MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information is dated August 10, 2007 and should be read in conjunction with the unaudited consolidated financial statements of Tethys Petroleum Limited (the Company) for the three and six months ended June 30, 2007 as contained in this interim report and the MD&A and audited financial statements for the years ended December 31, 2006, 2005 and 2004 as contained in the company prospectus prepared for the listing on the Toronto Stock Exchange in June of this year. The financial statements have been prepared in accordance with US GAAP and are presented in US Dollars.

Certain information contained in this management's discussion and analysis of the Company and its financial condition constitute forward-looking statements. These statements relate to future events or to the future financial performance of the Company and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The three months ended June 30, 2007 compared to the three months ended June 30, 2006

	3 months ended June 30,		
	2007	**2006**	**% change**
Financials (US$000's)			
Net Loss	(20,117)	(11)	182,782
Capital expenditure	20,249	3,857	425
Total Assets	89,648	17,932	400
Cash and working capital surplus/(deficit)	43,205	(11,716)	469

The six months ended June 30, 2007 compared to the six months ended June 30, 2006

	6 months ended June 30,		
	2007	**2006**	**% change**
Financials (US$000's)			
Net Loss	(22,438)	(625)	3,490
Capital expenditure	22,534	5,329	323
Total Assets	89,648	17,932	400
Cash and working capital surplus/(deficit)	43,205	(11,716)	469

<u>Q2 2007 and 2006 Highlights</u>

- The Company successfully completed an IPO raising US$ 50 million (gross) and listed on the Toronto Stock Exchange on June 27, 2007.

- The cash balance at the end of June, having netted off the commission on the IPO and having settled the outstanding loan, was $45.5 million.

- The influx of funds from the IPO resulted in a Cash and working capital assets surplus at June 30, 2007 of US$43.2 million compared to a deficit of US$11.7 million at the same point in 2006 when the Company was being funded by a loan from its then parent CanArgo Energy Corporation.

- In May 2007 the Company acquired the 30% of BN Munai that it did not previously own in return for 6 million of its own shares.

- No revenue was realized as of June 30th, 2007 as was the case in 2006.

- A net loss of US$ 20.1 million recorded in the quarter to June 30, 2007 compared to a loss of US$11k for the same period of 2006. The loss in 2007 was primarily the result of US GAAP required treatment of costs associated with share warrants and options issued to employees and related parties plus the amortization of the discount associated with the US$5 million loan that was repaid at the end of June, 2007.

- Capital expenditures, including the acquisition of the 30% of BN Munai, totaled US$20,249,000 in the three months to June 30, 2007 compared to US$3,857,000 in the same period of 2006. In addition at June 30, 2007 the Company had made prepayments of US$6,571,000 on further capital expenditure compared to prepayments of US$2,527,000 at June 30, 2006.

<u>Net Profit (Loss)</u>

Net loss of US$ 20,117,000 was recorded in the second quarter of 2007, an increase from US$ 11,000 in the same period in 2006. The increase in the loss generated in 2007 can be attributed to:

- US$ 16,339,000 of costs relating to the issuing of share options and share warrants to employees and a related party (Provincial Securities Ltd.).

- US$ 1,816,000 as a result of the amortization of the remaining debt discount associated with the US$ 5 million originally provided in September 2006 that in compliance with the terms of the loan was settled in full upon completion of the IPO. (See note below Interest); and

- Further expenditures on staff and facilities in pursuing the initial goal of gas production and in exploration activities.

Net loss of US$ 22,438,000 was recorded in the six months to June 30, 2007, an increase from US$ 625,000 in the same period in 2006. The increase in the loss generated in 2007 can be attributed to:

- US$ 16,339,000 of costs relating to the issuing of share options and share warrants to employees and a related party (Provincial Securities Ltd.).

- US$ 1,816,000 as a result of the amortization of the remaining debt discount associated with the US$ 5 million originally provided in September 2006 that in compliance with the terms of the loan was settled in full upon completion of the IPO. (See note below "Interest); and

- Additional local staffing costs, large new office accommodation, increased activity, including travel costs, related to construction of the pipeline and drilling additional exploration wells

Capital Expenditures

Capital expenditure in the three month period to June 30, 2007 was US$20,249,000 and US$22,534,000 for the six months compared to $3,857,000 in and US$5,329,000 for the same periods of 2006. The primary areas of expenditure in 2007 were

- The first was the purchase by Tethys Kazakhstan Limited (a wholly owned subsidiary of the company) of the 30% share of BN Munai not previously owned by the company. The purchase was settled by the issuing of company shares valued at US$ 15 million.

