TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and nine months ended September 30, 2011

The nine months ended September 30, 2011 compared to September 30, 2010

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

	2011	2010	Change
Revenue	15,506	11,319	37%
Other operating revenue	6,628	-	
Total revenue and other income	22,134	11,319	96%
Net loss	(17,566)	(18,439)	-5%
Basic and diluted loss ($) per share	(0.07)	(0.10)	
Capital expenditure	36,834	23,209	59%
Total assets	255,066	182,081	40%
Non-current liabilities	(8,295)	(15,963)	-48%
Cash balance	18,425	12,917	43%
Cash and working capital surplus	4,893	6,046	-19%
Common shares outstanding			
Basic and diluted	260,629,769	187,969,769	

The following Management's Discussion and Analysis ("MD&A") is dated November 11, 2011 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended September 30, 2011 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2010. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Company's 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 "Interim Financial Reporting" and the requirements of the Disclosure and Transparency Rules ('DTR') of the Financial Services Authority ('FSA') 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 "Forward-Looking Statements" legal advisory contained at the end of this MD&A and also the Company's AIF.

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

1) Management's Discussion & Analysis: this includes the requirements of the UK's Disclosure & Transparency Rules with respect to DTR4.3, Interim management statements and the requirement of National Instrument 51-102 of Canadian Securities Administrators ("Canadian NI 51-102") in respect of a quarterly Management's Discussion & Analysis; and

2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of the UK's Disclosure & Transparency Rules with respect to DTR4.3, Interim management statements, a directors' responsibility statement and the requirements of Canadian NI 51-102 with respect to a quarterly financial report.

Highlights and Significant Transactions

On January 11, 2011, the Company received Kazakh State approval for the Pilot Production Project for the Doris oil discovery in the Akkulka block. This approval gives the Company the right to produce oil from the Doris accumulation during the exploration period and allows for the installation and operation of production facilities for the planned 3,000-4,000 barrels of oil per day ("bopd") (Phase 2) production target; currently estimated to commence before the end of 2011. The oil production facility was subsequently officially opened on August 8, 2011.

On February 7, 2011, the Company announced that the proposed amendments to the Kul-Bas Exploration and Production Contract had been incorporated into the contract by the Ministry of Oil and Gas ("MOG"), granting an extension to the exploration period by a further two years until November 11, 2013.

On February 17, 2011, the Company announced that it had signed a Joint Venture agreement with Eurasia Gas LLP to build a joint venture oil terminal so that oil production from the Akkulka block can be delivered and sold to market.

On May 18, 2011, the Company announced it had signed a contract with the Institute of Geology and Prospecting for Oil and Gas Department of the State Holding Company NHC Uzbekneftegas to study the potential of two separate prospective areas in Uzbekistan with a view to Tethys applying for suitable projects in these areas. The study involves the assessment of existing data and the oil and gas bearing prospectivity of the areas in order to prepare proposals for the Government of Uzbekistan for further exploration activities.

On May 27, 2011, the Company issued a holding statement with regard to oil being encountered in its Tajik exploration well East Olimtoi EOL09, noting that the interval, which showed oil in the drilling mud at surface together with high gas levels, had not been fully evaluated or tested but the observed oil flow was obviously a positive indication. This was followed on June 9, 2011, by an announcement that electric logs had been run in the well which confirmed the probable presence of moveable hydrocarbons in the interval from 3,341 to 3,500 metres. Independent petrophysical interpretation indicated up to 32 metres of net hydrocarbon bearing pay in the section with porosities of up to 17%. No oil-water contact was interpreted in this section of the well.

On July 7, 2011, the Company announced initial results of the AKD-04 and AKD-05 appraisal wells on the Doris discovery. The AKD-05 well flowed clean oil at a stable rate of approximately 520 bopd from the Upper Jurassic Carbonate Zone. Then on July 26, 2011, the Company announced that following acidisation, the AKD05 well had flowed some 2,088 barrels of fluid per day, of which 1,568 barrels per day was good quality (45 degrees API) oil. The well flowed with good surface pressures but the flow was limited by the surface facilities. Flow data indicate that the well would be capable of flowing around 3,000 barrels per day with reconfiguration of the production facilities.

On July 25, 2011, the Company announced that its entire issued ordinary share capital had been admitted to the standard category of the Official List of the Financial Services Authority and commenced trading on the main market of the London Stock Exchange under the ticker symbol "TPL".

On August 8, 2011, the Company announced the opening of its Doris oil production facilities in Kazakhstan. Oil was being trucked from this location at a rate of approximately 1,500 bopd,

On September 7, 2011, the Company announced the initial logging results of its KBD01 (Kalypso) exploration well drilled in the Kul-Bas block some 50 km north west of the Doris oil discovery. The well had reached total depth in what was initially interpreted to be rocks of Carboniferous age. Electric logs, which had been run over the deeper section, indicated more than 100 metres of gross potential hydrocarbon bearing zones in what was interpreted to be shelf limestones of Carboniferous age. Hydrocarbon shows were also noted whilst drilling. This was in addition to the hydrocarbon

indications noted on logs and drill data in the overlying Jurassic section (which had been logged prior to drilling this deeper hole section). Testing is planned with work currently ongoing to obtain the necessary Kazakh governmental and technical permissions.

On September 12, 2011, the Company announced that testing operations were underway on the East Olimtoi EOL09 exploration well. This well reached a total depth of 3,765 metres in the Akdzhar formation and testing operations were being undertaken on the overlying Bukhara and Alai formations. The well was flowing a mixture of completion brine and oil from the upper Alai sandstone interval, this oil being of good quality with an API gravity of approximately 36 degrees. The well was drilled with heavy drilling fluid (weighted with barite), which was required to control the well when it intersected the upper Alai reservoir. Barite was being observed in the flow lines which the company believed was also inhibiting flow. While it was anticipated that the well would clean up in due course, the cleanup period could take some time and probably need further well intervention

On September 26, 2011, the Company gave an update on the initial results of the AKD06 Doris appraisal well in Kazakhstan. Drilling data and wireline logs indicated oil in both the Cretaceous sandstone and Jurassic limestone reservoirs. The Cretaceous sandstone had been encountered above prognosis and at a higher elevation than in the AKD01 Doris discovery well and was of good quality with similar net pay thickness to AKD01, which flowed over 5,400 bopd from this unit. The Jurassic limestone had also been encountered above prognosis and slightly higher than in the AKD01 well and had similar characteristics to the recently drilled AKD05 well which flowed over 1,500 bopd from this zone. Further analysis of these initial data is underway as well as a testing programme.

