of gas to the Ukraine, together with recent fluctuations in European fuel oil prices have caused some problems with gas volumes in the export system and with pricing. The Company believes that these issues are now being resolved and a more structured gas market may result.

The Tajik Gas Supply Contract, which was entered into on January 16, 2009 and pursuant to which limited volumes of gas were delivered up to March 2009, terminated on December 31, 2009 due to effluction of time.

In Tajikistan, Tethys announced that an oil sales contract has been signed to purchase crude oil from its Beshtentak oilfield in the Baljuvon region. The price realised under this contract is over 60% of international prices for Brent crude with the untreated crude being collected by the buyer at the field. It is expected that margins would increase with an increase in the scale of production.

With regards to the Komsomolsk Gas Field, any initial test gas production is likely to be sold on the same basis as the Tajik Gas Supply Contract, although the Company believes it likely that any more significant volumes produced from East Komsomolsk will be marketed on a different basis, this being related to the import price of Uzbek gas.

Competitive Conditions

The oil and gas industry is highly competitive. The Company competes for acquisitions and in the exploration, development, production and marketing of oil and gas with numerous other participants, some of whom may have greater financial resources, staff and facilities than the Company. The Company's ability to increase reserves in the future will depend not only on its ability to develop or continue to develop existing properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and gas include price, methods and reliability of delivery and availability of imported products.

The Company's principal competitive advantages relate to its geological expertise, experience in Central Asia and, subject to market conditions, access to capital. Senior management of the Company has developed a thorough understanding of the geology of Central Asia and of its operational challenges and opportunities. The Company's senior management also has a comprehensive understanding of the commercial and regulatory environments in Kazakhstan, Tajikistan and Uzbekistan. The Company, as a publicly listed issuer, has certain competitive advantages over other foreign entities operating in Kazakhstan, Tajikistan and Uzbekistan, in terms of access to capital (subject to market conditions). However, state owned companies and certain multi-national oil companies have greater financial resources than the Company. The continued success of the Company will be based on its ability to raise capital to expand its production capabilities and further its exploration initiatives.

Socio-Economic Obligations and Community Relations

The Company's social responsibility strategies include environmental compliance and the promotion of fundamental relationships with local communities in the areas in which the Company operates and also with the provincial and national authorities of such areas. Local employment is promoted by identifying, providing and supporting job opportunities within the Company's operating areas. In the opinion of management, this has been well received by the local communities and has contributed to maintaining a positive relationship in and around the Company's areas of operation. The Company contributes part of its annual expenditure to education and training programs in the regions in which it operates.

In Kazakhstan, in line with its subsurface use contracts Tethys is required to invest $90,000 annually (Kyzyloi Production – $30,000; Akkulka Exploration – $20,000; Akkulka Production – $30,000 and Kul-Bas Exploration and Production Contract – $10,000) into the socio-economic development of the Aktobe region in co-ordination with the local government. Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in TAG's and Kul-Bas operations under its subsurface use contracts must be of Kazakh origin. TAG as well as Kul-Bas must also give preference to Kazakh personnel and, on an annual basis, must contribute not less than 1% of its investment capital costs to the professional education of Kazakh personnel involved in operations being conducted in connection with the contract. Both subsurface use companies are also required to establish a fund for reclamation (liquidation fund) of the contract area; contributions to this fund are required annually and must be in an amount equal to 1% of the total operational costs incurred during the life of the contract.

According to the Bokhtar PSC, KPL has an obligation to invest in the socio-economic development of the Bokhtar Area annually. KPL has already contributed to several social programs in Tajikistan, for example provision of generators to local maternity hospitals. The socio-economic budget for each year is proposed and approved at the Coordinating Committee of the Bokhtar PSC but no minimum amount is provided in the Bokhtar PSC. The funds invested under such programs are fully cost recoverable. Under the Bokhtar PSC, KPL or the Operator has the obligation, where employees have the appropriate experience and skills, to engage employees who are citizens of Tajikistan with the aim of these employees ultimately making up at least 70% of the total employees engaged in the implementation of the works under the Bokhtar PSC. However, this is with the proviso that foreign employees and specialists will be employed where necessary for the effective operation of works under this Contract or due to the unavailability of suitably trained and qualified local staff. In addition KPL has an unquantified obligation to implement appropriate training programs for Tajik staff with the intention of replacing foreign staff with suitably trained and experienced local specialists.

Whilst there are no formal or legislative regulations with regard to the socio-economic obligations of Tethys in Uzbekistan, the Company does endeavour to make its best efforts to integrate into and to assist the local community wherever possible. Historically, small gifts of equipment and educational materials have been made to local hospitals and community associations. Furthermore, English lessons have been provided for all local employees, and several of the Company's more academically-able local employees have been sponsored to pursue distance learning courses at both Karshi and Tashkent Oil & Gas Institutes. A number of the Company's technical staff have attended specialist technical training courses in the U.K, U.S and Russia.

Similarly, whilst there is presently no legislation in Uzbekistan with regard to local employee content in foreign companies, the Uzbek operation comprises approximately 95% local content.

Environmental

The Company's operations are subject to environmental regulations in the jurisdictions in which it operates and the Company carries out its activities and operations in material compliance with all relevant and applicable environmental regulations and pursuant to best industry practices.

In Kazakhstan, quarterly environmental compliance reports are required to be submitted by the Company to relevant government authorities. The Company may be required to make payments to the Kazakh government in respect of certain emissions. Payments made by the Company to date have not been significant. In respect of the Kazakh operations, the Group's annual cost of compliance of environmental obligations amounted to approximately 2.1 million Tenge in 2007, 4.9 million Tenge in 2008, 1.9 million Tenge in 2009.

In Tajikistan, under the Bokhtar PSC any development plan must also include an abandonment and site restoration program together with a funding procedure for such program. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account by KPL which shall be held in the joint names of the State and the KPL or their respective nominees, or its designee. KPL's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the development area is limited to the obligation to place the necessary funds in the approved account. In addition any areas relinquished must be restored to the same environmental condition as they were prior to the date of the Bokhtar PSC (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable. An independent environmental base line study has been carried out on the Beshtentak oilfield.

Tethys' operations in Uzbekistan are required to be in compliance with both the terms of the North Urtabulak PEC and with the environmental legislation of Uzbekistan when performing their respective obligations and shall use their reasonable endeavours, so far as consistent with performing the services in accordance with international oil industry standards, to protect natural resources and to avoid pollution and damage to the environment. The North Urtabulak PEC states that BHCL shall have no liability for any environmental claim arising from the transportation or refining of hydrocarbons produced from the North Urtabulak field. BHCL, as the contractor, shall indemnify and hold harmless, Uzneftegazdobycha, the refining agent and the marketing agent for control and removal of pollution or contamination which originates above the surface of the land from spills of oils, lubricants, motor oils, normal water based drilling fluids and attendant cuttings, pipe dope, paints, solvents, ballast, bilge and garbage wholly in BHCL's possession and control and directly associated with BHCL's equipment and facilities. Other than this BHCL shall have no liability for any environmental claims arising in connection with the services provided under the North Urtabulak PEC and Uzneftegazdobycha shall indemnify and hold harmless BHCL against any such environmental claims. An environmental baseline study and aerial survey of the North Urtabulak field was conducted prior to the commencement of field rehabilitation operations. Throughout the 10 year history of drilling and workover operations at North Urtabulak, BHCL has been in complete compliance with all relevant environmental legislation. Uzneftegazdobycha will promptly reimburse BHCL for any environmental claim that it may suffer or incur. BHCL's drilling and workover operations are carried out in strict compliance with the Uzbek environmental protection legislation, and with Group corporate policy to minimize the environmental impact of the operations.

All senior office and field personnel have previously worked for major western oil & gas operators and are familiar with western standards of environmental protection and legislation. To the Company's knowledge, no new technology has been used, nor has any research and development been undertaken to reduce the environmental impact of the workover and drilling operations on the North Urtabulak Oil Field as the existing system is adequate. Potential risks to the environment resulting from workover & drilling operations on the North Urtabulak Oil Field are addressed through the existing environmental impact procedures of BHCL, via environmental impact assessments and via pre-job safety meetings, at which potential environmental risks are discussed. In addition to the Company's own health, safety and environmental policies, the project is subject to compliance with the health, safety and environmental legislation of Uzbekistan. In the oil and gas industry, this legislation is enforced by a government body known as Gosgortechnadzor. Representatives of Gozgortechnadzor perform routine inspections of the North Urtabulak Oil Field operations to ensure compliance with these regulations.

Based on the existing enhanced environmental regulations, the Company expects that the estimated annual cost of compliance of environmental obligations for 2010 would be approximately $124,689 which includes the relevant payments and costs for emissions, industrial wastes, environmental monitoring and implementation of nature-conservative measure plans. Further, there is an additional payment if a well is drilled in Kazakhstan with regards to ecology. It includes, the depth and amount of waste produced during drilling and the amount of gas that may be flared. It cannot be calculated in advance or even projected as it depends on the Group's geological and engineering team during the drilling. A figure can only be arrived at after completion.

At present, the Company believes that it meets all applicable environmental standards and regulations, in all material respects, and has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations.

Employees

As of December 31, 2009, the Company had a total of 287 full-time employees worldwide.

Specialized Skill and Knowledge

The Company believes its success is largely dependent on the performance of its management and key employees, many of whom have specialized skills and knowledge relating to oil and gas operations. The Company believes that they have adequate personnel with the specialized skills and knowledge to successfully carry out the Company's business and operations.

Foreign Operations

The Company's assets are currently located in Kazakhstan, Tajikistan and through the North Urtabulak PEC in Uzbekistan. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability. See "*Risk Factors*" for a further description of the risk factors affecting the Company's foreign operations.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The following is a statement of reserves data presented for Kazakhstan and Tajikistan. The Company engaged McDaniel to evaluate the Company's oil and natural gas reserves in Kazakhstan. For Tajikistan, the Company engaged TRACS to evaluate its oil and natural gas reserves attributable to Beshtentak and Komsomolsk fields, located within the Tajikistan Contract Area. In connection therewith, McDaniel and TRACS prepared independent evaluations of the Company's natural gas reserves in respect of Kazakhstan and Tajikistan. For Kazakhstan, the Statement of Reserves Data and Other Oil and Gas Information was prepared on and is dated March 17, 2010 (the "**Kazakh Statement**"). The effective date of the Kazakh Statement is December 31, 2009. For Tajikistan, the Statement of Reserves Data and Other Oil and Gas Information was prepared on and is dated March 24, 2010 (the "**Tajik Statement**"). The effective date of the Tajik Statement is December 31, 2009. The Kazakh Statement and Tajik Statement have been prepared in accordance with NI 51-101.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A-1:	Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 for McDaniel
Appendix A-2:	Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 for TRACS
Appendix B:	Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3.

Disclosure of Reserves Data

Kazakhstan

The Company engaged McDaniel to evaluate the Company's natural gas reserves as at December 31, 2009, and in connection therewith, McDaniel prepared the McDaniel Reserve Report evaluating the Company's natural gas reserves as at December 31, 2009.

The reserves data set forth below is based upon evaluations by McDaniel with an effective date of December 31, 2009. The reserves data summarizes the natural gas reserves of the Company and the net present values of future net revenue for these reserves using forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which the Company believes is important to the readers of this information. McDaniel was engaged by the Company to provide evaluations of proved, probable and possible natural gas reserves.

In preparing the McDaniel Reserve Report, basic information was obtained from Tethys, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the McDaniel Reserve Report are based was obtained from public records, other operators and from McDaniel non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by McDaniel as represented.

Estimated future net revenue based on the McDaniel Reserve Report is presented in U.S. Dollars. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs (other than Kazakhstan-related general and administrative costs) and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas reserves may be greater than or less than the estimates provided herein.

Tajikistan

The Company engaged TRACS to evaluate the Company's natural gas reserves and resources as at December 31, 2009, and in connection therewith, TRACS prepared the TRACS Reserve and Resource Report evaluating the Company's natural gas reserves and resources as at December 31, 2009.

The tables below are a summary of the oil and natural gas reserves attributable to the Beshtentak and Komsomolsk fields and the net present value attributable to such reserves as evaluated in the TRACS Reserve and Resource Report, based on forecast prices and costs assumptions. See "*Pricing and Inflation Rate Assumptions - Tajikistan*" for a summary of the pricing and inflation rate assumptions with respect to the reserves information contained in this Annual Information Form. No reserves have been attributed to the Khoja Sartez field. The tables summarize the data in the TRACS Reserve and Resource Report and, as a result, may contain slightly different numbers than the report due to rounding. Also, due to rounding, certain columns may not add exactly.

The estimated future net revenue figures contained in the following tables do not necessarily represent the fair market value of the reserves attributable to the Beshtentak and Komsomolsk fields. There is no assurance that the forecast price and cost assumptions contained in the TRACS Reserve and Resource Report will be attained and variances could be material. Other assumptions relating to costs and other matters are included in the TRACS Reserve and Resource Report. The reserves estimates attributable to the Beshtentak and Komsomolsk fields described herein are estimates only. The actual reserves attributable to the Beshtentak and Komsomolsk fields may be greater or less than those calculated. A reader should note that the estimates of reserves and future net reserves for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

Throughout the following summary tables differences may arise due to rounding.

Summary of Oil and Natural Gas Reserves
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)(4)

	Light and Medium Crude Oil		Natural Gas		Total	
Reserves Category	**Gross (Mbbl)**	**Net (Mbbl)**	**Gross (Bcf)**	**Net (Bcf)**	**Gross (MMBoe)**	**Net (MMBoe)**
KAZAKHSTAN						
Proved						
Developed Producing	-	-	17.3	16.8	2.9	2.8
Developed Non-Producing	-	-	16.0	14.6	2.7	2.4
Undeveloped	-	-	4.3	4.1	0.7	0.7
Total Proved	**-**	**-**	**37.6**	**35.5**	**6.3**	**5.9**
Probable	-	-	29.8	27.0	5.0	4.5
Total Proved Plus Probable	**-**	**-**	**67.4**	**62.5**	**11.3**	**10.4**
Possible	-	-	23.0	20.8	3.8	3.5
Total Proved Plus Probable Plus Possible	**-**	**-**	**90.3**	**83.2**	**15.1**	**13.9**
TAJIKISTAN						
Proved						
Developed Producing	-	-	-	-		
Developed Non-Producing	6.4	5.8	0.63	0.57	0.11	0.10
Undeveloped	-	-	-	-	-	-
Total Proved	**6.4**	**5.8**	**0.63**	**0.57**	**0.11**	**0.10**
Probable	56.0	50.9	1.76	1.61	0.35	0.32
Total Proved Plus Probable	**62.4**	**56.7**	**2.39**	**2.18**	**0.46**	**0.42**
Possible	25.7	23.5	1.64	1.48	0.30	0.27

Total Proved Plus Probable Plus Possible	**88.1**	**80.2**	**4.03**	**3.66**	**0.80**	**0.70**

TOTAL

Proved						
Developed Producing	-	-	17.3	16.8	2.9	2.8
Developed Non-Producing	6.4	5.8	16.6	15.2	2.8	2.5
Undeveloped	**-**	**-**	**4.3**	**4.1**	**0.7**	**0.7**
Total Proved	**6.4**	**5.8**	**38.2**	**36.1**	**6.4**	**6.0**
Probable	56	50.9	31.6	28.6	5.3	4.8
Total Proved Plus Probable	**62.4**	**56.7**	**69.8**	**64.7**	**11.7**	**10.8**
Possible	25.7	23.5	24.6	22.3	4.1	3.7
Total Proved Plus Probable Plus Possible	**88.1**	**80.2**	**94.3**	**86.9**	**15.8**	**14.5**

Notes:

(1) Under the Bokhtar PSC, KPL will: (i) recover 100% of its costs from the Cost Production; and (ii) receive 70% of the Profit Production. The Tajik State's share of production includes all taxes, levies and duties.

(2) Light and medium crude oil includes condensate.

(3) 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.

(4) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs. See "*Pricing and Inflation Rate Assumptions- Tajikistan*".

Summary of
Net Present Values of Future Net Revenue
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)(4)(5)(6)(7)

	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)					Unit Value Before Income Taxes Discounted at 10%/year
Reserves Category	**0**	**5**	**10**	**15**	**20**	**0**	**5**	**10**	**15**	**20**	($/Mcf, $/boe)
	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	
KAZAKHSTAN											
Proved											
Developed Producing	20.3	17.6	15.3	13.5	12.0	18.9	16.4	14.4	12.7	11.3	0.91
Developed Non-Producing	49.2	42.3	36.9	32.6	29.1	42.2	36.3	31.7	28.0	25.1	2.53
Undeveloped	5.8	4.7	3.8	3.0	2.4	1.3	0.9	0.6	0.3	0.1	0.91
Total Proved	**75.3**	**64.5**	**56.0**	**49.1**	**43.5**	**62.4**	**53.6**	**46.6**	**41.1**	**36.5**	**1.58**
Probable	108.6	81.1	62.2	48.8	39.0	55.3	39.7	29.2	22.01	17.0	2.31
Total Proved Plus Probable	**183.9**	**145.6**	**118.1**	**97.9**	**82.5**	**117.8**	**93.2**	**75.8**	**63.1**	**53.5**	**1.89**
Possible	95.8	66.0	47.4	35.4	27.1	41.6	27.4	18.9	13.6	10.0	2.29
Total Proved Plus Probable Plus Possible	**279.7**	**211.6**	**165.6**	**133.2**	**109.6**	**159.4**	**120.7**	**94.8**	**76.7**	**63.6**	**1.99**
TAJIKISTAN											
Proved											
Developed Producing	-	-	-	-	-	-	-	-	-	-	-
Developed Non-Producing	1.4	1.1	1.0	0.8	0.7	1.4	1.1	1.0	0.8	0.7	9.6
Undeveloped	-	-	-	-	-	-	-	-	-	-	-
Total Proved	**1.4**	**1.1**	**1.0**	**0.8**	**0.7**	**1.4**	**1.1**	**1.0**	**0.8**	**0.7**	**9.6**
Probable	6.5	5.4	4.5	3.7	3.1	6.5	5.4	4.5	3.7	3.1	14.1
Total Proved Plus Probable	**7.8**	**6.4**	**5.4**	**4.5**	**3.8**	**7.8**	**6.4**	**5.4**	**4.5**	**3.8**	**12.8**
Possible	9.0	7.9	6.9	6.1	5.5	9.0	7.9	6.9	6.1	5.5	25.5
Total Proved Plus Probable Plus Possible	**16.8**	**14.3**	**12.3**	**10.6**	**9.3**	**16.8**	**14.3**	**12.3**	**10.6**	**9.3**	**17.8**

Summary of
Net Present Values of Future Net Revenue
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)(4)(5)(6)(7)

	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)					Unit Value Before Income Taxes Discounted at 10%/year
Reserves Category	**0**	**5**	**10**	**15**	**20**	**0**	**5**	**10**	**15**	**20**	($/Mcf, $/boe)
TOTAL											
Proved											
Developed Producing	20.3	17.6	15.3	13.5	12.0	18.9	16.4	14.4	12.7	11.3	5.46
Developed Non-Producing	50.6	43.4	37.9	33.4	29.8	43.6	37.4	32.7	28.8	25.8	14.96
Undeveloped	5.8	4.7	3.8	3.0	2.4	1.3	0.9	0.6	0.3	0.1	5.56
Total Proved	**76.7**	**65.6**	**57.0**	**49.9**	**44.2**	**63.8**	**54.7**	**47.6**	**41.9**	**37.2**	**9.50**
Probable	115.1	86.5	66.7	52.5	42.1	61.8	45.1	33.7	25.7	20.1	13.84
Total Proved Plus Probable	**191.7**	**152.0**	**123.5**	**102.4**	**86.3**	**125.6**	**99.6**	**81.2**	**67.6**	**57.3**	**11.40**
Possible	104.8	73.9	54.3	41.5	32.6	50.6	35.3	25.8	19.7	15.5	14.53
Total Proved Plus Probable Plus Possible	**296.5**	**225.9**	**177.9**	**143.8**	**118.9**	**176.2**	**135.0**	**107.1**	**87.3**	**72.9**	**12.22**

Notes:

(1) Under the Bokhtar PSC, KPL will: (i) recover 100% of its costs from the Cost Production; and (ii) receive 51% of the Profit Production. The Tajik State's share of the production includes all taxes, levies and duties.

