TETHYS PETROLEUM LIMITED

MANAGEMENT’S DISCUSSION AND ANALYSIS

for the three and nine months ended September 30, 2012

The nine months ended September 30, 2012 compared to September 30, 2011

(All references to USD are United States dollars unless otherwise noted)
(Tabular amounts are in thousands, unless otherwise stated.)

	2012	2011	% Change
Revenue	26,681	15,506	72%
Loss for the period	16,835	17,566	-4%
Basic and diluted loss (USD) per share	(0.06)	(0.07)	-14%
Capital expenditure	9,331	36,834	-75%
Total assets	252,083	255,066	-1%
Non-current liabilities	(9,437)	(8,295)	14%
Cash balance	1,620	18,425	-91%
Common shares outstanding			
Basic and diluted	286,707,744	260,629,769	

The following Managementôs Discussion and Analysis (ñMD&Aò) is dated November 14, 2012 and should be read in conjunction with the Companyôs unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended September 30, 2012 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2011. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Companyôs Audit Committee and Board of Directors. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 ñInterim Financial Reportingò and the requirements of the Disclosure and Transparency Rules (óDTRô) of the Financial Services Authority (óFSAô) in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the ñForward-Looking Statementsò legal advisory contained at the end of this MD&A and also the Companyôs Annual Information Form (ñAIFò).

The Tethys Petroleum Limited Interim Report and Accounts consists of two documents as detailed below:

1) Managementôs Discussion & Analysis: this includes the requirement of National Instrument 51-102 Canadian Securities Administrators (ñCanadian NI 51-102ò) in respect of a quarterly Managementôs Discussion & Analysis and the requirements of the UKôs Disclosure & Transparency Rules with respect to DTR4.3 Interim management statements; and

2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of Canadian NI 51-102 with respect to a quarterly financial report and the requirements of the UKôs Disclosure & Transparency Rules with respect to DTR4.3 Interim management statements, a Directorsô Responsibility Statement.

Highlights and Significant Transactions

On January 30, 2012, the Company announced the official inauguration of its Aral Oil Terminal (the "AOT") at Shalkar - a purpose built oil storage and rail loading facility for its oil shipments from the Doris oilfield. AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerôs company, Olisol Investment Limited (a subsidiary of Eurasia Gas). The initial aim for this facility was to enable the Company to increase production from the Doris field and April 13, 2012, saw the Company complete the first shipment of commercial oil production through the AOT. Work has continued throughout 2012 and Phase 2 of the development of this facility is due to be completed in November 2012. *See Joint Venture on page 6.*

On February 1, 2012, the Company announced it had signed an MOU with the Uzbek State oil and gas company, National Holding Company "Uzbekneftegaz" ("UNG"). The objective of this MOU was to provide the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan.

On February 9, 2012, the Company confirmed the issue of a tender for the final stage of the seismic programme in Tajikistan. This programme subsequently commenced in Q3 2012 with the initial interpreted results anticipated before the end of Q4 2012. This seismic data will be used to firm up an initial deep well drilling location to exploit the very significant upside indicated by the seismic, gravity, gradiometry and magnetic aerial surveys previously carried out.

On March 21, 2012, the company announced Total Net Oil and Gas Reserves (barrels of oil equivalent: boe) consisting of 1P (Proved reserves) up 96% to 14.5 million barrels of oil equivalent (ñboeò) and 2P (Proved + Probable reserves) up 45% to 25.3 million boe.

On April 19, 2012, the Company received permission for a two year extension of the Akkulka Exploration Contract in Kazakhstan where the Company is currently appraising the high potential Doris oil discovery and also where it has several exciting exploration targets.

On May 16, 2012, the Company announced it had received an updated oil Resource Report for its Kazakhstan assets that estimated the gross unrisked recoverable mean prospective oil resources to be 1.173 billion barrels of oil, plus 605 billion cubic feet (17.1 billion cubic metres) of natural gas. The resource report also showed a substantial amount of prospective gas resources.

The Company also announced on May 16, 2012, that its wholly owned subsidiary Chegara Production Limited had signed a Production Enhancement Contract ("PEC") for a new oil field, the Chegara Group of Fields ("Chegara"), in Uzbekistan. The contract will become effective following standard regulatory approvals, which include the issuance of a Presidential Decree. In addition it was announced that a further Memorandum of Understanding had been signed, which agreed a timetable for the potential signing of an Exploration Agreement for a highly prospective Exploration block located in the North Ustyurt basin. *See Uzbekistan Operations Update on page 27.*

On June 29, 2012, the Company announced that its Kazakh subsidiary had reached agreement on a USD16.0 million loan facility. This facility is provided to Tethys Aral Gas by a Kazakh bank via its partners in Kazakhstan, and is available to fund capital expenditures. An initial USD3.5 million of this facility was drawn down in June 2012 and a further USD1.0 million in September 2012. The loan agreement was signed on August 13, 2012. See *Liquidity and Capital Resources on page 20*.

On July 19, 2012, the Company announced that it had received an updated independent Resource Report for its Tajikistan assets. These cover an area of approximately 35,000 sq. km and the estimated gross unrisked mean recoverable resources were 27.5 billion boe consisting of 114 trillion cubic feet (3,229 billion cubic metres) of natural gas and 8.5 billion barrels of oil and condensate.

On September 10, 2012, drilling commenced on the AKD07 appraisal/exploration well in Kazakhstan and on October 12, 2012 the Company announced the preliminary results. The initial drilling and electric log results indicated potential hydrocarbons in the Jurassic limestone sequence and lower down in a thin Jurassic sandstone near the current total depth of the well. It was also announced that drilling was to recommence on the well towards a planned total depth ("TD") of 2,750 metres in order to more fully assess the potential hydrocarbon bearing zones in the Upper Jurassic sand sequence.

On October 18, 2012, the Company announced that it had reached a Total Depth ("TD") of 2,750 metres on the AKD07 exploration/appraisal well and has now run the production liner in order to test the Jurassic carbonate zone which appears to be oil bearing from the drilling and wireline log results.
On November 13, 2012, the Company announced testing had been temporarily suspended in the Jurassic carbonate whilst further options were being evaluated one of which is to bring in a pump to lift the well as no formation oil had been recovered to date. *See Kazakhstan Operations Update on page 25.*

On October 26, 2012, the Company announced that Kulob Petroleum Limited, its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract ("Bokhtar PSC") in Tajikistan, has signed a Memorandum of Understanding ("MOU") to execute a farmout agreement on the PSC. The potential acquiring party is an international oil and gas company ("IOC"). *See Tajikistan Operations Update on page 26*

Oil and gas revenue in the nine months to September 30, 2012 was USD26.681 million, which represented an increase of 72% on the USD15.506 million in the same period of 2011.
The loss for the nine months to September 30, 2012 was USD16.835 million, which represented a decrease of 4% on the USD17.566 million loss for the same period in 2011.

In the nine months to September 30, 2012, capital expenditure was USD9.331 million compared to USD36.834 million for the same period in 2011.
Production costs in the nine months to September 30, 2012 were USD9.401 million compared to USD6.918 million for the same period in 2011 reflecting the additional production costs associated with the enhanced levels of oil production achieved in Kazakhstan.

Administrative costs in the nine months to September 30, 2012 were USD15.248 million compared to USD15.520 million incurred in the period to September 30, 2011. Administrative costs in the three months to September 30, 2012 were USD4.490 million compared to USD4.859 million incurred in the three month period to September 30, 2011, a reduction of 8% over the quarter.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively ñTethysò or ñthe Companyò) has its principal executive office in Guernsey, British Isles. The domicile of Tethys Petroleum Limited is the Cayman Islands where it is incorporated. Tethysô principal activity is the exploration for and production of crude oil and natural gas. The Company currently has projects in the Republic of Kazakhstan, the Republic of Tajikistan and the Republic of Uzbekistan.

Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

Period	2012				2011			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Q1	35,242	1,244,401	387	2,279	28,798	1,016,840	320	1,883
Q2	31,967	1,128,762	351	2,068	34,225	1,208,485	376	2,214
Q3	31,160	1,100,253	339	1,993	35,538	1,254,847	386	2,274
Total	98,369	3,473,416	359	2,113	98,561	3,480,172	361	2,125

Note 1 Mcm is thousands of cubic metres.
Note 2 Mcf is thousands of cubic feet.
Note 3 Mcm/d is thousands of cubic metres per day
Note 4 boe/d is barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

- Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main Bukharaï Urals gas trunkline, where a compressor station was constructed at km910 on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.
- Initial production from the Kyzyloi Field was sold under the long-term take-or-pay contract signed between TAG and gas trading company GazImpex in January 2006. This contract was assigned in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP, who utilized 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 USD32 per Mcm excluding VAT or USD35.84 per Mcm including VAT at the current 12% rate.
- The long-term take-or-pay contract is due to expire in December 2012 and negotiations are underway with the gas buyers for a contract to cover 2013.
- In the nine months to September 30, 2012, one of the compressors was out of commission until June which resulted in slightly lower production levels though this had a bigger impact on Akkulka production. The gradual reduction in production levels is primarily the result of natural decline in the wells.
- To the end of Q3 2012 some 633 MMcm under the Gas Supply Contract had been delivered**.**

Kazakhstan Gas Production (Akkulka contract)

	2012				2011			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Q1	16,273	574,605	179	1,053	17,182	606,693	191	1,124
Q2	14,373	507,504	158	930	22,651	799,807	249	1,465
Q3	12,808	452,265	139	819	22,867	807,434	249	1,463
Total	43,454	1,534,374	159	934	62,700	2,213,934	230	1,352

- On September 16, 2010, the Company commenced the second phase of gas development (referred to as ñPhase 2ò of the Kyzyloi / Akkulka shallow gas development) with commencement of production from the Akkulka Field on October 6, 2010.