On October 20, 2011, the Company announced results of a successful workover of well BST20 in the Beshtentak oilfield in Tajikistan. This well had been worked over by applying modern perforating and acidisation techniques and applying natural gas lift. The well had 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). The oil had an API gravity of 38 degrees and no water was produced. The well was placed on oil production and the gas tied into the nearby local gas grid. Sales agreements were finalised and it was noted that this well should add immediately to Tethys' cash flow. There were other workover candidates on the Beshtentak field which has gross prospective resources of 11.7 million barrels of oil and 16.1 billion cubic feet (0.23 billion cubic metres) of gas as quoted by the Company's independent reserves and resources assessment effective December 31, 2010.

With oil, oil product and natural gas sales of US$15.506 million in the nine months ended September 30, 2011 the Company achieved a 37% increase on the same period of 2010 where sales were US$11.319 million. In 2011 gas sales of US$5.227 million (2010: US$1.785 million) and oil sales of US4.503 million (2010: nil) were achieved in Kazakhstan while refined product sales in Uzbekistan were US$5.386 million (2010:US$9.220 million) and sundry income was US$0.390 million (2010: US$0.314 million).

The Company recorded a net loss of US$17.566 million in the nine months ended September 30, 2011 compared to a net loss of US$18.439 million in the nine months ended September 30, 2010.

Capital expenditure, excluding the joint venture in Tajikistan, in the nine months ended September 30, 2011 was US$36.834 million compared to US$23.209 million in the nine months ended September 30, 2010.

Production costs in the nine months ended September 30, 2011 were US$6.918 million compared to US$4.111 million in the nine months ended September 30, 2010 reflecting the additional production costs from the gas and oil production in Kazakhstan.

Administrative costs in the nine months ended September 30, 2011 were US$15.520 million compared to US$13.175 million in the nine months ended September 30, 2010.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively “Tethys” or “the Company”) has its principal executive office in Guernsey, British Isles. The domicile of Tethys Petroleum Limited was moved from Guernsey, British Isles, to the Cayman Islands on July 17, 2008, where it is incorporated. Tethys’ 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 Uzbekistan and the Republic of Tajikistan.

Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Q1	28,797	1,016,840	320	1,883	0	0	0	0
Q2	34,225	1,208,471	376	2,214	10,146	358,255	298	1,756
Q3	35,538	1,254,843	386	2,274	44,215	1,561,232	481	2,829
Total	98,560	3,480,154	361	1,589	54,361	1,919,487	431	2,539

Note 1 Mcmpd is thousands of cubic metres per day and in Q3 2010 was calculated based on the actual production days in the nine months. In 2011 there were 273 production days while in 2010 there were 126.

Note 2 boe is barrel of oil equivalent. 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.

- The Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from both the Kyzyloi and Akkulka contracts.
- The Bukhara Urals pipeline, through which the gas output flows, was closed at the beginning of 2010 and did not re-open until May 27, 2010 when volumes through the pipeline were restricted to 360Mcmpd[1]. It was not until July 26, 2010 when volumes returned to pre-closure levels of 500Mcmpd.
- To the end of Q3 2011 some 498,761 Mcm (approximately 17,611 Bcf) or 58.7% of the maximum contract volume under the Gas Supply Contract that the Company has with Asia Gas NG LLP had been delivered. The Contract has a term until the earlier of December 1, 2012, the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, or when 850 thousand cubic metres (Mcm) has been delivered.

Kazakhstan Gas Production (Akkulka contract)

	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Q1	17,182	606,693	191	1,124	0	0	0	0
Q2	22,651	799,796	249	1,465				
Q3	22,867	807,430	249	1,463				
Total	62,700	2,213,919	230	1,352	0	0	0	0

[1] Thousand cubic feet per day

Note 1 Mcm/d is thousands of cubic metres per day and has been calculated based on the actual production days in the quarter. In 2011 there were 273 production days while in the same period in 2010 there were nil.

- As with Kyzyloi the Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from the Akkulka contract. The compressor related problems being experienced in the final quarter of 2010 were remedied in Q1 2011.
- On September 16, 2010 the Company announced that it had signed a contract with Asia Gas NG LLP priced at US$38 per Mcm (including VAT). Gas sold under this contract would be for domestic sales and as such is subject to a small (0.05%) royalty payment to the Kazakh State. The new Akkulka contract runs for a period of 2 years with the parties agreeing to assess the price after one year.

Kazakhstan Oil Production (Akkulka contract)

Period	2011			2010		
	Total Production			Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	4,219	32,355	360	0	0	0
Three months ended June 30	10,269	78,763	866	0	0	0
Three months ended September 30	18,579	145,228	1,579	1,393	10,952	522
Total production	33,067	256,346	939	1,393	10,952	522

Note 1 In 2010 there were only 21 production days.

- In October 2010 the Company commenced selling the untreated oil at the well site of AKD01 to an oil trading company which transported the oil by truck to a location north of the town of Emba, 450 km to the north-east, where it is treated before being transported to local refineries.
- Between January 1, 2011 and March 31, 2011 because of a combination of weather problems and work on building the necessary facilities, only 26 days of pilot production were achieved on the Doris discovery on the Akkulka contract giving an average of 1,156 bopd on production days.
- Between April 1, 2011 and June 30, 2011 because of work on building the necessary facilities, only 52 days of pilot production were achieved on the Doris discovery on the Akkulka contract, giving an average of 1,515 bopd on production days.
- Between July 1, 2011 and September 30, 2011 because of work on building the necessary facilities in the first part of the quarter, pilot production were achieved on the Doris discovery on the Akkulka contract giving an average of 1,578 bopd on production days.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

Period	2011			2010		
	Total Production			Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	14,945	115,076	1,278	20,869	160,691	1,785
Three months ended June 30	14,047	108,162	1,189	19,627	151,528	1,660
Three months ended September 30	10,891	83,859	912	17,512	134,842	1,466
Total production	39,883	307,097	1,124	58,008	447,061	1,638

After State Take

Period	2011			2010		
	TPU[2] Share			**TPU Share**		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	6,430	49,510	550	10,434	80,342	893
Three months ended June 30	5,808	44,720	497	9,814	75,565	830
Three months ended September 30	3,883	29,898	325	7,182	55,301	601
Total production	16,121	124,128	455	27,430	211,208	774

** using 7.7 barrels = 1 tonne*

- Production is under a Production Enhancement Contract ("PEC") for the North Urtabulak oilfield with subsidiaries of the Uzbek State oil and gas company NHC Uzbekneftefgas.
- On October 28, 2010, the Company began operations on the NUR96H2 horizontal development well on the North Urtabulak Field. The well was subsequently completed in February 2011 and in Q2 2011 achieved production just short of 600 bopd. But in Q3 2011 the production reduced to some 350 bopd.
- Well NU115, which had previously been producing in the region of 600 bopd, completed three years' production in June 2010 and so from July the Company's share of its output reduced from 50% to 20% in line with the terms of the PEC. The production from this well dropped further in the final quarter of 2010 which continued into both Q1, Q2 and Q3 of 2011 thus further reducing overall production levels.
- Drilling of a new well, NUR116 was completed in the first quarter of 2010 and production commenced in March 2010. While the well initially tested at a rate of up to 600 bopd, after a short period production decreased significantly. It is believed that the location chosen in the reservoir was a locally less permeable part of the reefal reservoir than nearby.
- The Company has been investigating alternative methods to increase production through the use of jet pumps as well as reconfiguration of the water injection scheme.