(2) In determining the aggregate future net revenue from a property, TRACS estimated and deducted future well abandonment costs.

(3) Abandonment and reclamation costs are included in the calculation of the net present value of future net revenue relating to the Beshtentak and Komsomolsk fields.

(4) As the Tajik State's share of production includes all taxes, levies and duties, the net present value of future net revenue after income taxes equals the net present value of future net revenue before income taxes. Accordingly, information is only presented on a before income taxes basis.

(5) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs. See "*Pricing and Inflation Rate Assumptions- Tajikistan*".

(6) The unit value for Kazakhstan is presented in $/Mcf and in Tajikistan and Total is presented in $/boe.

(7) 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.

Total Future Net Revenue
(Undiscounted)
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)(4)(5)

Reserves Category	**Revenue**	**Royalties**	**Operating Costs**	**Development Costs**	**Abandon-ment and Reclamation Costs**	**Other Expenses**	**Future Net Revenue Before Income Taxes**	**Income Taxes**	**Future Net after Revenue Income Taxes**
	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)	(MM$)
KAZAKHSTAN									
Total Proved	104.7	8.6	12.4	5.7	0.5	2.2	75.3	12.9	62.4
Total Proved Plus Probable	252.6	23.2	27.3	15.2	0.7	2.2	183.9	66.1	117.8
Total Proved Plus Probable Plus Possible	375.8	35.4	36.2	21.4	0.8	2.2	279.7	120.3	159.4
TAJIKISTAN									
Total Proved	3.7	-	1.7	0.4	0.2	-	1.5	-	1.5
Total Proved Plus Probable	16.2	-	3.0	4.4	0.3	-	8.5	-	8.5
Total Proved Plus Probable Plus Possible	26.5	-	3.3	4.4	0.3	-	18.4	-	18.4
TOTAL									
Total Proved	108.4	8.6	14.1	6.1	0.7	2.2	76.8	12.9	63.9
Total Proved Plus Probable	268.8	23.2	30.3	19.6	1.1	2.2	192.4	66.1	126.3
Total Proved Plus Probable Plus Possible	402.3	35.4	39.5	25.8	1.1	2.2	298.1	120.3	177.8

Notes:

(1) "Other expenses" refers to the repayment of historical costs.

(2) "Royalties" include the Mineral Extraction Tax.

(3) With respect to Tajikistan, under the Bokhtar PSC, KPL will: (i) recover 100% of its costs from the Cost Production; and (ii) receive 51% of the Profit Production. The Tajik State's share of production includes all taxes, levies and duties.

(4) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs. See "*Pricing and Inflation Rate Assumptions- Tajikistan*".

(5) 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.

Future Net Revenue
By Production Group
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year)	Unit Value
		(MM$)	($/Mcf) ($/bbl)
TOTAL PROVED	Light and Medium Crude Oil		
	Kazakhstan	-	-
	Tajikistan	0.11	18.97
	Associated Gas and Non-Associated Gas		
	Kazakhstan	56.0	1.58
	Tajikistan	0.86	1.51
TOTAL PROVED PLUS PROBABLE	Light and Medium Crude Oil		
	Kazakhstan	-	-
	Tajikistan	1.75	30.87
	Associated Gas and Non-Associated Gas		
	Kazakhstan	118.1	1.89
	Tajikistan	3.59	1.64
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	Light and Medium Crude Oil		
	Kazakhstan	-	-
	Tajikistan	2.36	29.42
	Associated Gas and Non-Associated Gas		
	Kazakhstan	165.6	1.99
	Tajikistan	9.90	2.70

Notes:

(1) See table below "*Summary of Pricing and Inflation Rate Assumptions*" for pricing assumptions.

(2) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs. See "*Pricing and Inflation Rate Assumptions- Tajikistan*".

(3) 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.

Pricing and Inflation Rate Assumptions

Summary of Pricing and Inflation Rate Assumptions
As of December 31, 2009
Forecast Prices and Costs(1)(2)(3)

	KAZAKHSTAN				TAJIKISTAN			
	Oil	Natural Gas			Oil		Natural Gas	
	Brent Crude Oil Price ($/bbl)	Existing Gas Sales Contract Price ($/Mcf)	Additional Gas Sales Price(1) ($/Mcf)	Inflation rate %/year	Brent Crude Oil Price ($/bbl)	Field Crude Crude Oil ($/bbl)	Sales Price ($/Mcf)	Inflation rate %/year
Historical								
2009	N/A	0.90	N/A	N/A				N/A
Forecast								
2010	78.50	0.90	2.82	2.00	60.00	53.90	5.41	0.00
2011	82.10	0.90	3.38	2.00	60.00	53.90	5.41	0.00
2012	85.80	0.90(2)	3.90	2.00	60.00	53.90	5.41	0.00
2013	89.70	0.90	4.41	2.00	60.00	53.90	5.41	0.00
2014	93.70	0.90	4.91	2.00	60.00	53.90	5.41	0.00
2015	97.70	0.90	5.37	2.00	60.00	53.90	5.41	0.00
2016	99.70	0.90	5.62	2.00	60.00	53.90	5.41	0.00
2017	101.70	0.90	5.84	2.00	60.00	53.90	5.41	0.00
2018	103.60	0.90	6.04	2.00	60.00	53.90	5.41	0.00
2019	105.80	0.90	6.25	2.00	60.00	53.90	5.41	0.00
2020	107.90	0.90	6.45	2.00	60.00	53.90	5.41	0.00
2021	110.00	0.90	6.63	2.00	60.00	53.90	5.41	0.00
2022	112.20	0.90	6.81	2.00	60.00	53.90	5.41	0.00
2023	114.50	0.90	7.00	2.00	60.00	53.90	5.41	0.00
2024	116.80	0.90	7.17	2.00	60.00	53.90	5.41	0.00
2025	119.14	0.90	7.35	2.00	60.00	53.90	5.41	0.00
2026	121.52	0.90	7.52	2.00	60.00	53.90	5.41	0.00
2027	123.95	0.90	7.69	2.00	60.00	53.90	5.41	0.00
2028	126.43	0.90	7.86	2.00	60.00	53.90	5.41	0.00
2029	128.96	0.90	8.04	2.00	60.00	53.90	5.41	0.00
Thereafter	2%	0.90	2%	2%	0%	0%	0%	0%

Notes:

(1) The un-contracted gas price was calculated by McDaniel for the McDaniel Reserve Report based on gas sales in the Central Asia and European markets.

(2) The Term of the Kazakh Gas Supply Contract ends on December 1, 2012 (or earlier if the agreed volumes of gas have been delivered). Accordingly, gas delivered after December 1, 2012 will not be subject to the price of the Kazakh Gas Supply Contract (being $0.90 per Mcf plus VAT).

(3) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs. Tajik gas price is set at 75% of the 2009 import parity price of $250 per thousand cubic metres. Crude price assumption for project evaluation reference a Mid Case price set of $60/bbl.

Reserves Reconciliation

Kazakhstan

The following table sets forth a reconciliation of Tethys' total gross proved, probable and proved plus probable reserves as at December 31, 2009, against such reserves as at December 31, 2008, based on forecast prices and cost assumptions.

	Associated and Non-Associated Gas		
Factors	**Gross Proved (Bcf)**	**Gross Probable (Bcf)**	**Gross Proved Plus Probable (Bcf)**
December 31, 2008	43.0	28.4	71.4
Extensions and Improved Recovery	-	-	-
Technical Revisions	(1.4)	1.4	-
Discoveries	-	-	-
Acquisitions	-	-	-
Dispositions	-	-	-
Economic Factors	-	-	-
Production	(4.1)	-	(4.1)
December 31, 2009	**37.6**	**29.8**	**67.4**

Tajikistan

The following table sets forth a reconciliation of Tethys' total gross proved, probable and proved plus probable reserves as at December 31, 2009, against such reserves as at March 31, 2009, based on forecast prices and cost assumptions.

	Associated and Non-Associated Gas		
Factors	**Gross Proved (Bcf)**	**Gross Probable (Bcf)**	**Gross Proved Plus Probable (Bcf)**
March 31, 2009(1)(2)	3.26	2.81	6.07
Extensions and Improved Recovery	-	-	-
Technical Revisions	(2.63)	(1.05)	(3.68)
Discoveries	-	-	-
Acquisitions	-	-	-
Dispositions	-	-	-
Economic Factors	-	-	-
Production	0	0	0
December 31, 2009	**0.63**	**1.76**	**2.39**

Notes

(1) Reserves were not attributable until March 31, 2009.

(2) 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.

Factors	Light and Medium Crude Oil and Condensate[1]		
	Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)
March 31, 2009[1][2]	-	11.2	11.2
Extensions and Improved Recovery	-	-	-
Technical Revisions	6.4	44.8	51.2
Discoveries	-	-	-
Acquisitions	-	-	-
Dispositions	-	-	-
Economic Factors	-	-	-
Production	0	0	0
December 31, 2009	**6.4**	**56.0**	**62.4**

Notes:

(1) Reserves were not attributable until March 31, 2009.

(2) 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.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables disclose the volumes of Proved and Probable Undeveloped Reserves as at the dates noted therein. The references to "First Attributed" refer to Proved or Probable Undeveloped Reserves as at the earliest date in the relevant year when such Undeveloped Reserves were first attributed to the Company. Undeveloped Reserves are those Reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

KAZAKHSTAN

Proved Undeveloped		Associated and Non-Associated Gas[1]		Light and Medium Crude Oil	
		First Attributed (Bcf)	Total at Year End (Bcf)	First Attributed (Mbbl)	Total at Year End (Mbbl)
	Prior	-	-	-	-
	2007	16.3	16.3	-	-
	2008	-	5.0	-	-
	2009	-	4.3	-	-

Probable Undeveloped		First Attributed (Bcf)	Total at Year End (Bcf)	First Attributed (Mbbl)	Total at Year End (Mbbl)
	Prior	-	-	-	-
	2007	13.5	13.5	-	-
	2008	1.1	7.1	-	-
	2009	-	7.0	-	-

TAJIKISTAN

Proved Undeveloped		Associated and Non-Associated Gas[1] First Attributed[3] (Bcf)	Associated and Non-Associated Gas[1] Total at Year End (Bcf)	Light and Medium Crude Oil First Attributed (Mbbl)	Light and Medium Crude Oil Total at Year End (Mbbl)
	Prior	-	-	-	-
	2007	-	-	-	-
	2008	-	-	-	-
	2009	3.25	-	-	-

Probable Undeveloped		First Attributed (Bcf)	Total at Year End (Bcf)	First Attributed (Mbbl)	Total at Year End (Mbbl)
	Prior	-	-	-	-
	2007	-	-	-	-
	2008	-	-	-	-
	2009	2.65	1.76	13.6	56.0

Notes:

(1) Based on the forecast prices and costs evaluations carried out, with respect to Kazakhstan, by McDaniel and reflected in the McDaniel Reserve Report, and with respect to Tajikistan, by TRACS and reflected in the TRACS Reserve and Resource Report.

With respect to the Company's undeveloped reserves in Kazakhstan, the Company is currently in the process of finalizing its plans with regard to developing its proved undeveloped and probable undeveloped reserves. Within the next two years, the Company anticipates drilling three to five development wells in order to develop the reserves and also anticipates the installation of additional compression facilities in 2011 in the Akkulka area. There can be no assurance that the Company will complete its plans to drill these wells, or that the drilling of these wells will result in the development of these reserves.

In Tajikistan, the Company plans to complete well KOM200 and then KOM201 to develop the reserves and resources in the Komsomolsk field. In order to develop the Beshtentak field a total of five workovers are planned, three in 2010 and two in 2011, four are expected to target and produce oil and the other for gas, the first of these workovers BST85 is currently underway.

Significant Factors or Uncertainties

Kazakhstan

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represents estimates only. In general, estimates of economically recoverable gas reserves and the future net cash flows there from are based upon a number of variable factors and assumptions, such as test rate production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for gas, curtailments or increases in consumption by gas purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs. TAG has a contractual obligation to sell approximately 30 Bcf (0.85 Bcm) of gas at prices believed to be substantially below those that could be realized but for this contractual obligation. See "*Description of the Business — Marketing*".

Tajikistan

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserves estimates contained herein are based on current production forecasts, geological evaluation, engineering data, prices and economic conditions. These reserves estimates have been evaluated by TRACS. These factors and assumptions include among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserves estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Revisions to reserves estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

For additional details of significant economic factors and uncertainties affecting the reserves, see "Risk Factors".

Future Development Costs

The following table sets forth the estimated future development costs based upon the McDaniel Reserve Report and the TRACS Reserve and Resource Report. Future development costs are expected to be funded by internally generated cash flow from production and/or through equity financing or debt issuance. Future development costs are associated with reserves as disclosed in the McDaniel Reserve Report and TRACS Reserve and Resource Report and do not necessarily represent the Company's full exploration and development budget.

Year	Total Proved Estimated Using Forecast Prices and Costs (MM$)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (MM$)	Total Proved Plus Probable Plus Possible Estimated Using Forecast Prices and Costs (MM$)
KAZAKHSTAN			
2010	2.56	3.21	3.21
2011	2.47	8.77	11.14
2012	0.21	0.31	3.02
2013	0.11	0.32	0.32
2014	0.11	0.33	0.33
Thereafter	0.22	2.22	3.37
Total for all years undiscounted[(1)]	**5.67**	**15.15**	**21.37**

Year	Total Proved Estimated Using Forecast Prices and Costs (MM$)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (MM$)	Total Proved Plus Probable Plus Possible Estimated Using Forecast Prices and Costs (MM$)
TAJIKISTAN			
2010	0.78	0.78	0.78
2011	0.51	0.51	0.51
2012	0.00	0.00	0.00
2013	0.00	0.00	0.00
2014	0.00	0.00	0.00
Thereafter	0.00	0.00	0.00
Total for all years undiscounted[1]	**1.29**	**1.29**	**1.29**

Notes:

(1) With respect to the reserves attributable to the Company in Tajikistan, forecast prices and costs are presented on the same basis as constant prices and costs as the net revenues and reserves presented assume no escalation in prices and costs.

(2) 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.

Other Oil and Gas Information

Oil and Gas Properties

Kazakhstan

The Company's assets in Kazakhstan are presently located in three contiguous blocks in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the south-eastern edge of the prolific Pre-Caspian sedimentary basin.

As a result of its interest in TAG, the Company currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). TAG also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area and the Akkulka Production Contract, and a 100% interest in the Kul-Bas Exploration and Production Contract area. All of the Company's properties are onshore. The Company's developed properties are described in further detail below.

The Kyzyloi Field was first discovered in 1967 with additional seismic being shot in the 1990s. It was not previously developed due to the then low gas price. An increase in the gas price has now made it possible to extract the gas commercially.

On December 23, 2009, TAG and MEMR signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years. An initial five of the seven wells assigned to the Akkulka Production Contract are already tied into the Company's existing Kyzyloi pipeline infrastructure and additional compression has already been installed and tested at the BCS on the Bukhara-Urals gas trunkline. As such, production of gas from the Akkulka Block under the Akkulka Production Contract can commence immediately once a gas sales agreement has been signed and Intergas Central Asia allocates space in the pipeline system which is expected to be in April 2010. There are no mandatory relinquishments, surrenders, back-ins or changes in ownership in respect of the Kyzyloi or Akkulka production contract areas. There are certain relinquishment requirements under the Kul-Bas Exploration and Production Contract. See "*Description of the Business – Kazakhstan - Kul-Bas Block and Kul-Bas Exploration and Production Contract*".

The Company has constructed a 35 mile (56 km) 12.8 inch (325 mm) diameter pipeline from its Kyzyloi Field and compressor station to tie-in to the Bukhara-Urals pipeline, which is a gas trunkline transporting gas from Central Asia into Russia and on into Europe.

Tajikistan

In Tajikistan, the Bokhtar PSC Area is located in the Afgan-Tajik basin, the eastern part of the prolific Amu-Darya sedimentary basin.

Under the Bokhtar PSC, the Tajikistan Contract Area covers approximately is 34,750 km^2 and includes 130 identified prospective structures/fields. To date, the Company has been operating in East Olimtoi, Beshtentak and Khoja Sartez and Komsomolsk areas.

The Company commenced drilling operations in the prospecting East Olimtoi Well EOL09 with target horizons within Bukhara Layers of Palaeogene and a target depth of 3,800 – 4,000 m. Current depth is 2,941 m.

In 2009, work over operations were performed in the Well BST20 of Beshtentak field comprising drilling out of rock material and metal junk blocking the wellbore to a depth of 1,785 m. The well is currently producing at approximately 50 bopd.

In 2009, gas production was achieved at Khoja Sartez Field. On March 14, 2009 the well stopped flowing due to water ingress (thought to be coming from a lower zone due to a poorly cemented casing). The total amount of gas supplied to Kulob town during the operating period was 480 Mcm.

The drilling of Komsomolsk well KOM200 commenced in August, 2009. Drilling has reached a total depth of 2,024 m within the Jurassic sequence as at the end of March, however due to the drilling string becoming stuck, the well will be temporarily suspended while specialist equipment is imported in order to sidetrack this well. An open hole flowback test achieved a stable gas flow prior to the temporary suspension.

