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

Consolidated Balance Sheets - Unaudited

	Note	As at September 30, 2007	As at December 31, 2006
		(Expressed in 000's United States dollars)	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		37,221	1,763
Prepayments	4	441	331
Other current assets		782	2
Total current assets		38,444	2,096
NON CURRENT ASSETS			
Prepayments	4	6,245	3,852
Restricted Cash	5	219	205
Other accounts receivables	6	2,004	1,086
Prepaid financing fees		-	30
Capital assets	7	38,837	12,318
Total Assets		85,749	19,587
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	8	1,087	878
Accrued liabilities		77	-
Other liabilities		120	453
Total current liabilities		1,284	1,331
Long term debt	9	-	3,084
Other non current liabilities		-	32
Provision for future site restoration	10	658	451
Total Liabilities		1,942	4,898
Stockholders' equity	13		
Common stock, authorized - 100,000,000 shares; shares issued, issuable and outstanding - 45,116,696 at 30 September 2007 and 14,000,000 at 31 December, 2006.		99,584	22,315
Contributed Surplus		2,921	-
Warrants	14	16,555	2,220
Accumulated deficit		(35,253)	(9,846)
Total stockholders' equity		83,807	14,689
Total Liabilities and Stockholders' Equity		85,749	19,587
Commitments and contingencies	12		

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)
Consolidated Statements of Operations - Unaudited

	For three months to			Year to date	
	Sept 30, 2007	Sept 30, 2006		Sept 30, 2007	Sept 30, 2006
	(Expressed in 000's United States dollars except share data)		Note	(Expressed in 000's United States dollars except share data)	
Operating Revenues					
Oil and gas sales	-	-		-	-
Other	-	-		-	-
	-	-		-	-
Operating Expenses:					
Selling, general and administrative	3,422	1,932		23,420	3,194
Depreciation, depletion and amortization	20	10		48	22
	3,442	1,942		23,468	3,216
Operating Loss	(3,442)	(1,942)		(23,468)	(3,216)
Other Income (Expense):					
Interest, net	451	(1,101)		(1,817)	(599)
Foreign exchange gains (losses)	51	(39)		(92)	111
Other	(29)	(78)		(30)	(81)
Total Other Expense	473	(1,218)		(1,939)	(569)
Loss Before Income Taxes	(2,969)	(3,160)		(25,407)	(3,785)
Income taxes	-	-	15	-	-
Net Loss	(2,969)	(3,160)		(25,407)	(3,785)
Weighted average number of common shares outstanding	45,116,696	100,000	16	29,283,608	100,000
Basic and diluted loss per share	(0)	(32)		(1)	(38)

See accompanying notes to these financial statements

Notice to Reader

The comparative consolidated statement of operations for the three and nine month periods ended September 30, 2006 were not reviewed by the Company's external auditors.

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

Consolidated Statement of Cash Flows - unaudited

	For three months to			Year to date	
	Sept 30, 2007	**Sept 30, 2006**		**Sept 30, 2007**	**Sept 30, 2006**
	(Expressed in 000's United States dollars)			(Expressed in 000's United States dollars)	
Operating activities:					
Loss from operations	(2,969)	(3,160)		(25,407)	(3,785)
Share warrants	679	-		17,256	-
Non-cash interest expense		-		1,917	-
Depreciation, depletion and amortization	20	14		48	22
Accounts receivable	(342)	11		(1,698)	11
Prepayments	(328)	(288)		(80)	2,425
Accounts payable	126	218		209	(73)
Accrued liabilities	(1,912)	5		(257)	5
Net cash used in operating activities	(4,725)	(3,200)		(8,012)	(1,394)
Investing activities:					
Capital expenditures	(3,845)	(2,531)	**11**	(11,360)	(7,860)
Restricted Cash	(2)	-		(14)	-
Change in oil & gas suppliers prepayments	326	(847)		(2,393)	(1,500)
Net cash used in investing activities	(3,521)	(3,378)		(13,767)	(9,360)
Financing activities:					
Proceeds from sale of common stock		-		67,337	-
Share issue costs	(12)	-		(5,068)	-
Repayment of loans	-	4,514		(5,000)	18,115
Other non-current liabilities	-	-		(32)	-
Net cash provided by (used in) financing activities	(12)	4,514		57,237	18,115
Net increase (decrease) in cash and cash equivalents	(8,258)	(2,064)		35,458	7,361
Cash and cash equivalents, beginning of period	45,479	9,864		1,763	439
Cash and cash equivalents, end of period	37,221	7,800		37,221	7,800

See accompanying notes to these financial statements

Notice to Reader

The comparative consolidated statement of cash flows for the three and nine month periods ended September 30, 2006 were not reviewed by the Company's external auditors.