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

Tajikistan Oil Production (Beshtentak field)

There was minimal oil production in Tajikistan in the nine months to September 30, 2011 while in the same period of 2010 there had been production of 4,442 barrels of which the Kulob Petroleum share was 4,042 barrels.

Production Summary

In the first nine months of 2011 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	1,508	591	3,479	4,987
Uzbekistan	1,124	-	-	1,124
Tajikistan	-	-	-	-
Total	**2,632**	**591**	**3,479**	**6,111**

While in the same period of 2010 the figures were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	522	439	2,584	3,106
Uzbekistan	1,497	-	-	1,497
Tajikistan	-	-	-	-
Total	**2,019**	**439**	**2,584**	**4,603**

Financial Review

Loss before tax

The Company recorded a net loss after taxation of US$17.566 million in the nine months ended September 30, 2011 compared to a net loss of US$18.439 million in the same period of 2010. In the three months to September 30, 2011 the net loss incurred was US$8.575 million compared to US$7.118 in the same period of 2010.
The principal differences between the two periods were as follows:

	Three months ended September 30			Nine months ended September 30		
	2011	**2010**	**Movement**	**2011**	**2010**	**Movement**
Sales and other revenues	6,849	3,173	116%	15,506	11,319	37%
Other operating income	922	-	-	6,628	-	-
Total revenue and other income	**7,771**	**3,173**	145%	**22,134**	**11,319**	96%

Production expenses	(3,393)	(1,236)	175%	(6,918)	(4,111)	68%
Depreciation, depletion and amortization	(3,857)	(1,635)	136%	(9,684)	(3,685)	163%
Exploration & evaluation expenditure written off	(1,807)	(5)	36040%	(1,807)	(94)	1822%
Listing expenses	(273)	(31)	781%	(606)	(1,230)	-51%
Business development expenses	(697)	-	-	(1,926)	-	-
G & A costs	(4,859)	(4,621)	5%	(15,520)	(13,175)	18%
Stock-based compensation	(1,054)	(744)	42%	(3,111)	(3,596)	-13%
Finance income/(loss) net	194	308	-37%	912	(89)	-1125%
Foreign exchange gains/(loss) net	(183)	(184)	-1%	33	(337)	-110%
Fair value gains/(loss)	(231)	(738)	-69%	(554)	(266)	108%
Loss from jointly controlled entity	(291)	(178)	63%	(802)	(422)	90%
Loss before taxation	**(8,680)**	**(5,891)**	**47%**	**(17,849)**	**(15,686)**	**14%**
Taxation	105	(1,227)	-91%	283	(2,753)	-110%
Loss after taxation	**(8,575)**	**(7,118)**	**23%**	**(17,566)**	**(18,439)**	**-5%**

Sales and other revenue

Note

Revenue from the oil sales in Tajikistan is included in the financial statements of SSEC the Company's 51% owned joint venture in that country, and is not included in the Company's consolidated revenue.

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Gas sales	1,873	1,309	31%	5,227	1,785	193%
Oil sales	2,895	-	-	4,503	-	-
Refined product sales	2,018	1,550	30%	5,386	9,220	-42%
Other revenue	63	190	77%	390	314	24%
	6,849	3,173	116%	15,506	11,319	37%

- As stated above the Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from both the Kyzyloi and Akkulka contracts. Actual levels achieved in 2011were 591 Mcm/d resulting in revenue of US$5.227 million for the nine months to September 30, 2011 and $1.873 million for the three months ending September 30, 2011.
- There were no gas sales in the three months to March 31, 2010 and the pipeline was only opened from May 27, 2010 at reduced production levels up until July 26, 2010 which explains why the gas revenue was $1.309 million for the three months to September 30, 2010 and only $1.785 million for the nine months to Sept 30, 2010.

- The gas sales generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan as referred to above are sold to Asia Gas NG LLP at agreed prices of $32 per Mcm excluding VAT for the Kyzyloi gas and $38 including VAT for the Akkulka gas.
- As stated above the untreated oil produced under the pilot production was being sold at the wellhead at an initial price of US$21/bbl in the first quarter of 2011 rising to $22/bbl during the second and $28/bbl by the end of the third quarter which resulted in total revenue of US$4,503 million (2010: nil) for the nine months and $2.895 million (2010: nil) for the three months to September 30, 2011
- The Refined product sales are the result of oil production in Uzbekistan which resulted in revenue in the first nine months of 2011 of US$5.386 million (2010: US$9.220 million) and $2.018 million in the three months to September 30, 2011 (2010:$1.550 million). The reduced figures in 2011 were primarily the result of reduced volumes though delays in deliveries from the refinery were also a contributory factor. The backlog of deliveries began clearing in Q3 2011and are anticipated to complete in Q4 2011.

Other operating income

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Other operating income	922	-	100%	6,628	-	100%

Since the beginning of 2010 through a wholly owned subsidiary, the Company has leased its ZJ30 drilling rig together with associated equipment to a subsidiary of its jointly controlled entity SSEC in Tajikistan. This rig and equipment was used in Tajikistan in drilling both of the Komsomolsk wells and is now being used to drill the Persea well. The renting of the equipment is on a full commercial basis and appropriate invoices have been issued to cover the entire rental period. In accordance with the SSEC shareholders agreement, the amounts receivable in respect of the rental are to be added to the loan due from that entity. When preparing the 2010 annual financial statements and the interim financial statements for Q1 2011, these amounts were eliminated in full rather than proportionate to the group's equity accounted interest, and no income was recognized.

On May 27, 2011, the Company issued a holding statement with regard to oil being encountered in its Tajik exploration well East Olimtoi EOL09, noting that the interval, which showed oil in the drilling mud at surface together with high gas levels, had not been fully evaluated or tested but the observed oil flow was obviously a positive indication. This was followed on June 9, 2011, by an announcement that electric logs had now been run in the well which confirmed the probable presence of moveable hydrocarbons in the interval from 3,341 to 3,500 metres. Independent petrophysical interpretation indicated up to 32 metres of net hydrocarbon bearing pay in the section with porosities of up to 17%. No oil-water contact was interpreted in this section of the well. These developments were further supported by the Beshtentak well announcement on October 20, 2011.

