Tethys Petroleum Limited

(formerly known as Tethys Petroleum Investments Limited)

Consolidated Financial Statements

December 31, 2007 and 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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March 28, 2008

Auditors' Report

To the Shareholders of Tethys Petroleum Limited

We have audited the consolidated balance sheet of Tethys Petroleum Limited as at December 31, 2007 and the consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements as at December 31, 2006 and for the year then ended were audited by PricewaterhouseCoopers LLP, London, United Kingdom who expressed an opinion without reservation on those financial statements in their report dated May 10, 2007.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AUDITORS' REPORT

To the Board of Directors and Stockholders of
TETHYS PETROLEUM LIMITED

May 10, 2007

Dear Sirs

In our opinion, the accompanying balance sheets and the related statements of operations, stockholders' equity, and cash flows present fairly, in all material aspects, the financial position of Tethys Petroleum Limited at December 31, 2006, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable a basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's limited capital resources, negative cash flows and recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also addressed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(Signed) *"PricewaterhouseCoopers LLP"*
Chartered Accountants

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Balance Sheet

	Note	As at December 31, 2007	As at December 31, 2006
		(Expressed in 000's United States dollars)	
ASSETS			
Current Assets			
Cash and cash equivalents		26,692	1,763
Prepayments	**4**	351	331
Accounts Receivable		219	-
Other current assets		790	2
Total current assets		28,052	2,096
Non Current Assets			
Prepayments	**4**	3,062	3,882
Restricted Cash	**5**	318	205
Value added tax recoverable	**6**	2,752	1,086
Capital assets	**7**	37,472	12,318
Total Assets		71,656	19,587
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	**8**	1,388	878
Accrued and other liabilities		891	453
Total current liabilities		2,279	1,331
Non Current Liabilities			
Long term debt	**9**	-	3,084
Other non current liabilities	**10**	776	32
Asset retirement obligation	**11**	661	451
Total Liabilities		3,716	4,898
Stockholder Equity			
Ordinary shares, authorized - 500,000,000 shares; shares issued and outstanding - 45,116,696 at December 31, 2007 and 14,000,000 at December 31, 2006.	**15**	99,483	22,315
Contributed Surplus		3,527	-
Warrants	**16**	16,555	2,220
Accumulated deficit		(51,625)	(9,846)
Total stockholders' equity		67,940	14,689
Total Liabilities and Stockholders' Equity		71,656	19,587
Commitments and contingencies	**13**		

See accompanying notes to these financial statements

Approved by the board of directors on March 28, 2008

"D. Robson" Director

"B. Murphy" Director

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Operations and Comprehensive Loss

	Note	Year ended December 31st 2007	2006
		(Expressed in 000's United States dollars except share data)	
Operating Revenue			
Oil and gas sales		194	-
		194	-
Operating Expenses:			
Selling, general and administrative		27,342	5,124
Depreciation, depletion and amortization		13,057	32
		40,399	5,156
Operating Loss		(40,205)	(5,156)
Other Income (Expense):			
Interest, net		(1,437)	(1,701)
Foreign exchange gains (losses)		(96)	72
Other		(41)	(158)
Total Other Expense		(1,574)	(1,787)
Loss Before Income Taxes		(41,779)	(6,943)
Income taxes	**15**	-	-
Net Loss and Comprehensive Loss		(41,779)	(6,943)
Weighted average number of common shares outstanding	**18**	33,274,413	2,808,767
Basic and diluted loss (US$) per share		(1.26)	(2.47)

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statement of Cash Flows

	Note	Year ended December 31st 2007	2006
		(Expressed in 000's United States dollars)	
Operating activities:			
Loss from operations		(41,779)	(6,943)
Share warrants & options		17,862	-
Non-cash interest expense		1,916	1,809
Depreciation, depletion and amortization		13,057	32
Accounts Receivable		(1,885)	(1,084)
Other current debtors		(788)	
Prepayments		(20)	(71)
Accounts payable		510	410
Accrued and other liabilities		438	448
Net cash used in operating activities		(10,689)	(5,399)
Investing activities:			
Capital expenditures	**13**	(23,001)	(10,390)
Investments		(113)	(205)
Change in oil & gas suppliers prepayments		820	(766)
Net cash used in investing activities		(22,294)	(11,361)
Financing activities:			
Proceeds from issue of common stock		67,337	-
Share issue costs		(5,169)	-
Repayment of loans		(5,000)	18,115
Other non-current liabilities		744	(30)
Net cash provided by financing activities		57,912	18,085
Net increase in cash and cash equivalents		24,929	1,325
Cash and cash equivalents, beginning of year		1,763	438
Cash and cash equivalents, end of year		26,692	1,763
Interest paid		375	207

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Changes in Stockholders Equity

	Common Stock					
	No of Shares Issued	**Share Capital**	**Contributed Surplus**	**Warrants Reserve**	**Accumulated Deficit**	**Total Stockholders Equity**
	(Expressed in 000's United States dollars except share data)					
Total December 31, 2005	100,000	19			(2,903)	(2,884)
Stock split pursuant to Capital reorganization	900,000	-	-	-	-	-
Shares issued pursuant to capitalization pf parent inter-company loan	69,000,000	22,296	-	-	-	22,296
Discount recorded for issue of warrants to purchase 5 million shares pursuant to a loan agreement	-	-	-	2,220	-	2,220
Net loss in 2006	-	-	-	-	(6,943)	(6,943)
Total December 31, 2006	70,000,000	22,315	-	2,220	(9,846)	14,689
Shares Issued pursuant to Private Placement	34,674,390	17,337	-	-	-	17,337
	104,674,390	39,652	-	2,220	(9,846)	32,026
Share restructure 1:5	20,934,878	39,652	-	2,220	(9,846)	32,026
Issue of shares to acquire 30% of BN Munai	6,000,000	15,000	-	-	-	15,000
Initial Public Offering (IPO)	18,181,818	50,000	-	-	-	50,000
Share Warrants and Options	-	-	3,527	14,335	-	17,862
Finance Costs	-	(5,169)	-	-	-	(5,169)
Net loss in 2007	-	-	-	-	(41,779)	(41,779)
Total, December 31, 2007	45,116,696	99,483	3,527	16,555	(51,625)	67,940