- In conjunction with this, the Company entered into a second gas sales contract with Asia Gas NG LLP pursuant to which gas is sold from the Akkulka Field at a price of USD33.93 per Mcm excluding VAT or USD38 per Mcm including VAT. Gas sold under this contract is for domestic sales and, as such, is subject to a Mineral Extraction Tax of approximately 0.5% to the Kazakh State.
- The Akkulka gas sales contract runs for a period of two years. First deliveries under this contract commenced on October 6, 2010. The new sales contract for 2012 is currently under negotiation.
- As stated above, in the nine months to September 30, 2012, one of the compressors was out of commission, which together with one Akkulka well being closed has resulted in a reduction in production levels.
- To the end of Q3 2012, some 151 MMcm under the Gas Supply Contract had been delivered.
- TAG has made eleven shallow gas discoveries in the Akkulka Exploration Licence and Contract area. The Akkulka Production Contract now covers seven of these wells, of which four are currently producing from a similar horizon to the Kyzyloi Field and are tied into the Companyôs existing pipeline infrastructure, with additional compression having been installed at the BCS. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3.
- The Company has currently elected to advance neither the Kyzloi nor Akkulka gas projects fully due to the relatively low gas prices currently being obtained. The Company is hopeful however that, with the completion of the Kazakhstan ï China gas pipeline (which the Company understands is scheduled for 2013), better gas prices may be obtained with more competition from gas buyers for supply.

Kazakhstan Oil Production (Akkulka contract)

	2012					2011				
Period	Gross fluid		Net	Net Production		Gross fluid		Net	Net Production	
	m3	Barrels	Barrels	days	bopd	m3	Barrels	Barrels	Days	Bopd
Q1	17,149	105,082	94,463	91	1,038	4,219	32,359	30,030	90	334
Q2	46,099	289,957	266,391	91	2,927	10,269	78,143	74,244	91	815
Q3	42,148	265,102	251,321	92	2,732	18,579	156,129	144,624	92	1,572
Total	105,396	660,141	612,175	274	2,234	33,067	266,631	248,898	273	912

Note: These figures have been calculated on the total number of days in the period and have not been restricted to the number of production days as in pre-2012 MD&Aôs.

- On September 10, 2010, the Company commenced selling untreated oil at the well site of AKD01 (under test production at a permitted level of up to 750 barrels of oil per day (ñbopdò)) to an oil trading company which transported the oil by truck to an oil loading terminal north of the town of Emba, located 450 km to the northeast of the well site, where it was treated before being transported to local refineries. Tethys sold the unprocessed oil at the wellhead at an initial price of USD22 per barrel (ñbblò). This test production scheme was implemented to gain reservoir information, realize early cash flow and also to prepare for the higher production and associated logistics for the next stage.
- On January 11, 2011, TAG received Kazakh State approval from MOG for the Pilot Production Project for the Doris oil discovery in the Akkulka Block. This approval granted TAG the right to produce oil from the Doris discovery under the exploration contract and allowed the Company to install and operate production facilities for the planned (Phase 2) production target. Once the Pilot Production Project is fully completed, the relevant final reserve calculations will be submitted to MOG to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is expected to apply for a production contract after the appraisal programme for the Doris oil discovery is complete.

- AKD01 has been producing consistently since first coming on stream though during the first part of July, when there was a temporary shortage of rail trucks in Kazakhstan resulting in a shortage of tank space, the well was temporarily closed.
- Test production from well AKD05 commenced in June and carried on into July 2011. There was then a gap in August and September before commercial production commenced in October 2011. The well was closed during the severe winter before being reopened when the AOT came online before also being closed during early July as a result of the shortage of rail trucks. The AKD06 well was originally tested in November and December 2011 and was then closed until April 18, 2012 when it was opened for continued testing. This well continues to perform to expectations.
- Between January 1, 2012 and March 31, 2012, because of the severe weather conditions and work on building the necessary facilities only 61 days of pilot production were achieved while the number of days for the same period of 2011 was 26 days.
- In the three months from April 1 to June 30, following the opening of the AOT at Shalkar there was a significant increase in the amount of oil trucked. It should be noted that Tethys Aral Gas sells the oil at the wellhead and does not participate in the trucking operation and therefore relies on a third party to ensure that the maximum amount of oil produced is trucked and sold. In the third quarter the oil produced and trucked has steadily increased every month and this trend has continued in October. The increase has not been as quick as originally hoped due to various issues experienced by the trucking company such as a serious shortage of rail trucks in Kazakhstan in July, which necessitated a reduction in the Companyôs daily production levels at that time, and generally learning how to optimise operating 120+ trucks over a 460km round trip through the Kazakh Steppe. The gradual increase in production since then has demonstrated that these issues are being successfully addressed, be it slower than TAG would have liked, and it is expected in the fourth quarter that further improvements will be seen on route to achieving maximum production output by year end, which Tethys believes is 4,500 ï 5,000 bopd with the current wells drilled. *See Joint Venture below and Outlook on page 23.*

Joint Venture

On February 17, 2011, the Company signed a joint venture agreement to construct and operate AOT, a rail oil loading terminal at Shalkar in Kazakhstan. Transcontinental Oil Transportation (ñTOTò), a wholly owned subsidiary of the Company, and Olisol Investments Limited, a local partner with strong experience in the oil distribution business in Kazakhstan, each has a 50% interest in the project. In the second quarter commercial oil sales commenced through the AOT which effectively halved the oil trucking distance providing better control over the oil sales. Production was steadily increased over a period as each part of the sales chain was optimized.

AOT Phase 2 construction that will allow an increase in throughput capacity from 4,200 bopd up to 6,300 bopd is now complete with the installation of two x 1000 m3 tanks (approximately 12,500 bbls), associated dehydration and pumping equipment. It is expected that both the working and State Commissions approvals will be finalized by the end of November. Current production from the Doris field has increased steadily and is currently averaging 4,000bopd. With the current well stock it is forecast that a production rate of between 4,500 can be achieved on a continual basis. Higher rates can be achieved but it is believed that these rates are most optimal for this reservoir with the current wells.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

Period	2012 Total Production			2011 Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	9,004	64,379	707	14,945	106,857	1,187
Q2	8,795	62,885	691	14,047	100,436	1,103
Q3	8,350	59,703	649	10,891	83,859	912
Total	26,149	186,967	682	39,883	291,152	1,067

** using 7.15 barrels = 1 tonne*

After State Take

Period	TPU[1] Share 2012			TPU Share 2011		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	2,443	17,469	192	6,430	45,975	511
Q2	2,250	16,087	177	5,813	41,563	456
Q3	1,988	14,214	155	2,629	20,246	220
Total	6,681	47,770	175	14,872	107,784	395

- The Company, through Tethys Production Uzbekistan (ñTPUò), owns a 100% contractor interest in the North Urtabulak PEC for the North Urtabulak Field, together with subsidiaries of Uzbekneftegaz (ñUNGò). 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 Field to TPU and no reserves or resources have been attributed to TPUôs interest under the North Urtabulak PEC to date.
- Under the North Urtabulak PEC, the contractor receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with 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.
- As at September 30, 2012, the Company was producing approximately 655 bopd (gross), 155 bopd (net), from 14 wells under the North Urtabulak PEC, of which 12 were past their first three years of production. Part of the North Urtabulak Field lies under a zone of active salt movement which has had limited production in the past due to drilling difficulties.
- In November 2011, the Company announced it had signed an MOU with UNG, establishing a programme for Tethys to obtain a new PEC on an existing oilfield in Uzbekistan ï the Chegara Group of fields. This was followed by a further announcement on May 16, 2012, that the Companyôs wholly owned subsidiary Chegara Production Limited had signed a Production Enhancement Contract ("PEC") for a new oil field, the Chegara Group of Fields ("Chegara"), in Uzbekistan. The contract will become effective following standard regulatory approvals, which include the issuance of a Presidential Decree. This is expected within the next two months.

[1] TPU is Tethys Production Uzbekistan, the Tethys subsidiary which holds the PEC. Tethys Production Uzbekistan is the trading name of Baker Hughes (Cyprus) Limited.

- In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue providing the framework for a Joint Study and facilitate the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. Then on May 16, 2012 it was announced that a Memorandum of Understanding had been signed, which agreed a timetable for the potential signing of an Exploration Agreement for a highly prospective Exploration block.

Tajikistan Oil Production (Beshtentak field)

		Q3 2012					Q3 2011			
		Total Production					Total Production			
		Tonnes	Barrels*	Production days	bopd		Tonnes	Barrels*	Production days	bopd
Total		4,384	31,276	273	115		-	-	-	-

On October 20, 2011, the Company announced that the Beshtentak well BST20, having been worked over by applying modern perforating and acidisation techniques and applying natural gas lift, tested oil at a rate of 533 bopd accompanied by 12,500 cubic metres (441 thousand cubic feet) of gas per day on a restricted choke (10 mm - 25/64 inch) with a flowing tubing head pressure of 26 atmospheres (377 psi).