As a result of these developments, which indicated that oil sales would commence in Tajikistan in the coming months the directors revisited this matter and considered it appropriate to include that revenue from the rig rentals in the Q2 2011 interim financial statements and subsequent financial statements. Accordingly, 'Other operating income' for the 9 months ended September 30, 2011 includes $6,627,900 in respect of these transactions, of which $3,835,320 relates to the year ended December 31, 2010. The invoices have not been settled and there is consequently no impact on the Company's cash flows. There is also no impact on tax expense as a result of this income being recognised. Refer to *Note 9 to Condensed Consolidated Interim Financial Statements.*

Operating expenses

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Operating & production costs	3,393	1,236	175%	6,918	4,111	68%

- Production costs in Kazakhstan were higher in the nine months to September 30, 2011 compared to the same period in 2010 primarily as a result of the oil production as there had been no oil production for the first nine months of 2010. A second contributory factor was the Akkulka gas operating costs in 2011 as production did not commence on Akkulka until October 2010. In Kazakhstan the time writing calculations and cost allocation process was updated and as a result $0.6 million of expenditure was transferred from G&A to Operating expenses.
- Production costs in the three months to September 30, 2011 were also higher in Kazakhstan when compared to the same period of 2010 for the same reason as detailed in the point above.
- The increases in Kazakhstan operating costs were partly offset by a reduction in costs in Uzbekistan. The delays in deliveries of the refined products in Uzbekistan, *see Revenue above*, had a significant impact on the revenues being generated in Uzbekistan in the nine months to September 30, 2011 with a resultant knock on effect to the cost of sales or production expenses recognized during that period.
- Revenue from Uzbekistan was actually higher for the three months to September 30, 2011 than in the same period of 2010 as a result of the reduction in the backlog in deliveries from the refinery, with a consequent increase in the cost of sales or production expenses.

Depreciation, depletion and amortization expense

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
DD & A costs	3,857	1,635	136%	9,684	3,685	163%

- The DDA charges are 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, 2011 when compared to the same periods in 2010 because the Kazakhstan gas and oil revenues were significantly higher in both periods. For gas revenue, as the contracts are at fixed prices, higher revenue equates to increased use of reserves while for Kazakhstan oil there was no revenue in 2010 and so no consumption of reserves.
- The absence of any production in Kazakhstan up to May 27, 2010 followed by a period of reduced production up to July 26, 2010 resulted in no depreciation of oil and gas properties in Q1 2010 followed by a period of reduced depreciation linked to reduced production up to July 26, 2010.
- In Uzbekistan the DDA charge for 2011 were lower than in the same periods of 2010 because of the reduced production levels.

Listing expenses

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Listing expenses	273	31	781%	606	1,230	-51%

- The 2011 figures include costs related to the London listing that was completed in July 2011.
- The 2010 figures relate to the aborted possible listing on the Hong Kong Stock Exchange.

Business development expenses

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Business development expenses	697	-	100%	1,926	-	100%

- Business development costs relate to costs incurred in the Company's pursuit of new contracts in Central Asia.
- The majority of the costs in 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.
- The Company lost out in the tender process to the Chinese State Oil Company CNPC as it could not offer the same terms as CNPC which, in Tethys' view, would make the project non-commercial. Tethys still believes there is good oil and gas potential in Afghanistan and will evaluate any other future opportunities there.
- The Company incurred $0.33 million in connection with a contract with the Institute of Geology and Prospecting for Oil and Gas Deposits (the "Institute") in Uzbekistan to study the potential of two separate prospective areas in Uzbekistan with a view to Tethys applying for suitable projects in these areas. The study involved the assessment of existing data and the oil and gas bearing prospectivity of the areas on the basis to prepare proposals for the Government of Uzbekistan for further exploration activities. Tethys views both areas as having very good oil and gas potential.

G & A costs

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Staff costs	2,088	1,808	15%	6,395	5,383	19%
Travel costs	1,069	922	16%	2,806	2,345	20%
Office costs	798	575	39%	2,048	1,711	20%
Professional fees	462	774	-40%	1,948	1,850	5%
Marketing costs	205	173	18%	1,114	573	94%
Other costs	237	369	36%	1,482	1,313	13%
	4,859	4,621	5%	15,520	13,175	18%

General and Administration expenses for the nine months ended September 30, 2011 were up on the same period of the previous year as a result of the following:

- In Kazakhstan the time writing calculations and the cost allocation process was updated and as a result $0.6 million of expenditure was transferred from G&A to Operating expenses and $0.3 million to Capital expenditure.
- Primary factors in the increase in the staff costs in the nine months to September 30, 2011 were increased levels of staff particularly in Kazakhstan and other operational areas. Staff costs were also higher in the early months of 2011 compared to the same period of 2010 because a companywide salary review completed in April 2010.

- Travel costs in the nine months to September 30, increased as a result of more staff travelling throughout the three countries as the Company looks to develop its operations and revenue.
- Professional fees were up as a result of a number of "one off" costs including computer software and legal costs incurred in the early months of 2011.
- The principal factor in the increased marketing costs incurred in the first half of the year were a result of sponsorship of a number of social programs at a combined cost of $250,000 primarily in the development of the Shalkar region in Kazakhstan, incurred by both Tethys Aral Gas and Kul Bas where these projects lie. The Company also incurred costs with the contracting of a new company involved in public and governmental relations.

General and Administration expenses for the three months ended September 30, 2011 were up on the same period of the previous year as a result of the following:

- The increase in the staff costs in the nine months to September 30, 2011 was due to increased levels of staff particularly in Kazakhstan but also in other operational areas.
- There was an increase in office costs in Q3 2011 as a result of an increase in floor space to accommodate the increased staffing levels.

Share based payments

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Share based payments	1,054	744	42%	3,111	3,596	-13%

- Share based payment expenses relate to stock options and warrants issued in 2011 and prior years. While there has been an increase in the total number of shares issued at September 2011 as opposed to September 30, 2010 the fall in the Company's share price and consequently the 2011 option price reduces the cost to the Company.

Finance expenses

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Foreign exchange loss	183	184	-	(33)	337	-110%
Fair value loss	231	738	-69%	554	266	108%
Loss from joint venture	291	178	63%	802	422	90%
Finance (income) / costs net	(194)	(308)	-37%	(912)	89	1,124%

- The Fair Value gain or loss on derivative financial instruments reflects the movement in the fair value of warrants issued by the Company that are denominated in a currency other than the Company's functional currency for financial reporting purposes and the impact of interest rate swaps and forex hedging.
- Loss from the jointly controlled joint venture represents the Company's 51% share in the loss incurred by SSEC.

