MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This Management's Discussion and Analysis ("MD&A") for Tethys Petroleum Limited ("the Company") is dated May15, 2008 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements (Interim Consolidated Financial Statements) for the period ended March 31, 2008, as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2007. The accompanying financial statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These financial statements have been prepared in accordance with USA Generally Accepted Accounting Principles ("US GAAP"). Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this MD&A.

Tethys, through its wholly-owned Kazakh subsidiaries BN Munai LLP ("BNM") and Kul-Bas LLP ("Kul-Bas") holds the Production Contract for the Kyzyloi gas field, the Exploration Contract for the Akkulka Block and the Exploration and Production Contract for the Kul-Bas Block. In addition, Tethys' wholly-owned subsidiary Tethys Tajikistan Limited has interests in the Kulob area of Tajikistan with rights to negotiate a Production Sharing Agreement ("PSA") for the Kulob Area and an Investment and Operating Agreement giving rights to incremental production on certain oil and gas fields in the Kulob area.

Results of Operations

	Three months ending				
	March 31 2007	**June 30 2007**	**Sept 30 2007**	**Dec 31 2007**	**March 31 2008**
Financials (US$000's)					
Revenue	-	-	-	194*	1,431
Per share - basic (US$)	-	-	-	0.01	0.03
- diluted (US$)	-	-	-	-	0.02
Net loss	(2,321)	(20,117)	(2,969)	(16,372)	(4,701)
Basic and diluted loss (US$) per share	(0.14)	(0.62)	(0.07)	(0.36)	(0.10)
Capital Expenditure	2,285	20,249	3,845	11,622	3,541
Total Assets	33,751	89,648	85,749	71,656	73,546
Cash and working capital surplus/ (deficit)	11,901	43,205	37,161	25,773	23,762

*****This revenue was realized in the period from December 19 to December 31, 2007.

Commentary

- Changes in accounting policies are described in Note 2 of the interim consolidated financial statements
- On December 19, 2007 gas commenced flowing from the Kyzyloi gas field into the Bukhara-Urals pipeline and continued flowing throughout the first quarter of 2008. The agreed price paid on this on this contract is US$0.90 (US$1.02 including Value Added Tax) per Mcf.
- In Q1 of 2008 engineering work and equipment ordering began on the pipelines that will take gas from the Akkulka field into the Bukhara-Urals pipeline. This work is anticipated to be completed by the end of 2008. No price has yet been agreed on the construction project itself.
- The primary factor in the loss in the final quarter of 2007 was the requirement under US GAAP ceiling test for a US$12,800,000 impairment. Under US GAAP no recognition is taken of probable reserves, only proved reserves.
- The large net loss in the second quarter of 2007 was primarily the result of US$17,900,000 relating to the US GAAP required treatment of costs associated with the issue of share warrants and options and US$1,900,000 relating to the amortization of the debt discount associated with the US$5,000,000 loan that was repaid at the end of June 2007
- In June 2007 the Company successfully completed an IPO on the TSX raising gross proceeds of US$50,000,000.

The three months ended March 31, 2008 compared to the three months ended March 31, 2007

	Three months ended March 31		
	2008	**2007**	**% Change**
Financials (US$000's)			
Revenue	1,431	-	-
Net Loss	(4,701)	(2,321)	103
Basic and diluted loss (US$) per share	(0.10)	(0.14)	
Capital Expenditure	3,541	2,285	55
Total Assets	73,546	33,751	118
Cash and working capital surplus/ (deficit)	23,762	11,901	100

Highlights

- In January 2008 the Company received its first payment for commercial gas sales. Further payments were received in February and March 2008.
- In Q1 2008 well AKK13 tested positive for gas production, which was the sixth well in succession to do so.
- In March 2008 the Company secured loan financing from a group of accredited investors in the amount of USD$5,300,000 toward the purchase of a new drilling rig from China.
- In Q1 of 2008 engineering work and equipment ordering began on the pipelines that will take gas from the Akkulka field into the Bukhara-Urals pipeline. This work is anticipated to be completed by the end of 2008. No price has yet been agreed on the construction project itself.
- In Tajikistan the Company continued to make progress towards signing a Production Sharing contract through its joint venture company "Seven Stars Energy Corporation" ("SSEC").
- A net loss of US$4,701,000 recorded in the three months to March 31, 2008 compared to a loss of US$2,321,000 for the same period in 2007. More than US$3,000,000 of this loss was the result of non-cash movements relating to costs of share options and warrants and the depreciation of proved properties.