There are mandatory relinquishments for the Bohktar PSC, starting in the seventh year of the contract (i.e. 2015) and at 5-year intervals after that. There are no surrenders, back-ins or changes in ownership in respect of the Tajikistan Contract Area.

Uzbekistan

In Uzbekistan, the Group operates as the contractor/services provider for the Uzbek State Partners under the North Urtabulak PEC which gives incremental production rights to increase production of oil from wells in the North Urtabulak Oil Field, also in the Amu-Darya Basin. The Company's subsidiary BHCL operates the North Urtabulak PEC with Uzbekneftegaz, the national oil company of Uzbekistan. Whilst a number of fields were awarded under this contract, drilling and workover operations are currently focused on the North Urtabulak oil field in Southern Uzbekistan.

The North Urtabulak oil field is located in the Northern portion of the Amu-Darya basin and produces oil from a Jurassic age reef structure from a depth of approximately 2,500 m.

The field is approximately 3 kms x 5 kms in areal extent and was discovered in 1972. To date, 118 wells have been drilled in the field, of which Tethys currently operates a total of 20 wells, of which 18 wells are producing. As at December 31, 2009, no reserves have been assigned to / attributed to the Company in Uzbekistan.

Oil and Gas Wells

The number of producing and non-producing wells in which the Company had an interest as of December 31, 2009 is presented in the table below. The number of net wells corresponds to the number of gross wells as the Company has a 100% working interest in each well, subject to revenue sharing and royalties under the relevant contracts.

	Natural Gas			
	Producing		Non-Producing[1]	
Kazakhstan	Gross	Net	Gross	Net
Kyzyloi Field	8	8	1	1
Akkulka Block	0	0	11[2]	11[2]
Tajikistan				
Khoja Sartez	0	0	1	1
Uzbekistan				
North Urtabulak	0	0	0	0
Total	8	8	13	13

Notes:

(1) "Non-Producing" wells means wells which are not producing but which are considered capable of production.

(2) The Akkulka Proved and Probable Reserves were developed-non producing as at December 31, 2009, but are expected to be in production in 2010-2011 once tied into the Kyzyloi-Akkulka pipeline system.

	Light and Medium Crude Oil			
	Producing		Non-Producing[1]	
Kazakhstan	Gross	Net	Gross	Net
Kyzyloi Field	0	0	0	0
Akkulka Block	0	0	1[2]	1[2]
Tajikistan				
Beshtentak	0	0	1	1
Uzbekistan				
North Urtabulak	18	18	2	2
Total	18	18	4	4

Notes:

(1) "Non-Producing" wells means wells which are not producing but which are considered capable of production.

(2) This is well AKD01.

Properties with No Attributed Reserves

Undeveloped land holdings of the Company consist of the Kul-Bas Exploration and Production Contract area in Kazakhstan and the majority of the Tajikistan Contract Area in Tajikistan. The following table sets forth the Company's undeveloped land position in Kazakhstan and Tajikistan as at December 31, 2009.

Area	Gross Acres	Net Acres[1]
Kazakhstan		
Kul-Bas Exploration and Production Contract	2,095,408[2]	2,095,408[2]
Tajikistan		
Tajikistan Contract Area (Bokhtar PSC)	8,586,725	8,586,725
Uzbekistan		
North Urtabulak PEC	N/A[3]	N/A[3]

Note:

(1) "Net Acres" is considered to be the same as "Gross Acres" as KPL's interest under the Bokhtar PSC is not subject to any royalties. Under the Bokhtar PSC, KPL will: (i) recover 100% of its costs from Cost Production; and (ii) receive 35.7% of the Profit Production.

(2) TAG has agreed to relinquish approximately 851 km^2 (210,304) in November 2009 (leaving an area of 7,632 km^2 (1,885,104 acres)) but this relinquishment still remains to be confirmed by the authorities.

(3) BHCL is a contractor and accordingly, reserves are not attributed to BHCL.

Kazakhstan

The Kul-Bas Exploration and Production Contract area originally comprised 2,688,695 acres (10,881 km^2) (gross and net) in area. The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005 and is valid for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six year exploration period and a 19 year production period. 20% of the contract area is to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period, except with respect to combined exploration and production contracts (which mainly only contain a work program for exploration and not production) for areas in which a commercial discovery is made as this contract grants Kul-Bas an exclusive right to proceed to the production period where it has made a commercial discovery. The first relinquishment was made in November 2007 and ratified in December 2008 by the Kazakh authorities. The relinquishments were reduced and changed in February 2009 and the Company has agreed to relinquish approximately 851 km^2 (210,304 acres) in November 2009 (leaving an area of 7,632 km^2 (1,885,104 acres) but this relinquishment still remains to be confirmed by the authorities.

The work program on this area amounts to a total of approximately $7,700,000 over the initial six year exploration period, that started with a $160,000 commitment in 2006, a $940,000 commitment for 2007 and a $3,000,000 commitment for 2008, all of which were met. The minimum work program agreed for 2009 is $706,000 for the acquisition and processing of new seismic.

The royalty payable was expected to range from 4% to 6% depending on the size of the deposit and set 30 days before production commenced but this is likely to be replaced by the Mineral Extraction Tax at 0.05% for domestic sales or 10% for exports. Pursuant to the contract, Kul-Bas must also reimburse the Kazakh government for approximately $3,280,000 in equal portions on a quarterly basis over the first ten years of any commercial production. In addition, 1% of the total investment incurred during exploration and 0.1% of the total amount of operational costs during production are payable by Tethys for the training of Kazakh specialists, and $10,000 per year for socio-economic development programs. See "*Description of the Business - Kul-Bas Block and Kul-Bas Exploration and Production Contract*".

Tajikistan

The following table sets out the Company's undeveloped land position in respect of the Tajikistan Contract Area as at December 31, 2009.

The Bokhtar PSC in Tajikistan gives KPL the exclusive right, as contractor under the Bokhtar PSC, to conduct certain oil and gas operations in the Tajikistan Contract Area during the term of the Bokhtar PSC and to receive the Company's share of production from the Tajikistan Contract Area. The Tajikistan Contract Area is approximately 8.6 million acres (34,750 km^2) and is located in the southwestern part of Tajikistan. The Tajikistan Contract Area includes over 130 different prospective structures and several existing oil and gas fields, including the Beshtentak, Khoja Sartez and Komsomolsk fields. The Tajikistan Contract Area specifically excludes certain structures on which licences have previously been issued to non-Tajik State entities. Under the Bokhtar PSC, KPL will recover 100% of its costs from up to 70% of total production from oil and natural gas, the maximum allowed under the Production Sharing Law. The remaining Profit Production will then be split in accordance with a fixed formula between KPL and the Tajik State. The Tajik State's share of the costs includes all taxes, levies and duties. Under the Bokhtar PSC, KPL has the right to sell its share of Profit Production to any third party, whether a resident of Tajikistan or not, at a price determined by KPL. The Operator under the Bokhtar PSC is TSTL, a wholly owned subsidiary of TTL.

The terms of the Bokhtar PSC are fixed over the life of the Bokhtar PSC, which has a term of 25 years. If in respect of any development area, commercial production remains possible beyond the Initial Term, the Bokhtar PSC may be extended with respect to such development area for an additional term of not less than five years or to the end of the producing life of the development area.

Pursuant to the Bokhtar PSC, KPL, as contractor, is required to select and relinquish portions of the Tajikistan Contract Area with the first relinquishment being after seven contract years in respect of 25% of the Tajikistan Contract Area (less any development areas) and at five year intervals thereafter in respect of 50% of the then remaining Tajikistan Contract Area (less any development areas).

KPL is not required to relinquish any portion of the original Tajikistan Contract Area containing a development area or an area containing a declared commercial discovery for which a development plan has been sought and is awaiting approval by the Tajik State.

A Coordination Committee established by KPL and MEI is responsible for the overall supervision of oil and gas operations conducted under the Bokhtar PSC. The Coordination Committee is comprised of a total of six representatives, six of whom have been appointed by the MEI and three of whom have been appointed by KPL with KPL providing the Chairman of the Committee. Decisions of the Coordination Committee are made by majority decision of the representatives present and entitled to vote. KPL and the MEI shall endeavour to reach agreement on all matters presented to the Coordination Committee. In the event that on any matter the Coordination Committee are unable to reach agreement then KPL's point of view shall prevail. However if the MEI is reasonably of the view that the proposed action would result in serious permanent damage to that field or reservoir which would materially reduce economic recovery of petroleum from the field or reservoir then the matter will be referred to an internationally recognized independent expert appointed by KPL and the MEI whose decision on accepted international Petroleum Industry practice shall be final and binding.

Pursuant to the Bokhtar PSC, KPL is required to fund a minimum work program (previously defined as the "**Work Program**") in respect of the Tajikistan Contract Area. The proposed Work Program is designed to provide additional data for a focused exploration of the Tajikistan Contract Area and will involve the acquisition of additional seismic data, gravity and magnetic data and exploration drilling. The proposed Work Program will be carried out in two phases. Phase I, to be completed within 18 months from the effective date of the Bokhtar PSC, is expected to consist of: (i) geological studies; (ii) reprocessing of existing seismic and other geophysical data; (iii) acquisition of seismic and other geophysical data; and (iv) initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The total minimum cost of Phase I is estimated to be approximately $3,000,000. Upon completion of Phase I, KPL has decided to proceed with Phase II. Phase II, which is to be completed within 18 months of the completion of Phase I, is expected to involve the commencement of the drilling of an exploration well to determine the oil and gas potential of the Bukhara formation and to perform additional rehabilitation activities if economically justified. The total minimum cost of the activities planned in Phase I and Phase II is estimated to be approximately $5,000,000. To date over $22,000,000 has been spent on activities under the Bokhtar PSC well exceeding the financial commitments under the PSC.

Uzbekistan

The North Urtabulak field has no attributed reserves.

Forward Contracts

Kazakhstan

TAG is a party to the Kazakh Gas Supply Contract which was entered into in January 2006 and was assigned to PCK in December 2007. The Kazakh Gas Supply was further assigned to Asia Gas NG LLP with effect from May 1, 2009. The Kazakh Gas Supply Contract is for a maximum of 850,000 Mcm (approximately 30 Bcf) at a fixed price of $32.00 per Mcm excluding VAT. The term of the Kazakh Gas Supply Contract expires on the earlier of (i) the date when the maximum volume provided under the Kazakh Gas Supply Contract (850 MMcm (30 Bcf)) has been delivered or (ii) December 1, 2012, the date on which all contracts and licences pursuant to which the gas to be delivered under the Kazakh Gas Supply Contract terminate.

The nature of the Company's natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Tajikistan

Effective January 1, 2009, KPL entered into the Tajik Gas Supply Contract with OJSC Kulyabgaz to supply gas to the town of Kulob in Southern Tajikistan. The price under the contract is fixed for the period of the contract at 300 Somoni (approximately $86) per Mcm ($2.44 per Mcf) and the initial contract was to supply up to 65 Mcm (2.3 MMcf) of gas per day. The Tajik Gas Supply Contract was not a take-or-pay contract and KPL had no obligation to deliver any amount of gas to OJSC Kulyabgaz thereunder. Delivery of gas under the Tajik Gas Supply Contract was suspended in March 2009 when production from the one producing well in the Khoja Sartez field was halted pending well rehabilitation. The Tajik Gas Supply Contract terminated on December 31, 2009.

On March 17, 2010, Tethys announced that an oil sales contract has been signed for the sale of crude oil from its Beshtentak oilfield in the Baljuvon region. The price realised under this contract is over 60% of international prices for Brent crude with the untreated crude being collected by the buyer at the field.

The nature of the Company's natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Uzbekistan

The Company sells to independent marketing agents but has no obligation to sell them the products and therefore there are no forward contracts in place.

Abandonment and Reclamation Costs

The Company estimates well abandonment and reclamation costs area by area by taking into consideration the costs associated with remediation, decommissioning, abandonment and reclamation, as well as salvage values of existing equipment. These costs are adjusted to reflect working interests held and are time discounted in accordance with NI 51-101.

Kazakhstan

The Company may become responsible for costs associated with abandoning and reclaiming wells, processing facilities and pipelines which it may use for production of hydrocarbons. Abandonment and reclamation of such facilities and the costs associated therewith is often referred to as "decommissioning". The Company pays money into an abandonment fund and the costs of decommissioning are expected to be paid from these proceeds. Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The Company plans to make contributions of 1% of its total annual investments into a liquidation fund.

The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment and site restoration on oil and gas properties. The Company has estimated the costs to be $5,000 per well. An accretion cost is added each year in respect of asset retirement obligations.

Accretion expense is calculated by multiplying the balance of the recorded liability by the Company's credit-adjusted discount rate each year, and is simply the amortization of the present value discount associated with the asset retirement obligation's initial recording.

The Company's estimate of abandonment and reclamation costs, net of estimated salvage value, for surface leases, wells, facilities and pipelines, undiscounted and discounted at 11%, are $587,150 and $164,374, respectively. In the next three years, no abandonment and reclamation costs are expected to be incurred.

<u>Tajikistan</u>

As of December 31, 2009, the Company had approximately 8 net wells for which abandonment and reclamation costs are expected to be incurred in respect of the Tajikistan Contract Area. The Company's estimate of abandonment and reclamation costs, net of estimated salvage value, for surface leases, wells, facilities and pipelines, undiscounted and discounted at 11%, are $53,240 and $41,425, respectively. All of these wells will be remediated by December 31, 2012.

The Company will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the properties held by it upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow from operations of the Company.

Under the Bokhtar PSC, any development plan in Tajikistan must also include an abandonment and site restoration program together with a funding procedure for such program. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account by KPL which shall be held in the joint names of the State and KPL or their respective nominees, or its designee. KPL's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the development area shall be limited to the obligation to place the necessary funds in the approved account. In addition any areas relinquished areas must be brought into the same condition as they were prior to their transfer to KPL (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable.

<u>Uzbekistan</u>

Pursuant to the North Urtabulak PEC, in the event that BHCL advises the Operating Committee that it no longer intends to perform any Operating Services on a Contractor Well, BHCL is required to plug and abandon such well at its own expense. If BHCL does not comply with such provisions, Uzgeoneftegazdobycha is required to immediately assume responsibility for such well.

In the 10 year history of the project, BHCL has never been required to plug and abandon a well. In every instance where a well was deemed by BHCL to be unsuitable for further production enhancement operations, the well was simply returned to Uzbekneftegaz as per the terms of the PEC. As such, no abandonment costs have been incurred.

Tax Horizon

<u>Kazakhstan</u>

The tax system applied to the Company's operations in Kazakhstan is based on a combination of MET, corporate income tax and excess profit tax.

Capital equipment and wells are depreciated at various rates, and corporate income tax is applied at the rate of 20% on the taxable income and is expected to be reduced 17.5% starting from January 1, 2013 till January 1, 2014.

In 2009, the excess profit tax was calculated using as the tax base the part of net income of the subsoil user in excess of 25% of the subsoil user's deductions. Tax rates are established on a sliding scale ranging from 0% to 60%.

The MET, which the Company is subject to, ranges from 0.5% to 1.5% of the value of produced volumes of natural gas being sold to domestic market, and at a rate of 10% of the value of produced gas volumes being sold for export currently on Kyzyloi domestic sales the MET rate is 0.5%.

Tajikistan

Under the Bokhtar PSC, the Tajik State's share of petroleum production includes all taxes, levies and duties which would otherwise be payable. (See "*Description of the Business – Tajikistan - Bokhtar PSC – Exploration and Appraisal Potential*" for a description of the revenue sharing provisions of the Bokhtar PSC). Accordingly, the Company does not expect that additional corporate income tax will become due on any net revenue earned in Tajikistan under the Bokhtar PSC.

Uzbekistan

In Uzbekistan, BHCL operates in accordance with the Decree of the Cabinet of Ministers of Uzbekistan #322 of July 2, 1999 (the "**Decree**") and North Urtabulak PEC. The tax system which applies to the Company's operations in Uzbekistan is based on the Decree.

To permit BHCL to carry forward losses of the current period to the future period for the purposes of their deduction from the taxable base, it was established that:

- the income of BHCL on this project to be received from sale of its own part of liquid hydrocarbons, shall be subject only to a profit tax at the rate 16% and BHCL has no other obligation in Uzbekistan on taxes and payments, including customs duties to the imported equipment;
- the foreign subcontractors of BHCL, engaged implementation of the project, shall be exempted from all taxes, duties, fees and other mandatory payments, levied on the territory of the Uzbekistan;
- on payment of profit tax by BHCL to deduct from the taxable base the amount of all expenses related to its activity under the project, including the amount of payment of interest on loans of banks and other organizations; and
- Uzgeoneftegazdobycha and Uzneftepererabotka shall pay all taxes and deductions to the centralized and local budgets of the Uzbekistan from the whole volume of enhanced production, except profit tax on the part of liquid hydrocarbons is being paid by BHCL.

Under the North Urtabulak PEC, BHCL receives 50% of the oil and its partner takes the remaining 50%. A 16% profit tax is due once all BHCL accumulated costs are recovered.

Costs Incurred

The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2009:

	Year December 31, 2009[1] (M$)			
	Kazakhstan	**Tajikistan**	**Uzbekistan**	**Total**
Property Acquisition Costs				
Proved Properties	0	0	0	0
Unproved Properties	0	0	0	0
Exploration Costs	5,753	16,942	3,709	26,404
Development Costs	2.800	0	0	2,800
Total[1]	8,553	16,942	3,709	29,204

Note:
(1) Does not include the costs incurred in respect of the acquisition of the drilling rigs and ancillary equipment.

Exploration and Development Activities

The following table summarizes the gross and net exploration and development wells in which the Company participated during the year ended December 31, 2009 in Kazakhstan, Tajikistan and Uzbekistan.

Year Ended December 31, 2009

	Kazakhstan		**Tajikistan**		**Uzbekistan**	
Exploration Wells	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Natural Gas	0	0	0	0	0	0
Oil	1	1	1	1	0	0
Service	0	0	0	0	0	0
Dry Holes	0	0	0	0	0	0
Total Exploration Wells	**1**	**1**	**1**	**1**	**0**	**0**
Development Wells						
Natural Gas	0	0	3	3	0	0
Oil	0	0	1	1	3	3
Service	0	0	0	0	0	0
Dry Holes	0	0	0	0	0	0
Total Development Wells	**0**	**0**	**4**	**4**	**3**	**3**

In Kazakhstan, there were no new development wells drilled during that period and they are therefore not included in the above table. See "*Description of the Business*" for a discussion of the Company's development and exploration plans.