- In addition to the operating income, the Directors have given similar consideration to the position of interest on the loan to jointly controlled entity SSEC, with the result that cumulative interest income of $914,177 on the loan of $54,790,317 as at September 30, 2011 has been recognised for the period to September 30, 2011. Of this amount, $420,489 relates to the year ended December 31, 2010. This change also has no effect on tax expense or cash flows. Refer to *Note 9 to Condensed Consolidated Interim Financial Statements.*

Taxation

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Tax	105	(1,227)	-91%	283	(2,753)	-110%

For details as to why the provision for income taxes is different from the expected provision for income refer to Note 5 of the Condensed Consolidated Interim Financial Statements and related notes for the period ended September 30, 2011

Capital Expenditure

Capital expenditure during the quarter ended September 30, 2011 was US$11.148 million while a further US$2.444 million of prepayments on capital projects was also incurred.

	Three months ended September 30			Nine months ended September 30		
	2011	2010	% Change	**2011**	2010	% Change
Kazakhstan	10,809	11,014	-2%	33,018	19,264	71%
Uzbekistan	254	628	-60%	3,605	3,634	-1%
Other and Corporate	85	216	-61%	211	311	-32%
	11,148	11,858	-6%	36,834	23,209	59%

Major items of capital expenditure in the three months to September 30, 2011 were:

Kazakhstan

- Doris oil production US$1.74 million
- Akkulka appraisal wells US$5.60 million
- Kalypso (Kul Bas) US$3.10 million

Uzbekistan

- Workovers US$0.25 million

Tajikistan

- Well EOL09 US$2.23 million
- Persea well US$1.90 million

Major items of capital expenditure in the nine months to September 30, 2011 were:

Kazakhstan

- Doris oil production US$ 5.25 million
- Akkulka appraisal wells US$17.80 million
- Kalypso (Kul Bas) US$ 6.30 million

Uzbekistan

- Well NU96 US$2.76 million

Tajikistan

- Well EOL09 US$4.50 million
- Persea well US$3.45 million
- KOM201 well US$1.30 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 in terms of both Doris appraisal wells and exploration wells.
2. Phase 1 of the production and processing infrastructure incorporating road improvements is almost complete.
3. The Company is yet to incur any of the Shalkar rail terminal costs but this will commence in Q4 2011.
4. There is no production yet in Tajikistan and so no costs have been incurred in relation to Production and Processing infrastructure.
5. In Uzbekistan no seismic work has yet been undertaken.
6. While only one well has been drilled in Uzbekistan there have been a number of workovers.

	Oct 4, 2010 Prospectus	**Incurred Sept 30, 2011**	**Balance**
Kazakhstan			
Appraisal and Exploration Wells	47,500	29,869	17,631
Production and Processing Infrastructure	19,800	9,558	10,242
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	52,260	39,740

The primary explanation of the difference between the "Balance" of $39,740,000 per the above table and the cash balance of $18,425,000 per the Company's interim financial statements are as follows:

Increased spending on Komsomolske wells
Drilling of EOL09 well in Tajikistan
Testing of EOL09
Reduced cash from 2011 Kazakhstan Revenue
Reduced cash from 2011 Uzbek sales
Business development costs

Set out below are details of the planned use of funds to as detailed in the prospectus dated June 11, 2009.

The primary differences were in relation to:

- The Komsomolsk wells KOM 200 and KOM201, encountered unexpected drilling challenges and cost more than was anticipated and are currently suspended awaiting completion at some future date. As a result the processing plant has not yet been constructed. Additional costs were however incurred on the Beshtentak and Komsomolsk fields.
- A decision on installation of the Gas Lift Compression system in North Urtabulak is currently on hold but costs were incurred on other North Urtabulak activities.

	Jun 12, 2009 Prospectus	Incurred Sep 30, 2011	Balance
Tajikistan			
East Komsomolsk - KOM 200 appraisal well	3,500	3,500	-
Infrastructure - Komsomolsk gas Processing	2,000	-	2,000
East Komsomolsk - gas development well KOM 201 Phase 2	3,500	3,500	
Additional seismic on Bokhtar PSC	3,660	3,660	
Uzbekistan			
North Urtabulak Gas Lift Compression System	1,190	-	1,190
North Urtabulak new well.	4,000	4,000	-
	17,850	14,660	3,190

Summary of Quarterly Results

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

	Dec 31 2009	Mar 31 2010	Jun 30 2010	Sept 30 2010	Dec 31 2010	Mar 31 2011	Jun 30 2011	Sep 30 2011
Financials ($000's)								
Revenue	2,807	2,116	6,030	3,173	3,387	4,480	9,883	7,771
Net loss	(6,166)	(7,999)	(3,322)	(7,118)	(11,210)	(6,294)	(2,696)	(8,575)
Basic and diluted loss ($) per share	(0.05)	(0.05)	(0.02)	(0.04)	(0.04)	(0.02)	(0.01)	(0.03)
Capital expenditure	8,868	4,443	7,316	11,950	14,584	10,852	14,834	11,148
Total assets	137,082	186,405	184,082	182,081	267,748	259,477	261,144	255,066
Total long term liabilities	(18,345)	(13,419)	(14,938)	(15,963)	(11,535)	(10,492)	(8,434)	(8,295)
Cash balance	7,297	48,927	30,232	12,917	79,135	57,400	35,855	18,425
Cash and working capital surplus	(157)	38,372	24,408	6,046	69,718	49,893	24,137	4,893

Significant factors influencing quarterly results

Oil sales from oil test production from Doris commenced in Q4 2010 resulting in revenue of US$748,000 in Q4 2010, $501,000 in Q1 2011, $1,101,000 in Q2 2011 and $2,895,000 in Q3 2011.

Revenue from rig rentals to the JV in Tajikistan was first included in Q2 2011.

Refined product shipments were delayed in the first two quarters in 2011.

Akkulka gas production commenced in Q4 2010.

During the course of Q2 2010 a number of Uzbekistan refined product shipments were completed which related to 2009 production resulting in higher revenue recognized in Q2 2010.

In December 2009 the Company's Tajikistan operations were transferred to a jointly controlled venture (SSEC).

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2010 to September 30, 2011:

	Sep 30, 2011	Dec 31, 2010	Movement	Explanation of movement
Property, plant and equipment	133,256	115,653	17,603	Continuing investment primarily in Akkulka Deep oil property, offset by DD&A
Intangible assets	25,445	16,892	8,553	Expenditure on Kul Bas
Non-current other receivables	15,360	13,335	2,025	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Loan receivable from joint controlled entity	54,790	35,460	19,330	Funds provided to SSEC to cover costs in Tajikistan for EOL09, KOM201 and Persea wells plus the Aeromagnetic and Gravity survey.
Inventories	2,644	2,121	523	Increase in finished product as a result of delayed deliveries in Uzbekistan.
Trade and other receivables	4,341	3,680	661	There was an increase in Kazakhstan trade debtors reflecting the increased revenue levels.