Net Loss

A net loss of US$4,701,000 was recorded in the three months to March 31, 2008, compared to US$2,321,000 in the three months to March 31, 2007. The principal differences between the two periods were:

- Costs of share options issued to employees in Q1 2008 was US$595,000 compared to nil in Q1 2007.
- Costs of the warrants issued to the providers of the loan secured towards the purchasing of a new drilling rig cost US$980,000 in 2008 compared with a charge of US$177,500 in Q1 2007 relating to a previous loan.
- Depreciation on proved properties in 2008 was US$1,449,000 compared to nil in the same period of 2007 as production did not commence until Q4 2007.
- There was an increase in G&A costs following the Company's successful IPO in June 2007. Prior to that date the Company had been a wholly owned subsidiary of Canargo Energy Corporation.
- Revenue of US$1,431,000 was generated in Q1 2008 while production had not yet commenced in Q1 2007.

Capital Expenditure

Capital expenditure in the three months to March 31, 2008 was US$3,541,000 compared to US$2,285,000 in the same period of 2007. Prepayments to contractors for future capital expenditure also increased from US$3,062,000 in 2007 to US$4,347,000 in 2008. The major items of expenditure were:

- The second installment of US$1,879,000 was paid in relation to the purchase of the drilling rig.
- Well AKK14 was drilled in the Akkulka block and successfully tested for gas.

- Deposits were placed for pipes and compressors that would be the primary constituents of the phase two pipeline to transport gas from the Akkulka field to the Bukhara Urals pipeline.

Revenue

The Revenue realised in Q1 2008 was US$1,431,000.

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 gas field in Kazakhstan. In December 2007 this contract was assigned to Kazakhstani Petrochemical Company Kemikal LLP ("PCK"), who will utilise the gas in the domestic Kazakh market. The agreed price is US$36.16 per thousand cubic metres (Mcm) (US$1.02 per thousand cubic feet (Mcf)) including Value Added Tax (VAT) which can be offset against VAT costs on the Kyzyloi project. Average production achieved in the first two months of 2008 was 458 Mcm (16.2 MMcf) per day rising to 565 Mcm (20 MMcf) in March from an initial six wells. 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 gas field Licence and Production Contract area up to a maximum of 850,000 Mcm (30 Bcf).

No Revenue was realized by the Company in the first quarter 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 with the rate to be set thirty days before the commencement of production and being dependent on the level of reserves. Based on current analysis the Company believes that the royalty level for the current Akkulka discoveries will be set at 2%. A Royalty rate of between 4% to 6% will apply under the Kul-Bas Exploration and Production Contract depending on the size of the reserves and once again the rate will be set thirty days before the commencement of production. Payment of royalties is due to start one month after sales commence.

General and Administrative Expenses

The main areas of difference between Q1 in 2008 and Q1 in 2007 were:

- In Q1 2008 US$595,000 of costs relating to the issuance of share options and share warrants to employees.
- In Q1 2008 the Company incurred US$980,000 in relation to warrants issued to the providers of the US$5,300,000 loan to assist in the purchase of the drilling rig. In Q1 2007 there was a charge of US$177,500 for warrant costs relating to a previous loan that was repaid in June 2007.
- Increased staffing costs as a result of the recruitment of management and technical personnel required to pursue the Company's targets in 2008.
- Business development costs were incurred in the three months to March 31, 2008 notably in relation to Tajikistan that the Company was not in a position to pursue in 2007.
- Excluding non-cash items the General & Administration costs for Q1 2008 were US$2,213,000.

Interest

In the quarter to March 31, 2008 the Company earned US$167,000 in interest on its own funds compared to the quarter ending March 31, 2007 when there was a net interest paid of US$335,000 during that period. In addition to being primarily funded by its parent, CanArgo Energy Corporation, in Q1 2007 the Company was also paying interest on a loan.

Depletion, Depreciation and Accretion

Following the initiation of production in 2007 the Company was required to depreciate the proved properties in Kazakhstan, being both the Kyzyloi and Akkulka fields. The total depreciation charge for the quarter to March 31, 2008 was US$1,496,000 which was primarily made up of the US$1,449,000 for the amortization of Kyzyloi and Akkulka property costs, on a unit of production basis. The depreciation charge for 2007 was US$14,000 when there had been no amortization of resource property cost.

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 Limited 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 has been provided in the consolidated financial information as Tethys combined Kazakhstan subsidiaries recorded losses for all periods presented.

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

Liquidity and Capital Resources

As at March 31, 2008 the Company had a working capital surplus, including cash, of US$23,762,000 while at March 31, 2007 the working capital surplus was US$11,901,000.