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Limited)

Consolidated Statements of Changes in Stockholders Equity - Unaudited

	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 2006	70,000,000	22,315	0	2,220	(9,846)	14,689
Shares Issued pursuant to Private Placement completed on February, 17 2007	34,674,390	17,337	-	-	-	17,337
Change it discount recorded for issue of warrants to purchase 5 million shares	-	-	-	238	-	238
Finance Costs - in the quarter	-	(616)	-	-	-	(616)
Net Loss	-	-	-	-	(2,321)	(2,321)
Total, March 31 2007	104,674,390	39,036	-	2,458	(12,167)	29,327
Consolidation 1:5	20,934,878	39,036	-	2,458	(12,167)	29,327
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
Finance Costs - in the quarter	-	(4,440)	-	-	-	(4,440)
Employee share options and warrants	-	-	2,242	14,097	-	16,339
Net loss in period	-	-	-	-	(20,117)	(20,117)
Total, June 30, 2007	45,116,696	99,596	2,242	16,555	(32,284)	86,109
Employee share options and warrants	-	-	679	-	-	679
Finance Costs - in the quarter	-	(12)	-	-	-	(12)
Net loss in period	-	-	-	-	(2,969)	(2,969)
Total, September 30, 2007	45,116,696	99,584	2,921	16,555	(35,253)	83,807

See accompanying notes to these financial statements

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – Unaudited
SEPTEMBER 30, 2007

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

These interim financial statements are for the three months and nine months period ended September 30, 2007 and should be read in connection with the annual consolidated financial statements.

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 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 September 30, 2007. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability to commence production of commercial oil and gas to control the costs of operating and capital expenditures. These factors create doubt about the Company's ability to continue as a going concern.

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.

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.

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

The unaudited consolidated financial statements and notes thereto have been prepared in accordance with applicable accounting standards in the United States using accounting policies consistent with those adopted by the Company in its consolidated financial statements for the period ended December 31, 2006. All tabular amounts are in thousands of U.S. dollars.

These interim consolidated financial statements are for the three months period and nine months period ended September 30, 2007 and should be read in connection with the annual consolidated financial statements.

Reconciliation between US GAAP and Canadian GAAP

There are currently no material differences between US GAAP and Canadian GAAP as it relates to Tethys Petroleum Limited.

NOTE 3 – BUSINESS COMBINATIONS

Kul-Bas LLP

On May 5, 2005, 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:

	September 30, 2007	December 31, 2006
Contractors	6,245	3,852
Other	441	331
Balance	6,686	4,183

Prepaid Contractors relate to suppliers who were prepaid for materials and services related to our Kazakhstan pipeline construction activities and Seismic costs in Tajikistan. Other prepayments primarily relate to prepaid insurance and other operating expense items.

NOTE 5 – RESTRICTED CASH

Investments consisted of the following:

	September 30, 2007	December 31, 2006
Restricted- Cash on Deposit	219	205
Balance	219	205

Restricted Cash at September 30, 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 – OTHER ACCOUNTS RECEIVABLES

Other receivables primarily relate to VAT recoverable at:

	September 30, 2007	December 31, 2006
VAT on Capital Expenditure	2,004	1,086
Balance	2,004	1,086

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

NOTE 7 - CAPITAL ASSETS

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at September 30, 2007:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
	US$000	US$000	US$000
Oil and Gas Properties			
Proved properties	16,025	-	16,025
Unproved properties	22,192	-	22,192
	38,217	-	38,217
Plant and Equipment			
Oil & Gas Equipment	179	-	179
Office equipment, furniture, fixtures and other	504	(63)	441
	683	(63)	620
	38,900	(63)	38,837

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

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
	US$000	US$000	US$000
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

Unproved property additions relate to activity being carried out in properties that are still the subject of an Exploration Contract. Unevaluated properties consist of both the Akkulka Licence and Contract, and the Greater Akkulka Exploration and Production Contract. Activity in the Akkulka Licence and Contract included a five well exploration program during 2006 and early 2007. A program involving the drilling of a further ten well in the Akkulka Licence was initiated in the second quarter of 2007 of which eight are scheduled to be completed by the end of 2007. In the Greater Akkulka Region a five well exploration program is scheduled to commence in the final quarter of 2007.