Initial sales agreements were signed and the first payments from oil sales received. There are now some 4 buyers for the oil production.

The well was placed on oil production and the gas was tied into the nearby local gas grid but subsequently production performance indicated possible communication with the nearby BST103 well which is producing gas from the field for the city of Kulob, this gas being part of the ñbase levelò production on the field assigned to the Tajik State. As a result, the BST20 production dropped significantly. The well is now back on production but at lower rates than previously. In Q3 2012 the production was approximately 140 bopd, while current production is approximately 225 bopd.

Meanwhile, 3 - 4 further workover candidates were identified in other parts of the Beshtentak field (away from existing producers), which have been interpreted to contain remaining bypassed oil and gas. Work is currently ongoing to develop these interesting opportunities. In addition to conducting recompletion work on these 3 - 4 wells, it is planned in the future to locate potentially one new high angle or horizontal crestal development well, which would have the potential to achieve higher production rates than those obtained from the BST20 well, with the option to add another based on the initial results.

Production Summary

In the first nine months of 2012, the oil and gas production levels achieved (before the deduction of local governments share or taxation) were as follows:

Country	**Oil**	**Gas**		**Combined**
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	2,234	518	3,046	5,280
Uzbekistan	685	-	-	685
Tajikistan	115	-	-	115
Total	**3,034**	**518**	**3,046**	**6,080**

While in the same period of 2011 the production levels were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	912	591	3,475	4,387
Uzbekistan	943	-	-	943
Tajikistan	-	-	-	-
Total	**1,855**	**591**	**3,475**	**5,330**

Note: These figures have been calculated on the total number of days in the period and have not been restricted to the number of production days as in pre-2012 MD&Aŝ.

In the three months to September 30, 2012, the oil and gas production levels achieved (before the deduction of local governments share or taxation) were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	2,732	478	2,812	5,544
Uzbekistan	649	-	-	649
Tajikistan	140	-	-	140
Total	**3,521**	**478**	**2,812**	**6,333**

While in the same period of 2011 the production levels were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	1,572	635	3,737	5,309
Uzbekistan	912	-	-	912
Tajikistan	-	-	-	-
Total	**2,484**	**635**	**3,737**	**6,221**

Financial Review

Loss before tax

The Company recorded a net loss after taxation of USD16.835 million in the nine months ended September 30, 2012 compared to a net loss of USD17.566 million in the same period of 2011. The principal differences between the two periods were as follows:

	Three months ended September 30			Nine months ended September 30		
	2012	2011	Movement	2012	2011	Movement
Sales and other revenues	9,990	6,849	46%	26,681	15,506	72%
Other operating income	-	922	-100%	0	6,628	-100%
Total revenue and other income	**9,990**	**7,771**	**29%**	**26,681**	**22,134**	**21%**
Production expenses	(3,562)	(3,393)	5%	(9,401)	(6,918)	36%
Depreciation, depletion and amortization	(4,766)	(3,857)	24%	(12,557)	(9,684)	30%
Exploration and evaluation	(138)	(1,807)	-92%	(138)	(1,807)	-92%
Listing costs	0	(273)	100%	0	(606)	100%
Business Development Expenses	(42)	(697)	-94%	(621)	(1,926)	-68%
Administrative expenses	(4,490)	(4,859)	-8%	(15,248)	(15,520)	-2%
Stock based compensation	(582)	(1,054)	-45%	(2,459)	(3,111)	-21%
Foreign exchange (gain) / loss	(158)	(183)	-14%	(334)	33	-
Fair value loss / (gain) - net	(149)	(231)	-35%	(216)	(554)	-61%
Loss from joint venture	(395)	(291)	36%	(294)	(802)	100%
Finance (income) / costs -net	(296)	194	-253%	(1,148)	912	-226%
Loss before tax	(4,588)	(8,680)	-47%	(15,735)	(17,849)	-12%
Tax	(529)	105	-604%	(1,100)	283	-489%
Loss after tax	(5,117)	(8,575)	-40%	(16,835)	(17,566)	-4%

Note

Revenue from the oil sales in Tajikistan is included in the financial statements of SSEC and in 2012 is included in the Companyǿs consolidated revenue. Between December 31, 2009 and December 13, 2011, SSEC was a joint venture and as such its revenue was not included in the Companyǿs consolidated revenue during that period.

Revenue

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Gas sales	1,406	1,873	-25%	4,546	5,227	-13%
Oil sales	7,468	2,895	158%	17,555	4,503	290%
Refined product sales	1,055	2,018	-48%	4,376	5,386	-19%
Other revenue	61	63	-3%	204	390	-48%
	9,990	6,849	46%	26,681	15,506	72%

Note1 Oil sales include sales in both Kazakhstan and Tajikistan.

Note 2 Oil sales in Kazakhstan are reported net of water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Shalkar.

Kazakhstan Gas sales

- The gas sales are generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan and, as referred to in *Kyzyloi Gas Production* above, are sold to Asia Gas NG LLP at agreed prices of USD32 per Mcm excluding VAT for the Kyzyloi gas and USD38 including VAT for the Akkulka gas.
- Both of the existing sales contracts are due to expire in December 2012 and negotiations are underway for new contracts in 2013.

- Total volumes sold in the nine months to September 30, 2012 were 96.7MMcm (2011: 98.0MMcm) from Kyzyloi and 42.8MMcm (2011: 62.6 MMcm) from Akkulka.
- Total volumes sold in the three months to September 30, 2012 were 30.6.MMcm (2011: 35.0MMcm) from Kyzyloi and 12.6MMcm (2011: 22.6 MMcm) from Akkulka.
- Gas sales for the nine months to September 30, 2012 were USD4,546,000 compared to USD5,227,000 for the same period in the prior year. Gas sales for the three months to September 30, 2012 were USD1,406,000 compared to USD1,873,000 for the same period in the prior year. The slight decrease in Q3 2012 was the result of limited natural field decline and limited capital being spent to increase production.

Kazakhstan Oil sales

A breakdown of oil sales in the nine months of 2012 and 2011 are as follows:

2012

Period	Gross bbls	Gross Revenue USD000	Price at wellhead USD/bbl	Compensation USD000	VAT USD000	Net Sales USD000
Q1	89,024	2,670	30.0	79	278	2,313
Q2	245,231	7,876	32.1	118	831	6,927
Q3	252,994	8,037	31.7	186	841	7,010
	587,249	18,583	31.6	383	1,950	16,250

2011

	Gross bbls	Gross Revenue USD000	Price at wellhead USD/bbl	Compensation USD000	VAT USD000	Net Sales USD000
Q1	24,856	598	24.1	30	61	507
Q2	63,190	1,503	23.8	270	132	1,101
Q3	133,466	3,667	27.5	375	397	2,895
	221,512	5,768	26.0	675	590	4,503

In Kazakhstan the Companyọs current oil production is under a Pilot Production Scheme and therefore oil is sold only on the local market.

Net figures exclude the compensation for water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Emba. The associated water from production is separated at the well site and transported approximately 40km to a disposal facility. Water is currently being produced and disposed from the AKD01, AKD05 and AKD06 wells that together make up the current total production. The compensation water is a small amount of water in the crude that remains after the field separation.

The VAT can be recovered by the Companyọs Kazakh subsidiary. It should be noted that this is the realized price at the wellhead and the Company therefore incurs no transportation and marketing costs beyond this. The Company notes that some other entities report their oil price somewhat differently, with transportation and marketing costs being reported separately. Tethysô oil is trucked 230 kilometres and then railed many 100ọs of kilometres and according to figures provided by local oil buyers if oil was sold at the refinery and reported the price it would be closer to $55 - $60 per barrel. In 2013 we are hopeful of making additional gains in the realized price.

The oil sales in Q3 2012 showed only a small increase on Q2 2012 sales as a result of the following reasons:

- Railway carriage issues in July followed by related trucking issues in August and September.
- A fall in the local oil price in July and August.

The oil sales in the nine months to September 30, 2012 saw a significant increase on the equivalent period in 2011 for the following reasons:

- While there were three wells producing in 2012 there was only the one in 2011. See *Kazakhstan Oil Production (Akkulka contract)* above.
- Increased deliveries and reduced turnaround time for trucks following the opening of AOT.
- Increased sales price as production increased and the opening of AOT.

Tajikistan Oil Sales

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Oil sales	459	-	100%	1,305	-	100%

The oil sales in Tajikistan are the result of local sales of the production from BST20 which began producing in October 2011. See *Tajikistan Oil Production (Beshtentak field)* above.

Refined products sales (Uzbekistan)

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Refined product sales	1,055	2,018	-48%	4,376	5,386	-19%

- Refined product sales for the nine months to September 30, 2012 were USD4,376,000 compared to USD5,386,000 in the same period of 2011 This reduction was less than the drop in the Companyés share of production in 2012 compared to 2011 because the sales in 2012 included products paid for in 2011 but not delivered until 2012, which had been identified as deferred revenue in the 2011 annual financial statements.
- Refined product sales for the three months to September 30, 2012 were USD1,055,000 compared to USD2,018,000 in the same period of 2011.
- See *Uzbekistan Oil Production* above to see the drop in production from 2012 to 2011.