In Tajikistan, since the signing of the Bokhtar PSC and up to December 31, 2009, a further five wells were re-entered for development, namely numbers 180, 183 and 007 in Komsomolsk and BST20 in Beshtentak and KJZ22 in Khoja Sartez. Well number BST 20 in Beshtentak is currently being used for oil production while the Khoja Sartez well was suspended in March 2009 and the Komsomolsk gas wells were either suspended or unsuccessful. KOM200 was spudded in August 2009 in order to access evaluated gas reserves in Komsomolsk. This is due to be completed in 2010.

In Uzbekistan, a total of three development wells were attempted during the period since Tethys' involvement on April 9, 2009 up to December 31, 2009, two sidetracks and the new well NU116.

Production Estimates

The following discloses the estimated production of Tethys in 2010 by product type associated with the future net revenue estimates reported in the McDaniel Reserve Report and the TRACS Reserve and Resource Report update.

	Natural Gas (Bcf)	**Crude Oil (Mbbl)**
Kazakhstan		
Gross Proved	6.28	-
Gross Proved plus Probable	6.39	-
Tajikistan[1]		
Gross Proved	0.12	6.0
Gross Proved plus Probable	0.70	32.6

The following table sets forth the volume of production estimated in the McDaniel Reserve Report for the Kyzyloi and Akkulka Fields and estimated in the TRACS Reserve and Resource Report for the Komsomolsk and Beshtentak Fields, being fields that account for 100% of the estimated production disclosed under the above table, for the year ending December 31, 2010:

Reserves Category	**Natural Gas (Bcf)**	**Light and Medium Crude Oil (Mbbl)**
Kyzyloi, Kazakhstan		
Gross Proved	4.32	-
Gross Proved plus Probable	4.35	-
Akkulka, Kazakhstan		
Gross Proved	1.97	-
Gross Proved plus Probable	2.04	-
Komsomolsk, Tajikistan		
Gross Proved	0.00	0.00
Gross Proved plus Probable	0.53	0.60
Beshtentak, Tajikistan		
Gross Proved	0.51	0.00
Gross Proved plus Probable	0.72	5.50

Production History

<u>Kazakhstan</u>

The following table shows the Company's average daily sales production volume, before deduction of royalties, payable to others by major producing region for each of the last four fiscal quarters and the year ended December 31, 2009.

2009[1]	**Natural Gas**
Daily Production Volume (Gross Mcfpd)[2]	
▪ Year Ended December 31, 2009	15,809
▪ Quarter ended March 31, 2009	20,185
▪ Quarter ended June 30, 2009	14,143
▪ Quarter ended September 30, 2009	14,739
▪ Quarter ended December 31, 2009	18,302
Prices Received ($/Mcf)	$0.90
Royalties Paid ($/Mcf)	$0
Production Costs ($/Mcf)	$0.26
Resulting Netback ($/Mcf)	$0.64

Note:
(1) Kyzyloi was the only producing field in Kazakhstan in 2009.
(2) The annual average value represents 263 days of production from March 6, 2009 to November 22, 2009. Production from the Kyzyloi field was suspended from November 28, 2008 to March 5, 2009 and again from November 22, 2009 to present, partly as a result of maintenance work on the Bukhara-Urals trunkline and preventative health and safety issues related to the installation of additional compression at the BCS for Phase 2. Therefore note that for the March and December quarters the average daily production is based on the number of operational days in that quarter.

Tajikistan

2009(1)(2)	**Natural Gas**	**Light and Medium Crude Oil**
Daily Production Volume (Gross Mcfpd for gas or gross bopd for oil)		
▪ Year Ended December 31, 2009	235(1)(2)	0
▪ Quarter ended March 31, 2009	235	0
▪ Quarter ended June 30, 2009	0	0
▪ Quarter ended September 30, 2009	0	0
▪ Quarter ended December 31, 2009	0	0
Prices Received ($/Mcf)	$2.44	0
Royalties Paid ($/Mcf)	0	0
Production Costs ($/Mcf)	$0.15	0
Resulting Netback ($/Mcf)	$2.29	0

Note:
(1) Khoja Sartez was the only field in production in Tajikistan in 2009.
(2) The annual average value is based on 72 production days in the March Quarter only.

Uzbekistan

2009(1)(2)(3)	**Natural Gas**	**Light and Medium Crude**
Daily Production Volume (Gross Mcfpd for gas or gross bopd for oil)		
▪ Year Ended December 31, 2009	0	1,771(1)
▪ Quarter ended March 31, 2009	0	1,668(2)
▪ Quarter ended June 30, 2009	0	1,795
▪ Quarter ended September 30, 2009	0	1,927
▪ Quarter ended December 31, 2009	0	1,691
Prices Received ($/bbl)	0	$29.00(4)
Royalties Paid ($/bbl)	0	$0
Production Costs ($/bbl)	0	$3.59
Resulting Netback ($/bbl)	0	$25.41

Notes:
(1) North Urtabulak was the only field in production in Uzbekistan in 2009.
(2) This includes the whole year, including the period up to April 8, 2009, when the field was under previous ownership.
(3) Production for the quarter ended March 31, 2009 was carried out under previous ownership.
(4) This figure is derived from sales from April 2009, when BHCL was acquired by Tethys, up to October 2009, which was the last sale in 2009 at this time.

Tajikistan Resources Information

Overview

The Company engaged TRACS to evaluate the contingent and prospective resources of the Company attributable to the Tajikistan Contract Area. In connection therewith, the TRACS Reserve and Resource Report provides the Company with an independent evaluation of the contingent and prospective resources of the Company. Certain terms used herein have the meanings attributed to such terms in the Canadian Oil and Gas Evaluation ("COGE") Handbook, which is referenced by the Canadian Securities Administrators in NI 51-101.

Estimates of resources always involve uncertainty, and the degree of uncertainty can vary widely between accumulations and projects and over the life of a project. Consequently, estimates of resources should generally be quoted as a range according to the level of confidence associated with the estimates. The range of uncertainty of estimated recoverable volumes may be represented by either deterministic scenarios or by a probability distribution. Resources should be provided as low, best and high estimates as follows:

- **Low Estimate:** This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P_{90}) that the quantities actually recovered will equal or exceed the low estimate.

- **Best Estimate:** This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P_{50}) that the quantities actually recovered will equal or exceed the best estimate.

- **High Estimate:** This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P_{10}) that the quantities actually recovered will equal or exceed the high estimate.

Contingent Resources

A summary of the contingent crude oil, condensate and natural gas resources for each of the Komsomolsk, Beshtentak and Khoja Sartez fields within the Tajikistan Contract Area is set forth below.

	Contingent Resources as at December 31, 2009(1)(2)(3)					
	Gross			**Net**		
	Low Estimate	**Best Estimate**	**High Estimate**	**Low Estimate**	**Best Estimate**	**High Estimate**
Komsomolsk Field						
Gas Condensate Resources, Mbbl	7.9	51.2	186.0	2.8	18.3	66.4
Natural Gas Resources, Bcf	2.7	17.3	62.8	1	6.2	22.4
BOE Resources, Mbbl	454.2	2,928.7	10,647.0	162.2	1,045.6	3,801.0
Beshtentak Field						
Crude Oil Resources, Mbbl	110.0	610.0	4,350.0	39.3	217.8	1553
Natural Gas Resources, Bcf	0.0	4.5	5.3	0.0	1.6	1.9
BOE Resources, Mbbl	110.0	1,363.0	5,232.6	39.3	486.0	1,868.0
Khoja Sartez Field						
Natural Gas Resources, Bcf	2.1	2.3	2.4	0.7	0.8	0.9
BOE Resources, Mbbl	349.7	383.0	399.7	124.8	133.8	142.7
Total Company – Bokhtar PSC						
Crude Oil Resources, Mbbl	110.0	610.0	4,350.0	39.3	217.8	1553
Gas Condensate Resources, Mbbl	7.9	51.2	186.0	2.8	18.3	66.4
Natural Gas Resources, Bcf	4.8	24.1	70.5	1.71	8.6	25.2
BOE Resources, Mbbl	913.9	4,666.7	16,279.3	326.3	1,665.8	5,811.7

Notes:

(1) Based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own estimated probability of geological success.

(3) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources. The resource range presented above is "unrisked" meaning that it is valid in the event of successfully finding hydrocarbons in each and every prospect. In this case, the possible range of recoverable resources would likely lie in the range between the low estimate and the high estimate. Net entitlement has been calculated based on Bokhtar PSC definition of the Profit Oil split: 30% is taken by the Government and 70% belongs to the operator. 51% of 70 % is Tethys net entitlement i.e. 35.7%.

There is no certainty that it will be commercially viable to produce any portion of the contingent resources from any of the Khoja Sartez, Komsomolsk or Beshtentak fields. In respect of the Komsomolsk and Beshtentak resources, the main contingency is based upon the distribution of the hydrocarbons within the structures, which will only be defined by new workover or drilling activity, although the size of the hydrocarbons for both structures is well defined. In respect of the Khoja Sartez resources, the contingency is due to commerciality as it has not been demonstrated to date that sufficient volumes of gas can be produced from a single well in order to pass the economic limits that define reserves.

There are numerous uncertainties inherent in estimated resources, including many factors beyond the Company's control, and no assurance can be given that the indicated level of resources or recovery of natural gas and crude oil will be realized. In general, estimates of recoverable natural gas and crude oil resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effect of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable natural gas and crude oil, the classification of such resources based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially.

Prospective Resources

A summary of the prospective crude oil and natural gas resources for each of the Komsomolsk and Beshtentak fields and within the Tajikistan Contract Area is presented below:

Prospective Resources as at December 31, 2009(1)(2)(3)(4)

	Gross			**Net**		
	Low Estimate	**Best Estimate**	**High Estimate**	**Low Estimate**	**Best Estimate**	**High Estimate**
Prospects						
Komsomolsk Field						
Gas Condensate Resources, Mbbl	131.3	170.7	262.2	46.9	60.9	93.6
Natural Gas Resources, Bcf	44.4	57.7	88.6	15.8	20.6	31.6
BOE Resources, Mbbl	7,518.4	9,774.2	15,014.7	2,684.1	3,489.4	5,360.2
Beshtentak Field						
Crude Oil Resources, Mbbl	6.6	11.7	17.7	2.4	4.2	6.3
Natural Gas Resources, Bcf	9.1	16.1	27.7	3.2	5.7	9.9
BOE Resources, Mbbl	1515.4	2681.1	4612.7	541.0	957.1	1646.7
Total Prospects MMBOE	**9.0**	**12.5**	**19.6**	**3.2**	**4.4**	**7.0**
Leads						
Lead Resources MMboe	-	1,132.0	-	-	404.0	-

Total Bokhtar PSC Leads and Prospects MMboe	**-**	**1,144.5**	**-**	**-**	**408.4**	**-**

Notes:

(1) Based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own estimated probability of geological success.

(3) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources.

(4) Net entitlement has been calculated based on Bokhtar PSC definition of the Profit Oil split: 30% is taken by the Government and 70% belongs to the operator. 51% of 70 % is Tethys net entitlement i.e. 35.7%.

There is no certainty that any portion of the prospective resources identified in the TRACS Reserve and Resource Report will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

There are numerous uncertainties inherent in estimated resources, including many factors beyond the Company's control, and no assurance can be given that the indicated level of resources or recovery of natural gas and crude oil will be realized. In general, estimates of recoverable natural gas and crude oil resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effect of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable natural gas and crude oil, the classification of such resources based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially.

RISK FACTORS

An investment in Ordinary Shares is speculative and involves a high degree of risk that should be considered by potential investors. An investor should carefully consider the following risk factors in addition to the other information contained in this Annual Information Form before purchasing Ordinary Shares. The risks and uncertainties below are not the only ones the Company is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. In addition, there are additional risks and uncertainties of which the Company is not presently aware or that the Company currently considers immaterial but which may also impair the Company's business operations and cause the price of the Ordinary Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly. In that event, the trading price of the Ordinary Shares could decline, and an investor may lose all or part of his or her investment. Please also see the Company's Management Discussion and Analysis for the year ended December 31, 2009 filed on SEDAR at www.sedar.com for a discussion of risks relevant to the Company's financial performance.

Risks Related to the Company and its Business

Property Interests and Governmental Approvals

The Company's subsidiaries obtain their exploration and/or production rights in Kazakhstan, Uzbekistan and Tajikistan through entering into various contracts with governmental agencies in such countries (the "**Contracts**"). Ownership of the land covered by the Contracts usually remains with the relevant state and/or state owned companies, with the Company only obtaining land use rights as necessary for the operations. The Company's subsidiaries are required to obtain other specific operational licences for example, to carry out their exploration and/or production activities. Some of these licences, permits and authorisations may be held by third party service providers, such as drilling companies. There is no assurance that all licences, permits or authorisations have been or will be granted to the Group and there is no assurance that the Group has all the requisite licences, permits or authorisation to carry out their exploration and/or production activities. There is also no assurance whether the Group has complied with all of the environmental, safety, health and sanitary regulations. In this respect, no experts or advisers have been engaged to conduct any audit or technical review of the operations of the Group, including any audit to determine if the Group has the required licences, permits or authorisations necessary to conduct operations.

Further, in Uzbekistan, the North Urtabulak PEC grants the exploration and/or production rights in North Urtabulak Oil Field subject to BHCL obtaining all operational permits and licences which BHCL and its subcontractors require under the laws of Uzbekistan. Under the North Urtabulak PEC, the joint stock company Uzneftegazdobycha is only required to assist BHCL in obtaining such permits and licences and to allow BHCL to use all its land use rights relating to the North Urtabulak Oil Field. There is no assurance that Uzneftegazdobycha will provide such assistance, or even if it does, that the authorities will grant such licences and/or permits failing which there is a risk that BHCL may not obtain the requisite operational licences and/or permits for its exploration and/or production activities and/or will be able to comply with all applicable laws and regulations in Uzbekistan, which may result in a material adverse effect in the Group's operations and performance in Uzbekistan. According to the Group, all operational licences, permits and other authorisations required for operations under the North Urtabulak PEC are currently held by Uzneftegazdobycha, and they have not been assigned to the Group. However as Uzneftegazdobycha is a state-owned company, it is not possible to independently verify whether it has all of the required licences, permits or authorisations. Failure of the Group to obtain its operational licences, permits or authorisation may affect its rights under the Contracts which in turn may result in a material adverse effect on the Group's operations.

The Contracts to which the Group are parties and, if applicable, pursuant to which subsurface use right licences are granted, are subject to certain conditions, including minimum expenditure and work program commitments, reimbursement requirements, obligatory contributions to socio-economic development funds and liquidation funds, requirements for procuring local goods and services, and hiring and training of local personnel. For example, the work program and budget under the North Urtabulak PEC is approved by an operating committee which is jointly run by the contractor, BHCL, and the state-owned company, joint stock company Uzneftegazdobycha. In the event that Uzneftegazdobycha does not grant its consent to the work program and budget under the North Urtabulak PEC, it may materially and adversely affect the Group's business and operations in Uzbekistan. In addition, the Contracts and other permits and licences granted to the Group are subject to periodic renewal and extensions. There is a risk that the Contracts and such permits and licences may not be renewed and/or extended or, in the case of exploration only contracts, new production contracts may not be entered into due to the Group's breach of conditions, or based on other reasons beyond the Group's control. There are also risks that the Contracts and other permits and licences are not renewed and/or extended on a timely basis or may not be based on terms satisfactory to the Company. Any defects in the Group's Contracts, permits and licences to conduct its oil and gas exploration and production activities and failure or delays in renewing and/or extending and obtaining such Contracts, permits and licences could materially and adversely affect the Group's business, operations and prospects.

There are also a number of restrictions on transfers or alienation of rights with respect to the Contracts. In particular, with respect to the Kazakh Contracts, any transfer of the Kazakh Contracts or shares (interests) in the Company holding the Kazakh Contracts requires governmental consent. The ability of the Group to transfer the Kazakh Contracts in the future or use the Kazakh Contracts as a security for future borrowing may be restricted or denied. In addition to consents described above in respect of the Kazakh Contracts, the purchase and sale of oil and gas properties and oil and gas businesses in Kazakhstan (including transfers of interests in companies that can directly or indirectly control such business in Kazakhstan) is subject to, under Article 71 of the Subsurface Law, obtaining the Kazakh government's waiver of its priority right to purchase the alienated oil and gas assets and businesses, if the main activity of such legal entity is related to subsurface use in Kazakhstan. MEMR's consent and the Kazakh State's waiver are required for the transfer of shares/interests in a company, which is a subsurface user, and there are no exceptions for transfers between affiliated companies (i.e. for inter-company transactions). There is a risk that the Kazakh government may be interested in acquiring any interest in any of the Company's subsidiaries in Kazakhstan and restrict any proposed restructuring by the Group.

For example, previous acquisition of the Group's interests in Kul-Bas resulted in a non-material minor technical infringement of article 10 of the limited liability partnership law of Kazakhstan. The law that prohibits a Kazakh limited liability partnership to have another Kazakh partnership as a single participant, which in turn is owned by a single entity. This non-material minor technical infringement has been cured by the restructuring by transfer of the

100% participating interest in Kul-Bas from TAG to TKL (which is the 100% owner of TAG). Kul-Bas has obtained MEMR's consent and therefore Kazakh State's waiver in respect of such restructuring.

Business acquisitions may also be subject to review by the Antimonopoly Agency under Kazakh antimonopoly legislation and may be subject to findings of non-compliance with other regulatory authorities. For example, previous acquisitions of the interests in TAG did not obtain the Antimonopoly Agency's consent. The Company is not in a position to verify such prior transactions compliance with the antimonopoly legislation, if required. The failure to obtain the Antimonopoly Agency's consent may be subject to an administrative fine, which is most likely to arise in the event that there is any subsequent sale that requires Antimonopoly Agency's consent. In addition, income received as a result of anti-competition agreements between the companies, or as a result of abuse by a company of its monopoly or dominant position may be confiscated. Under the 2006 Antimonopoly Law (which was effective when TKL acquired the remaining 30% interest in TAG in 2007), the requirement to obtain the Antimonopoly Agency's consent did not apply as the antimonopoly statutory threshold at that time was 25%. Therefore, since TKL already owned a 70% participating interest in TAG before the acquisition of the remaining 30% interest, the Antimonopoly Agency's consent was not required.

Failure to obtain the Antimonopoly Agency's approval does not make the transaction invalid, although Kazakhstan's antimonopoly legislation gives the Antimonopoly Agency authority to intervene in cases of activities considered to be monopolistic dominant or leading towards anti-competition. Actions to be taken by the Antimonopoly Agency include the right to file a claim in a court to invalidate prior acquisitions if the transactions violated the antimonopoly legislation. In addition, income received as a result of anti-competition agreements between companies, or as a result of abuse by a company of its monopoly or dominant position may be confiscated. Prior and future acquisitions and divestitures by the Company may be subject to review and possible invalidation by a court if considered to be contrary to antimonopoly legislation, if such transaction occurs without the required Antimonopoly Agency's consent. The previous transactions may be invalidated by a court only if the acquisitions create a monopoly or a dominant position of the Group in the market or leads to the restriction of competition (which consequences must be proved by the Antimonopoly Agency). Under the 2001 Antimonopoly Law and the 2006 Antimonopoly Law (which were in effect at that time), if a company holds less than 35% of the shares in the relevant market, such company cannot be considered having a monopoly or dominant position. The Company does not believe that the Group's previous acquisitions of interests in TAG created any monopoly or dominant position in the market since the Group holds in Kazakhstan only three relatively small oil and gas deposits, two of which are exploration areas, however, a risk still exists.