In the period to September 2007 US$ 247,000 was capitalized from G&A while in 2006 the amount was US$143,000.

NOTE 8 – ACCOUNTS PAYABLE

Accounts Payable consisted of the following at:

	September 30, 2007	December 31, 2006
Trade payables	1,040	792
Education fund obligations	47	80
Other	-	6
Balance	1,087	878

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$1,816,000 which has been included in the interest expense.

	September 30, 2007	December 31, 2006
Tethys Senior Secured Notes	-	5,000
Unamortized debt discount	-	(1,916)
Balance	-	3,084

NOTE 10 – PROVISION FOR SITE RESTORATION

Dismantlement, Restoration and Environmental Costs

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.

There was no impact on Tethys' cash flows as a result of adopting SFAS No. 143. The asset retirement obligation, which is included on the consolidated balance sheet in provision for future site restoration, comprised the following:

	September 30, 2007	December 31, 2006
Beginning balance, 1 January	451	354
New obligations incurred	88	62
Accretion of expense	119	35
Balance	658	451

NOTE 11 – 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:

	September 30, 2007	December 31, 2006
Balance Sheet movement in Capital Assets, net	26,519	10,418
Non Cash Capital Asset movements:		
Purchase in exchange for company shares	(15,000)	-
Small valued assets written off to P&L account	23	-
Changes in provision for site restoration	(207)	(60)
Changes in Accumulated Depreciation	25	32
Capital Expenditures	11,360	10,390

NOTE 12 - COMMITMENTS AND CONTINGENCIES

On May 10, 2007, Tethys had entered into an agreement with the owner of NBC (Nursat Bauyr and Co) to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL in exchange for, among other things, an initial payment of US$2,500,000 (including an immediate US$100,000 deposit to be paid which would have been forfeited, under certain circumstances, if the contract had become null and void) and 1,500,000 Ordinary Shares, thereby making NBC an indirect wholly-owned subsidiary of Tethys. Closing of this acquisition was conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the IPO, which it duly achieved.
On 7th September 2007 it was announced that Tethys had been informed by the seller that as it was unlikely that the necessary contract changes would be agreed with the appropriate Kazakh authorities in the foreseeable future then it was not in a position to meet its obligations under the conditional agreement. As such it was agreed to terminate the agreement by mutual consent. None of the purchase price had yet been paid, and the ordinary shares issued into escrow with respect to this transaction have been forfeited, subsequent to September30,2007.

As at September 30, 2007, the BN Munai had commitments of US$436,000 in respect of the construction of the pipeline for the Kyzyloi field development in Kazakhstan. 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.

The initial commitments under the Akkulka Exploration Contract primarily consisted of an expenditure of US$14,400,000 over the initial five year term. Although only US$13,200,000 was spent by September 2003, BNM was successful in extending the contract for a further two years. As a result of the expenditure commitments having been satisfied for the prior years, the contract was further extended until September 17, 2007 requiring US$2,960,000 in work program obligations for geological and exploration work on the Akkulka Block for 2006 and a further US$5,890,000 in work program obligations for 2007. Recently a further extension for evaluation of potential reserves on the Akkulka Block was agreed upon with the MEMR, effectively extending the contract until September 2009. Under the latest extension to the contract, BNM has also committed to spending an additional US$3,228,000 minimum work program.
In the event that a commercial discovery occurs, royalty rates payable will be established in a production contract for which BNM will have 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.

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. Pursuant to the contract, Kul-Bas must also reimburse the Kazakh government for approximately US$3,280,000 in historical costs, to be paid within ten years following commencement of production, by way of equal quarterly instalments. In addition, during the initial six year exploration period, Kul-Bas is required to invest US$10,000 annually into the socio-economic development of the region in co-ordination with the local government.

On January 5, 2006, BN Munai entered into the Gas Supply Contract with Gaz Impex relating to gas sales from the Kyzyloi Field. 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. Gas will be supplied to Gaz Impex at a tie–in point on the Bukhara–Urals gas trunkline approximately 32 miles (51 km) east of the Kyzyloi Field. The price of gas to be supplied at the tie–in point averages US$0.91 per Mcf (US$32 per Mcm) over the life of the contract, at a starting price of US$28 per Mcm, with Gaz Impex providing bank guarantees. First revenue will be realized after the construction and commissioning of the pipeline and is expected to begin in the December 2007. In the latter part of November this contract is to be replaced with one where the buyer will be the domestic subsidiary of Gaz Impex. All terms and conditions will be the same other than that the starting price will be US$32 per Mcm.