- The second was focused on the construction of the 51km of 325mm pipeline, the associated 114mm infield lines and compressor plant required to initiate gas production. Approximately US$ 10.3 million (including prepayments) had been spent on this project up to March 31, 2007 and a further US$ 2.2 million was incurred in the second quarter of 2007 taking the total spending to US$ 12.6 million. It is anticipated that a further US$ 0.5 million will be incurred in Q3 in finishing the project.

- The third area was on the Akkulka and Kul-Bas exploration programs. Six wells had been completed by the end of the first quarter of 2007 and a further US$2.4 million was incurred in the second quarter in the drilling of three additional exploration wells and the workover of the existing wells. Further capital expenditure in 2007/8 will be incurred on the exploration contracts, including seismic survey costs and it is also planned to drill at least one deep exploration well on the Akkulka contract area targeting a potential oil prospect. Estimated costs for this drilling are approximately US$11 million.

In the first half of 2006 the primary area of expenditure was:

- In the Akkulka Block, where initially five exploration wells (AKK01, AKK02, AKK03, AKK04 and AKK05) were in the course of being drilled.

Revenue

On 9 January 2005 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. The gas supply contract, which has a term until June 2014, is based on a take-or-pay principle and covers all gas produced from the Kyzyloi Field Production Contract area. Gas will be supplied to Gaz Impex at a tie in point on the Bukhara-Urals gas trunkline some 31 miles (52 kms) east of the Kyzyloi Field. The price of gas to be supplied at the tie in point averages $0.91 per thousand cubic feet ($32 per thousand cubic metres) over the life of the contract, with Gaz Impex providing bank guarantees. First revenue will be realized after the construction and commissioning of the pipeline referred to in the Capital Expenditure section and is expected to begin in the September/October of 2007.

Royalties

The Royalty on the Kyzyloi gas field is set at 2%. Royalties range from 2% to 6% under the Akkulka Exploration License and Contract and from 4% to 6% under the Kul-Bas Exploration and Production Contract depending on the production achieved. Payment of royalties is due to start one month after sales commence.

General and Administrative Expenses

General and administrative expenses in Kazakhstan increased to US$1.05 million in the three months to June 30, 2007 from US$ 245,000 in the same period in 2006. This increase was the result of an overall build up of resources to meet the operational and administrative requirements resulting from the company's increased activities. The increases encompassed additional local staffing costs, large new office accommodation, increased activity, including travel costs, related to construction of the pipeline and drilling additional exploration wells. Elsewhere general costs increased from US$0.4 million to US$0.5 million reflecting an all round increase in activity within the company as it seeks to develop further commercial opportunities.

Interest

On September 7, 2006, Tethys completed a US$5 million short-term loan financing to fund its development activities in Kazakhstan. This loan was repaid upon successful completion of the IPO at the end of June and the interest incurred of US$ 375,000 was also settled. Under the terms of the loan the two lenders were entitled to receive additional consideration for the advance of the loan in the form of either at closing of the IPO, warrants to subscribe for ordinary shares in the capital of the company or ninety days from the first sale of hydrocarbons. Of the two lenders involved one elected for the first option and the other the second. The election of the first option resulted in the company recording a discount to the loan based on the relative fair value of the warrants. This discount was being amortized over the life of the warrants and the balance remaining on the date the loan was repaid was US$ 1.873 million. This remaining balance was then amortized in full to interest expense in the Statement of Operations.

Depletion, Depreciation and Accretion

The charge for the second quarter of 2007 was US$28,000 compared to US$2,000 for the same period in 2006.

Taxes

With losses being generated in both 2007 and 2006 there was no tax due in either year.