The Kazakh State's waiver is required for any transfer of an interest in a company that has the right to directly or indirectly control an entity that has subsurface rights in Kazakhstan. The only exception is a transfer of an interest in a company whose main activity is not related to subsurface use in Kazakhstan. Article 71 of the Subsurface Law does not contain any criteria on how to determine whether the main activity of a legal entity is related to subsurface use in Kazakhstan. As such, the determination of whether the main activity of a legal entity is related to subsurface use in the Kazakhstan is determined, currently, at the sole discretion of the MEMR (and perhaps other government authorities to which it consults). The offering of securities in the Company was at least initially interpreted by the MEMR as subject to the waiver of the Kazakh government's priority right relating to transfers of interest in the beneficial ownership of subsurface use contracts. Despite correspondence between the Company and MEMR, for approximately nine months MEMR has not responded to the correspondence wherein the Company sets out justification for its determination that the Company's main activity is not associated with subsurface use in Kazakhstan. Therefore, it is not clear whether MEMR has agreed to the Company's interpretation. As such offerings by the Company may be subject to delays to the extent that an application to the applicable government authority is required to ensure compliance with the Kazakh government's priority right. If the Kazakh State were to decide that the Group's main activities were in Kazakhstan as of the date of the transfer, and if the Group failed to obtain the Kazakh State's waiver, the transaction would not be considered invalid, but would give the Kazakh State the right to unilaterally terminate the Kazakh Contracts. If the Kazakh Contracts were unilaterally terminated by the Kazakh State, the Group would lose its subsurface use rights to the Akkulka Block, Kul-Bas Block, and/or the Kyzyloi Field and corresponding revenues from such contracts. This issue would likely be resolved by the Courts (or arbitration panel) based upon a factual determination of the Company's interests in Kazakhstan compared to its business in other jurisdictions, but taking into consideration that the State has discretion in making such a determination given that there are no rules, instructions or precedent to interpret Article 71. The Company is not aware of any instances to date, when the State has exercised its waiver of its priority right to purchase, nor is it aware of any instances when the State has terminated a subsurface use contract when a transfer occurred without the State's waiver.

Competition

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. The Company's competitive position depends on its geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. The Company competes with a substantial number of other companies having larger technical staff and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil and gas reserves, but also carry on refining operations and market refined products. The Company also competes with major and independent oil and gas companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. The Company also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil and gas. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil and gas may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for Tethys.

Substitute Energy Sources

As with any other product, the Company's production of oil and gas is subject to substitution. Alternative energy sources such as renewable electricity (for example, wind power or hydroelectric power), nuclear power, liquefied natural gas, biofuel or biomass and other alternative forms of energy for usage in transport, heating and power generation all represent competing sources of energy to the Company's products. If the prices of these forms of energy fall and/or the prices of the Company's products rise dramatically, then the Company's products will face substitution as economic agents look for cheaper forms of energy. The Company currently produces low-cost forms of energy (i.e. onshore oil and gas). There is no guarantee that the Company's products will remain competitive in the future marketplace due to changes in technology, governmental regulations, economic and taxation or other as yet unforeseen scenarios. Further, the continuous call from the international community for a reduction in the use of fossil fuels may have an impact upon oil and gas companies of all sizes operating world-wide in being required to reduce production or output or lacking market for their product. The demand for alternative sources of energy, especially renewables, could affect the Company's production of oil or gas or sale of its products, which may in turn materially adversely affect the business, results of operation and prospects of the Company.

Marketability of Production

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Commodity Price Fluctuations

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. A substantial material decline in prices from historical average prices could reduce the Company's ability to borrow funds. As such, fluctuations in oil and gas prices could materially and adversely affect the Company's business, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for gas prices in the region is good, the recent fall in both prices and demand caused by the recent economic slowdown in Europe and the FSU and in particular the gas dispute between GazProm and Ukraine has lead to significant uncertainties as to the price of and demand for Central Asian gas which may continue to have an impact on the pricing and demand for Kazakh gas in the short term.

The impact on demand for oil and gas of the economic downturn is not uniform. For example, demand has risen in China but fallen in the U.S. Also, there needs to be consideration of production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and as such there are many differing opinions on the cause of recent price changes.

This impact on the Company's operations was only evident in the operations in Uzbekistan. The gas production in Kazakhstan is sold at a fixed price, and so the fluctuation in world commodity prices had no effect on the Company's monthly revenue from the Kazakh operations. In Uzbekistan, the Company sells refined petroleum products on a monthly basis, and the fall in the oil price in the first and second quarters of 2009 reduced monthly revenue. However, the oil price has now stabilised in the region \$60 – \$80/bbl, and as a consequence, the Company's monthly revenue from its Uzbek operations rose over the period in the third quarter of 2009 as compared to earlier in the year. All of this is export priced as it is not sold within Uzbekistan.

The Bukhara-Urals trunkline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian and Kazakh economies, it is anticipated that there would be significant efforts to minimize any disruption in supply.

However, there are external factors that may affect this. For example, in December 2008 to January 2009 a dispute between the Russian gas company GazProm and Ukraine, resulted in a temporary closure of the Russian gas export system to Europe which, although not directly related, did have a significant knock-on effect of the whole export system, including gas flowing through the Central Asian gas trunkline network. The Group's operations were not affected during this period, as the Bukhara-Urals pipeline was shut down for essential maintenance between November 2008 and March 2009 and has been effectively closed since but is expected to be opened soon.

Nature of the Oil and Gas Business

An investment in the Company should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in Central Asia. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand the Company's asset base of oil and natural gas reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to replenish the Company's reserves, the Company's future exploration, development and acquisition activities will result in additional proved reserves or that the Company will be able to drill productive wells at acceptable costs.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Gas Pipeline

The Company is economically dependent on the pipeline from the Kyzyloi Field to the BCS and the onward Bukhara-Urals trunkline in that should anything adverse happen to these pipelines then the sales revenue would cease. Although the trunkline is owned by Intergas Central Asia, currently a Kazakh State company, and no problems are currently envisaged with respect to exporting the Company's gas through this system, it may be that in the future the trunkline owners refuse to take the Company's gas, impose excessively high transportation charges, or that the trunkline capacity may be reached. The trunkline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently as any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian economy, it is anticipated that there would be significant efforts to minimize any break in supply. However external factors may effect this. For example in December 2008 – January 2009 a dispute between the Russian gas company RAO GazProm and Ukraine resulted in a temporary closure of the Russian gas export system to Europe which, although not directly affected, did have a significant knock-on effect of the whole export system, including gas flowing through the Central Asian gas trunkline network. The Company's operations were not affected as during this period, as the Bukhara-Urals pipeline was shut down for essential maintenance between November 2008 and March 2009. The Company decided to use this time to carry out maintenance on its own compressors at the BCS and to begin installation of compressors for the Kzyzloi/Akkulka Phase 2 Development following the arrival on site of both the compressors and the installation engineers. However, due to extreme weather and safety concerns, this process took longer to complete than was anticipated with the result that there was no production and consequently no revenue generated in December 2008. This unplanned shutdown resulted in an interruption in payments from the Company's then natural gas buyer, PCK. Natural gas production did not recommence until March 2009 after the major work on the Kyzyloi/Akkulka Phase 2 Development equipment installation was completed. Notwithstanding the above, given that the cause of the interruption of gas supply was temporary shut-down of the Bukhara-Urals trunkline for maintenance thereon and was not the result of any action by the Company, there was no legal implication for the Company and the Company was not required to pay any compensation to PCK due to the interruption of gas supply pursuant to the terms of the Kazakh Gas Supply Contract. Unanticipated disruption on the operation of the pipeline from the Kyzyloi Field to the BCS and the onward Bukhara-Urals trunkline could materially and adversely affect the Group's business and results of operations.

Management Services Provided by Vazon and Dependence on Key Personnel

The services of the Company's Chairman, President and Chief Executive Officer, the Chief Financial Officer, the Executive Vice President and Company Secretary, the Chief Operating Officer and Vice President Technical, the Vice President Commercial and Head of Kazakhstan business unit, and the Vice President Finance are provided under the terms of two management services agreements with a corporate entity, Vazon. As a result, these executive officers of the Company, although officers of the Company, are not employed directly by the Company but rather by Vazon. Vazon is a corporation wholly owned by Dr. David Robson, the Company's Chairman, President and Chief Executive Officer. Either management services agreement may be terminated on up to six months' notice by Vazon or the Company. Should Vazon (acting through Dr. Robson) determine to terminate either or both management services agreements, the Company would be required to enter into an employment or other relationship directly with these executive officers or, failing which, would be required to retain the services of alternate executive officers. There is no certainty that the Company would be able to attract and retain suitable candidates should either of the management services agreements be terminated and the executive officers choose not to be employed or retained by the Company. Any such termination may materially and adversely affect the Company. Moreover, the Company is dependent on its eleven executive officers to manage its affairs and operations. The departure of any one executive officer may negatively impact on certain of the Company's operations until a suitable replacement candidate is appointed.

The Company does not carry key man insurance on any of its executives as at the date hereof. The role of Dr. Robson is clearly instrumental and critical to the Group and its continual growth and success. The loss of Dr. Robson would likely have a significant impact upon the Group until a suitable replacement could be found. The expertise and knowledge of Dr. Robson is an extremely valuable asset to the Group and not one that is easily found in a potential successor or replacement. In the event that the Company is unable to attract, retain and train key personnel, the Group's business, operations and prospects could be materially and adversely affected.

Hedging Activities

The Company's subsidiary, TAG, has entered into the Kazakh Gas Supply Contract and from time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similar risks will apply to any hedging agreements the Company may enter into to set exchange rates or fix interest rates on its debt.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards and lead to increased borrowing costs, reducing the Company's income. Alternatively the Company may seek further funding through issue of equity but particularly in the current market conditions, there can be no assurances that management would be successful with such initiatives. Depending on future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favourable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities that would otherwise be beneficial to the Company and its shareholders.

International Operations

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Company's international operations. The Company is subject to risks related to its operations in or interests relating to Kazakhstan, Tajikistan and Uzbekistan, including those related to the exploration, development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. The Company's operations may also be adversely affected by applicable laws and policies of Kazakhstan, Tajikistan, Uzbekistan or other countries in which it operates in the future, the effect of which could have a negative impact on the Company.

In particular, Uzbekistan and Tajikistan border Afghanistan. Afghanistan is currently in a situation of instability. Such stability and security issues may have an adverse effect on the ability of the Group to gain access to equipment and personnel. In addition, any particular domestic or international incidents in the region may have an adverse effect on the sentiment of the market towards energy companies that operate in Central Asia, as well as an adverse effect on the willingness of lenders and new investors to provide financing to the Group. Currently, the Group is not subject to any foreign investment restrictions is Kazakhstan, Tajikistan and Uzbekistan.

The government of the Russian Federation and Russian oil and gas companies may exert a significant degree of influence in the region. Russian regulations and policies may have a significant impact on the market prices of natural gas in the Group's markets. Actions taken by Russian authorities and companies may also have an impact on the Group's ability to provide its products to market although this is mitigated by the Group's oil product exports to other markets and the planned natural gas pipelines from Central Asia to the People's Republic of China ("**PRC**"). Actions taken by the Russian government and competitors in Russia may be unpredictable and would be out of the Group's control. There is no guarantee that actions taken by Russian and other foreign entities will not have a material adverse effect on the Group's prospects and the trading price of the Ordinary Shares.

Foreign Currency and Fiscal Matters

While the Company's expenditures are to a significant extent paid and its income earned in foreign currencies, its results of operations are reported in U.S. Dollars. As a result, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates to the extent U.S. Dollar revenues do not equal U.S. Dollar expenditures. A material change in the value of any such foreign currency could result in a material effect on the cash flow and revenues.

Expenses incurred in Kazakhstan and revenues generated in Kazakhstan are in part in Tenge, expenses incurred in Tajikistan and revenues generated in Tajikistan are in part in Somoni (as was the case for amounts payable to Kulob Petroleum Limited under the Tajik Gas Supply Contract), certain compensation expenses and expenses incurred in respect of executive offices are in Pounds Sterling. Certain limited operating expenses relating to the North Urtabulak PEC are paid in Soum, the currency of Uzbekistan. The Tenge, Somoni and Soum are difficult to hedge and the Company is not currently using exchange rate derivatives to manage exchange rate risks. In addition, foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings. Any fluctuation in the exchange rate of the Tenge, Somoni, Soum, Pounds Sterling and Canadian Dollar will impact on the Company's results of operations. In addition, any variation in the rates of inflation in Canada, Kazakhstan, Tajikistan, Uzbekistan or the British Isles relative to the rate of inflation in the United States (in as much as this affects the U.S. Dollar exchange rate) will impact on the Company's results of operations.

There are laws restricting foreign exchange in Uzbekistan. However, they currently have limited impact on BHCL as all sales are settled in accounts located outside of Uzbekistan. However, there can be no assurance that such arrangement will not be prohibited as the relevant laws and requirements may change in the future to prohibit the Group from freely exporting oil and settling sales through overseas accounts despite the fact that BHCL's North Urtabulak PEC specifically states that products should be sold on the export market.

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan, Tajikistan or Uzbekistan to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Kazakhstan, Tajikistan or Uzbekistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be freely exchangeable into U.S. Dollars or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Soum into U.S. Dollars or Pounds Sterling to meet its foreign currency obligations.

Moreover, the Ordinary Shares trade in Canadian Dollars on the TSX and accordingly the variation in exchange rates between the U.S. Dollar and Canadian Dollar will also affect the market price of our shares on the Toronto Stock Exchange.

See "*Currency and Exchange Rates*" elsewhere in this Annual Information Form for historical data on exchange rates of the Tenge, Somoni, Soum and Pounds Sterling relative to the U.S. Dollar.

Political and Regulatory

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. Environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. The Company is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company and TKL are subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

The Company is conducting exploration and development activities in Kazakhstan, Tajikistan and Uzbekistan, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, the Company believes that the governments of Kazakhstan, Tajikistan and Uzbekistan support the exploration and development of their oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Kazakhstan, Tajikistan and/or Uzbekistan will not result in their respective governments adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations. Similar risks apply in other countries in which the Company may operate in the future.

Legal Systems

The Company is governed by the laws of the Cayman Islands and the Company's principal subsidiaries are incorporated under the laws of Guernsey, Jersey, Kazakhstan, Tajikistan, Delaware, Cyprus, England and the Netherlands. The Company through its subsidiaries carries on operations in Kazakhstan and Tajikistan and, through the North Urtabulak PEC, Uzbekistan. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for shareholders of the Company. Shareholders of the Company will not have rights identical to those available to shareholders of a corporation incorporated under the federal laws of Canada. Moreover, in certain circumstances, the Company may require a shareholder to divest itself of its Ordinary Shares if the ownership or holding of such Ordinary Shares would be in breach of laws or a legal requirement of any country or if such shareholder is not qualified to hold the Ordinary Shares and if such ownership or holding would in the reasonable opinion of the Board of Directors cause a pecuniary or tax disadvantage to the Company or any other shareholder.

Exploration and development activities outside Canada may require protracted negotiations with host governments, national oil and gas companies and third parties. Foreign government regulations may favour or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil and gas ministries and national oil and gas companies, to the jurisdiction of the Canada.

Kazakhstan, Tajikistan and Uzbekistan may have less developed legal systems than jurisdictions with more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Production Variances from Reported Reserves

The Company's reserve evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Company. The reserves information set forth in this Annual Information Form represent estimates only. The reserves from the Company's properties have been independently evaluated by McDaniel in the McDaniel Reserve Report. The McDaniel Reserve Report includes a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived there from contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

The Company is subject to risks related to its operations in Kazakhstan, Tajikistan and Uzbekistan, including those related to the development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. The Company may be adversely affected by changes in governmental policies or social instability or other political or economic developments in Kazakhstan, Tajikistan and/or Uzbekistan that are outside the Company's control including among other things, expropriation, risks of war and terrorism, foreign exchange and repatriation restrictions, changing political conditions and monetary fluctuations and changing governmental policies including taxation policies.

"Resource" vs. "Reserves"

Throughout this document, the Company has attempted to provide an appreciation of the potential that the Company's asset base offers. In doing so, the Company uses terms such as "resource(s)". These terms refer to the estimated original resource size of a particular prospect and it should be distinguished from reserves. Reserves are the amount of hydrocarbons that are estimated to be economically recoverable from a particular resource base from a given date forward. Ultimate recoverable reserves can range widely depending on resource characteristics, available technologies and economic and contractual parameters.

The reserves and resources estimates contained or referred to herein are estimates only and are not meant to provide a determination as to the volume or value of hydrocarbons attributable to the Group's properties. There are numerous uncertainties inherent in estimating quantities of resources and reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Group. Reserves and resources estimates always involve uncertainty, and the degree of uncertainty can vary widely between accumulations and projects over the life of a project. Ultimate recoverable reserves can range widely depending on resource characteristics, available technologies and economic and contractual parameters.

Availability of Equipment and Access Restrictions

Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development, and sales activities and could have a material adverse effect on the Company's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition and results of operations. To the extent that the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Operating Hazards and Limited Insurance Coverage

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury and/or death and/or interruption of operations. Due to the nature of its business, the Company has to handle highly inflammable, explosive and toxic materials and other dangerous articles. The Company has implemented safety precautions and measures for the safety operation and maintenance of its operational facilities; however, there can be no assurance that industry-related accidents will not occur during the operation of the Company. Significant operating hazards and in some cases natural disasters may cause partial interruptions to the Company's operations and environmental damage that could have an adverse impact on the financial condition of the Company. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Seasonality and Weather Patterns

The level of activity in the Central Asia oil and gas industry is influenced by seasonal and unexpected weather patterns which may lead to declines in production and exploration activity. Harsh winter conditions may impede access to remote locations and drilling activities and limit the Company's ability to perform maintenance on equipment. Also, certain oil and gas producing areas may be located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Moreover, wet weather and spring thaw may make the ground unstable. Consequently, the movement of rigs and other heavy equipment may be restricted, thereby reducing activity levels. As an example, extreme weather conditions in the Kazakh production area during the construction phase of the pipelines and compressors have and could cause delays, such as extreme cold in winter and excess muddy conditions in spring delaying construction and transport of equipment. The drilling of exploration well AKD01 in Kazakhstan was delayed by such weather conditions. In addition, the Group is susceptible to the risks of unexpected weather changes that may cause delay in its oil and gas exploration and production activities.