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

Tethys Petroleum Limited (formerly known as Tethys Petroleum Investments Limited), incorporated and headquartered in Guernsey, British Isles, and its consolidated subsidiaries (collectively "Tethys"), is an oil and gas company operating within the Republic of Kazakhstan. Within the first quarter of 2007 the Company established a position in the Republic of Tajikistan which is currently being developed. Tethys' principal activity is the acquisition of interests in and development of crude oil and natural gas fields.

Significant Business Risks and Basis of Presentation

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2007. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. While these factors create doubt about the Company's ability to continue as a going concern management is confident of achieving the Company's short term plans, including phase two of gas production, and optimistic about the longer term prospects for the Company.

The Company completed an Initial Public Offering of equity securities on Toronto Stock Exchange on June 27, 2007 that generated sufficient funds to secure its future at least in the short term. In the event the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives.

The financial statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realisation of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect adjustment in the carrying values of assets and liabilities reported, revenue or expenses and the balance sheet classification used that would be necessary if the going concern assumption was not appropriate. Such adjustment could be material.

Foreign Operations

Tethys' future operations and earnings will depend upon the results of Tethys' operations in the Republics of Kazakhstan and Tajikistan. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, specifically those in Kazakhstan, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements and notes thereto are prepared in accordance with accounting principles generally accepted in the United States of America. All tabular amounts are in thousands of U.S. dollars.

Consolidation

The consolidated financial statements include the accounts of Tethys and its wholly owned subsidiaries. All significant inter-company transactions and accounts have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management believes that it is reasonably possible the following material estimates affecting the financial statements could significantly change in the coming year: (1) estimates of proved oil and gas reserves, (2) estimates as to the expected future cash flow from proved oil and gas properties, (3) estimates of future dismantlement and restoration costs, (4) estimates of the useful life of the assets and, (5) estimate of the valuation allowance against deferred taxes.

Cash and Cash Equivalents

Cash and cash equivalents, which include all liquid investments with an original maturity of three months or less, are considered to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, short-term receivables and short-term payables approximate their fair value due to the short maturity of the instruments.

Concentration of Credit Risk

Although Tethys' cash and temporary investments and accounts receivable are exposed to potential credit loss, Tethys does not believe such risk to be significant. Even though a substantial amount of funds were in accounts at financial institutions which were not covered under bank guarantees, management does not believe that maintaining balances in excess of bank guarantees resulted in a significant risk to the Company.

Market Risks

As an independent oil and gas producer, Tethys' revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and gas, which are dependent upon numerous factors beyond Tethys' control, such as economic, political and regulatory developments and competition from other sources of energy. The energy markets have historically been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and gas prices could have a material adverse effect on Tethys' financial position, results of operations, cash flows and Tethys' access to capital and on the quantities of oil and gas reserves that may be economically produced.

On January 5, 2006 Tethys' Kazakh subsidiary, BNM executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from BNM's Kyzyloi field in Kazakhstan. In December 2007 this contract was assigned to Kazakhstani Petrochemical Company Kemikal LLP ("KNK"), who will utilise the gas in the domestic Kazakh market. The agreed price is US$36.2 per thousand cubic metres (Mcm) (US$1.02 per thousand cubic feet (Mcf)) including VAT which can be offset against VAT costs on the Kyzyloi project. The Gas Supply Contract, which has a term until the earlier of June 13, 2014 and the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, is based on a take–or–pay principle and covers all gas produced from the Kyzyloi Field Licence and Production Contract area up to a maximum of 850,000 Mcm (30 Bcf).

Gas Pipeline

The Company is economically dependent on the Bukhara-Urals pipeline in that should anything adverse happen to this pipeline then the sales revenue would cease. This pipeline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently as any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian economy it is anticipated that there would be significant efforts to minimize any break in supply.

Capital Assets

Capital assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization unless the carrying amount is viewed as not recoverable in which case the carrying value of the assets is reduced to the estimated recoverable amount. See "Impairment of Long-Lived Assets" below. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss thereon is reflected in operations. Unproved properties are not deemed to be impaired until the right to drill on those properties is lost and planned development has ceased.

Oil And Gas Properties - Tethys accounts for oil and gas properties and interests under the full cost method. Under the full cost method, all acquisition, exploration and development costs, including certain directly related employee costs incurred for the purpose of finding oil and gas are capitalized and accumulated in pools on a country–by–country basis. Capitalized costs include the cost of drilling and equipping productive wells, including the estimated costs of dismantling and abandoning these assets, dry hole costs, lease acquisition costs, seismic and other geological and geophysical costs, delay rentals and costs related to such activities. Employee costs associated with production and other operating activities and general corporate activities are expensed in the period incurred.