  Deferred revenue from refined product sales, i.e. goods sold and paid for but awaiting delivery, at September 30, 2012 was USD1,238,000 (December 31, 2011: USD1,839,000).
- Under the North Urtabulak PEC, TPU receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the company receives 20%, and the Uzbek State Partners 80% of the same. As at September 30, 2012 some 12 of the 14 producing wells were past the initial three years of production.

Production expenses

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Kazakhstan	2,746	2,199	25%	6,965	4,479	55%
Uzbekistan	370	1,194	-69%	1,475	2,439	-40%
Tajikistan	371	-	100%	879	-	100%
Other	75	-	100%	82	-	100%
	3,562	3,393	5%	9,401	6,918	36%

Kazakhstan

Production costs in Kazakhstan were higher in the nine months to September 30, 2012 compared to the same period in 2011 primarily as a result of the higher levels of oil production. See *Kazakhstan Oil Production (Akkulka contract)* above for details.

The split between the gas and oil production costs in Kazakhstan was as follows:

	Three months ended September 30	Nine months ended September 30
Kazakhstan gas production	USD 763,000	USD 2,167,000
Production cost per boe	USD 2.55	USD 2.44
Kazakhstan oil production	USD 1,983,000	USD 4,798,000
Production cost per barrel	USD 7.89	USD 7.83

Oil production costs in Q3 2012, of USD1,983,000 were significantly higher than the costs incurred in Q2 2012 of USD1,476,000, primarily as a result of the following:

- Transfer of costs that had previously been included incorrectly as Administrative costs;
- A repair to well AKD05;
- An increase in environmental fees and emission monitoring costs;
- A correction to the MET accrual.

Tajikistan

Production costs in Tajikistan in both the three months and the nine months to September 30, 2012 were high in relation to the oil sales but this should reduce in the coming months with increased levels of production. A large proportion of the production costs are fixed.

Uzbekistan

Production costs in Uzbekistan in both the three months and the nine months to September 30, 2012 compared to 2011 as the production volumes in 2012 were lower than in the same periods in 2011. (see *Uzbekistan oil production and Refined product sales* above).

Depreciation, depletion and amortization expense

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
DD & A costs	4,766	3,857	24%	12,557	9,684	30%

- The DD&A in the three months and nine months to September 30, 2011 were a combination of the gas and oil production related figures in Kazakhstan and the refined product production in Uzbekistan while the three months and nine months to September 30, 2012 also include Tajikistan oil production related figures.
- The DDA is directly related to the use of reserves and consequently the figure for Kazakhstan was higher in both the three months and the nine months to September 30, 2012 because the revenues were higher in both periods reflecting the fact that the reserves utilised in both periods were higher than in the same periods of 2011. In Tajikistan the reserves attributed to Beshtentak were small and so as the oil production uses up these reserves the depreciation charge increases accordingly.

Business development expenses

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Business development expenses	(42)	(697)	-94%	(621)	(1,926)	-68%

- Business development costs relate to costs incurred in the Companyǿs pursuit of new contracts in Central Asia. The USD42k incurred in the three months and the USD621k in the nine months to September 30, 2012 related to the Chegara contract in Uzbekistan and the pursuit of possible production projects in Afghanistan.
- The majority of the costs in the three months and the nine months to September 30, 2011 were incurred with respect to the tender held by the government of Afghanistan for an Exploration and Production Sharing Contract relating to three exploration/development areas located in the north of the country within the Amu Darya basin

Administrative expenses

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Staff costs	2,251	2,088	8%	7,292	6,395	14%
Travel costs	743	1,069	-30%	2,259	2,806	-19%
Office costs	692	798	-13%	2,163	2,048	6%
Professional fees	313	462	-32%	1,810	1,948	-7%
Marketing costs	231	205	13%	650	1,114	-42%
Other costs	260	237	10%	1,074	1,209	-11%
	4,490	4,859	-8%	15,248	15,520	-2%

Review

The Company has initiated a review of all costs with a particular focus on Administrative expenses. The objective of this review is twofold:

1. Over the coming months there will be a push to reduce costs in all areas but particularly Administrative costs;
2. A review of categorization of costs will be carried out to ensure that the Company is behaving consistently with other similar oil and gas companies, which will facilitate appropriate comparison within its peer group.

Some of these measures can be seen in the 22% reduction in the Q3 2012 costs over the Q2 2012 costs (USD5,771,000), and in the 8% reduction against Q3 2011, but it is expected most of the effect will be realised in the quarters to come.

For the nine months ended September 30, 2012 Administrative expenses were down on the same period of the previous year as a result of the following:

- Travel costs are running at a consistently lower level than in 2011.
- Reduction in the marketing costs reflects the Company reducing its social sponsorship costs particularly in Kazakhstan.
- These savings were partly offset by higher staff costs and office costs, though these should be seen to reduce in the forthcoming quarters.

As stated above Administrative expenses for the three months ended September 30, 2012 were down in total on both the same period of the previous year and the previous quarter and indeed were down in all categories other than Staff costs:

- The reductions in office costs and professional fees in the three months to September 30, 2012, were primarily the result of corrections to costs that should have been Production costs. *See Kazakhstan Oil production costs above.*
- As stated above travel costs are running at a consistently lower level than in 2011

Share based payments

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Share based payments	582	1,054	-45%	2,459	3,111	-21%

In the nine months to September 30, 2012, some 5,505,000 options were granted, 15,000 were exercised and 240,000 were forfeited or expired.

In the three months to September 30, 2012, some 270,000 options were granted.

Foreign exchange

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Foreign exchange loss/(gain) net	158	183	-14%	334	(33)	-1112%

A foreign exchange loss was incurred in the nine months ending September 30, 2012 compared to a small exchange gain in the equivalent period in 2011. This loss can be attributed to a strengthening of the GBP against the USD combined with slight movements in the KZT against the USD.

The exchange loss in the three months to September 30, 2012 was the result of the same factors for the nine months.

Fair value

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Fair value loss	149	231	-35%	216	554	-61%

The Fair Value loss in the nine month periods ending September 30, 2012 was the cost of the interest rate swap offset by gains on foreign currency hedging and the fair value of warrants issued by the Company that were denominated in a currency other than the Company's functional currency for financial reporting purposes.

The Fair Value loss in the three month periods ending September 30, 2012 was the cost of the interest rate swap offset by the gain on the fair value of warrants issued by the Company that were denominated in a currency other than the Company's functional currency for financial reporting purposes.

Joint venture

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Loss on jointly controlled entity	395	291	36%	294	802	-63%

Loss from the jointly controlled entity in 2012 represented the Company's 50% share in AOT, while the 2011 figure represented the Company's 51% share in the loss incurred by SSEC.

Net finance costs

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Net finance costs / (income)	296	(194)	253%	1,148	(912)	-226%

Finance costs consist primarily of interest costs net of any interest income. With very little capital expenditure in both the three months or nine months periods to September 30, 2012 then little of the interest expense incurred in those periods could be capitalized.

Taxation

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Current income tax expense	88	11	600%	298	11	2,609%
Deferred tax (recovery) / expense	441	(116)	480%	802	(294)	373%

The current tax charge comprises a tax charge in Uzbekistan of USD298k (2011: Nil) where the prior years' losses have been fully utilized.
The deferred tax charge reflects the change in deferred tax arising as a result of tax losses not being utilized. The recovery in 2011 was due in part to the impairment of Uzbek assets (see *notes 12 and 13 of the 2011 Audited Consolidated Financial Statements*) and a favourable increase in asset tax pools in Kazakhstan.

Capital Expenditure

	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	**2012**	2011	% Change
Kazakhstan	3,310	10,809	-69%	4,990	33,018	-85%
Uzbekistan	188	254	-26%	373	3,605	-90%
Tajikistan	2,474	-	100%	3,912	-	100%
Other and Corporate	49	85	-42%	56	211	-73%
	6,021	11,148	-46%	9,331	36,834	-75%

As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned capital expenditure to later in 2012.

Major items of capital expenditure in the three months to September 30, 2012 were:

Kazakhstan

• AKD07	USD1.78 million
• AKD05	USD0.72 million

Tajikistan

• Seismic survey	USD1.66 million
• Persea	USD0.30 million

Major items of capital expenditure in the nine months to September 30, 2012 were:

Kazakhstan

• AKD07	USD1.78 million
• AKD05	USD0.72 million
• Akkulka appraisal wells tie ins	USD0.63 million
• Production facilities	USD0.33 million

Tajikistan

• Seismic survey	USD1.88 million
• Persea	USD0.60 million
• Beshtentak	USD0.24 million
• EOL09	USD0.30 million

Use of Funds

Set out below are details of the planned use of funds as detailed in the prospectus dated October 4, 2010:

The primary differences were in relation to:

1. The well drilling programme in Kazakhstan is ongoing with a further appraisal well planned for 2013 and testing of the exploration well in Kul Bas.
2. Phase 1 of the production and processing infrastructure is complete. Phase 2 should be completed in Q4 2012 and Phase 3 in 2013.
3. There is no significant production yet in Tajikistan and so few costs have been incurred in relation to Production and Processing infrastructure.
4. In Uzbekistan no seismic work has yet been undertaken.
5. While only one well has been drilled in Uzbekistan there have been a number of workovers.