Environmental

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reliance on Third Party Operators and Key Personnel

To the extent that the Company is not the operator of its properties, the Company will be dependent upon other guarantors, contractors or third parties' operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel, in particular to certain areas where the oil and gas industry is less developed. The Company's inability to retain and recruit sufficient skilled personnel may cause delays in completing certain exploration and production projects on time or within the budgeted costs. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

Recurring Losses and Going Concern

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities and has an accumulated consolidated deficit of $85.7 million as at December 31, 2009. Since the Group intends to invest in developing its business, further losses and negative cash flows may be incurred. While management of the Company has confidence in the future potential of the Tethys Group, there is no assurance that the Tethys Group will become or remain profitable in the future. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. No assurance can be given that the Group will not experience operating losses in the future. In the event that the Company is unable to generate sufficient revenue and cash flow from its operations, it may need to seek further funding from the equity or debt markets or alternative sources. Particularly in the current market conditions, there would be no guarantee of success.

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Production Delays

There is a possibility of delays in obtaining the necessary governmental approvals to commence or increase production. Any such delays could reduce the Company's revenues and income below those anticipated in the Company's business plan. Unanticipated delays in drilling or production could materially and adversely affect the Group's business, results of operation and prospects.

Disclosure Controls and Procedures; Internal Controls Over Financial Reporting

Disclosure controls and procedures have been designed by the Company's management to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Company's management as appropriate to allow timely decisions regarding disclosure. While the Company's management has concluded that the Company's disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure this cannot be guaranteed and changes may be required to ensure their effectiveness.

The Company's management has designed and implemented a system of internal controls over financial reporting as of December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with both Canadian and U.S. GAAP. While management believe that these controls are effective for a company of its size there can be no guarantee that errors will not occur and additionally as the Company grows there will be increases in the administration burden and expense.

Adoption of International Financial Reporting Statements (IFRS)

The Company has adopted IFRS as its financial reporting standard for periods beginning 1 January 2009. The financial statements for subsequent financial periods will be prepared in accordance with IFRS. The impact of adopting IFRS on the Company's financial reporting has been quantified in the notes to the financial statements of the Company for the year ending 31 December 2009. Major areas that will be impacted when compared to the prior periods' statements prepared in accordance with US GAAP include property, plant and equipment, impairment, classification of warrants and share based compensation.

Conflicts of Interest

Certain of the directors of the Company may have associations with other oil and gas companies or with other industry participants with whom the Company does business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company. However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Company.

Relinquishment of Exploration Rights

The Company is contractually required to relinquish certain exploration rights pursuant to several of the exploration and production contracts to which the Company (or its subsidiaries) is a party. In addition, certain of the Company's exploration rights are expected to expire during the financial year ended December 31, 2009. Collectively, this will have the result of reducing the total area available to be explored by the Company if not offset in some manner. There are mandatory relinquishments under the Kul-Bas Exploration and Production Contract which requires the Company to relinquish 20% of the contract area annually, except for areas in which a discovery is made. As at December 31, 2009, 22% of the total contract area has been relinquished. Although the Company proposes to drill additional wells on the Kul-Bas Block in 2010, it may relinquish additional areas in each year thereafter, until the end of the six year exploration period ending at the end of 2011. The Company has obtained an extension to evaluate discoveries made on the Akkulka Block and entered into the Akkulka Production Contract in 2009. In addition, there are also mandatory relinquishments under the Bokhtar PSC in Tajikistan after seven contract years. Save as aforesaid, the Group is not subject to relinquishment of exploration rights under any of its other contracts. A relinquishment of exploration rights may affect the Group's exploration prospects and its ability to expand production in the relevant Contract Areas. See "*Description of the Business – Kazakhstan - Kul-Bas Block and Kul-Bas Exploration and Production Contract", "Description of the Business – Kazakhstan - Akkulka Block and Akkulka Exploration Licence and Contract", and "Description of the Business – Tajikistan – Bokhtar PSC – Exploration and Appraisal Potential*".

Current Market Conditions

As a result of the recent weakened global economic situation and the consequent downturn in oil, natural gas and other commodity prices, the Group, along with other oil and gas issuers, faces the potential for reduced cash flow and restricted access to capital until these conditions improve. A future prolonged period of adverse market conditions may impede the Company's ability to finance planned capital expenditures and operating expenses. A continued existence of adverse conditions in global commodities markets and credit markets may negatively affect the Company's ability to maintain and grow its reserves and fully exploit its properties for the benefit of the Shareholders.

Potential Declines in Reserves

The Group intends to continue to explore for further reserves in its contract areas and seek to add new reserves to its reserve base. However, the Group cannot assure that its exploration programs will be successful. Except to the extent the Group completes successful exploration and development projects or acquires properties containing proved reserves, or both, the Group's reserves will decline as its natural gas and liquid hydrocarbons are produced and its reserves are depleted. The Group's future production is highly dependent upon the Group's ability to develop its existing reserve base and, in the longer term, finding or acquiring additional reserves. If the Group is unsuccessful in developing its current reserve base and if the Group fails to add new reserves through exploration or acquisitions, its total proved reserves will decline, which would adversely affect the Group's business, financial condition, prospects or the market price of the Shares. In addition, the volume of production from oil and natural gas fields generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. This may cause unit production cost to increase. As production efficiency decreases, the Group's business and results of operations could be adversely affected.

The Group's Leased Properties

All of the Group's offices are located in leased properties. The Company has not obtained relevant building ownership certificates and/or land use right certificates from the respective landlords to prove their titles or rights to these properties as may be required under the relevant laws. It is uncertain what the legal implications are in the absence of such certificates. It is also uncertain whether the absence of the certificates and/or lack of registration will affect the validity or performance of the leases. In the event that the Group is required to cease its occupation and use of the properties as a result thereof, its business or operations at such location may be disrupted although the Group believes any such disruption would not be material.

Risks Related to the Republics of Kazakhstan, Tajikistan and Uzbekistan

Political, Economic, Legal and Fiscal Instability

Kazakhstan, Tajikistan and Uzbekistan are former constituent republics of the Soviet Union. At the time of their respective independence in 1991, each became a member of the CIS. Because Kazakhstan, Tajikistan and Uzbekistan have a relatively short history of political stability as independent nations and have experienced significant change in adapting to a market oriented economy, there is significant potential for social, political, economic, legal and fiscal instability. These risks include, among other things:

- local currency devaluation;
- civil disturbances;
- exchange controls or availability of hard currency and other banking restrictions;
- changes in crude oil and natural gas export and transportation regulations;
- changes with respect to taxes, royalty rates, import and export tariffs, and withholding taxes on distributions to foreign investors;
- changes in legislation applicable to oil and gas exploration, development, acquisition and investment activities;
- restrictions, prohibitions or imposition of additional obligations on investors;
- nationalisation or expropriation of property; and
- interruption or blockage of oil or natural gas exports.

The occurrence of any of these factors could have a material adverse affect on the Company's business, financial condition and results of operations. In addition, adverse economic conditions in Kazakhstan, Tajikistan or Uzbekistan could have a material adverse affect on the Company's business, financial condition and results of operations.

Further, Kazakhstan, Tajikistan and Uzbekistan also depend on neighbouring states to access world markets for a number of their exports, including oil and gas. Kazakhstan, Tajikistan and Uzbekistan are thus dependent upon good relations with their neighbours to ensure their ability to export. Although one of the aims of economic integration within the CIS is to assure continued access to export routes, should access to those routes be materially impaired, this could adversely impact the economies of Kazakhstan, Tajikistan and Uzbekistan.

Tajikistan has, since its independence from the former Soviet Union, suffered a destructive civil war which not only caused significant damage to the infrastructure and industry of the country, but also led to regional and ethnic rivalries. Although the situation has stabilized since 1997, there is still the potential for instability, particularly with respect to these regional rivalries, and the potential for the emergence of radical Islamist groups. Tajikistan is the poorest country in Central Asia, and this poverty may lead to further civil unrest and potential disruption to the Company's business. Tajikistan's proximity to Afghanistan may lead to further instability dependent on the situation in that country. Certain areas of the country are still military exclusion zones, especially towards the Afghanistan border, and in some areas there may be uncleared landmines, a product of both the civil war and the troubles in Afghanistan.

While rich in natural resources, Uzbekistan is a developing country. Uzbekistan's political and economic climate, similar to other developing countries in Central Asia, may lead to potential disruptions to the Group's business.

Although currently stable, Uzbekistan has seen civil disturbance in the past, most notably the disturbances in the eastern part of the country in 2005. However, the government enforces a strict policy of national unity and no significant disturbances have taken place since then.

Like other countries in Central Asia, Kazakhstan, Tajikistan and Uzbekistan could be affected by military action taken in the region, including in Afghanistan, and the effect such military action may have on the world economy and political stability of other countries. In particular, countries in Central Asia, such as Kazakhstan, Tajikistan and Uzbekistan, whose economies and state budgets rely in part on the export of oil, gas and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil, gas and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, instability in other countries, such as Russia, has affected in the past, and may materially affect in the future, economic conditions in Kazakhstan, Tajikistan and Uzbekistan.

The transition of Kazakhstan, Tajikistan and Uzbekistan to market oriented economies marked in the earlier years by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment. Although reforms designed to establish a free market economy have been adopted, there can be no assurance that such reforms will continue or that such reforms will achieve all or any of their intended aims.

Legal and Regulatory Environment in Kazakhstan

Kazakhstan's foreign investment, petroleum, subsoil use, licensing, corporate, tax, customs, currency, banking and antimonopoly laws and legislation are still developing and uncertain. From time to time, including the present, draft laws on these subjects are prepared by government ministries and some have been submitted to Parliament for approval. Legislation in respect of some or all of these areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even the Company's best efforts to comply with applicable law may not always result in compliance. Non-compliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in Kazakh laws and their interpretation and application could have a material adverse affect on the Company's business and results of operations.

The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Kazakh government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Both Kazakhstan and TAG are signatories to the Extractive Industries Transparency Initiative promoted by the UK government. This initiative supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil and gas and which also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. In addition, the government of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Kazakh government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Company's business and prospects.

The Company's exploration and production licences, hydrocarbon contracts and other agreements may be susceptible to revision or cancellation, and legal redress may be uncertain, delayed or unavailable. In addition, it is often difficult to determine from governmental records whether statutory and corporate actions have been properly completed by the parties or applicable regulatory agencies. Ensuring the Company's ongoing rights to licences and its hydrocarbon contracts will require a careful monitoring of performance of the terms of the licences and hydrocarbon contracts, and monitoring their evolution under Kazakh laws and licensing practices.

In March 2010, the Kazakh government announced a restructuring of the MEMR to create the Ministry of Oil & Gas. In addition, a new draft subsoil use law has been proposed for some time. The implications of this restructuring and of the possible new law are not yet clear but may result in delays in obtaining the required approvals from the State as well as changes in the application and operation of the Company's projects in Kazakhstan. Changes in the MEMR during 2009 did cause certain delays in finalising and renewing some contracts.

Taxation Risks and Issues in Kazakhstan

The taxation system in Kazakhstan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Kazakhstan are significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies, therefore, regulations are often unclear or nonexistent. Accordingly, few precedents with regard to issues have been established.

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax and other risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. In addition, amendments to current Kazakhstan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

All legal entities carrying on activities in Kazakhstan must be registered with the local tax committee. Taxes in Kazakhstan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as required contributions to various funds, duties and fees for licences. In addition, the Company has, through its various operations, been making and expects to continue to make, contributions to various social and environmental funds.

Additional payments, such as signing bonuses, commercial discovery bonuses, mineral extraction taxes and excess profit taxes, are required from oil and gas companies and other subsoil users. A signing bonus is a one-time payment for the rights to explore and/or develop and produce resources. A commercial discovery bonus is a one-time payment for each commercial discovery and is payable once a discovery of commercial value is made in a contract territory as well as for any increase in reserves.

A new tax code (the "**New Tax Code**") was adopted for Kazakhstan effective as of January 1, 2009. Subject to limited exceptions which do not apply to the Company's subsidiaries, the tax provisions previously applicable to subsurface use contracts will not be "stabilised" and accordingly, taxes will be payable under the New Tax Code in respect of the Group's operations in Kazakhstan.

Under the New Tax Code, subsurface users (including the Company's subsidiaries) will be subject to, among others, the following taxes to the extent applicable: (i) special subsurface users payments (which include a signature bonus, commercial discovery bonus and payment for reimbursement of historical costs); (ii) MET; (iii) excess profit tax: (iv) corporate income tax; and (v) rent tax on exports, as further described below:

- a signature bonus for a production contract is required to be negotiated, with the minimum amount calculated equal to the aggregate of 0.04% of the total value of proved reserves and 0.01% of the total value of estimated reserves (in each case, as approved by the authorised state agency) and is payable within 30 days after entering into the production contract;
- a commercial discovery bonus is payable for each commercial discovery at a rate of 0.1% of the calculation base and is based on the volume of recoverable reserves (as approved by the authorised state agency);
- an amount of historical costs determined by the authorised state agency to compensate the Kazakhstan State's exploration and related expenditures incurred before the conclusion of the subsurface use contract, is payable during the production stage in quarterly instalments in accordance with a negotiated payment schedule, not to exceed 10 years;
- MET for oil and gas condensate is payable at fixed rates, determined on a sliding scale, based on the actual production levels at rates ranging from 5% to 18% from January 1, 2009 until January 1,

2013 (from 6% to 19% from January 1, 2013 until January 1, 2014, and from 7% to 20% from January 1, 2014);

- MET for natural gas is payable at rates ranging from 0.5% to 1.5% of the value of annual produced gas for domestic sales and 10% for exports;
- excess profit tax is payable based on the contractor's net disposable income with the rates varying from 0% to 60%; as the profits exceed pre-set profit thresholds; and
- corporate income tax is payable at a rate of 20% from January 1, 2009 until January 1, 2013, 17.5% from January 1, 2013 until January 1, 2014 and 15% from January 1, 2014.

In addition, in the case of oil exports, rent tax on oil exports is set at a rate from 0% to 32%, depending on the market price for oil, without taking into consideration transportation costs or other deductions.

In early 2008, Kazakhstan adopted a new customs duty on oil exports, but at the end of 2008 the rate of the oil export customs duty had been set at 0%, due to decreases in world-market oil prices. Kazakhstan may increase the export customs rate in the future. The uncertainty of application and the evolution of tax laws creates a risk of additional payment of tax by the Company, which could have a material adverse affect on the business, financial condition and results of operations of the Company.

Legal and Regulatory Framework in Tajikistan

Tajikistan introduced production sharing legislation in 2007, with some amendments in 2008 and the Bokhtar PSC is the first to be adopted under the new regulatory regime. As the legal and regulatory framework for oil and gas is emerging in Tajikistan, it is possible that the terms of such a Bokhtar PSC may be challenged, additional taxes may be imposed, or may be found to conflict with other Tajik laws and regulations. There is no assurance that the terms of the Bokhtar PSC will not be challenged and that no claims will be made against the Group resulting in a material adverse effect. In addition, these inconsistencies may lead to potential disputes with the relevant tax authorities and resulting in material adverse effect on the financial performance of the Group. There may also be problems with repatriation of currency from Tajikistan, and in the use of the banking system.

Taxation Risks and Issues in Tajikistan

Although under the Bokhtar PSC all of KPL's tax obligations are covered through the Tajik State's share of production, the taxation system in Tajikistan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Tajikistan may be significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies, therefore, regulations are often unclear or nonexistent. Accordingly, few precedents with regard to issues have been established. Despite the fact that the Company's CEO currently sits on the Consultative Council for the Improvement of the Investment Climate under the President of Tajikistan there can be no guarantee that such involvement can prevent negative changes in the business environment which may affect the Company.

Tax declarations, together with other legal compliance areas are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax and other risks in Tajikistan substantially more significant than typically found in countries with more developed tax systems. In addition, amendments to current Tajikistan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

In general terms, taxes in Tajikistan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as fees for licences. Profits are taxed at a rate of 25% of taxable income (calculated as revenue less permitted deductions). VAT at a rate ranging to 20% is imposed on goods produced in Tajikistan and goods imported into Tajikistan. Payments due to state agencies in respect of oil and gas production are determined under the particular terms of production sharing contracts of which the Bokhtar PSC is an example. Under the Bokhtar PSC, the Tajik State's share of production covers all of the Company's taxes, levies and duties in respect of production thereunder.

Lack of Infrastructure in Tajikistan

Tajikistan depends on neighbouring countries to access world markets, and this could lead to problems bringing in equipment and services to the country, as well as exporting products. There are only limited oil refining facilities in Tajikistan, and as such any crude oil will require export, either to regional refineries or to world markets. There are no guarantees that this export will be allowed by the surrounding countries, and/or additional taxes or levies imposed, or prices offered being substantially less than world market prices. Similarly the gas infrastructure is poorly developed and maintained in Tajikistan, and although pipelines exist, it is possible that such infrastructure would not be available to the Company on commercially attractive terms, or may be unsuitable. Similarly export of gas to world markets would require access to pipelines and infrastructure in neighbouring countries and such access may not be given, or not be given on commercially attractive terms.

Legal and Regulatory Environment in Uzbekistan

Uzbekistan's foreign investment, petroleum, subsoil use, licensing, corporate, tax, customs, currency, banking and antimonopoly laws and legislation are still developing and uncertain. Legislation in respect of some or all of these areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to change and different interpretations. These factors mean that even the Group's best efforts to comply with applicable laws may not always result in compliance. Non-compliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in Uzbek laws and their interpretation and application could have a material adverse effect on the Group's business and results of operations. For example, under the terms of the North Urtabulak PEC, the BHCL Acquisition did not require the consent of the Uzbek State Partners or the other contracting parties under the North Urtabulak PEC, nor is there any requirement under the laws of Uzbekistan for such consent by government authorities. However, there is no certainty that other parties or the authorities will not take a contrary view notwithstanding the terms of the North Urtabulak PEC or the legislation in Uzbekistan and there is a risk that any change of control of the ownership interest in BHCL could be a political basis for authorities to claim breach or otherwise find a basis not to recognise the interests of BHCL under the North Urtabulak PEC. Moreover, the volume of hydrocarbons produced for export to date under the North Urtabulak PEC exceeds the target volume initially referred to in the Uzbek government decree concluding the terms of the North Urtabulak PEC. As a result, the Uzbek government may seek to deny BHCL the benefit of certain tax and customs exemptions and privileges initially contemplated in connection with production under the North Urtabulak PEC. The jurisdiction system in Uzbekistan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict.