Where proved reserves have been established, capitalized costs are limited on a country–by–country basis (the ceiling test). The ceiling test is calculated as the sum of the present value of future net cash flows related to estimated production of proved reserves, using end–of–the-current-period prices, discounted at 10%, and takes into account expected future costs to develop proved reserves, and operating expenses and income taxes. Under the ceiling test, if the capitalized cost of the full cost pool exceeds the ceiling limitation, the excess is charged as an impairment expense.

Unit-of-production depreciation is applied to capitalized cost of the full cost pool. Unit-of-production rates are based on the amount of proved developed reserves of oil, gas and other minerals that are estimated to be recoverable from existing facilities using current operating methods.

Tethys utilizes a single cost centre for each country where Tethys has operations for amortization purposes. Any conveyances of properties are treated as adjustments to the cost of oil and gas properties with no gain or loss recognized unless the operations are suspended in the entire cost centre or the conveyance is significant in nature.

The costs of investments in unproved properties and portions of costs associated with major development projects are excluded from the depreciation, depletion and amortization ("DD&A") calculation until the project is evaluated.

Unproved property costs include leasehold costs, seismic costs and other costs incurred during the exploration phase. In areas where proved reserves have been established, significant unproved properties are evaluated periodically, but not less than annually, for impairment. If a reduction in value has occurred, these property costs are considered impaired and are transferred to the related full cost pool. Unproved properties whose acquisition costs are not individually significant are aggregated and the portion of such costs estimated to be ultimately non-productive, based on experience is amortized to the full cost pool over an average holding period.

Where the existence of proved reserves has not yet been determined, leasehold costs, seismic costs and other costs incurred during the exploration phase remain capitalized in unproved property cost centres until proved reserves have been established or until exploration activities cease or impairment and reduction in value occurs. If exploration

activities result in the establishment of a proved reserve base, amounts in the unproved property cost centre are reclassified as proved properties and become subject to depreciation, depletion and amortization and the application of the ceiling test. If exploration efforts are unsuccessful in establishing proved reserves, it may be determined that the value of exploratory costs incurred there have been permanently diminished in part or in whole. Therefore, based on the impairment evaluation and future exploration plans, the unproved property cost centres related to the area of interest could be impaired, and accumulated costs charged against earnings.

Plant and Equipment - Depreciation of plant and equipment is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment to three to fifteen years for oil and gas related equipment.

Revenue Recognition

Tethys recognizes revenues when hydrocarbons have been produced and delivered and payment is reasonably assured.

Foreign Currency Translation

The U.S. dollar is the functional currency for Tethys and its subsidiaries' operations. All monetary assets and liabilities denominated in foreign currency are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and the resulting unrealized translation gains or losses are reflected in operations. Non-monetary assets are translated at historical exchange rates. Revenue and expense items (excluding depreciation and amortization which are translated at the same rates as the related assets) are translated at the average rate of exchange for the year.

Income Taxes

The Company accounts for income taxes under the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, and tax losses carried forward and, in relation to acquisitions, on the differences between the fair values of the net assets acquired and their tax base. Tax rates enacted by the balance sheet date are used to determine the deferred income tax. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize the benefit, or that future deductibility is uncertain.

Impairment of Plant & Equipment

The Company evaluates its plant & equipment for impairment using the guidance of Statement of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

Asset retirement obligations

Tethys recognizes liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The asset retirement cost is depreciated along with the property and equipment in the full cost pool. The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Capitalized costs are depleted as a component of the full cost pool using the units of production method.

Recently Issued Accounting Pronouncements

Accounting for Certain Hybrid Financial Instruments

In February 2006, SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* was issued. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. SFAS No. 155 will become effective for the fiscal year beginning after December 31, 2006. The Company adopted this Interpretation in the first quarter of 2007 and the adoption did not have a material impact on the Company's financial position or results of operations for the year ended December 31, 2007.

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes* – An interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company adopted this Interpretation in the first quarter of 2007 and does not anticipate the adoption to have a material impact on its financial position or results of operations.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements."* This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning subsequent to November 15, 2007. The Company will adopt this Statement in the first quarter of 2008 and does not expect the adoption to have a material impact on its financial position or results of operations.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*," which permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. This statement is effective beginning January 1, 2008 and the Company does not expect the adoption to have a material impact on its financial position or results of operations.

Reconciliation between US GAAP and Canadian GAAP

Under US GAAP regulations only proved reserves are included in the ceiling test and consequently the Company had to record an impairment in its 2007 accounts of US$ 12,800,000. Under Canadian GAAP where probable reserves can also be included in the ceiling test this impairment would not have been necessary. *See Note 20*

NOTE 3 – BUSINESS COMBINATIONS

Kul-Bas LLP

On May 5, 2006, Tethys acquired through its subsidiary BNM, 70% of the charter capital of Kul-Bas LLP, a limited liability partnership registered in Kazakhstan, for consideration of US$100,000. Kul-Bas LLP had won the right to negotiate the Greater Akkulka Exploration and Production Contract covering an unexplored area of 2,688,695 acres (10,881 km^2) surrounding the Akkulka area. In November, 2005 Kul-Bas LLP signed the Exploration and Production Contract with the Kazakh authorities, this contract being for a period of 25 years, with an initial six year exploration period. The purchase price of Kul-Bas LLP reflected the fair value of the unevaluated property and was allocated to unevaluated oil and gas properties. On March 13, 2007 the Company, through its wholly owned subsidiary TKL, entered into an agreement with the holders of the remaining 30% of BN Munai to acquire their share in full in return for shares in the Company.