Cash and cash equivalents	17,016	79,135	(62,119)	Refer to Condensed Consolidated Statement of Cash Flows in the interim financial statements
Restricted cash	1,409	-	1,409	Increase due to monies placed on temporary deposit as security against the forex hedge and Company credit cards.
Derivative financial instruments -interest rate swap	805	1,472	(667)	Movement in the estimation of fair value
Other reserves	37,753	34,261	3,492	Stock based compensation expense in the nine months to September 30, 2011.
Accumulated deficit	(135,589)	(118,023)	(17,566)	Loss incurred for the period
Non-current financial liabilities – borrowings	-	2,853	(2,853)	The borrowings are now due for settlement in less than 12 months.
Deferred taxation	3,773	4,070	(297)	Movement in deferred tax liability of Kazakhstan and Uzbekistan
Current financial liabilities – borrowings	8,039	5,047	2,992	Movement from long term liabilities as settlement is due in less than 12 months.
Derivative financial instruments – warrants	1	405	(404)	Movement in the estimation of fair value of the warrants priced in CAD.
Derivative financial instruments –forex hedge	291	-	291	Movement in the estimation of fair value of the hedging arrangement.
Deferred revenue	2,395	2,450	(55)	Reduction as a result of Uzbekh product delivered in the period to September 30, 2011
Trade and other payables	10,596	8,788	1,808	Increase in trade payables linked to increase in capital expenditure primarily in Kazakhstan

Contractual obligations and liabilities as at September 30, 2011

		Payments Due by Period $'000s			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**After 5 years**
Financial borrowings	8,039	8,039	-	-	-
Operating leases	1,373	913	460	-	-
Trade and other payables	11,188	10,596	317	275	-
Commitments	5,882	5,882	-	-	-
Total contractual obligations	**26,482**	**25,430**	**777**	**275**	**-**

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

Liquidity and Capital Resources

Cash Flows

The movement in the cash balance during the nine months to September 30, 2011 compared to what happened in the same period of 2010 can be broken down as follows:

	September 30 2011	September 30 2010	% Change
Net cash used in operating activities	(9,869)	(8,461)	17%
Net cash used in investing activities	(51,474)	(40,122)	28%
Net cash generated from financing activities	(762)	54,245	-101%
Foreign exchange difference	(14)	(42)	-67%
	(62,119)	5,620	1,205%

Operating activities

While there was a reduction in the pre-tax loss in the nine months to September 30, 2011 compared to the same period in 2010 there was an increase in the cash used in operating activities of $1.408 million reflecting the increase in production levels and associated costs.

Investing activities

In the nine months to September 30, 2011, due primarily to increased capital expenditure relating to the Doris oil discovery, there was a significant increase in cash used in investing activities when compared to the same period in 2010.

Included in the investment activities is an increase in restricted cash of $1.409 million. Of this $880,000 relates to cash held temporarily on deposit in support of foreign exchange hedging of the GBP/USD and will be released over the coming months.

Financing activities

There were no financing activities completed in the nine months to September 30, 2011 while an increase in borrowings of $1.840 plus three private placements generating gross receipts of $54.947 million were completed in the nine months to September 30, 2010.

Capital management

The Company's capital structure is comprised of shareholders' equity and debt.

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the 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 regularly updated forecasts of the expected timing and level of capital and operating expenditure required to meet both the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total borrowings at September 30, 2011 were significantly lower that at the same point in 2010 primarily because of repayments on the rig loans.

Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. There was no net debt at September 30, 2011.

	September 30 2011	September 30 2010
	$	$
Total financial liabilities - borrowings	8,039	11,518
Less: cash and cash equivalents	(17,016)	(12,917)
Net debt / (funds)	(8,977)	(1,399)
Total equity	225,449	151,026
Total capital	216,472	150,627

If the Company was in a net debt position, the Company would assess whether the projected cash flow was sufficient to service this debt and support ongoing operations. Consideration would be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity.

Funding

The Company is aware that if it is to meet its short term targets over the coming few months then it will require a higher level of cash input than has been received to date. In addition balloon payments of $0.7 million on the Tykhe rig loan are due for settlement in December and loans associated with the Uzbekistan NU116 well, drilled in late 2009, are due for settlement with $4.1 million due in January and $3.4 million in February 2012.When the rail terminal at Shalkar has been completed then the associated increase in production levels to 4,000 bopd and increased oil sales will generate sufficient levels of cash. While management is confident that this increased production will commence on December 1, 2011 this may not be the case and could be subject to unforeseen delays. In the absence of any other action a delay of one month would mean that the Company could have a problem in settling the loans as scheduled. The Company intends to resolve this situation through the placement of appropriate debt arrangements and a rollover of some or all of the existing debt.

Amongst the forms of debt facility being actively pursued is one that the Company has made use of previously and that is in the form of a loan secured against company owned drilling equipment. Another type of arrangement being considered is in the form of a credit line from a bank but even though the Company has received indicative terms from the bank with regard to a line of credit it is anticipated that it will take several months to complete. With regard to the drilling equipment loan the Company is looking to raise a sum equivalent to cover two months delay of the increased oil production and it is anticipated that this should be completed and in place by the end of November.

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 at the date of this report the Company is in discussions with several parties with regard to a potential farm in and/or joint ventures.

The directors have concluded that the combination of these circumstances represents a material uncertainty that casts doubt upon the Company's ability to continue as a going concern and that, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis of accounting in preparing the interim financial statements.

Stockholder Equity

As at September 30, 2011 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 260,629,769 (2010: 187,969,769) had been issued and 50,000,000 preference shares of which none had 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, 2011, a total of 31,275,572 (2010: 34,643,827) 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 28,803,000 and the number of warrants outstanding is 5,886,466.

Auditors
At the AGM held in Grand Cayman on June 27, 2011 KPMG Audit Plc were appointed as auditors of the Company to hold office until the close of the 2012 Annual General Meeting of Shareholders. PwC had been the previous auditors.