Legal and Regulatory Framework in Uzbekistan

As the legal and regulatory framework for oil and gas is emerging in Uzbekistan, it is possible that the terms of the North Urtabulak PEC may be challenged, additional taxes may be imposed, or may be found to be in conflict with other Uzbek laws and regulations. In particular, certain customs duty exemptions and privileges under the North Urtabulak PEC which were approved by the government by way of a government decree contradict certain provisions under the Customs Code of Uzbekistan. These contradictions may lead to potential disputes with the relevant tax authorities and certain customs duty exemptions and privileges may no longer be recognised or available resulting in material adverse effect on the financial performance of the Group. President Edict No. UP-4116, dated June 17, 2009 ("**Edict 4116**"), extended the validity of BHCL's tax and customs exemptions and privileges under Clause 3 of Decree 322 for an unspecified period of time, although it terminated certain tax exemptions and privileges available to other legal persons and groups of entities. While the tax and customs exemptions and privileges provided to BHCL remain valid, there is no guarantee that such exemptions and privileges will not be changed in the future.

Taxation Risks and Issues in Uzbekistan

The taxation system in Uzbekistan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Uzbekistan may be significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies, therefore, regulations are often unclear, contradictory or nonexistent. Accordingly, few precedents with regard to these types of issues have been established. Tax declarations, together with other legal compliance areas are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These factors create tax and other risks in Uzbekistan more significant than typically found in countries with more developed tax systems. In addition, amendments to current Uzbekistan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

All legal entities carrying on activities in Uzbekistan must be registered with the local tax committee. Taxes in Uzbekistan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as customs duties and payments, contributions to various funds, duties and fees for licences. Currently, the income tax paid by the Group on the North Urtabulak PEC is 16% as was set by a government decree in 1999. Elsewhere in Uzbekistan, the income tax rate is less, 10% in 2009 and 9% in 2010. In 2008, the Uzbek government introduced an excess profit tax but this does not apply to the North Urtabulak PEC which is covered by the government decree. In addition, the Company has, through its various operations, been making and expects to continue to make, contributions to various social funds.

Lack of Infrastructure in Uzbekistan

Uzbekistan depends on neighbouring countries to access world markets, and this could lead to problems bringing in equipment, material and services to the country, as well as exporting products. Although there are two large refineries in Uzbekistan, there is potentially a limited internal market for refined oil products. Currently this poses no issues for the Company as its share of refined products from the North Urtabulak Oil Field is exported under the terms of the North Urtabulak PEC. However there are potentially limits to the volumes of refined products which can be exported from Uzbekistan due to lack of transportation and related infrastructure. Plans have been suggested for new product pipelines direct to the PRC and upgrading of export terminals but in the near term such transportation issues may affect the volumes of refined products which the Company can export from Uzbekistan to regional and world markets. There are no guarantees that this export will be allowed by the neighbouring countries, and/or additional taxes or levies imposed, or prices offered being substantially less than world market prices.

DIVIDENDS OR DISTRIBUTIONS

The Company has not declared or paid any dividends or distributions on the Ordinary Shares to date. The payment of dividends or distributions in the future are dependent on the Company's earnings, financial condition and such other factors as the Board of Directors considers appropriate. The Company currently does not anticipate paying any dividends in the foreseeable future due to the stage of development of the Company.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of 700,000,000 Ordinary Shares of $0.10 par value of which 134,554,769 Ordinary Shares were issued and outstanding as at December 31, 2009 and 50,000,000 preference shares of $0.10 par value (the "**Preference Shares**"), none of which have been issued or are outstanding. The principal attributes of the Ordinary Shares and Preference Shares are summarized below. In addition, the Company's shareholder rights plan is summarized below.

Ordinary Shares

The holders of Ordinary Shares are entitled to receive such dividends as the Company's directors may from time to time declare. In the event of the winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of Ordinary Shares are entitled to the surplus assets of the Company in proportion to their respective shareholdings and generally will be entitled to enjoy all of the rights attaching to shares of the Company. At a general meeting, holders of Ordinary Shares are entitled on a show of hands to one vote and on a poll to one vote for every share held.

Preference Shares

The Preference Shares are issuable in series. Subject to the Company's articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions (including voting rights) attaching to each series. The Preference Shares, when issued, will rank prior to the Ordinary Shares with respect to dividends and return of capital on winding up as the holders of Preference Shares are not entitled to vote at meetings of shareholders.

Shareholder Rights Plan

The Board of Directors and the shareholders of the Company approved a shareholder rights plan (the "**Rights Plan**") in 2008. The terms of the Rights Plan are such that, subject to certain exceptions, if a person acquires 20% of the outstanding Ordinary Shares, a take-over bid must be made for all Ordinary Shares and must be open for 60 days after the bid is made. If more than 50% of the Ordinary Shares held by persons independent of the acquiror are deposited or tendered pursuant to the bid, and not withdrawn, the acquiror may take up and pay for such shares. The bid must then remain open for a further period of 10 business days on the same terms.

In the event a take-over bid is made that does not adhere with the above terms, the rights attaching each Ordinary Share pursuant to the Rights Plan will separate from the Ordinary Shares and become exercisable 10 trading days after the earlier of: (a) a person having acquired 20% or more of the Ordinary Shares, or (b) the commencement or announcement in respect of a take-over bid to acquire 20% or more of the Ordinary Shares. Prior to such separation event, the rights are not transferable separately from the Ordinary Shares. After such separation, rights will be evidenced by certificates which are transferable and will be traded separately from the Ordinary Shares.

The rights, when exercisable, permit the holder to purchase, for the exercise price, one Ordinary Share for each right. The exercise price of the rights will be equal to three times the prevailing market price at the time the rights separated from the Ordinary Shares pursuant to the Rights Plan. Rights that are beneficially owned by the person making the take-over bid which does not adhere to the above terms shall become null and void.

Unless renewed with the concurrence of the shareholders of the Company, Rights Plan will terminate on the date of the 2011 annual meeting of shareholders of the Company.

MARKET FOR SECURITIES

Price Range and Volume of Trading of Ordinary Shares

The Ordinary Shares are listed on the TSX under the symbol "TPL". The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Ordinary Shares on the TSX during the year ended December 31, 2009.

	Price Range		
Period	**High**	**Low**	**Trading Volume**
2009			
January	0.75	0.55	1,131,376
February	0.68	0.46	531,000
March	0.57	0.46	235,782
April	0.51	0.35	292,800
May	0.70	0.44	629,017
June	0.49	0.36	2,113,467
July	0.44	0.39	769,486
August	0.59	0.37	3,701,049
September	0.66	0.53	2,163,637
October	0.86	0.62	4,583,259
November	0.83	0.55	9,561,882

Period	Price Range High	Low	Trading Volume
December	0.83	0.54	14,093,887

Prior Sales

The following table summarizes the issuances by the Company of Ordinary Shares or securities convertible into Ordinary Shares in 2009.

Date	Securities	Price Per Security	Number of Securities
March 14, 2009[1]	Warrants	C$1.25[2]	638,298
April 9, 2009[2]	Ordinary Shares	$0.32	15,000,000
April 24, 2009[3]	Ordinary Shares	C$2.80	81,477
June 12, 2009[4]	Ordinary Shares	C$0.425	51,680,000
June 15, 2009[5]	Warrants	C$0.60	2,500,000

Notes:

(1) On March 14, 2009, the Company issued warrants to purchase an aggregate of 638,298 Ordinary Shares at an exercise price of C$1.25 per Ordinary Shares in connection with the acquisition of a drilling rig.

(2) On April 9, 2009, the Company issued 15,000,000 Ordinary Shares in connection with the Acquisition using a reference price of $0.32 per share.

(3) On April 24, 2009, the Company issued 81,477 Ordinary Shares at a reference price of C$2.80 in connection with the acquisition of the Telesto rig.

(4) The Company issued 51,680,000 Ordinary Shares at C$0.425 per share in connection with a public offering.

(5) The Company agreed to issue to the lenders, subject to regulatory approval, warrants to acquire up to 2,500,000 Ordinary Shares exercisable for a period of eighteen months from the date of issuance at a price of C$0.60 per share. The Company issued these warrants on June 15, 2009.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

As at the date hereof, no securities of the Company are subject to escrow or contractual restrictions on transfer, other than 7,500,000 Ordinary Shares representing 5.6% of the number of Ordinary Shares outstanding as at December 31, 2009 issued in connection with the acquisition of BHCL on April 9, 2009, which , pursuant to the terms of the relevant share purchase agreement, are subject to restrictions on transfer until April 9, 2010.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth, for each director and executive officer of Tethys: his or her name; municipality, province or state and country of residence; all positions and offices now held by him or her; the month and year in which he or she was first elected a director and his or her principal occupation during the preceding five years.

Directors

Name and Municipality of Residence	Position with the Company	Director/Officer Since	Principal Occupation During the Past Five Years
Russ Hammond[(2)] London, England	Director	July 26, 2006	Director of Tethys. Prior thereto, Mr. Hammond was Chairman of Terrenex Acquisition Corporation from 1995 to 2008; Non-executive Director of Questerre Energy Corporation since 2000, Non-executive Director of CanArgo between July 1998 and December 2008.

Name and Municipality of Residence	Position with the Company	Director/Officer Since	Principal Occupation During the Past Five Years
Piers Johnson[(1)(3)] London, England	Director	April 2, 2008	Director of Tethys Managing Director of Oilfield Production Consultants (OPC) Limited (Consulting firm to the Oil and Gas Industry).
Liz Landles St. Peter Port, Guernsey British Isles	Executive Director, Executive Vice President and Corporate Secretary	August 12, 2003	Currently Executive Director, Executive Vice President and Corporate Secretary of Tethys. Prior thereto, Ms. Landles was Executive Vice President, Corporate Secretary of CanArgo.
Rt. Hon Peter Lilley M.P.[(1)(2)(3)] London, England	Vice Chairman and Director	July 26, 2006	Vice Chairman and Director of Tethys. Member of the United Kingdom Parliament, House of Commons. Mr. Lilley has been a non-executive director of Melchior Japan Investment Trust PLC since March 2006 and a non-executive director of IDOX PLC since 2002.
Bernard Murphy St. Peter Port, Guernsey British Isles	Executive Director, Finance Director and Chief Financial Officer	August 16, 2006	Currently Executive Director, Finance Director and Chief Financial Officer of Tethys. Prior thereto, Mr. Murphy was a company director within the Abacus Accountancy Network since 2005 and prior thereto, Mr. Murphy held a number of senior financial positions for several organizations.
James Rawls[(1)] Germantown, Tennessee, USA	Director	September 1, 2009	Director of Tethys. Since 2000, Mr. Rawls has been the president and owner of Rawls Resources Inc., an oil and gas exploration company.
Marcus Rhodes[(3)] Sotogrande, Cadiz, Spain	Director	September 1, 2009	Director of Tethys. Mr. Rhodes has been a Director and member of the Audit Committee of Wimm-Bill-Dann Foods OJSC since June 2008 and an Independent Director of OJSC Cherkisovo Group since February 2009. Prior to May 2008, Audit Partner Ernst & Young LLC.

Name and Municipality of Residence	Position with the Company	Director/Officer Since	Principal Occupation During the Past Five Years
Dr. David Robson(1) St. Peter Port, Guernsey, British Isles	Chairman and Managing Director, President and Chief Executive Officer	August 12, 2003	Currently Chairman and Managing Director, President and Chief Executive Officer of Tethys. Prior thereto, Dr. Robson was Chairman and Chief Executive Officer of CanArgo.

Notes:
(1) Member of the Reserves Committee.
(2) Member of the Compensation and Nomination Committee.
(3) Member of the Audit Committee.

Executive Officers

Set out below is a list of the Company's executive officers in addition to those executive officers who are also directors (listed in the above table).

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
Luka Chachabaia Tbilisi, Georgia	Vice President Operations	Currently Vice President Operations of Tethys. Prior thereto, Mr. Chachabaia was an oil and gas engineer including 11 years working for Schlumberger in various engineering and management positions.
Julian Hammond London, England	Chief Commercial Officer and Vice President Corporate Development	Currently Chief Commercial Officer and Vice President Corporate Development of Tethys. Prior thereto, Mr. Hammond was Vice President, Investor Relations and Business Development Manager of CanArgo.
Rosemary Johnson Sabine London, England	Vice President, Exploration	Currently Vice President Exploration of Tethys. Prior thereto, Managing Director (London office) and Vice President Exploration and New Business Development of Maersk Oil and Gas, an independent Danish oil and gas company.
Denise Lay St. Peter Port, Guernsey British Isles	Vice-President Finance	Currently Vice President Finance. Prior thereto, Ms. Lay worked for KPMG for six years including an 18-month secondment to Moscow. Between 2000 and 2006 Ms. Lay held the position with the Gallaher Group as Finance Director, responsible for Finance, IT and Legal for Kazakhstan, Russia, Africa and the Middle East. Ms. Lay is a Fellow of the Association of Chartered Certified Accounts (FCCA) and has more than 15 years post qualification experience.

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
George Mirtskhulava Almaty, Kazakhstan	Vice President, Commercial and Finance, and Head of Kazakhstan Business Unit	Currently Vice President, Commercial and Finance, and Head of Kazakhstan Business Unit; Director of TAG and General Director of TSK. Prior thereto, Mr. Mirtskhulava held various positions for CanArgo from December 2000 until August 2005, including as a commercial analyst, a financial analyst and a senior economist.
Ian Philliskirk London, England	General Counsel and Vice President	Currently General Counsel and Vice President. Prior thereto, Mr. Philliskirk worked for Pinsent Masons LLP as well as Emirates National Oil Company in Dubai ("ENOC") where he was the Group Legal Manager and Company Secretary.
Sabin Rossi Boston, Massachusetts, USA	Vice President, Investor Relations	Currently Vice President, Investor Relations of Tethys and President of TPI. Prior thereto, Vice President External Affairs and Investor Relations for CanArgo. Prior thereto, Business Consultant.
Graham Wall Tbilisi, Georgia	Chief Operating Officer	Currently Chief Operating Officer of Tethys; Was formerly Exploration Manager for CanArgo.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholders meeting called for the election of directors (if appointed by the Board of Directors), the third anniversary of the confirmation of their election by the shareholders, their retirement in accordance with the Memorandum and Articles or on such other date as they may be removed according to the Companies Law (2007 Revision) of the Cayman Islands.

As at the date of this Annual Information Form, the directors and officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,114,800 Ordinary Shares or approximately 0.8% of the issued and outstanding Ordinary Shares. The information as to the number of Ordinary Shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors and officers of the Company individually.

Corporate Cease Trade Orders

None of the Company's directors or executive officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company that:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

Except as disclosed below, none of the Company's directors or executive officers, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has within 10 years prior to the date of this Annual Information Form:

(i) been a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or

(i) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Peter Lilley was a director of E-Loft UK Ltd. ("**E-Loft**"), a private company engaged in the business of providing information and portal management services for universities, from September 11, 1999 to March 7, 2001. On July 10, 2001, E-Loft entered into a voluntary liquidation agreement with its creditors.

Mr. Russ Hammond was a non executive director of CanArgo, as described elsewhere in this document. Mr. Hammond resigned his directorship of CanArgo on December 8, 2008. On October 28, 2009, CanArgo filed a voluntary petition for reorganisation under Chapter 11 in the US Bankruptcy Court for the Southern District of New York.

Penalties or Sanctions

None of the Company's directors or executive officers, nor any shareholder holding a sufficient number of sufficient number of securities of the Company to affect materially the control of the Company, have been subject to:

(i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

CONFLICTS OF INTEREST

Certain officers and directors of the Company are also officers and/or directors of other companies engaged in the oil and gas business generally. As a result, situations may arise where the interests of such directors and officers, as they relate to the Company, conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable laws of the Cayman Islands, which require that the directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in such laws. The Memorandum and Articles provide that in the event that a director has an interest in a proposed transaction or agreement, the director shall disclose in good faith the material facts of his or her interest in such proposed transaction and his or her interest in or relationship to any other party to the transaction or agreement. Such director is not entitled to vote in respect of matters in which he has a material interest or relate to his appointment as the holder of an office or place of profit with the Company.

PROMOTER

No person or company has been, within the two most recently completed financial years or during the current financial year, a promoter of the Company within the meaning of applicable Canadian securities legislation.

AUDIT COMMITTEE

Audit Committee Charter

The audit committee of the Company ("**Audit Committee**") is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the external auditors. The Audit Committee Charter of Tethys is set forth as Appendix D of this Annual Information Form.

Composition of the Audit Committee

The current members of the Audit Committee are Marcus Rhodes (Chairman), Rt. Hon. Peter Lilley and Piers Johnson. Marcus Rhodes and Rt. Hon. Peter Lilley are considered independent and financially literate within the meaning of NI 52-110. See "*Reliance on Certain Exemption*" below for a description of the circumstances relating to Piers Johnson. The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial information such as financial statements, management's discussion and analysis, annual information forms and prospectuses.

Relevant Education and Experience of Members of the Audit Committee

Marcus James Rhodes

Mr. Marcus Rhodes was appointed as a Non-executive Director of the Company in September 2009. He is also the Chairman of the Audit Committee of the Company. Mr. Rhodes has been a Director and member of the Audit Committee of Wimm-Bill-Dann Food OJSC, a Russian Food Company listed on the New York Stock Exchange, since June 2008. In February 2009, he was appointed as an Independent Director of OJSC Cherkisovo Group, an integrated meat producer listed on the London Stock Exchange; and in June 2009, he was appointed as a Director of OJSC Rosinter Restaurant Holding, a Russian restaurant chain listed on the Russian Trading System Stock Exchange and Moscow Interbank Currency Exchange. Mr. Rhodes was an Audit Partner with Ernst & Young between 2002 and 2008. He holds a Bachelor of Science Degree in Economics and Economic History from Loughborough University, U.K., and is a Member of the Institute of Chartered Accountants of England & Wales.

Rt. Hon. Peter Lilley M.P.

Mr. Peter Lilley was appointed as a Non-Executive Director of the Company in July 2006. As well as being a member of the Audit Committee, Mr. Lilley is also the Vice Chairman of the Company and the Chairman of the Compensation and Nomination Committee of the Company. Mr. Lilley is currently a Non-Executive Director of Melchior Japan Investment Trust PLC, a company listed on the main list of the London Stock Exchange, and IDOX plc, a company quoted on AIM market in London. Mr. Lilley worked as an Oil Industry Analyst for W. Greenwell & Co from 1972, becoming a partner of the Company in 1979. In April 1986, the firm became Greenwell Montagu Securities and he was appointed a director of this company from 1986 to 1987. Mr. Lilley was Secretary of State for Trade and Industry of the United Kingdom from 1990 to 1992 and he is currently a serving Member of the United Kingdom Parliament. Mr. Lilley holds a Bachelor Degree in Natural Science and Economics from Clare College, Cambridge.