NOTE 4 – PREPAYMENTS

Prepayments consisted of the following:

	December 31, 2007	December 31, 2006
Contractors	3,062	3,882
Other	351	331
Balance	3,413	4,213

Prepaid Contractors relate to a supplier who was paid in advance for materials and services related to the drilling of four wells on the Akkulka and Kul Bas contracts in Kazakhstan. Other prepayments primarily relate to prepaid insurance and other operating expense items.

NOTE 5– RESTRICTED CASH

Restricted Cash at December 31, 2007 consisted of bank deposits with maturity dates of April 27, 2008 and December 28, 2008. These deposits have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations.

NOTE 6 – VALUE ADDED TAX RECOVERABLE

VAT recoverable represents VAT on capital expenditures in Kazakhstan that is allowed as an offset against VAT on revenues.

NOTE 7 - CAPITAL ASSETS

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at December 31, 2007:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	39,727	(12,975)	26,752
Unproved properties	7,749	-	7,749
	47,476	(12,975)	34,501
Plant and Equipment			
Oil & Gas Equipment	2,057	-	2,057
Vehicles	579	(19)	560
Office equipment, furniture, fixtures and other	386	(32)	354
	3,022	(51)	2,971
	50,498	(13,026)	37,472

Capital assets, net of accumulated DD&A, include the following at December 31, 2006:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	8,683	-	8,683
Unproved properties	3,157	-	3,157
	11,840	-	11,840
Plant and Equipment			
Oil & Gas Equipment	179	-	179
Office furniture, fixtures and Equipment and other	337	(38)	299
	516	(38)	478
	12,356	(38)	12,318

An impairment adjustment of US$12,800,000 was required under the US GAAP ceiling test which is calculated on proved reserves only at the constant prices. The prices used in valuing the reserves were US$0.90 per Mcf for the existing Kyzyloi gas sales contract and US$3.38 per Mcf for future gas sales. Under Canadian GAAP an allowance would have been made for probable reserves and there would have been no need for the impairment adjustment. No impairment was necessary in 2006.

Following the commencement of gas production from the Kyzyloi gas field on December 19, 2007 the Kyzyloi costs, included in the Proved Properties, were depreciated on a unit of production basis

Costs of the Akkulka Licence and Contract including a five well exploration program initiated in 2006, and a further ten well program initiated in the second quarter of 2007 have been included in Proved Properties at December 31, 2007. At December 31, 2006 the Akkulka property costs were included in Unproved Properties.

Unproved property additions relate to activity being carried out in properties where as yet there are no proved reserves and at December 31, 2007 this consisted of the Kul Bas Exploration and Production Contract. A well drilling exploration program had been initiated on the Kul bas contract in the final quarter of 2007 but none had been completed by December 31, 2007.

In the period to December 31, 2007 US$ 316,200 was capitalized from G&A while in 2006 the amount was US$143,000.

Oil & gas Equipment in 2007 includes construction in progress in relation to a drilling rig and as such this was not subject to depreciation.

NOTE 8 – CURRENT LIABILITIES

Current liabilities consisted of the following at:

	December 31, 2007	December 31, 2006
Trade payables	1,182	798
Education fund obligations	206	80
Accrued and other liabilities	891	453
Balance	2,279	1,331

Each of the Kyzyloi, Akkulka and Kul Bas contracts in Kazakhstan require that a sum equivalent to 1% of the capital expenditure incurred on the respective work programs is provided for the professional education of its Kazak personnel.

NOTE 9 – LONG TERM DEBT

The Loan included in the accounts to December 31, 2006 was repaid in June 2007, resulting in a loss on retirement of US$1,916,000 that has been included in the interest expense.

	December 31, 2007	December 31, 2006
Tethys Senior Secured Notes	-	5,000
Unamortized debt discount	-	(1,916)
Balance	-	3,084

There was a charge to the Company of US$238,000 in relation to the warrants issued to the lenders under the terms of the Short–Term Loan agreement. This figure has been included in the shares, warrants and options expenses.

NOTE 10 – NON CURRENT LIABILITIES

Other non current liabilities relates to the accrual of Historic Costs due to the Government of Kazakhstan on the Kyzyloi contract in Kazakhstan. The total amount outstanding at December 31, 2007 was US$1,081,000an this is to be paid in quarterly instalments between January 2008 and March 2014. The figure shown reflects the net present value of the US$1,081,000 using an interest rate of 10%.

NOTE 11 – ASSET RETIREMENT OBLIGATION

The asset retirement obligation is comprised the following:

	December 31, 2007	December 31, 2006
Balance at beginning of year	451	354
New obligations incurred	175	62
Accretion of expense	35	35
Balance at end of year	661	451

NOTE 12 – NON-CASH MOVEMENTS

Changes in Capital Expenditures

The following provides the reconciliation between the Balance Sheet movements in Capital Assets to the Changes in Capital Expenditures reported on the Consolidated Statements of Cash Flows:

	December 31, 2007	December 31, 2006
Balance Sheet movement in Capital Assets, net	25,154	10,418
Non Cash Capital Asset movements:		
Purchase in exchange for company shares	(15,000)	-
Ceiling test impairment	12,800	-
Changes in asset retirement obligations	(175)	(60)
Changes in Accumulated DD&A	222	32
Capital Expenditures	23,001	10,390

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Kyzyloi Field Licence and Gas Production Contract

As at December 31, 2007, Tethys' subsidiary BN Munai (BNM) had completed the construction of the pipeline for the Kyzyloi field development in Kazakhstan. BNM owns 100% of the interest in Kyzyloi Field License and Gas Production Contract #1734 dated May 5, 2005. The Kyzyloi Field License and Gas Production Contract was concluded for an initial period until June 12, 2007. The Kyzyloi Field License and Gas Production Contract was further extended on November

8, 2007 until June 13, 2014. According to the Kyzyloi Field License and Gas Production Contract and amendments to the contract BNM is committed to the following obligations:
Until June 13, 2014 BNM is obliged to spend additional US$2,687,000 minimum work program on development of the contractual territory, At least 30% of equipment, materials and goods required for the fulfilment of the Kyzyloi Field License and Gas Production Contract should be produced in Kazakhstan (local content requirement). At least 90% of services required for the fulfilment of the Kyzyloi Field License and Gas Production Contract should be purchased from Kazakh legal entities (local content requirement).