Liquidity and Capital Resources

As at June 30, 2007 the Company had a working capital surplus, including cash, of US$43,205,000. On June 27, 2007 the company had completed an Initial Public Offering (IPO) and listed on the Toronto Stock Exchange raising US$ 50 million in gross proceeds. At June 30, 2006 the Company had a working capital deficit of US$11,716,000 which was a direct result of the Company being funded by a loan from its then parent CanArgo Energy Corporation. (See note Loans from Related Parties and Transactions with Related Parties).

Share Consolidation

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 HM Greffier in Guernsey. 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.

Short–Term Loan

On September 7, 2006, the Company completed the Short–Term Loan financing to fund its development activities in Kazakhstan. The funds from the Short–Term Loan were used primarily for the purchase of pipeline, compressors and related equipment and services for the Kyzyloi Field development. This financing took the form of the issue of US$5,000,000 senior secured notes in Tethys, redeemable on August 31, 2008. These notes were repayable immediately after listing and consequently they were repaid at the end of June. The rate of interest incurred in the six months to the end of June was 15% per annum.

Under the terms of the Short–Term Loan, the noteholders were entitled to receive additional consideration for the advance of the loan in the form of warrants to subscribe for ordinary shares in the Company at the closing of the Treasury Offering or 90 days following the date of the first commercial sale of hydrocarbons by the Company. These warrants resulted in a discount to the loan but for more information please refer to the note on Interest above.

Loans from Related Parties

Prior to October 23, 2006, other than the Short–Term Loan, all funding had been provided in the form of a loan by its then parent company CanArgo Energy Corporation. On October 23, 2006, the Company removed this debt by capitalizing the total inter–company loan of US$22,077,693 into 69,000,000 pre-split Ordinary Shares that were issued to CanArgo pursuant to such capitalization. At June 30, 2007 CanArgo Energy had 8 million post consolidation company shares that represented 17.7% of the company.

Private Placement

On January 23, 2007, Tethys closed a private placement whereby it issued 34,674,390 Pre–Split Ordinary Shares for gross proceeds of approximately US$17,400,000. These Pre–Split Ordinary Shares were issued at a price of US$0.50 per share or $2.50 after giving effect to the Share Consolidation and the funds raised were used in the construction of the 32 mile (51 km) 325 mm diameter pipeline that will be used in connection with the gas production from the Kyzyloi Field development, expected to come on line in September or October, and to fund the drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors.

BNM

On March 13, 2007, Tethys reached an agreement with the owner of the minority interest in BNM whereby Tethys, through its wholly–owned subsidiary TKL, acquired the 30% of BNM it does not already own in exchange for 30,000,000 Pre–Split Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making BNM an indirect wholly–owned subsidiary of Tethys. This acquisition was completed on May 8, 2007.

Aral Vostochniy

On May 10, 2007, Tethys entered into an agreement with the owner of NBC (Nursat Bauyr and Co) to acquire NBC which holds the exploration contract for the large Aral Vostochniy Block. This involves the acquisition of NBC from the owner by Tethys 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 will be forfeited, under certain circumstances, if the contract becomes 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 from the IPO, (which it duly achieved), obtaining from the Kazakh government consent for the transfer and certain required amendments to the work program for the contract area.

It is anticipated that the cash and shares will exchange once approval has been received from the relevant authorities and amendments to the work program agreed in and in accordance with the acquisition agreement the 1,500,000 Shares were issued on July 25, 2007 and placed in an Escrow account.

Shareholder Equity

As at August 10, 2007 the Company had authorized common stock of 100,000,000 shares of which 45,116,696 had been issued.

Outlook

The Company is anticipating an increase in activities in the coming months as it looks to commence production in Kyzyloi while extending its exploration activities in Akkulka, Kul-Bas and Tajikistan. Development of the Aral Vostochniy block will also commence when the appropriate consents have been obtained (see Aral Vostochniy above) and the Company will continue to look for suitable acquisition opportunities for properties with proven oil/condensate reserves as set out in the prospectus issued prior to the IPO.