OUTLOOK

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of short-term cashflow projects and long-term high potential exploration projects focused in the Central Asian region. The Company's approach involves a mix of early cashflow production and development projects, for both natural gas and oil, as well as high potential exploration prospects looking to generate significant commercial upside. 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:

- appraise the Doris oil field discovery in the Akkulka Block, Kazakhstan;
- increase oil production from the Doris oilfield to 4,000 bopd and complete the installation of phase two production and sales facilities;
- test and evaluate the Kalypso (KBD01) exploration well with the aim of producing hydrocarbons;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- acquire contracts on new existing oil fields and exploration acreage in Uzbekistan;
- process the data generated from the Aeromagnetic and Gravity survey in Tajikistan to complement the existing seismic acquisition;
- fully test the East Olimtoi EOL09 exploration well in Tajikistan;
- complete the drilling of a mid-depth exploration well (Persea –PER01) in Tajikistan;
- further evaluation and testing of the Beshtentak Field in Tajikistan including construction of additional field facilities, completion of a new geological and reservoir model and plan for further workovers and possible drilling to increase oil and gas production.

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 Tajik and Uzbek assets.

Kazakhstan Operations Update

On September 26, 2011, the Company announced initial results on the AKD06 Doris appraisal well where drilling data and wireline logs indicated oil in both the Cretaceous sandstone and Jurassic limestone reservoirs. The Cretaceous sandstone had been encountered above prognosis and at a higher elevation than in the AKD01 Doris

discovery well and was of good quality with similar net pay thickness to AKD01, which flowed over 5,400 bopd from this unit. The Jurassic limestone had also been encountered above prognosis and slightly higher than in the AKD01 well and had similar characteristics to the previously drilled AKD05 well which flowed over 1,500 bopd from this zone. Further analysis of these initial data is currently underway. Production liner was run and cemented and followed by the gathering of additional geophysical data to tie this well into the new 3D seismic dataset. Testing has commenced and results are anticipated shortly.

On September 7, 2011, the Company announced the initial logging results of its KBD01 (Kalypso) exploration well drilled in the Kul-Bas block some 50 km north west of the Doris oil discovery. The well had reached total depth in what was initially interpreted to be rocks of Carboniferous age. Electric logs run over the deeper section indicated more than 100 metres of gross potential hydrocarbon bearing zones in what was interpreted to be shelf limestones of Carboniferous age. Hydrocarbon shows were also noted whilst drilling. This was in addition to the hydrocarbon indications noted on logs and drill data in the overlying Jurassic section (logged prior to drilling this deeper hole section). A comprehensive testing programme on both the Carboniferous and Jurassic intervals was planned following agreement and approvals from the appropriate Kazakh authorities which is likely to take some time as this was an exploration well and, unlike appraisal wells, no estimated testing programme could be submitted prior to finishing the well – meanwhile operations are suspended. The nearest field which produces from similar Carboniferous shelf limestones was the Alibekmola field, some 250km to the north in the pre-Caspian Basin Subsalt. It was likely that the limestone interval would require acidisation and possible fracture stimulation to achieve optimal production performance (as do other similar fields). This would be evaluated as part of the test programme planning.

On August 8, 2011 the Company opened its Doris oil production facilities in Kazakhstan. Oil was being trucked from this location at a rate of approximately 1,500 barrels of oil per day ("bopd"), but it was anticipated that these facilities would help increase this to 2-2,500 bopd. With the opening of the new rail-loading facility scheduled for Q4 of this year, which will reduce the trucking distance by half, it is planned to increase production to 4,000 bopd. The production facility and terminal are designed for potentially much greater production rates in the future.

On July 26, 2011, the Company announced that following acidisation its AKD05 Doris appraisal well in Kazakhstan had flowed some 2,088 barrels of fluid per day, of which 1,568 barrels per day was good quality (45 degrees API) oil. The well flowed with good surface pressures and the flow was limited by the surface facilities. Flow data indicated that the well would be capable of flowing around 3,000 barrels per day with reconfiguration of the production facilities. This well is now on production.

On 7 July 2011, the Company announced initial results of the AKD-04 and AKD-05 appraisal wells on the Doris discovery. The AKD-05 well flowed clean oil at a stable rate of approximately 520 bopd from the Upper Jurassic Carbonate Zone. Subsequently the Company announced that the same zone had flowed at a rate in excess of 2,000 bpd (of which 1,568 barrels was oil) following acidisation. The AKD-04 well Upper Jurassic Carbonate interval was targeted to evaluate the oil-water contact which is separate from the Doris structure by a fault. The test showed a mixture of oil and water so further work was carried out on the 3D seismic data which resulted in an additional refinement of the sand fan model for the Lower Cretaceous Sands and the likelihood that the oil deposits are primarily stratigraphically trapped. Based on this 3D mapping the location of the next Doris area well (AKD-06) was chosen and spudded on August 1, 2011.

Further evaluation of the 3D seismic dataset acquired using state of the art processing and interpretation techniques is revealing the probable 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 well locations in the greater Doris area.

Tajikistan Operations Update

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). Subsequent pressure and flow data indicate that this well is capable of flowing at some 1,000 bopd but is likely to be produced initial at a rate of between 500 to 600 bopd (subject to surface facilities constraints). The oil has an API gravity of 38 degrees and no water was produced. The well was placed on oil production and the gas tied into the nearby local gas grid. Sales agreements were finalized and production from the well is now being sold with the surface storage and loading facilities now been upgraded. . The Company noted that there were other workover candidates on the Beshtentak field which has gross prospective resources of 11.7 million barrels of oil and 16.1 billion cubic feet (0.23 billion cubic metres) of gas as quoted by the Company's independent reserves and resources assessment effective December 31, 2010. An updated geological model and field development plan are now being prepared.

Testing operations are underway on the East Olimtoi EOL09 exploration well located south of the town of Kulob some 10 km north of the Afghan border. This well reached a total depth of 3,765 metres in the Akdzhar formation and testing operations are being undertaken on the overlying Bukhara and Alai formations. The well was flowing a mixture of completion brine and oil from the upper Alai sandstone interval, this oil being of good quality with an API gravity of approximately 36 degrees. The current section open to testing includes this upper Alai sandstone unit as well as the lower Alai limestone interval. The well was drilled with heavy drilling fluid (weighted with barite), which was required to control the well when it intersected the upper Alai reservoir. Barite was observed in the flow lines which the Company believes inhibited flow. Testing and acid stimulation is ongoing with results expected by the end of November, these having been delayed due to logistical and mechanical issues. . There are two further sandstone zones in the Alai formation which appear oil bearing based on wireline logs and which will be tested after a stable and representative flow rate has been achieved from the current open formations. The lower part of the Bukhara interval was also tested but was found to have low permeability at this location although with the potential for production in future wells using production enhancement techniques such as hydraulic fracture stimulation. Mobilization of such equipment to Tajikistan would take a significant amount of time; as such the company has chosen to focus on the upper zones of this particular well at this time.