At least 90% of employees of the company should be Kazakh nationals (local content requirement) and at least 1% of the operating costs should be spent on training of Kazakh nationals (local content requirement) and at least US$30,000 annually should be spent on social-economic support of the region. Tethys currently meets these all of these requirements. Under the terms of Kyzyloi Field Licence and Production Contract, historic costs totalling US$1,211,000 are payable in equal portions of US$43,244 on a quarterly basis to the Kazakhstan government from the third year of production. Three quarterly payments in 2007, totalling US$130,000 were included in the year to December 31, 2007 leaving an outstanding balance of US$1,081,000. The quarterly payments are due to continue until March 2014.

Akkulka Field Exploration Licence and Contract

BNM owns 100% of the interest in Akkulka Field Exploration License and Contract #265 dated November 17, 1998. The contract initially granted BNM the exploration rights for a period of 5 years, however, the terms of the contracts have been extended three times; on July 5, 2004 the terms of the Contract were extended until September 17, 2005, on June 26, 2006 the extension was until September 17, 2007, and on November 8, 2007 the terms of the contract were further extended until September 17, 2009.

According to the Akkulka Field Exploration License and Contract and amendments to the contract BNM is committed to a number of obligations. The initial commitment under the agreed work program was US$14,780,000 of expenditures over the initial 5 year term of the Akkulka Field Exploration License and Contract. Then the amendment signed on July 5, 2004 committed BNM to an additional US$2,828,000 minimum work program on exploration of the contractual territory, this expenditure to be incurred prior to September 17, 2005 while the amendment signed on June 26, 2006 required a further minimum work program of US$6,854,000 to be incurred by September 17, 2007. The amendment signed on November 8, 2007 obliged BNM to spend additional US$1,850,000 minimum work program on exploration of the contractual territory (i.e. spend at least US$500,000 on drilling 5 additional exploration wells, spend at least US$250,000 on geological studies etc.). The above expenditures should be incurred prior to September 17, 2009.

In the event that a commercial discovery occurs, royalty rates payable will be established in a production contract for which BNM will have the exclusive right to negotiate. The royalty payable is variable; however, it ranges from between 2% and 6%, depending on the size of the deposit and is set 30 days before production commences. Furthermore, on commencement of commercial production, an additional payment in the amount of US$3,500,000 will also be due to the Kazakh government for the reimbursement of historical expenses; the amount and procedure of reimbursement will be subject to the terms and conditions to be set out in the production contract.

Kul-Bas LLP ("Kul-Bas")

Kul-Bas owns 100% interest in "Kul-Bas Exploration and Production Contract" #1897 dated November 11, 2005 (also known as "Greater Akkulka Exploration and Production Contract"), which was concluded for 25 years (first 6 years of exploration and 19 years of production). According to the Greater Akkulka Exploration and Production Contract Kul-Bas is committed to a number of obligations. At least 20% of produced crude oil should be sent to Kazakh refineries (during production period) and 100% during the exploration period while any associated gas should be utilized in accordance with the applicable environmental legislation. At least 50% of equipment, materials and goods required for the fulfilment of the Greater Akkulka Contract should be produced in Kazakhstan and at least 95% of employees of the company should be Kazakh nationals (local content requirement). .

With regard to services required for the fulfilment of the Greater Akkulka Exploration and Production Contract a minimum of 70% should be purchased from Kazakh legal entities. Only if the required services cannot be provided by Kazakh suppliers may they be purchased from foreign suppliers, provided the competent authority approves such services. During the exploration period at least 1% of the exploration costs and during the production period at least 0.1% of the operating costs should be spent on training of Kazakh nationals. At least US$10,000 annually should be

spent on social-economic support of the region. .

The work program on Greater Akkulka Exploration area amounts to a total of approximately US$7,700,000 over the initial six year exploration period, that started with a US$160,000 commitment in 2006, a US$940,000 commitment for 2007 and a US$3,000,000 commitment for 2008. The royalty payable can range from 4% to 6% depending on the size of the deposit and will be set 30 days before production commences. The government is to be compensated for the historical costs related to Greater Akkulka area in the amount of US$3,275,780 in three stages. Stage 1 required that US$4,914 to be paid within 30 days of the conclusion of the Contract then US$44,223 not later than January 1, 2005 and then after commencement of the commercial production US$88,666 quarterly until the remaining historical costs of US$3,226,643 are fully paid.