Rig Financing

On March 19, 2008 the Company announced that it had recently completed a financing arrangement for funds of US$5,300,000 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 interest payable on the borrowed funds is 12% per annum. In addition 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. Fair value of these warrants at US$989,394 has been recognized as a finance charge. Lenders have security over the shares of Tethys Petroleum Inc. which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. To March 31, 2008 Tethys has incurred US$3,757,800 of costs with respect to this rig.

The loan is to be repaid with monthly payments of interest and capital over a 36 month period and a final balloon payment at the end of this period. The balance of US$4,520,000 represents total payments due beyond March 2009.

Short–Term Loan Repaid in Second Quarter of 2007

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 gas 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 2007. 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 IPO.

Shareholder Equity

As at March 31, 2008 the Company had authorized share capital of 500,000,000 ordinary shares of US$0.10 par value of which 45,116,696 had been issued. There had been no change in the period between March 31, 2008 and the date of this MD&A. As at the date of this MD&A, there are 4,461,000 stock options and 9,652,504 warrants to purchase ordinary shares in the company issued and outstanding.

Outlook

The Company is anticipating an increase in activities in the coming months as it looks towards the second phase of its gas production, which will involve production from five Akkulka wells and is due to commence by the end of 2008.

Additional compressors will be needed and there will be a further tie-in but this will be approximately 14 km as opposed to the 56 km needed for Kyzyloi. Exploration activities will continue in Akkulka, Kul-Bas and Tajikistan. The Company will also continue to look for suitable acquisition opportunities in Central Asia for properties with good potential and in line with the Company's strategy.

On April 29, 2008 the Company announced that it had filed a preliminary short form prospectus for a new issue of ordinary shares in a number of Canadian provinces. The offering will be for a minimum of US$20 million and a maximum of US$75 million. The net proceeds of the offering are intended to be used by Tethys to accelerate work on its existing properties in Kazakhstan and Tajikistan, possible acquisitions, working capital and general purposes. The issue price of the shares will be determined in the context of the market at the time of filing a final short form prospectus in respect of the offering.

Gas Production

Gas production commenced on December 19, 2007 following the completion and commissioning of a pipeline to take the gas to a tie–in point on the Bukhara–Urals gas trunkline approximately 56km (35 miles) east of the Kyzyloi gas field. Space had been allocated in the Bukhara Urals pipeline by the pipeline owners, Intergas Central Asia, and gas sales commenced from that date. Initial gas sales are to be sold under the Kyzyloi base load contract with PCK, which it is understood will be sold domestically. Tethys is carrying out additional work on the Kyzyloi gas field itself to ensure sustained gas production at the maximum level possible through the currently installed compressor capacity.

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 SUE") 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 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 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 to take a partner in its projects in Tajikistan by the creation of a joint venture company SSEC in which Tethys, through its wholly-owned subsidiary Tethys Tajikistan Limited, will hold a 51% interest. It is planned that the IOA and the future PSA will be held through SSEC.

Purchase of Drilling Rig

On October 16, 2007 the Company 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), is due to be completed within 6 months and is due to be delivered at the factory in Chengdu, China, in May 2008. The rig will initially be transported to Akkulka for use on the Akkulka deep exploration program which is planned to commence in the summer of 2008. It is planned that the rig will be operated by Tethys utilizing its current Kazakh drilling contractor under a management agreement. The rig would also be suitable for drilling in the Kul-Bas area and 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 initial supporting equipment to be purchased is anticipated to be approximately US$9,200,000.

The Company paid the deposit of US$1,878,900 in October 2007 and a stage payment of the same amount in January 2008. On March 19, 2008 it was announced that the Company's wholly owned subsidiary TPI to which the rig had been assigned had secured financing in the amount of US$5,300,000 for purchase of the drilling rig from China. *See 'Rig Financing' above*

IPO Funds

Set out below is a comparison of the actual use of funds to date and remaining to be expended against what was projected in the prospectus prepared in June 2007. The primary differences were in relation to:

- The Aral Vostochniy block where the deal did not proceed because the vendor did not believe that it could meet its obligations.
- No suitable property with proven reserves has yet been identified for acquisition although the Company continues to look for suitable opportunities.
- The overspend on the shallow drilling is the result of discovery of further gas and inclusuion of additional pipeline and tie-in costs for gas development.
- In Q3 of 2007 the Company placed an order for a drilling rig – *see 'Purchase of Drilling Rig' above*
- The exploration well planned for the Akkulka block was included in the 'Use of Funds' at US$11.0 million but making use of the purchased rig the anticipated expenditure is now US$7.0 million.