	Prospectus dated Oct 04, 2010	**Incurred to Sep 30, 2012**	**Balance**
Kazakhstan			
Appraisal and Exploration Wells	47,500	37,219	10,281
Production and Processing Infrastructure	19,800	12,980	6,820
Seismic Data	6,000	3,070	2,930

Tajikistan			
Production and Processing Infrastructure	3,760	-	3,760
Seismic Data	3,000	3,000	-
Exploration and Appraisal Drilling Wells	4,000	4,000	-
Uzbekistan			
Seismic Data	2,000	-	2,000
Production Drilling	5,940	2,763	3,177
Total	92,000	63,032	28,968

The primary explanation of the difference between the ñBalanceò of USD29.0 million per the above table and the cash balance of USD1.6 million per the Companyôs financial statements are as follows:

- Reduced cash from 2012 Kazakhstan Revenue due to adverse weather conditions plus the shortage of railway carriages and subsequently trucks.
- Reduced cash from 2012 Uzbek sales
- Increased spending on Komsomolsk wells
- Drilling of EOL09 oil discovery exploration well in Tajikistan
- Business development cost

Summary of Quarterly Results

The figures in the table below have been prepared under IFRS requirements.

Financials (USD000ôs)	**Dec 31 2010**	**Mar 31 2011**	**Jun 30 2011**	**Sep 30 2011**	**Dec 31 2011**	**Mar 31 2012**	**Jun 30 2012**	**Sep 30 2012**
Revenue	3,387	4,480	4,177	6,849	7,416	6,487	10,204	9,990
Other operating income	-	-	5,706	922	747	-	-	-
Net loss	(11,210)	(6,295)	(2,696)	(8,575)	(9,424)	(6,848)	(4,870)	(5,117)
Basic and diluted loss (USD) per share	(0.04)	(0.02)	(0.01)	(0.03)	(0.04)	(0.02)	(0.02)	(0.02)
Capital expenditure	14,584	10,852	14,834	11,148	5,068	1,209	3,310	4,812
Total assets	267,748	259,477	261,144	255,066	263,391	253,945	253,153	252,083
Total long term liabilities	(11,535)	(10,492)	(8,434)	(8,295)	(4,676)	(5,656)	(5,752)	(9,437)
Cash balance	79,135	57,400	35,855	18,425	11,631	4,803	4,446	1,620
Cash and working capital surplus	69,718	49,893	24,137	4,893	942	(1,831)	(3,346)	(6,058)

Significant factors influencing quarterly results

- Akkulka gas production commenced in Q3 2010. Oil sales from oil test production from Doris commenced in Q4 2010 resulting in revenue of USD748,000 in Q4 2010 and USD501,000 in Q1 2011.
- The Company raised USD100 million (gross) in October 2010 through the issue of equity.
- Oil sales in Kazakhstan picked up with effect from Q2 2011.

In Q2 2011 the revenue from the rental of drilling equipment to the Tajik JV was recognized and this continued to the end of 2011 when the purchase of an additional 34% of the company meant that the Tajik operation returned to being a subsidiary with the result that going forward, this revenue was eliminated on consolidation. For further clarification refer to *Note 4 of the condensed consolidated interim financial statements to September 30, 2012*.

- Uzbekistan sales fell away significantly from Q3 2011 though they would appear to be leveling out with effect from Q1 2012 and are currently reasonably stable.
- There was an impairment adjustment in Uzbekistan in Q4 2011 of USD8.98 million.
- Kazakhstan oil sales were significantly affected by adverse weather conditions in Q1 2012.
- The opening of the AOT in April 2012 saw a significant increase in oil production in Kazakhstan combined with an increase in the price per barrel resulting in a significant increase in oil revenue.
- As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned capital expenditure to later in 2012

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2011 to September 30, 2012:

Property, plant and equipment	121,894	128,918	-7,024	Little development capital expenditure was incurred in the period while DD&A was incurred in line with production
Intangible assets	104,165	99,959	4,206	Primarily the result of expenditure incurred in Tajikistan in the period.
Prepaids and other receivables	10,629	10,217	412	Increase in prepayments to contractors offset by reduction in the VAT balance.
Cash and cash equivalents	1,146	10,746	-9,600	Refer to Consolidated Statement of Cash Flows in the annual financial statements
Restricted cash	474	885	-411	Restricted funds no longer required as security against expired hedging arrangement.
Derivative financial instruments - interest rate swap	-	630	-630	This arrangement expired in 2011
Other reserves	41,200	38,530	2,670	Stock based compensation expense incurred in the period.
Accumulated deficit	161,527	144,962	16,565	Loss incurred for the nine months to September 30, 2012, attributable to the shareholders.
Non-current financial liabilities - borrowings	5,874	1,632	4,242	Additional funding raised in the period relating to Phases 2 and 3 of the drilling equipment based loan.
Deferred taxation	2,913	2,111	802	Primarily the result of tax losses not being recognised.
Current financial liabilities - borrowings	7,411	8,396	-985	Settlement of the two loans related to the Uzbekistan well NU116 less funds raised through the drilling equipment loan.

Derivative financial instruments - warrants	688	264	424	Movement in the fair value of the liability together with expiry of some warrants
Derivative financial instruments - foreign exchange hedge	-	157	-157	Expiry of foreign exchange hedging in April 2012.
Deferred revenue	1,238	1,839	-601	Revenue received in advance of shipments in Uzbekistan
Current taxation	298	-	298	Taxation charge on profits generated by TPU in Uzbekistan
Trade and other payables	9,294	10,179	-885	Reduction in trade payables in Kazakhstan offset by an increase in Uzbekistan.

Contractual obligations and liabilities as at September 30, 2012

	Payments Due by Period USD'000s				
	Total	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**After 5 years**
Financial borrowings	13,285	7,411	5,874		
Operating leases	787	624	109	54	
Trade and other payables	9,696	9,294	248		154
Commitments[1]	35,914	10,052	25,862		
Total contractual obligations	**59,682**	**27,381**	**32,093**	**54**	**154**

[1]The primary constituents of the commitments are the work plans in Kazakhstan which encompass capital expenditure, production expenditure and administrative costs.

The Company is confident that it will satisfy these liabilities as and when they fall due.

Liquidity and Capital Resources

See Note 12 *Financial liabilities – borrowings* in the condensed consolidated interim financial statements to September 30, 2012.

In December 2011 the Company closed on the first tranche of a maximum USD10 million loan facility amounting to USD3,965,240, which is secured by the ZJ70 and ZJ30 rigs and other equipment. This facility gives lenders the choice of two methods of repayment designated Option A and Option B. The remaining two tranches of the USD10 million facility were closed in February and March 2012.

Under Option A, which has a term of one year, lenders have the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date. Option B, which has a term of two years, gives lenders the right to receive equal monthly installments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date. These borrowings are held at amortized cost and their carrying amounts approximate to their fair value at the balance sheet date. The interest payable on the borrowed funds is 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each USD100,000 principal amount of the loan advanced to the Company. As at June 30, 2012, a total of 5,000,000 such warrants have been granted to lenders. Such warrants will be exercisable at a 25% premium to the price of the volume weighted average CAD price of the shares on the TSX for the 5-day period prior to the day the borrower receives the funds in its bank account**.** As at June 30, 2012 1,610,000 warrants had been issued in connection with the second tranche of the loan and 1,407,380 for the third tranche of the loan.

On June 29, 2012 the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the ñbank loan facilityò). The bank loan facility was arranged by Eurasia Gas Group LLP, with the Companyôs consent, and is a bank loan to Eurasia Gas Group LLP, the Companyôs joint venture partner in Aral Oil Terminal LLP. The bank loan facility has a term of up to four years depending on the Companyôs requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

As at June 30, 2012, the Company and Eurasia Gas Group LLP had not finalised terms of a formal loan arrangement (the ñarrangementò), whereby Eurasia Gas Group LLP draws down on the bank loan facility entirely at the direction and discretion of the Company and funds are transferred to the Companyôs subsidiary TethysAralGas LLP, however 525 million KZT (USD3,510,072) of funds had been advanced to the Company.

During the quarter a formal loan agreement was signed for 2.35 billion KZT with a drawdown period of one year from the date of first drawdown (May 31, 2012). Repayment and interest terms are agreed for each drawdown, upon drawdown.

With respect to the 525 million KZT advanced in the last quarter, the repayment period has been agreed at 4 years, with monthly repayments of both principal and interest (at 16.1%). A further 150 million KZT (USD1,000,000) was also advanced during the quarter with a repayment period of 4 years and monthly repayments of both principal and interest (at 16.1%).

In case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

Cash Flows

The movement in the cash balance during the nine months to September 30, 2012 compared to what happened in the same period of 2011 can be broken down as follows:

	September 30, 2012	September 30, 2011	% Change
Net cash generated/(used) in operating activities	(1,349)	(9,869)	-86%
Net cash generated/(used) in investing activities	(10,422)	(51,474)	-80%
Net cash generated/(used) from financing activities	2,205	(762)	-389%
Foreign exchange difference	(34)	(14)	-143%
Increase/(Decrease) in cash and cash equivalents	(9,600)	(62,119)	85%

The movement in the cash balance during the three months to September 30, 2012 compared to what happened in the same period of 2011 can be summarised as follows:

	September 30, 2012	September 30, 2011	% Change
Net cash generated/(used) in operating activities	1,755	(2,173)	181%
Net cash generated/(used) in investing activities	(4,936)	(13,033)	-62%
Net cash generated/(used) from financing activities	399	(238)	268%
Foreign exchange difference	(44)	114	-138%
Decrease in cash and cash equivalents	(2,826)	(15,330)	-81%

Operating activities

The reduction in the cash used in operating activities in the nine months to September 30, 2012, compared to the first nine months of 2011 is primarily the result of the higher revenue figures of USD26.68 million (2011:USD 15.51 million) and subsequent cash settlements.