Sales Contract

On 5 January 2006 Tethys' Kazakhstan subsidiary, BN Munai LLP ("BNM") executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from BNM's Kyzyloi field in Kazakhstan. In December 2007 this contract was assigned to Kazakhstani Petrochemical Company Kemikal LLP, who will utilise the gas in the domestic Kazakh market. The agreed price is US$1.02 per thousand cubic feet (Mcf) (US$36.2 per Mcm) including VAT which can be offset against VAT costs on the Kyzyloi project. The average daily contract quantity for the first two months was estimated at 21.2 million cubic feet (MMcf) (600 thousand cubic metres (Mcm)) from an initial six wells and is expected to increase to approximately 22.1 MMcf (625 Mcm) of gas per day by March of 2008.

Tajikistan

On September 7, 2007 the Company announced that its wholly owned subsidiary, Tethys Tajikistan Limited, had signed an Investment and Operating Agreement (the "IOA") with Southern Oil and Gas Exploration State Unitary Enterprise ("SOG") relating to oil and gas fields in Southern Tajikistan. The IOA had been agreed to and supported by the Ministry of Energy and Industry of the Republic of Tajikistan (the "Ministry"). SOG is a wholly state-owned oil and gas company reporting to the Ministry that holds the production licenses to a number of fields in the Kulob Area in southern Tajikistan over which Tethys negotiates a Production Sharing Agreement ("PSA"). The IOA allows Tethys to commence initial production operations in the Kulob Area whilst the Tajikistan government finalizes certain necessary legislative changes to enable the recently adopted Production Sharing Legislation to become effective. Once the legislative changes are in place Tethys intends to progress and finalize negotiations on the PSA, and the Ministry recommended that the IOA be entered into as a precursor to the execution of the PSA and to provide assistance to Tethys in obtaining a PSA for the Kulob Area**.** On December 24, 2007 Tethys announced that it had signed an agreement (the "Agreement") to take a partner in its projects in Tajikistan.

Drilling Rig

On October 16, 2007 Tethys also that it had placed an order for a new 2,000 horsepower (1,470 kN) ZJ70/4500L drilling rig from a Chinese supplier. This rig, which has a nominal drilling depth of 23,000 feet (7,000 metres), is due to be completed within 6 months. The rig will initially be transported to Akkulka for use on the Akkulka deep exploration program which is planned to commence in May/June 2008. It is planned that the rig will be operated by Tethys' current Kazakh drilling contractor under a management agreement. The rig would also be suitable for drilling on the potentially large prospects Tethys has identified in the Kulob area of Tajikistan over which Tethys is currently finalising a Production Sharing Agreement and where work is commencing under its Investment Operating Agreement. The cost of the rig and support equipment to be purchased is anticipated to be US$9.2 million and, whilst the Company paid the deposit of US$1,878,900 in October and a stage payment of the same amount in January 2008.

On March 19, 2008 the Company announced that it had recently completed a financing arrangement for funds of US$5.3 million to assist with the purchase of the rig by means of a 3 year loan with monthly payments of interest and capital and a final balloon payment. The average annual interest payable expressed as a percentage of the total borrowed funds is 9.3%. 795,000 warrants to purchase Tethys shares were also issued to the lenders with a term of 3 years and an exercise price of CAD$3.25. Lenders have security over the shares of TPI which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. To December 31, 2007 Tethys has incurred US$1,878,900 of costs with respect to this rig.

NOTE 14 – INCOME TAXES

Tethys and its domestic subsidiary Tethys Kazakhstan Limited have been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and hence are liable for a payment of a Guernsey exemption fee at a fixed rate of US$1,000 (£600) per annum. With effect from January 1, 2008 Guernsey has restructured its tax regime and the standard rate of income tax for companies has moved to 0%. Tethys Petroleum Limited and Tethys Kazakhstan will therefore be taxed at the standard rate of 0%.

The Company has foreign subsidiaries based in the Republic of Kazakhstan where the statutory rate of income tax is 30% for all periods presented. No provision for income taxes have been provided in the consolidated financial information as Tethys combined Kazakhstan subsidiaries recorded losses for all periods presented. Tethys's Kazakhstan subsidiaries had calculated the aggregate net operating losses carried forwards of US$2,377,000, US$77,000 and US$27,000 as at December 31, 2007, 2006 and 2005 respectively. Tethys' Kazakhstan net operating losses carried forwards expire from 2012 to 2014. Tethys' available net operating losses carried forwards may be used to offset future taxable income, if any, prior to their expiration. A deferred tax asset existed as at December 31, 2007, 2006 and 2005 but due to uncertainty in the realizability of these tax assets the Company has recorded a full valuation allowance at the end of each of these periods.

Tethys' subsidiaries in Tajikistan would be subject to a statutory rate of income tax of 25%.

NOTE 15 – SHAREHOLDERS' EQUITY

During the years ended December 31, 2007 and 2006 the following transactions regarding Tethys' Ordinary Shares were consummated pursuant to authorization by Tethys' Board of Directors.

Year ending December 31, 2007

The Company obtained the approval for a 1 for 5 Share Consolidation on May 8, 2007 when an ordinary resolution of shareholders approving such consolidation was filed with the Guernsey companies register. As a result 26,934,878 Ordinary Shares were issued to replace the existing 134,674,390 after giving effect to the issuance of the 30,000,000 shares relating to the BN Munai acquisition. Following the Share Consolidation it was resolved to maintain the number of authorized shares at 500,000,000. Comparative earnings per share data has been restated to reflect the share consolidation.

On June 27, 2007 Tethys successfully completed an IPO and listed on the Toronto Stock Exchange having placed 18,181,818 at a price of US$ 2.75 raising US$ 50 million (gross).

Year Ended December 31, 2006

On October 23, 2006 each of the ordinary shares in the capital of the Company (whether issued or not) were sub-divided into 10 ordinary shares of £0.01 each in the Capital of the Company. The authorized share capital was then increased to £5,000,000 divided into 500,000,000 ordinary shares of £0.01 par value.