The Persea 1 exploration well, located near the town of Kurgon-Teppa is progressing within the 8 ½” hole section. This well is primarily targeting the Bukhara limestone formation in a four-way dip closed structure with the overlying Alai formation forming a potential secondary target. The planned total depth of this well is 2,700 metres and it is expected that this will be reached before the end of November 2011.

Data collection for the gravity, gradiometry and magnetic aerial survey carried out over the 35,000 km^2 Bokhtar Production Sharing Contract Area has now been completed. This will provide additional and more aerially extensive data to complement the existing seismic acquisition with the final processed data and results expected later in Q4 2011.

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. Discussions continue with several parties.

Uzbekistan Operations Update

The Company intends to carry out further production enhancement techniques on North Urtabulak including revised water injection (which should begin to have an impact on field production in Q4 2011).

The Company entered into a contract with the Institute of Geology and Prospecting for Oil and Gas Deposits (the "Institute") in Uzbekistan to study the potential of two separate prospective areas in Uzbekistan with a view to Tethys applying for suitable projects in these areas. The study involved the assessment of existing data and the oil and gas bearing prospectivity of the areas on the basis to prepare proposals for the Government of Uzbekistan for further exploration activities. Tethys views both areas as having very good oil and gas potential.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services under a 'flow through" contract from Vazon in the period ended September 30, 2011 was $2,352,118 (September 30, 2010 – $1,799,557). 34% of the increase was as a result of remuneration increases, 66% as a result of new staff/internal transfers.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys for work on projects in Tajikistan, Kazakhstan and Uzbekistan. Total fees for the period ended September 30, 2011 were $11,422 (September 30, 2010 – $182,470).

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions.

There have been no changes in the related parties transactions described in the last annual report.

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Tethys' business may be impacted by various risks not all of which are within its control. Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2010 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com. All risks which were detailed at that time have not changed and remain appropriate.

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

The Company has identified its principal risks for Q4 2011 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.

Financial Risk Management

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

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 was:

	Sep 30, 2011 $	**Dec 31, 2010 $**
Trade receivables	2,353	1,661
Cash and cash equivalents	17,016	79,135
Investments	1,057	1,015
Loan receivable from jointly controlled entity	54,790	35,460
Restricted cash	1,409	-
	76,625	117,271

Of the trade receivable balance the single biggest item is the trade receivable balance in Kazakhstan, being the result of contracted sales to one customer for gas and one customer for oil. The Company does not believe it is dependent upon either customer for sales due to the nature of gas and oil 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.

Included in the restricted cash balance at September 30, 2011 is $880,000 security deposit held by HSBC Bank in support of the hedging arrangement put in place in May 2011. *See Hedging Arrangement below.*

In Uzbekistan, the Company makes use of two 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 two buyers.

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). Previously the Company's minimum rating for any bank was A- but after careful consideration a decision was taken to place funds with Investec Bank plc which has a BBB rating. Within the Central Asian countries banks with the international ratings are generally not available.

The Company is exposed to credit risk in relation to its loan receivable from a jointly controlled entity to the extent that the jointly controlled entity fails to meet its contractual obligations. The Company does not believe that the balance is impaired at the reporting date. The carrying amount of the loan receivable represents the maximum exposure to credit risk.

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, 2011.

The Company's 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 12 above in *Contractual obligations and liabilities as at September 30, 2011.*

Particularly in the current climate, there can be no assurance that debt or equity financing will be available or sufficient to meet the Company's 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 Company's financial condition, 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 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 Company's 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 Company's 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 US$. A significant portion of expenditures in Kazakhstan is denominated in local currency, the Tenge... There is limited availability in exchange rate derivatives to manage exchange rate risks with rhis currency.

While the Company holds the majority of its cash and cash equivalents in U.S. dollars it does hold other balances, mainly British Pounds Sterling ("GBP") and Canadian dollars ("CDN"), to meet the requirements to fund ongoing general and administrative and other spending requirements in these currencies. In addition, a significant portion of any funds received as a result of any potential fund raising may be received in CDN. With regard to the GBP, had the $ changed by 10% at September 30, 2011 with all other variables held constant, the Company's foreign exchange gain or loss would have been affected by $60,834, for CDN had the $ changed by 10% the exchange gain or loss would have been affected by $68,305 and for the Kazakhstan Tenge (KZT) it would have been affected by $1,069,129.

Hedging arrangement

As a result of its operations in the GBP currency zone, the Company incurs expenditure in GBP on a regular basis and because of concerns relating to the exchange rate earlier this year entered into a hedging arrangement with HSBC Bank which runs to May 2012. In this arrangement each month up to and including December 2011, the Company can convert up to $1 million on a set day each month at the lower of the market rate or a maximum secured rate of $1.6495. From January to April 2012 the sum involved each month will be $0.75 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 reduces during the period of the hedge. At September 30, 2011 this balance was $0.88 million.

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan, Tajikistan or Uzbekistan to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Kazakhstan, Tajikistan or Uzbekistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be 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. The Company currently produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Commodity price 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 but its oil contract in Kazakhstan and its refined products in Uzbekistan 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 at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. 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 Africa and the Middle East demonstrate the volatility and uncertainties of the oil and gas industry. Also, there needs to be consideration of production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and as such there are many differing opinions on the cause of recent price changes.

As previously stated 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. In Uzbekistan, the Company sells refined petroleum products on a monthly basis and is consequently also subject to movements in the oil price. The price of oil sales from the Doris discovery commencing in the latter part of 2011 has yet to be agreed and therefore would be sensitive to movements in the market price.

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 September, 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 planned at 3,000-4,000 bopd (Phase 2) commencing in the fourth quarter of 2011 has yet to be agreed and therefore would be sensitive to movements in the market price. On a production level of 3,000 bopd, a movement of $1 per barrel on the price received by the Company would result in a plus or minus movement in the sales revenue of $1,095,000 per annum.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At net production levels of 325 bopd, a movement of $1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of $118,625 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 interim consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC Interpretations issued by the IFRS Interpretations Committee.
Please refer to the annual consolidated financial statements for the year ended December 31, 2010 Note 2 *Summary of Significant Accounting Policies* for details of the Company's accounting policies.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 – Certification of Disclosure in Annual and Interim Filings. The CEO and the 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, 2011 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, 2011. The Company's 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 was conducted of the effectiveness of internal control over financial reporting based on "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2010. No material weakness relating to the design of the Company's system of ICFR or relating to the Company's operations as at December 31, 2010 have been identified. A similar exercise will be carried out during Q4 2011.

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 Company's management as appropriate to allow timely decisions regarding disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Tethys' and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2011 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 Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: 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 Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the 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 Company's 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 Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and except as required by law Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Bernard Murphy, Chief Financial Officer