In the three months to September 30, 2012 the Company generated an operating cash surplus primarily as a result of the increased revenue generated in the quarter of USD9.99 million (2011:USD6.85 million)

Investing activities

A slower than forecast increase in oil production resulted in the cash inflow in the nine months to September 30, 2012 being less than was anticipated and as a result some of the planned capital expenditure was pushed back a number of months. The amount of capital expenditure incurred in the nine months was significantly less than the same period of 2011.

As with the nine months in 2012 the reduced revenue in the three months to September 30, 2012 resulted in there was less cash available in the quarter for capital expenditure.

Financing activities

The funds raised in tranches 2 and 3 of the drilling equipment loan (See *Liquidity and Capital Resources* above) were used to repay loans associated with the drilling of a well in Uzbekistan that were due for settlement in the first quarter of 2012. The Company also received the first two installments of the loan raised through its Kazakh partners amounting to USD4.5 million.

In the three months to September 30, 2012 the Company received the second installment of the Kazakh loan amounting to USD1.0 million, which resulted in a small surplus in the period of USD0.4 million (2011: (0.3 million)).

Capital management

The Companyös capital structure is comprised of shareholdersô equity and debt.

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

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

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

Net debt is calculated as total borrowings (including öcurrent and non-current borrowingsô as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as öequityô as shown in the consolidated statement of financial position plus net debt.

	September 30, 2012	**September 30, 2011**
	USD	**USD**
Total financial liabilities - borrowings	13,285	8,039
Less: cash and cash equivalents	(1,620)	(18,425)
Net debt / (funds)	11,665	(10,386)
Total equity	223,717	225,449
Total capital	235,382	215,063

The net debt at September 30, 2012 was USD11.365 million while there was no net debt at September 30, 2011 but the Company has assessed the position and is confident that future cash flows will be sufficient to service this debt and to support ongoing operations. See *Funding* below

Funding

The directors have considered the Companyõs current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements, in concluding whether it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the period ended September 30, 2012. The Companyõs activities, together with the factors likely to affect its future development, performance and position are set out in pages 18 to 21 of the Management Discussion & Analysis document. The key factors impacting the cash flows of the Company are the increased oil production following the commissioning of the AOT rail terminal, completed in mid-April 2012, and receipt of a USD16.0 million debt facility via its partners in Kazakhstan to finance its capital expenditure in Kazakhstan. The financial position of the Company, its cash flows and liquidity position are as set out in this Management Discussion & Analysis document on pages 16 to 19. The Company reports a loss for the nine months ended September 30, 2012 of USD16.8 million (2011: USD17.6 million). As at October 31, 2012, the Company held cash of USD2.5 million while the net current liabilities were USD6.1 million. The current liabilities include USD6.3 million of borrowings secured against the companyõs drilling equipment, USD2.1 million of which is anticipated to roll over in December, once all lenders have provided their consent, while the Company will look to roll over some of the remainder as they mature.

Following the commissioning of the AOT rail terminal at Shalkar in mid-April the Company saw a significant increase in daily oil shipments. It should be noted that Tethys Aral Gas sells the oil at the wellhead and does not participate in the trucking operation and therefore relies on a third party to ensure that the maximum amount of oil produced is trucked and sold. In the third quarter the oil produced and trucked has steadily increased every month and this trend has continued in October. The increase has not been as quick as originally hoped due to various issues experienced by the trucking company such as a serious shortage of rail trucks in Kazakhstan in July, which necessitated a reduction in the Companyõs daily production levels at that time, and generally learning how to optimise operating 120+ trucks over a 460km round trip through the Kazakh Steppe. The gradual increase in production since then has demonstrated that these issues are being successfully addressed, be it slower than TAG would have liked, and it is expected in the fourth quarter that further improvements will be seen on route to achieving maximum production output by year end, which Tethys believes is 4,500 bopd with the current wells drilled.

A take or pay agreement, signed November 8 2012, has been put in place for the period September to December 2012 whereby Eurasia Gas have agreed to pay for 4,000 bopd even if they collect less than 4,000 bopd. Eurasia Gas did pay for 4,000 bopd for September even though the actual volumes trucked was less than this figure.

While as stated above, management is confident that, with production levels at 4,000 ï 4,500 bopd, combined with the debt facility, the Company will have sufficient funding for its ongoing activities and its current capital expenditure plans, it is aware that should the oil sales fall below the anticipated level, or should the anticipated increase in the selling price not be achieved, then additional funding may be necessary to meet planned outflows. The current cashflow assumes that only USD12.5 of the USD16.0 million loan facility is drawn down so the Company could draw down the remaining USD3.5 million to fund Kazakh capital expenditure and/or with the postponement of capital expenditure items and with respect to its capital expenditure plans it could defer or delay or cancel several planned items. Given the low level of committed capital expenditure, the Directors believe that the Company has sufficient funds to meet its current plans.

The Company is currently adopting a prudent approach to cash management and will proceed with such projects when certain milestones have been met. Discussions have also been initiated with regard to reserve based lending and on other corporate and project related financing options.

With regard to longer term requirements, the Company regularly considers farm-out/farm-in and joint venture opportunities as a means of developing its business and sharing financial and/or commercial risks. As stated above on October 26, 2012 the Company announced its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract ("Bokhtar PSC") in Tajikistan, has signed a Memorandum of Understanding ("MOU") to execute a farmout agreement on the PSC. The potential acquiring party is an international oil and gas company.

The Directors have examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances referred to above, the Directors have a reasonable expectation that the company has adequate resources and potential to continue operations for at least the next twelve months. For these reasons they continue to adopt the going concern basis of accounting in preparing the condensed interim consolidated financial statements.

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at September 30, 2012 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 286,707,744 (2011: 260,629,769) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

As at the date of this report, November 14, 2012, a total of 34,388,129 (2011: 31,275,572) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at the date of this report is 34,173,000 and the number of warrants outstanding is 10,412,706.

Resource Reports

Kazakhstan

On May 16, 2012 the Company issued a press release where it stated that it had received an updated oil Resource Report for its Kazakhstan assets that estimated gross unrisked recoverable mean prospective oil resources of 1.17 billion barrels. Subsequent to the issue of this press release Gustavson Associates revised their audit figures for prospective resources for the Tethys Petroleum Kazakh acreage upwards to a mean unrisked total recoverable resource of 1.230 billion bbls and 634.4 bcf, this is effective April 30th 2012.

Tajikistan

On July 19, 2012 the Company announced that it had received an updated independent Resource Report for its Tajikistan assets. These cover an area of approximately 35,000 sq. km and the estimated gross unrisked mean recoverable resources were reported to be 27.5 billion barrels of oil equivalent (boe), effective June 30th 2012. The upgrade from the figures reported previously was the result of data acquisition and interpretation from both the seismic and aeromagnetic and gravity surveys together with well data.

In addition best case gross contingent resources of 47 mmboe was assessed across three fields in the report i.e. Beshtentak, Komsomolsk and East Olimtoi.

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on page 32 of this MD&A.

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of oil and gas field development projects and long-term high potential exploration projects focused on the Central Asian region. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

While the Company's long-term ambition is to occupy a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets, the specific focus of management in the short term is to:

- fully appraise the Doris and Dione oil field discoveries in the Akkulka Block, Kazakhstan;
- increase production from the Doris field to 4,500 to 5,000 during 2013;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- complete the final stage of the seismic programme in Tajikistan;
- focus on bringing in a farm-in partner to the Tajikistan PSC;
- pursue and develop the Chegara PEC in Uzbekistan
- acquire contracts on new exploration acreage in Uzbekistan;
- further evaluation and testing of the Beshtentak Field in Tajikistan including a plan for further workovers.

In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities as a means of developing its business and sharing financial and/or commercial risks and is actively pursuing farm outs and similar arrangements on its assets.

Kazakhstan Operations Update

On January 30, 2012, the Company announced the official inauguration of its AOT terminal ï a new storage and rail loading facility for its oil shipments from the Doris oilfield. The AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerõs company, Olisol Investment Limited. The facilities were fully completed in Q1 2012 and following a visit by a Kazakh governmental State Commission, the Company completed the first shipment of commercial oil production through the AOT at Shalkar on April 13, 2012. The initial plan for the AOT was to enable the Company to increase production to approximately 4,000 bopd, which was achieved in the latter days of June 2012. It is planned in due course to expand the capacity of the terminal to more than 12,000 bopd (over a further two phases) to accommodate future potential production growth dependent upon further drilling results, or third party production. The first of these two phases is due for completion in the final quarter of 2012 with second phase in 2013.