Piers Johnson

Mr. Piers Johnson was appointed as a Non-Executive Director of the Company in April 2008. Mr. Johnson has over 25 years of experience in the oil and gas exploration and production industry. Since 1988, he has served as

Managing Director of Oilfield Production Consultants (OPC) Limited, a petroleum and reservoir engineering technical services company which specialises in operational procedures, integrated studies, wellsite supervision and well test analysis. From 1982 to 1986, he worked for Flopetrol Johnston Schlumberger, an oilfield services provider, serving as a well test supervisor, location manager and also district sales engineer (Asia). Mr. Johnson holds a Bachelor of Science Degree in Mechanical Engineering from Nottingham University. He is also a Chartered Engineer with the Institution of Mechanical Engineers and a member of each of the Society of Petroleum Engineers, the Petroleum Exploration Society of Great Britain and the Energy Institute. Mr. Johnson is a visiting lecturer in Petroleum Engineering at the Institute Francais du Petrol in Paris, France.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year, has the Company relied on any of the following exemptions from NI 52-110, other than as noted below:

(a) the exemption in section 2.4 (*De Minimis Non-Audit Services*);
(b) the exemption in subsection 3.2(2) (*Initial Public Offerings*);
(c) the exemption in subsection 3.3(2) (*Controlled Companies*);
(d) the exemption in section 3.4 (*Events Outside Control of Member*);
(e) the exemption in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*);
(f) the exemption in section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*);
(g) the exemption in section 3.8 (*Acquisition of Financial Literacy*); or
(h) an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*).

Concurrently with the resignation of Colin Smith from the Audit Committee on September 1, 2009, Marcus Rhodes was appointed and Piers Johnson and Rt. Hon. Peter Lilley's membership continued, notwithstanding that Piers Johnson is not considered independent of the Company for the purpose of membership on the Audit Committee as a result of his interest in Oilfield Production Consultants (OPC) Limited. The Company relies on the exemption in section 3.5 of NI 52-110 on the basis that the vacancy left by Colin Smith required the continued membership of Piers Johnson. The Company's Board of Directors has determined that the continued membership of Piers Johnson did not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of NI 52-110.

Audit Committee Oversight

At no time since the commencement of the Company's most recent financial year, has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the Board of Directors.

Pre-Approval Policies and Procedures

The Audit Committee has delegated to the Chairman of the Audit Committee (or such other member of the Audit Committee who may be delegated authority), the authority to act on behalf of the Audit Committee between meetings of the Audit Committee with respect to the pre-approval of audit and permitted non-audited services provided by PricewaterhouseCoopers LLP. The Audit Committee is required to be notified of any non-approved services over and above audit and tax. The Chairman reports on any such pre-approval at the next meeting of the Audit Committee.

External Auditor Service Fees

The following table provides information about fees billed to the Company and its affiliates for professional services rendered by Tethys' external auditor, PWC, during the two financial year ended December 31, 2009 and 2008.

Type of Service Provided	Year-ended December 31, 2009	Year-ended December 31, 2008
Audit fees (including quarterly reviews)	523,000.	$517,820
Audit-related fees	166,204	72,890
Tax fees	39,665	Nil
All other fees	1,127,933[(1)]	40,000
Total	**$1,856,802**	**$630,710**

Note:

(1) "All other fees" includes costs incurred in connection with a possible secondary listing on a stock exchange.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below and elsewhere in this Annual Information Form, management of the Company is not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any shareholder of the Company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the voting securities of the Company or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2009 was $1,677,113 (2008 – $1,405,028).

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to the optimization of the existing compressors and those to be installed as part of Phase 2 gas production from Akkulka, and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the year ended December 31, 2009 were $497,697 (2008 – $422,770).

Kraken Financial Group (KFG) had a common director with the Company up until 1 September 2009. In 2008, KFG was engaged by the Company to assist in obtaining loan financing in relation to the purchase of both Telesto and Tykhe drilling rigs. As a result of the services provided in connection with the Telesto transaction, KFG received 6% commission of the funds it was responsible for introducing to the Company. This commission was to be taken in the form of 81,477 shares, which were issued in 2009 amounting to $234,000 (which had been recognized as a liability at the end of 2008). No further services were provided by KFG during 2009 (December 31, 2008 - $21,000).

During the year ended December 31, 2008, KFG had acted as broker for Tethys in the placement of various insurance policies, including Directors and Officers, for which the combined annual premiums were $112,615. This service was not provided in 2009.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Ordinary Shares is Equity Trust & Transfer Company at its principal offices in Toronto, Ontario and Calgary, Alberta, Canada.

MATERIAL CONTRACTS

The only material contracts entered into by the Company during the most recently completed financial year, or before the most recently completed financial year that are still in effect, other than contracts entered into during the ordinary course of business, and which are not otherwise required to be disclosed in accordance with the requirements of part 12 NI 51-102 are as follows:

1. the Kazakh Gas Supply Contract;

2. the Bokhtar PSC;

3. the management services agreement dated May 10, 2007 between the Company and Vazon providing for, among other things, the services of Dr. David Robson as Chairman of the Board of Directors, and as President and Chief Executive Officer of the Company;

4. the management services agreement dated June 8, 2007 between the Company and Vazon providing for, among other things, the services of Vazon and the services of Mr. Bernard Murphy, Ms. Liz Landles, Mr. Graham Wall, Mr. George Mirtskhulava and Ms. Denise Lay as executive officers of the Company;

5. the Kyzyloi Field Production Contract; and

6. the North Urtabulak PEC.

Copies of the foregoing material contracts have been filed by the Company on SEDAR and are available online at www.sedar.com.

INTEREST OF EXPERTS

There is no person or company who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by Tethys during, or related to, its most recently completed financial year and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or company, other than PricewaterhouseCoopers LLP, Chartered Accountants (**"PWC**"), McDaniel and TRACS. None of the designated professionals of McDaniel have any registered or beneficial interest, direct or indirect, in any of the Company's securities or other property or of the Company's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

PWC has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Company, there are no legal proceedings material to the Company to which the Company is or was a party to or of which any of its properties is or was the subject of, during the financial year ended December 31, 2009 nor are there any such proceedings known to the Company to be contemplated.

To the knowledge of the Company, there were no: (i) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the Company's last financial year; (ii) penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the last financial year.

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION CONCERNING TETHYS IS AVAILABLE THROUGH THE INTERNET ON SEDAR WHICH MAY BE ACCESSED AT WWW.SEDAR.COM. COPIES OF SUCH INFORMATION MAY ALSO BE OBTAINED WITHOUT CHARGE BY REQUEST TO THE CORPORATE SECRETARY OF

TETHYS BY MAIL AT P.O. BOX 524, ST. PETER PORT, GUERNSEY, GY1 6EL, BRITISH ISLES, TELEPHONE: +44 1481 725911, FACSIMILE +44 1481 725922.

Additional information, including information regarding the Company's directors' and officers' remuneration, is contained in the Company's Management Information Circular, prepared in connection with the annual and extraordinary meeting of Tethys' shareholders to be held on June 10, 2010.

Additional financial information is provided in Tethys' consolidated financial statements and management's discussion and analysis for the year ended December 31, 2009. Copies of such documents may be obtained in the manner set forth above.

APPENDIX A-1
FORM 51-101F2
REPORT ON RESERVES DATA BY AN INDEPENDENT QUALIFIED RESERVES EVALUATOR
MCDANIEL

(attached)

March 17, 2010

Tethys Petroleum Limited
P. O. Box 524
St Peter Port
Guernsey, GY1 6EL
British Isles

Attention: The Board of Directors of Tethys Petroleum Limited

Re: Form 51-101F2
Report on Reserves Data by an Independent Qualified Reserves Evaluator
of Tethys Petroleum Limited (the "Company")

To the Board of Directors of Tethys Petroleum Limited (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2009. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us, for the year ended December 31, 2009, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

		Net Present Value of Future Net Revenue $M US (before income taxes, 10% discount rate)			
Preparation Date of Evaluation Report	**Location of Reserves**	**Audited**	**Evaluated**	**Reviewed**	**Total**
March 17, 2010	Kazakhstan	-	118,114	-	118,114

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our report for events and circumstances occurring after the preparation date.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

(*signed) "B. H. Emslie*"

B. H. Emslie, P. Eng.

Calgary, Alberta
Date: March 17, 2010

APPENDIX B-1
FORM 51-101F2
REPORT ON RESERVES DATA BY AN INDEPENDENT QUALIFIED RESERVES EVALUATOR
TRACS

(attached)

FORM 51-101F2

REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR

Report on Reserves Data

To the board of directors of Tethys Petroleum Limited (the "Company"):

1. I have audited and reviewed the Company's reserves data for Tajikistan as at 31st December 2009. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at 31st December 2009, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our audit and review. We carried out our audit and review in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an audit and review to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An audit and review also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company audited and reviewed by us for the year ended 31st December 2009, and identifies the respective portions thereof that we have audited and reviewed and reported on to the Company's management/board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Audit/Review	Location of Reserves	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate US$ Millions)		
			Audited	**Reviewed**	**Total**
Mr Sven Tiefenthal	31st December 2009	Tajikistan	US$5.36m	US$5.36m	US$5.36m

5. In our opinion, the reserves data respectively audited by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

Signed:

(*signed) "Sven Tiefenthal*"

Mr. Sven Tiefenthal, Jersey
24th March 2010

APPENDIX C-1
FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION
(attached)

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Management of Tethys Petroleum Limited (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2009, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated the Company's reserves data. The reports of these independent qualified reserves evaluators will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;

(b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluators.

The Reserves Committee of the board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors, on the recommendation of the Reserves Committee, has approved:

(a) the content and filing with securities regulatory authorities of the Form 51-101F1 containing reserves data and other oil and gas information;
(b) the filing of the Form 51-102F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "Dr. David Robson"
Dr. David Robson
President and Chief Executive Officer

(signed) "Graham Wall"
Graham Wall
Chief Operating Officer

(signed)"Bernard Murphy"
Bernard Murphy
Director

(signed) "Liz Landles"
Liz Landles
Director

March 31, 2010

APPENDIX D-1

AUDIT COMMITTEE CHARTER
(attached)

May 2007

TETHYS PETROLEUM LIMITED

Audit Committee Charter

TETHYS PETROLEUM LIMITED

1 INTERPRETATION

In these terms of reference:-

"**Auditor**" means the external auditors of the Company;

"**Board**" means the board of directors of the Company;

"**Code of Conduct and Ethics Policy**" means the Company's Code of Conduct and Ethics Policy in force at the date of adoption of this Charter, as it may be amended of replaced from time to time;

"**Committee**" means the audit committee of the Board; and

"**Company**" means Tethys Petroleum Limited.

2 CONSTITUTION

By a resolution dated October 5, 2006, the Board resolved, pursuant to the authority and power conferred upon the Board by Article 101 of the Company's articles of association, to establish a committee of the Board to be known as the audit committee.

3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to assist the Board in meeting its financial reporting responsibilities and to oversee the Company's relationship with the Auditor.

4 SPECIFIC DUTIES

The Committee shall perform the following duties for the Company.

4.1 Financial Reporting

4.1.1 The Committee shall review the financial statements of the Company, including its:

(a) annual and interim reports and accounts;

(b) announcements of annual and interim results; and

(c) any other formal announcement relating to the Company's financial results.

4.1.2 The Committee shall review and discuss with management and the Auditor:

(a) the Company's annual audited financial statements and related documents prior to their filing or distribution, including;

(i) the annual financial statements, related footnotes and Management's Discussion and Analysis, including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;

(ii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;

(iii) any significant changes to the Company's accounting policies;

(iv) the Auditor's audit report on the financial statements; and

(b) the Company's quarterly unaudited financial statements and related documents prior to their filing of distribution, including.

(i) quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;

(ii) if applicable, the Auditor's report of its review of the financial statements;

(iii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;

(iv) any significant changes to the Company's accounting policies.

4.1.3 The Committee shall review:

(a) the Company's Annual Information Form, or other similar report filed with securities regulatory authorities, as to financial information;

(b) all prospectuses and information circulars of the Company as to financial information;

(c) any financial information contained in other documents, such as announcements of a price sensitive nature.

4.1.4 The Committee shall review:

(a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;

(b) the methods used to account for significant or unusual transactions where different approaches are possible;

(c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditor;

(d) the Company's reporting practices; and

(e) all significant financial reporting issues and all judgements which they contain.

4.1.5 The Committee shall review and discuss with management financial information, including earnings press releases, the use of "pro forma" or non-GAAP financial information and earnings guidance, contained in any filings with the securities regulators or news releases related thereto (or provided to analysts or rating agencies) and consider whether the information is consistent with the information contained in the financial statements of the Company or any subsidiary with public securities. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

4.1.6 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

4.1.7 The Committee shall recommend to the Board the approval of the annual financial statements and related documents and either approve the interim financial statements and related documents or recommend to the Board such financial statements and documents for approval.

4.2 **Internal Controls and risk management systems**

4.2.1 The Committee shall:

(a) keep under review the effectiveness of the Company's internal controls and risk management systems; and

(b) review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and risk management.

4.3 **Ethics Reporting**

4.3.1 The Committee is responsible for the establishment of a policy and procedures for:

(a) the receipt, retention and treatment of any complaint received by the Company regarding financial reporting, accounting, internal accounting controls or auditing matters;

(b) the confidential, anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.

4.3.2 The Committee will review, on a timely basis, serious violations of the Code of Conduct and Ethics Policy including all instances of fraud.

4.3.3 The Committee will review on a summary basis at least quarterly all reported violations of the Code of Conduct and Ethics Policy.

4.4 Internal Audit

The Committee shall consider annually whether these is a need for an internal audit function and make a recommendation to the Board accordingly. In the event that an internal audit function is introduced, the Board shall extend as appropriate the terms of reference to include, inter alia, monitoring and reviewing the effectiveness of the internal audit function, senior appointments and removals in respect of that function, resourcing of that function, meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit function.

4.5 External Audit

4.5.1 The Committee shall:

(a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the Auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

(b) oversee the Company's relationship with the Auditor including (but not limited to):

(i) approval of their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;

(ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

(iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;

(iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Company (other than in the ordinary course of business) or any other conflict of interest;

(v) agreeing with the Board a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;

(vi) ensuring receipt, at least annually, from the external auditor of a formal written statement delineating all relationships between the Auditor and the Company, including non-audit services provided to the Company;

(vii) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and

(viii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;

(c) overseeing the work of the Auditor, including the resolution of disagreements between management and the Auditor;

(d) meeting regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;

(e) reviewing and approving the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;

(f) reviewing the findings of the audit with the Auditor;

(g) reviewing any representation letter(s) requested by the Auditor before they are signed by the executive management;

(h) reviewing the executive management letter and executive management's response to the Auditor's findings and recommendations;

(i) giving consideration to the rotation of the audit partner on a periodic basis;

(j) reviewing any related findings and recommendations of the Auditor together with management's responses including the status of previous recommendations;

(k) reviewing any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the Auditor's work or access to required information; and

(l) reviewing any other matters related to the conduct of the external audit, which are to be communicated to the Committee by the Auditor under generally accepted auditing standards.

4.5.2 The Committee shall develop and implement policies and procedures on the supply of non-audit services by the Auditor, taking into account any relevant statutory requirements on the matter. If such policies and procedures have not been adopted, the Committee shall pre-approve any non-audit services to be provided to the Company or its subsidiaries by the Auditor, except that the Committee has delegated a de minimis level of $20,000 per annum to the Committee Chair who will report to the Committee at their next meeting of any work approved with this limit.

4.6 **Other Matters**

The Committee shall:

(a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;

(b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members; and

(c) oversee any investigation of activities which are within its terms of reference.

5 REPORTING

5.1 The chairman of the Committee shall report to the Board generally on its proceedings after each meeting.

5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.

5.3 The Committee's Charter shall be available on request and shall be available on the Company's website (if any).

6 REGULATORY DUTIES

In carrying out its duties the Committee shall:

(a) give due regard to:

(i) all relevant legal and regulatory requirements; and

(ii) the rules of any stock exchange or which the Company's securities may be listed;

(b) ensure that it has such information as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

7 MEMBERSHIP

7.1 Members of the Committee shall be appointed from time to time by the Board, in consultation with the chairman of the Committee.

7.2 The Committee shall be made up of at least three members each of whom shall be a member of the Board.

7.3 The chairman of the Board shall not be a member of the Committee.

7.4 All members of the Committee shall be "independent" as that term is defined under the requirements of applicable securities laws and the standards of any stock exchange on which the Company's securities are listed, taking into account any transitional provisions that are permitted.

7.5 Members shall serve one-year terms and may serve consecutive terms to ensure continuity of experience. Members shall be reappointed each year to the Committee by the Board at the Board meeting that coincides with the annual shareholder meeting. A member of the Committee shall automatically cease to be a member upon ceasing to be a director of the Company. Any member may resign or be removed by the Board from membership on the Committee or as Chair.

7.6 All members of the Committee must be “financially literate” as that qualification is interpreted by the Board and or acquire such literacy within a reasonable period of time after joining the Committee. At the present time, the Board interprets “financial literacy” to mean a basic understanding of finance and accounting and the ability to read and understand financial statements (including the related notes) of the sort released or prepared by the Company in the normal course of its business.

7.7 The Board shall appoint the chairman of the Committee who shall be a non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.

7.8 The Board may from time to time remove members from the Committee.

7.9 The membership of the Committee shall be set out in the annual report of the Company.

8 SECRETARY

The Board shall from time to time nominate an appropriate person to be the secretary of the Committee.

9 MEETINGS

9.1 The Committee shall meet at least two times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee shall require.

9.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.

9.3 Unless otherwise agreed, at least three (3) working days notice shall be given of each meeting of the Committee.

9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:

(a) confirm the venue, time and date of the meeting;

(b) include an agenda of items to be discussed at the meeting; and

(c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.

9.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.

9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and a duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the other directors, representatives from the finance function of the Company and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.

9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.

9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.

9.10 Matters for decision by the Committee shall be decided by a majority decision of the members.

10 MINUTES

10.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.

10.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

10.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.

10.4 After approval and signing of the minutes by the chairman of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board, (unless a conflict of interest exists).

11 AUTHORITY

11.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.

11.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.

11.3 The Committee is authorised to:

(a) seek any information it requires (including from any employee of the Company) in order to perform its duties;

(b) obtain outside legal or other professional advice (including the advice of independent remuneration consultants) on any matters within its terms of reference including, without limitation, any legal matters which could have a significant effect on the Company's financial position;

(c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;

(d) to secure the attendance of external advisors at its meetings (if it considers it necessary); and

(e) to call any employee to be questioned at a meeting of the Committee as and when required,

all at the Company's expense.

12 OWN PERFORMANCE

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.