On October 23, 2006 the Company capitalized an inter-company loan in the amount of US$22,296,000 from its parent, CanArgo Energy Corporation, into 69,000,000 ordinary shares that were issued to CanArgo Limited pursuant to such capitalization. 69,000,000 were issued at £0.01 par value per share. The par value was recorded at £690,000 and converted to US$1,288,275 at a rate of 1.8671.

No dividend has been declared or paid during the years ended December 31, 2007 or December 31, 2006.

NOTE 16 – STOCK BASED COMPENSATION

The Company has adopted a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, or any subsidiary or Vazon (collectively, "Service Providers"). The purpose of the plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by Service Providers who, in the judgment of the Board of Directors, will be largely responsible for its future growth and success.

The maximum number of Ordinary Shares reserved for issuance under the plan equals 10% of the outstanding Ordinary Shares after giving effect to the Treasury Offering. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an optionee ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of Ordinary Shares on the principal stock exchange where the Ordinary Shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without shareholder approval, for amendments of a "housekeeping" nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a "change of control" (as defined in the plan). Options granted under the plan are only assignable to certain related entities of an optionee or otherwise with the consent of the Company.

The plan does not contain any restriction on the number of Ordinary Shares which may be reserved for issuance in respect of options granted to insiders under the plan or pursuant to any other share compensation arrangement. Accordingly, amendments to the plan and other compensation arrangements of the Company which require approval of shareholders will require approval of disinterested shareholders for as long as the number of Ordinary Shares reserved for issuance under the options or other share compensation arrangements exceeds 10% of the outstanding Ordinary Shares and the plan or share compensation arrangements do not limit the participation of insiders to 10% of outstanding Ordinary Shares.

The Company has approved the grant to its executive officers of warrants (the "Performance Warrants") to acquire 6,767,504 Ordinary Shares. The Performance Warrants will be exercisable at US$4.125 through the period ending December 25, 2009 in respect of 1,353,501 Ordinary Shares, US$5.50 through the period ending June 25, 2011 in respect of 2,255,835 Ordinary Shares, and US$6.875 through the period ending December 25, 2012 in respect of 3,158,168 Ordinary Shares.

Annual Activity

Stock options – The following table summarizes the stock option activity under the 2007 Long Term Stock Incentive Plan for the fiscal year ended December 31, 2007.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Term (in years)
Outstanding at January 1, 2007	0	N/A		
Granted	4,497,000	$2.76		
Forfeited	0	0		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at December 31, 2007	4,497,000	$2.76	$875	6.51
Exercisable at December 31, 2007	1,499,000	$2.76	$292	6.51

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's stock price on December 31, 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders had exercised their options on December 31, 2007. This amount changes based on the fair market value of the Company's stock.

For options granted during the fiscal year ended December 31, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes option pricing model was US$1.6108 per option, using the following weighted average assumptions: dividend yield of 0%; expected term of 4.0 years; a risk free interest rate of 4.85%; and an expected volatility of 74.2%.

For the fiscal year ended December 31, 2007, there was US$3.4 million of pre-tax compensation expense for options granted under the 2007 Long Term Stock Incentive Plan. As of December 31, 2007, there was US$3.5 million of total unrecognized compensation expense related to unvested stock options granted under the plan. The Company expects to recognize the expense over a weighted-average period of 1.51 years.

Warrants - The following table summarizes the warrant activity, including Performance Warrants, for the fiscal year ended December 31, 2007.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Term (in years)
Outstanding at January 1, 2007	0	N/A		
Granted	8,857,504	$5.07		
Forfeited	0	0		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at December 31, 2007	8,857,504	$5.07	$941	5.20
Exercisable at December 31, 2007	8,857,504	$5.07	$941	5.20

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's stock price on December 31, 2007 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders if all warrant holders had exercised their warrants on December 31, 2007. This amount changes based on the fair market value of the Company's stock.

For warrants granted during the fiscal year ended December 31, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes pricing model was US$1.5916 per warrant, using the following weighted average assumptions: dividend yield of 0%; expected term of 5.71 years; a risk free interest rate of 4.94%; and an expected volatility of 85.4%.

For the fiscal year ended December 31, 2007, there was US$14.1 million of pre-tax compensation expense for granted warrants. All the granted warrants were immediately vested. As of December 31, 2007, there was no unrecognized compensation expense related to unvested warrants.

NOTE 17 - NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted per share information is calculated, including the dilutive effect of stock options which are determined using the treasury stock method. The treasury stock method assumes that the proceeds that would be obtained upon exercise of "in the money" options would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

NOTE 18 - RELATED PARTY TRANSACTIONS

Upon completion of the private placement of shares in February 2007 Kraken Financial Group, which has one common director with the company, was duly registered as a shareholder in the Company having received 2% commission in the

form of 411,271 shares (pre-split). During the course of the placement process Kraken Financial Group had managed the Escrow Bank Account into which funds were paid by each of the investors until all of the funds were present at which point they were paid over to the Company and the shares issued. For the provision of this service Kraken Financial Group was paid the sum of US$19,500 (£10,000). A fee of US$60,000 was paid to Paul Murphy for his part in introducing the investors. Kraken Financial Group also acted as broker for Tethys in the placement of the D&O insurance for which the annual premium was US$112,000.