Production from Akkulka area is planned to increase to 4,500 in early 2013 from the existing drilled wells, and further production increases are expected but are dependent on the results of the appraisal / exploration drilling planned for 2012/13. Further evaluation of the 3D seismic dataset acquired using state of the art processing and interpretation techniques is revealing the potential for the presence of sand fans in the Cretaceous sandstone sequence and these data are being integrated with the results of the well data to plan future appraisal/exploration well locations in the greater Doris area.

On September 10, 2012, drilling commenced on the AKD07 appraisal/exploration well in Kazakhstan and, as the well was completed significantly quicker than originally projected, on October 12, the preliminary results were announced. The initial drilling and electric log results indicated potential hydrocarbons in the Jurassic limestone sequence and lower down in a thin Jurassic sandstone near the current total depth of the well. It was also announced that drilling was to recommence on the well towards a planned total depth ("TD") of 2,750 metres in order to more fully assess the potential hydrocarbon bearing zones in the Upper Jurassic sand sequence.

On October 18, when drilling had reached the 2,750 metres the Company announced that it had run the production liner in order to test the Jurassic carbonate zone which appeared to be oil bearing from the drilling and wireline log results. The results of the TD logging confirmed those of the previous wireline logging indicating potential oil in the Jurassic carbonate some 30 metres deeper than the previous lowest known oil encountered in the area. On November 13, the Company announced that testing has now been temporarily suspended in the Jurassic carbonate whilst further options are being evaluated one of which is to bring in a pump to lift the well. During the initial testing of this zone no formation oil was recovered after perforating, although hydrocarbons were indicated from the wireline logs. Further extraction of formation fluids is required to fully ascertain the oil potential of the Jurassic carbonate potentially requiring pumping and/or acidisation. Currently no pump is available and as such there are no immediate plans for such testing. An ongoing review of AKD07 and other wells previously drilled in the Jurassic carbonate has indicated that oil production may be possible from the wells in this horizon which have previously yielded inconclusive results. These wells may be tested as part of an integrated pumping programme at a convenient time, a technique that has had some success with the AKD05 well that is producing oil with the use of a progressive cavity pump (PCP). Also in well AKD07 final log results from the well indicated the ñDynaò sheet sand was present and of good quality but does not appear to have any moveable hydrocarbons. The ñDorisò channel sand is now interpreted as being absent, the interval being represented by non-reservoir flood plain deposits. As such the downdip extension of the Doris channel sand still remains to be found with the reservoir sand geometry within the floodplain and proven oil system still to be fully delineated.

Further exploration/appraisal targets in the greater Doris area are currently being finalized for drilling in 2013.

Additional exploration/appraisal prospects have been identified using the newly interpreted 3D and 2D data.

A tender process has been initiated in Kazakhstan with regard to the testing of KBD01, on the Kul-Bas contract and it is anticipated that seismic will be shot during 2013.

Tajikistan Operations Update

In 2011, Tethys carried out an aeromagnetic graviometry survey over more than half of the Bokhtar PSC Area. The initial analysis of the data from the aerial graviometry survey completed at the end of 2011 has revealed several attractive prospective areas with the potential presence of very large deep sub-salt and sub-thrust prospects within the Bokhtar PSC Area. This area lies within the Afghan-Tajik basin whose extension, the Amu Darya basin contains some of the worldôs largest gas and condensate fields, many located in the sub-salt section. No well has ever been drilled through the salt zone to the pre-salt section in the Tajik part of this basin. The Company consequently commissioned the acquisition and interpretation of a further 870 kms 2D seismic data survey, which commenced in late August and is ongoing. This survey is designed to target some of the prospective areas seen on previous regional seismic, magnetic, and gravity surveys as having potential for deeper potentially prolific reservoirs such as Lower Cretaceous sandstones and sub-salt Jurassic carbonates.

Now active in the Vaksh valley, the survey is progressing well and over 37% of the field data have already been acquired and processing is underway. Initial interpretation will start this year in order to map potential drilling locations. It is anticipated that this new seismic programme will further confirm the high potential in the Tethys PSC acreage. Tethys owns 85% interest in the Bokhtar PSC (through its subsidiary Kulob Petroleum Limited).

It is also expected that Tethysô large drilling rig ñTelestoò will start to be mobilized to Tajikistan in late 2012 or early 2013 in order to drill this well.

The Company has previously stated that it is seeking a suitable farm-in partner for its exploration programme in Tajikistan and the seismic data are an important part of the information relating to such a potential farm-in.

On October 26, 2012, the Company announced that Kulob Petroleum Limited, its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract ("Bokhtar PSC") in Tajikistan, had signed a Memorandum of Understanding ("MOU") to execute a farmout agreement on the PSC. The potential acquiring party is an international oil and gas company ("IOC"). Based on the terms contained in the MOU, the parties will now negotiate a farmout agreement and a joint operating agreement, which are planned to be executed in the near future, whereupon the farmee and all commercial terms will be disclosed. The farmout is subject to final agreement on the commercial and legal issues, finalization of due diligence and Tajik governmental approval. A period of exclusivity has been granted to the farmee during the negotiations.

Further work on the Beshtentak Field has been carried out in light of the initial success of the BST20 well which is currently producing approximately 225 bopd. Testing of the BST65 well (a similar prospect to the BST20 well) in the northern part of the field is ongoing, with results expected later in November.

The Persea 1 exploration well, located near the town of Kurgon-Teppa in the south-west part of the Bokhtar PSC area was drilled primarily targeting the Bukhara limestone formation in a four-way dip closed structure with the overlying Alai formation forming a potential secondary target. The well reached a total depth of 2,655 metres and wireline logs show a 50 metre gross zone of possible hydrocarbons within mixed sandstone and carbonate sequence assigned to the Alai formation.

The East Olimtoi EOL09 exploration well reached a total depth of 3,765 metres in the Akdzhar formation in August 2011. The initial results from the raw logs indicated several zones of interest in the Bukhara limestone sequence with potential high oil saturations but testing has shown this reservoir not to be productive using normal techniques and may require hydraulic fracturing. The Alai formation showed both good oil and gas shows while drilling (with oil and gas to surface) and the electric logs through this interval indicate several hydrocarbon bearing zones with no evidence of any oil-water contact. The well required heavy drilling mud to control the well and it is likely that this has damaged the formation. The well testing programme previously planned to be continued in 2012 is currently on hold but may be linked into a testing programme on the Persea following deepening.

Uzbekistan Operations Update

As previously reported the Company intends to focus future efforts in Uzbekistan on developing new contracts such as the Chegara PEC and on potential exploration activities. The North Urtabulak project is a late stage re-development and incremental production project on an old field and the Company has used this project as a base to develop additional projects and build a significant business presence in Uzbekistan. Currently these new projects include the Chegara PEC (Chegara is a much less developed, producing field located to the south of North Urtabulak) and a potential exploration block in the North Ustyurt basin (which is south of the Doris discovery in the same basin in Kazakhstan and which the Company believes has considerable exploration potential).

In November 2011, the Company announced it had signed an MOU with UNG, establishing a programme for Tethys to obtain a new PEC on an existing oilfield in Uzbekistan ï the Chegara Group of fields. The Company subsequently announced on May 16, 2012, that its wholly owned subsidiary Chegara Production Limited had signed a Production Enhancement Contract ("PEC") for a new oil field, the Chegara Group of Fields ("Chegara"), in Uzbekistan. The contract will become effective following standard regulatory approvals, which include the issuance of a Presidential Decree. The Field Development Plan (FDP) has been finalised and has state approval. The Chegara Group of fields is located in the same geographical area as North Urtabulak. The Chegara Group of fields is less developed than North Urtabulak, and Tethys believes that these fields offer significant potential for additional oil production in the short term.

In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue providing the framework for a Joint Study and facilitate the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. On May 16, 2012 it was announced that a Memorandum of Understanding had been signed, which agreed a timetable for the potential signing of an Exploration Agreement for a highly prospective Exploration block.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited (ñVazonò) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson 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 period ended September 30, 2012 was USD2,400,767 (September 30, 2011 ï USD2,352,118).

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract. The guarantee comprises a charge over the assets of one of the Companyջs subsidiaries, Tethys Tajikistan Limited (ñTTLò), amounting to amounts owing under the management services contract from time to time. At September 30, 2012 the amount owed to Vazon by the Company was USD76,723.

Tethys Services Guernsey

In Q3 2012 the Company set up a Guernsey based subsidiary, Tethys Services Guernsey Limited, to which the majority of the current Vazon employees will be transferred.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company. Total fees for the period ended September 30, 2012 were USD66,150 (September 30, 2011 ï USD11,422). OPC participated in the 2011 loan financing described in note 20 of the annual consolidated financial statements for the year ended December 31, 2011, advancing USD200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD15,030. The loan was advanced under the same conditions and terms afforded to non-related parties.

Other

Two officers of the Company participated in the 2011 loan financing described in note 20 of the annual consolidated financial statements for the year ended December 31, 2011, for which they received 75,000 and 232,620 warrants valued at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively for a one year term under the same conditions and terms afforded to non-related parties.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to USD15,000 for the period ended September 2012.

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2011 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com

Risk management is carried out by senior management, in particular, the Executive Board of Directors.

The Company has identified its principal risks for 2012 to include:

- Exploration and development expenditures and success rates, though considerable technical work is undertaken to reduce related areas of risk and maximise opportunities;
- Oil and gas sales volumes and prices;
- Retention and extension of existing licences; and
- Liquidity.