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 is currently negotiating 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 this is completed 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 October 16, 2007 Tethys also announced 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) will be completed within 6 months, and will be transported to Akkulka for use on the Akkulka deep exploration program which is planned to commence in May 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 recently signed Investment Operating Agreement. The full cost of the rig and support equipment is anticipated to be US$11.5 million and, whilst the Company has paid a deposit of US$1,837,000 from its own funds, it is actively seeking a financing arrangement for the purchase.

NOTE 13 – SHAREHOLDERS' EQUITY

	September 30, 2007	September 30, 2006
Ordinary shares authorized	100,000,000	1,000,000
Shares issued and outstanding	45,116,696	100,000

Quarter ended September 30, 2007

No dividend has been declared or paid during the full year periods ended December 31, 2006, or in the first, second or third quarters of 2007.

As described in note 12, certain shares outstanding are currently subject to escrow restrictions.

NOTE 14 – 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.

Quarterly Activity

Stock options – The following table summarizes the stock option activity under the 2007 Long Term Stock Incentive Plan for the nine months ended September 30, 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	4,437,000	$2.75		
Forfeited	0	N/A		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at September 30, 2007	4,437,000	$2.75	$350	6.75
Exercisable at September 30, 2007	1,479,000	$2.75	$117	6.75

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's stock price on September 30, 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 September 30, 2007. This amount changes based on the fair market value of the Company's stock.

For options granted during the nine months ended September 30, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes option pricing model was $1.6116 per option, using the following weighted average assumptions: dividend yield of 0%; expected term of 4.0 years; a risk free interest rate of 4.86%; and an expected volatility of 74.2%.

For the three months ended September 30, 2007, there was $679 thousand of pretax compensation expense for options granted under the 2007 Long Term Stock Incentive Plan. As of September 30, 2007, there was $4.0 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 1.76 years.

Warrants - The following table summarizes the warrant activity, including Performance Warrants, for the nine months ended September 30, 2007.

	Number of Warrants	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	N/A		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at September 30, 2007	8,857,504	$5.07	$690	5.45
Exercisable at September 30, 2007	8,857,504	$5.07	$690	5.45

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's stock price on September 30, 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 September 30, 2007. This amount changes based on the fair market value of the Company's stock.

For warrants granted during the nine months ended September 30, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes pricing model was $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 three months ended September 30, 2007, there was no pretax compensation expense for outstanding warrants. As of September 30, 2007, there was no unrecognized compensation expense related to unvested warrants.

NOTE 15 – INCOME TAXES

Tethys and its domestic subsidiary 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.

Tethys's foreign subsidiaries are all 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's combined foreign subsidiaries recorded losses for all periods presented. Tethys's foreign net operating losses carried forwards expire from 2009 to 2013. Tethys's 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 September 30, 2007 and 2006. 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.

NOTE 16 - 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 net loss per common share has been computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the applicable period, as if all potentially dilutive securities were converted into common stock.

NOTE 17 - 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. 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).

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, Mrs. Landles (Corporate Secretary and Executive Vice President) and other Vazon Energy employees, were provided to CanArgo Energy Corporation. A management services contract directly with Vazon Energy came into effect from 27th June 2007 whereby a monthly fee of US$36,200 is paid for the services of DR Robson, a monthly fee US$41,000 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 three months to September 30, 2007 by Vazon was US$258,818

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 18 – SUBSEQUENT EVENTS

On the 8th August the company announced that it had completed the Kyzyloi pipeline and had pressure tested the system flowing gas down its entire length of 52 km. The initial production rate is anticipated to be 22 million cubic feet per day. All that remained to commence gas sales was the tie-in of the pipeline to the major Bukhara-Urals trunkline, integration of the Kyzyloi compression and control systems with the trunk-line systems and final certification of the system by a senior governmental commission. The tie-in is due to be completed out in early November by Intergas Central Asia (part of the Kazakh State gas company KazTransGas) who own and operate the trunkline. All that will then remain will be the high level Kazakh government commission to visit the operation to provide full certification of the system following which commercial gas deliveries will commence. This commission is anticipated to visit the site in mid-November 2007 and as the buyer only deals in complete months supply is due to start at the beginning of December 2007.

On October 16, 2007 Tethys also announced that it has 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) will be completed within 6 months, and will be transported to Akkulka for use on the Akkulka deep exploration program which is planned to commence in May 2008. It is planned that the rig would 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 recently signed Investment Operating Agreement.