Up to the date of the listing of Tethys on the Toronto Stock Exchange CanArgo Energy Corporation provided administrative services, which generally consisted of office space, telephones, utilities and other administrative type costs, to Tethys via a management services agreement between CanArgo Energy Corporation, Tethys and Vazon Energy Limited. Vazon Energy Limited 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. In addition, a management services agreement existed between CanArgo Energy Corporation and Vazon Energy whereby the services of Dr. Robson, Ms. Landles (Corporate Secretary and Executive Vice President) and other Vazon Energy employees, were provided to CanArgo Energy Corporation. Fees paid to by the Company to Canargo during this period amounted to US$600,000. A management services contract directly with Vazon Energy came into effect from June 27th, 2007 whereby a monthly fee is paid for the services of Dr Robson, a separate monthly fee for other Vazon employees and an invoice for all other services and costs is to be issued to Tethys at the end of each month. The total costs charged to Tethys in the year to December 31, 2007 by Vazon was US$522,537.

Mr. Russell Hammond, a non-executive director of Tethys and CanArgo Energy Corporation is also an Investment Advisor to Provincial Securities Limited. Provincial Securities Limited had an interest in Tethys Petroleum Limited which was sold in June 2005 to CanArgo Energy Corporation by a share exchange for shares in CanArgo Energy Corporation. Provincial Securities Limited received 5,500,000 shares of Canargo Energy Corporation common stock in relation to the transaction. Mr Hammond did not receive any compensation in connection with these transactions and disclaims any beneficial ownership of Provincial Securities Limited or any of the Company's common stock owned by Provincial Securities Limited.

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. Transactions with affiliates are reviewed and voted on solely by non-interested directors.

NOTE 19 – SUBSEQUENT EVENTS

On January 15, 2008 the Company announced a new gas discovery with the results of the Akkulka AKK13 exploration well in Kazakhstan.

On March 19, 2008 the Company announced that it had secured financing in the amount of US$5,300,000 for purchase of the drilling rig from China by means of a 3 year loan with monthly payments of interest and capital and a final balloon payment. The average annual interest payable expressed as a percentage of the total borrowed funds is 9.3%. 795,000 warrants to purchase Tethys shares were also issued to the lenders with a term of 3 years and an exercise price of CAD$3.25. Lenders have security over the shares of TPI which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. The ZJ 70 mechanical drilling rig which is capable of drilling 23,000 feet (7,000 metres) will be one of the largest rigs in Kazakhstan. This purchase gives Tethys the benefits of significant flexibility and lower costs over hiring a third party drilling company. The rig would also be available for third party contracts based on Tethys' work programme, and will be used for drilling of the deeper prospects in Tajikistan. Delivery of the rig is expected in Kazakhstan in Q2 of 2008 with drilling expected to commence in Q3 of 2008.

NOTE 20 – CANADIAN ACCOUNTING PRINCIPLES AND REPORTING

The Consolidated Financial Reports have been prepared in accordance with accounting principles generally accepted in the USA (US GAAP) which in most respects conform to accounting principles generally accepted in Canada (Canadian GAAP). The differences between US GAAP and Canadian GAAP that apply to the Company are explained in this note.

RECONCILIATION ON NET EARNINGS BETWEEN US GAAP AND CANADIAN GAAP

	Year ended December 31,	
	2007	**2006**
Net Loss and Comprehensive Loss under US GAAP	(41,779)	(6,943)
Add back:		
Impairment on Proved Properties	12,800	-
Net Loss and Comprehensive Loss under Canadian GAAP	(28,979)	(6,943)
Basic and diluted loss per share under Canadian GAAP	$0.87	$2.47

CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT – CANADIAN GAAP

	2007	**2006**
Operating Revenue	194	-
Expenses		
Selling, General & Admin Exp.	27,342	5,124
Depreciation, depletion & amortization	257	32
Other	1,574	1,787
Net Loss and Comprehensive Loss under Canadian GAAP	(28,979)	(6,943)
Tax	-	-
Net Loss and Comprehensive Loss after tax under Canadian GAAP	(28,979)	(6,943)
Deficit – Beginning of the year	(9,846)	(2,903)
Deficit – End of year	(38,825)	(9,846)

CONDENSED CONSOLIDATED BALANCE SHEET

	2007	**2006**
Assets		
Current Assets	28,052	2,096
Non Current Assets	6,132	5,173
Property, Plant & Equipment	50,498	12,356
Depreciation, depletion & amortization	(226)	(38)
Total Assets	84,456	19,587

Liabilities and Stockholder Equity

Current Liabilities	2,279	1,331
Non Current Liabilities	1,437	3,567
Total stockholder equity	80,740	14,689
Total liabilities and stockholder equity	84,456	19,587

RECENT ACCOUNTING PRONOUNCEMENTS – CANADIAN GAAP

CICA Handbook Section 3031 "Inventories". The new standard requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with Tethys' current treatment. The adoption of this standard should not have a material impact on Tethys' Consolidated Financial Statements.

CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation", which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard will increase disclosure regarding the risks associated with financial instruments and how those risks are managed. The adoption of these standards should not have a material impact on Tethys' Consolidated Financial Statements.

CICA Handbook Section 1535 "Capital Disclosures" which will require the disclosure of the objectives, policies and processes for managing capital.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of the accounting standards in Canada. As part of that strategic plan, accounting standards for public companies are expected to converge with International Financial Reporting Standards ("IFRSs"). In March 2007, AcSB released an "Implementation Plan for Incorporating IFRSs into Canadian GAAP", which assumes a convergence date of January 1, 2011. Following a progress review, AcSB is expected to confirm this date by March 31, 2008. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.