The following is a summary of the Company's spending plans as at June 30, 2007:

Work (US$ 000's)	Total	< 1year	1 - 3 years
Completion of Kyzyloi pipeline	500	500	
Drilling and tie in of new Kyzyloi well	834	834	
Drilling and tie in of new Akkulka wells	6,540	6,540	
New compressor	1,000	1,000	
Workover and testing of Akkulka wells	1,205	1,205	
Drilling of deep Akkulka well	11,000	11,000	
Greater Akkulka seismic studies	2,325	1,950	375
Drilling in Greater Akkulka	120	120	
Seismic studies in Tajikistan	1,500	1,500	
Tajikistan well rehabilitation	1,500	1,500	
Tajikistan exploration well	4,500	1,500	3,000
Purchase of Aral Vostochniy	2,500	2,500	
Development of Aral Vostochniy	2,500	2,500	
Total	36,024	32,649	3,375

Gas Production

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 remains to commence gas sales is 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 will be carried out by Intergas Central Asia (part of the Kazakh State gas company KazTransGas) who own and operate the trunkline. Now that the pipeline has been completed and TPL has met its obligations the State can now proceed with the tie-in to the main trunkline. Once this has been carried out then the high level Kazakh government commission will visit the operation to provide full certification of the system following which commercial gas deliveries will commence, these being expected in October. TPL believes that this is one of the first significant pipeline systems constructed by a non-state company aimed at the development of a dry gas field.

Tajikistan

The Company is currently finalizing the negotiation of a Production Sharing Agreement in the Republic of Tajikistan and given a successful conclusion to these negotiations the second half of the year will see the company begin operations. Initial costs will be focused on seismic surveys, then well rehabilitation followed by the possible drilling of an exploration well. For further details of the proposed capital expenditure see the spending plans above.

In addition to the plans discussed in this M,D & A please see the 2nd Quarter 2007 Operational Update.

Sensitivities

The price of gas sales from gas produced from the Kyzyloi Field under the Gas Supply Contract is fixed in US dollars and there is no sensitivity to currency movements or market movements in the gas price.

The price of gas sales from gas produced from the Akkulka Block has yet to be agreed and there is therefore sensitivity to movements in the market price of gas. While there would be no impact in 2007, a movement of US$10 per Mcm in the price of gas would have a US$950,000 impact on the Company's net revenue in 2008.

Transactions with Related Parties

Tethys' activity during 2006 was entirely funded by CanArgo Energy Corporation, who was its ultimate holding company during that period. As a result of the Private Placement and the issuance of shares in return for the remaining 30% of BN Munai CanArgo's holding in the company dropped to 52% and then following the IPO was reduced to 17.3%. CanArgo has subsequently disposed of this interest and currently has no ownership in Tethys.

Provincial Securities Limited was granted 290,000 warrants and their cost of US$461,552 has been included in the valuation relating to the 2017 warrants described in Note 17 to the Interim Consolidated Financial Statements.

During 2006, in accordance with a covenant contained in the Senior Subordinated guaranteed loan notes held by Tethys' parent, CanArgo Energy Corporation, Tethys reimbursed its parent for payments made on behalf of Tethys and in respect of management fees.

Up to the date of the listing of Tethys on the Toronto Stock Exchange CanArgo Energy Corporation provided all its 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 between Tethys and Vazon Energy came into effect from 27th June 2007 to replace the previous CanArgo agreement.

Transactions with affiliates or other related parties, including management of affiliates, are to be undertaken on the same basis as third party arm's–length transactions. Transactions with affiliates are reviewed and voted on solely by non–interested directors.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with US GAAP, which require management to make judgments, estimates and assumptions which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 2 to its audited financial statements for the year ended December 31, 2006. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Oil & Gas Properties — Full Cost Accounting

The Company follows the full cost method of accounting as described in Note 2 to its audited financial statements for the year ended December 31, 2006. Alternatively, the Company could follow the successful efforts method of accounting whereby all costs related to non–productive wells are expensed in the period in which they are incurred.

Under the full cost method of accounting, capitalized costs are subject to a country–by–country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property–by–property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The Company has elected to follow the full cost method and it is the method most commonly followed.

Under full cost accounting, a limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates can impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Potential lenders may also use reserve estimates to assess the allowable borrowing base under a secured credit facility. Changes to the reserve estimates can result in borrowing base increases or decreases, which could impact the Company's financial position.

Asset Retirement Obligations

The Company 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 Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long–lived assets and the estimated timing of the costs to be incurred in future periods. 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. Actual payments to settle the obligations may differ from estimated amounts.