	Prospectus $ million	**To date** $ million	**To be expended** $ million
Kazakhstan			
Kul-Bas Block/Akkulka Block – shallow drilling	12.0	9.0	5.3
Kyzyloi workovers and Historic costs	-	0.6	0.2
Akkulka Block – Triassic/Jurassic exploration well	11.0	-	7.0
Drilling rig*	-	3.8	1.1
Acquisition opportunities for properties with proven reserves	5.0	-	-
Purchase of NBC and initial work on Aral Vostochniy block	5.0	-	-
Seismic	-	0.9	0.9
Tajikistan			
Seismic surveys and processing/interpretation	1.5	-	1.5
Well rehabilitation	1.5	0.3	1.3
Alimtai exploration well	4.5	-	3.0
Repayment of Short Term Loan	5.0	5.0	-
Working Capital	0.5	0.5	0.5
	46.0	20.1	20.8

**This is the cost to the Company and excludes the $5.3 million rig financing debt.*

Sensitivities

The price of gas sales from gas produced from the Kyzyloi gas 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.

Transactions with Related Parties

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. Tethys has a management services contract with Vazon Energy that came into effect from June 27th, 2007 whereby the services of Dr. Robson, Ms. Landles (Corporate Secretary and Executive Vice President) and other Vazon Energy employees are provided to the Company. 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 by Vazon in the three months to March 31, 2008 were US$321,300.

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.

Financial Instruments and Other Instruments

The nature of the Company's natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

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, 2007. 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, 2007. 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. The Company applies a ceiling test to the capitalized cost in the full cost pool. The ceiling test limits such cost to the estimated present value, using a ten percent discount rate, of the future net revenue from proved reserves, based on current economic and operating conditions.

Reserve Estimates
Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The Company engaged independent third party specialists in reserve engineering, McDaniel Associates Consultants Ltd, to evaluate the Company's reserve data as at December 31, 2007 in accordance with NI 51-101. 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. *See Risk Factors – Production variances from Reported Reserves in the MD&A for the year ended December 31, 2007.*
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.

CHANGES TO ACCOUNTING POLICIES

There were no changes in accounting policies during the course of the period other than the adoption of the following pronouncements:

Recently Adopted Pronouncements

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 adopted this Statement in the first quarter of 2008 and it did not 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. The Company adopted this statement in the first quarter of 2008 and it did not have a material impact on its financial position or results of operations.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), ―Business Combinations (―SFAS No. 141R), which replaces FASB Statement No. 141. SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R requires the acquiring Company to measure almost all assets acquired and liabilities assumed in the acquisition at fair value as of the acquisition date. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 (fiscal 2009 for the Company) and should be applied prospectively with the exception of income taxes which should be applied retrospectively for all business combinations. Early adoption is prohibited. The Company is in the process of evaluating the impacts, if any, of adopting this pronouncement.

In March 2008, the FASB issued SFAS No. 161, ―Disclosures about Derivative Instruments and Hedging Activities, (―SFAS No. 161), an amendment to SFAS No. 133, ―Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement will be effective for the Company's interim and annual financial statements beginning in fiscal year 2010. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is in the process of evaluating the impacts, if any, of adopting this pronouncement.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of Tethys are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with both Canadian and US GAAP.

Management of Tethys has designed and implemented a system of internal controls over financial reporting as of March 31, 2008 which it believes is effective for a company of its size. There were no changes in Tethys' internal control over financial reporting that occurred during the quarter ended March 31, 2008 that has materially affected or that is reasonably likely to affect, Tethys' control over financial reporting. During the review and design of the Company's control system over financial reporting a number of weaknesses were noted as were some during the course of the annual audit. The management of Tethys has already put in place a number of procedures to mitigate these risks and further steps will be taken in the coming months.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed by the Tethys Management to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Company's management as appropriate to allow timely decisions regarding disclosure. The company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this MD&A, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethys shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Tethys' and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2008 capital investments projections, and the source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financing; product supply and demand; market competition; ability to realize current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in our drilling operations; delays in the delivery of our drilling rig; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate and terrorist threats; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and except as required by law Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

RISK FACTORS

The risks and uncertainties referred to in the 2007 MD&A are not the only ones the Company is facing. In addition, there are additional risks and uncertainties of which the Company is not presently aware or that the Company currently considers immaterial but which may also impair the Company's business operations and cause the price of the Ordinary shares to decline. If any of these risks actually occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly. For a summary of the risks and uncertainties facing the Company please refer to the MD&A that accompanied the audited Consolidated Financial Statements for the year for ended December 31, 2007