Financial Risk Management

The Companyջs activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange. The Companyջs overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Companyջs financial performance.

As detailed in *Liquidity and Capital Resources* above guarantees have been put in place with respect to the loan secured against the Company's drilling equipment together with the loan facility provided by Eurasia Gas, which are detailed in note 17 of the condensed consolidated interim financial statements to September 30, 2012.

Furthermore, in case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return, as detailed in note 12 of the condensed consolidated interim financial statements to September 30, 2012.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

	September 30, 2012	**September 30, 2011**
	USD000	**USD000**
Trade receivables	3,008	2,353
Cash and cash equivalents	1,146	17,016
Restricted cash	474	1,409
Loan receivable from jointly controlled entities	1,868	54,790
	6,496	75,568

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to only two customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. The Company's gas sales in Kazakhstan commenced in December 2007 and its oil sales in September 2010. The Company has not experienced any credit loss to date. At September 30, 2012, the trade receivable balance amounted to USD3.008 million (2011 – USD2.353 million), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

Included in the restricted cash balance at September 30, 2012 is USD0.474 million security deposit held by HSBC Bank in support of company credit cards. *See Hedging Arrangement below.*

In Uzbekistan, the Company makes use of three customers where full payment is in US Dollars and is required before delivery of the oil and therefore there is limited exposure to credit risk in this country.

In Tajikistan, oil is currently being purchased by four buyers where prepayment in full is also required before delivery.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of the counterparties are banks with high credit ratings (BBB or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Within the Central Asian countries, banks with the international ratings are generally not available.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at September 30, 2012.

The Companyꞌs processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorizing project expenditures and ensuring appropriate authorization of contractual agreements. Revenue and expenditure levels, both actual and projected, are reviewed on a regular basis and forecasts updated accordingly. These forecasts enable the Company to identify when additional financing might be needed or expenditure plans adjusted.

The timing of cash outflows relating to financial liabilities and commitments at the reporting date are summarized on page 19 above in *Contractual obligations and liabilities as at September 30, 2012.*

Particularly in the current climate, there can be no assurance that debt or equity financing will be available or sufficient to meet the Companyꞌs requirements or if debt or equity financing were available, that it would be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material impact on the Companyꞌs financial condition, timing of activities and results of operations and prospects.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long and short term debt is agreed at fixed interest rates and consequently has limited exposure to volatility in market interest rates.

Because of the current level of deposit interest rates on USD being less than 1%, the Companyꞌs exposure to interest rate risk on short term deposits is minimal.

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in a number of foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Companyꞌs cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. A significant portion of expenditures in Kazakhstan are denominated in local currency, the Tenge. There is limited availability in exchange rate derivatives to manage exchange rate risks with this currency.

During the last year, the Company used an exchange rate derivative to manage its risk as a result of the significant exchange rate fluctuation of the USD against GBP. This arrangement terminated at the end of April 2012 and the Company has no current plans for any further hedging arrangements.

The Company holds the majority of its cash and cash equivalents in US dollars. However, the Company does maintain deposits in other currencies, the principal ones being disclosed in the following table, in order to fund ongoing general and administrative activity and other expenditure incurred in these currencies:

In USD equivalent at Sep 30, 2012	**CAD ’000**	**GBP ’000**	**EUR ’000**	**KZT ’000**
Cash and cash equivalents		39	29	419
Trade and other receivables		16	25	13,487
Trade and other payables	(69)	(320)		(839)
Financial liabilities - borrowings		(2,065)		(3,511)
Net exposure	**(69)**	**(2,330)**	**54**	**9,556**

In USD equivalent at December 31, 2011	CAD ’000	GBP ’000	EUR ’000	KZT ’000
Cash and cash equivalents	137	810	62	1,647
Trade and other receivables	-	31	42	12,651
Trade and other payables	-	(229)	-	(4,187)
Financial liabilities - borrowings	-	(433)	-	-
Net exposure	**137**	**179**	**104**	**10,111**

Hedging arrangement

On May 12, 2011, the Company took out foreign currency hedge contracts to hedge exposure to the USD/GBP exchange rate. The contracts were in the form of a put option to sell US dollars with a strike price of 1.6495, with a clause that if a barrier level in the foreign currency exchange rate of 1.5675 was breached on the date of expiry, the option converted to a forward contract at the strike price of USD1.6495. The fair value of the foreign currency contract was calculated using a valuation technique based on observable market inputs. If the foreign currency exchange rate on the date of expiry was above the barrier of 1.5675 then no settlement would be required. If the USD/GBP foreign currency rate was above 1.6495 then the options would be exercised at a gain to the Company.

In this arrangement each month up to and including December 2011, the Company could convert up to USD1 million on a set day each month at the lower of the market rate or a maximum secured rate of USD1.6495. From January to April 2012, the sum involved each month reduced to USD0.75 million. In support of this arrangement, the Company had to hold funds in the form of a security deposit with the bank though the balance required reduced during the period of the hedge. This arrangement expired at the end of April 2012.

Foreign currency risk

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. While there are in fact restrictions on repatriation of capital and distribution of earnings from Uzbekistan to foreign entities, the Company has not been affected by this as it is paid for its refined product sales in US Dollars outside of Uzbekistan. There can be no assurance, those restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be 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.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as marketability of production and commodity prices.

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 Companyφs production could have a material adverse effect on the Companyφs revenues and financial position.

Commodity price risk

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in oil and/or 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. In Kazakhstan the Company has fixed price gas contracts up to the end of 2012 and is currently negotiating a gas sales contract going forward into 2013. The Companyφs oil contract in Kazakhstan, its refined products in Uzbekistan and its oil sales in Tajikistan are subject to commodity price fluctuation and 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 because of 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. Beyond 2012 fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, 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 oil and gas prices in the region is good, the recent events in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, consideration needs to be given to 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.

As previously stated gas production from both the Kyzyloi and Akkulka contracts in Kazakhstan are sold at fixed prices, at least until the end of 2012, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2012. In Uzbekistan, the Company sells refined petroleum products on a monthly or bi-monthly basis and is consequently also subject to movements in the oil price. In Tajikistan although the current production levels are not significant the oil price is subject to fluctuation.

Sensitivities

The price of gas sales from gas produced from the Kyzyloi gas field under the Gas Supply Contract is fixed in US dollars until December 1, 2012 and the Akkulka gas field under the Gas Supply Contract is fixed in US dollars until December, 2012 and consequently there is no sensitivity to currency movements or market movements in the gas price.

The price of oil sales from the Doris discovery currently running at approximately 4,000 bopd, has yet to be agreed and therefore would be sensitive to movements in the market price. On a production level of 4,000 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in the sales revenue of USD1,460,000 per annum.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At net production levels of 150 bopd, a movement of USD1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of USD54,750 per annum.

Environmental

The Company's operations are subject to environmental, safety and health and sanitary regulations in the jurisdictions in which it operates. Whilst the Company believes that it carries out its activities and operations in material compliance with these environmental, safety and health and sanitary regulations, there can be no guarantee that this is the case. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on a semi-annual basis for information purposes and no payments are applicable. In Tajikistan, the Company is subject to environmental regulation and its activities are subject to inspection by the appropriate authority in that country.

At present, the Company believes that it meets satisfactory environmental standards in all material respects in all of the areas in which it operates, and has included appropriate amounts in its capital expenditure budget to continue to meet its current environmental obligations. However, 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards (ñIFRSsò) and IFRIC Interpretations issued by the IFRS Interpretations Committee.

Please refer to the annual consolidated financial statements for the year ended December 31, 2011 Note 2 *Summary of Significant Accounting Policies* for details of the Companyõs accounting policies.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer (ñCEOò) and the Chief Financial Officer (ñCFOò) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 ï Certification of Disclosure in Annual and Interim Filings. The CEO and CFO of Tethys are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of September 30, 2012, which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at September 30, 2012. The Companyõs control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition, where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

Under the supervision of the CEO and the CFO, an evaluation of the effectiveness of internal control over financial reporting based on ñInternal Control ï Integrated Frameworkò issued by the Committee of Sponsoring Organisations of the Treadway Commission was carried out in Q4 of 2011. Based on this evaluation management concluded that the Companyõs internal control over financial reporting was effective as at December 31, 2011. No material weakness relating to the design of the Companyõs system of ICFR or relating to the Companyõs operations as at December 31, 2011 was identified. A similar exercise has been carried out in the course of Q3 2012 and no significant weaknesses were identified.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures (DC+P) as that term is defined in NI 52-109. Disclosure controls and procedures have been designed by the Tethys Management, under the supervision of the CEO and CFO, to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Companyõs management as appropriate to allow timely decisions regarding disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethysô shareholders and potential investors with information regarding the Company and its subsidiaries, including managementõs assessment of Tethysô and its subsidiariesô future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as ñforward-looking statementsò) within the meaning of the ñsafe harbourò provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as ñanticipateò, ñbelieveò, ñexpectò, ñplanò, ñintendò, ñforecastò, ñtargetò, ñprojectò or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2012 capital investments projections, and the potential source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Companyôs actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Companyôs and its subsidiariesô marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Companyôs and its subsidiariesô ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Companyôs ability to generate sufficient cash flow from operations to meet its current and future obligations; the Companyôs ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Companyôs and its subsidiariesô ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate and terrorist threats; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

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