MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This Management's Discussion and Analysis ("MD&A") for the Company is dated August 12, 2008 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements (Interim Consolidated Financial Statements) for the period ended June 30, 2008, as well as the audited Consolidated Financial Statements and the 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.

The Company is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas resources in Central Asia, currently in Kazakhstan and Tajikistan. In Kazakhstan, the Company's oil and natural gas interests relate to three areas, namely the Kyzyloi natural gas field and the Akkulka and Kul-Bas exploration blocks, located in three contiguous blocks in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin. In Tajikistan, the Company's projects are located in the south of the country, in a geologic basin known as the Afghan-Tajik Basin which is the easterly extension of the Amu-Darya Basin which is productive in Uzbekistan and Turkmenistan.

In Kazakhstan, the Company owns its current interests through a wholly owned Kazakh limited liability partnership named Tethys Aral Gas LLP (TAG), previously BN Munai LLP (BNM). As a result of this ownership, the Company currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). TAG also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area (which has proven gas reserves), and a 100% interest in the Kul-Bas Exploration and Production Contract area. These lands are all within the Aktobe Oblast region of western Kazakhstan. The McDaniel Reserve Report estimated that Tethys had net proved plus probable reserves of 69.8 Bcf (1.98 Bcm) of natural gas in the Kyzyloi Field and the Akkulka Block as at December 31, 2007. The Kyzyloi Field commenced production on December 19, 2007. Tethys completed construction of a 35 mile (56 km) 325 mm (12.8 inch) diameter export pipeline from the Kyzyloi Field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station has been constructed and with gas flowing into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.

In Tajikistan the Company through its subsidiary Kulob Petroleum Limited (KPL) is the Contractor under a Production Sharing Contract with the Government of Tajikistan covering the Bokhtar area of the south western region of Tajikistan (Bokhtar PSC). In December 2007 the Company announced that it had signed an agreement to take a partner on these projects in Tajikistan, giving the Company a 51% operating interest in these projects which includes the Bokhtar PSC.

Results of Operations

	Three months ended					
	March 31 2007	**June 30 2007**	**Sept 30 2007**	**Dec 31 2007**	**March 31 2008**	**June 30 2008**
Financials (US$000's)						
Revenue	-	-	-	194*	1,431	1,566
Net loss	(2,321)	(20,117)	(2,969)	(16,372)	(4,701)	(5,280)
Basic and diluted loss (US$) per share	(0.14)	(0.95)	(0.07)	(0.36)	(0.10)	(0.11)
Capital Expenditure	2,285	20,249	3,845	11,622	3,541	9,565
Total Assets	33,751	89,648	85,749	71,656	73,546	115,957
Cash and working capital surplus	11,901	43,205	37,161	25,773	23,762	57,558

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

The three months ended June 30, 2008 compared to the three months ended June 30, 2007

	Three months ended June 30		
	2008	**2007**	**% Change**
Financials (US$000's)			
Revenue	1,566	-	-
Net Loss	(5,280)	(20,117)	(74)
Capital Expenditure	9,565	20,249	(53)
Total Assets	115,957	89,648	29
Cash and working capital surplus	57,558	43,205	33

Highlights

- On June 27, 2008 the Company completed a public offering raising gross proceeds of US$50,000,000. (Net proceeds to the Company were US$46,250,000 after deduction of brokers' commission and professional fees.)
- On June 13, 2008 the Company announced that it had signed the first ever Production Sharing Contract (PSC) awarded in Tajikistan covering a large part of the south west region of Tajikistan known as Bokhtar Area.
- Revenue generated in the three months to June 30, 2008 was US$1,566,000 compared to nil in the same period of 2007. The total for Q2 2008 was also up US$135,000 on Q1 2008.
- A net loss of US$5,279,000 recorded in the three months to June 30, 2008 compared to a loss of US$20,117,000 for the same period in 2007. The three months to June 30, 2008 loss included non-cash items of US$1,709,000 relating to the US GAAP required treatment of costs associated with stock based compensation compared to a figure of US$16,339,000 for same period in 2007.
- Exploration well AKK14 tested positive for gas production, which was the seventh well in succession to do so.
- The first exploration well on the Kul-Bas contract, KUL01, was completed in.

Net Loss

A net loss of US$5,280,000 was recorded in the three months to June 30, 2008, compared to US$20,117,000 in the three months to June 30, 2007. The principal differences between the two periods were:

- Revenue generated in Q2 2008 was US$1,566,000 compared to nil in Q2 2007.
- Stock base compensation costs in Q2 2008 were US$1,709,000 compared to US$16,339,000 in Q2 2007.
- Depletion on proved properties in Q2 2008 was US$1,872,000 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 subsidiary of CanArgo Energy Corporation.

Capital Expenditure

Capital expenditure in the three months to June 30, 2008 was US$9,565000 compared to US$20,259,000 in the same period of 2007. Prepayments to contractors also increased by US$782,000 in Q2 2008. The major items of expenditure were:

- The figure for 2007 of US$20,259,000 included the purchase by Tethys Kazakhstan Limited (a subsidiary of the Company) of the 30% share of TAG (then BNM) not previously owned by the Company. This purchase was settled by the issuing of shares in the Company valued at US$15,000,000.
- The third installment of US$2,192,050 was paid in relation to the purchase of a new drilling rig, leaving only the final payment of 5% due on delivery outstanding.
- US$2,923,000 was spent in relation to the acquisition of drill strings and ancillary equipment for the drilling rig.
- Well Akkulka 14 was completed and work commenced on Akkulka 15 in Q2.
- The first well in Kul-Bas, KUL01 was drilled and tested.

- Further progress payments were made in relation to the compressors, pipes and construction that are 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 Q2 2008 was US$1,566,000.

On January 5, 2006, Tethys' Kazakh subsidiary, TAG executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from TAG'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)) before royalties and including Value Added Tax (VAT) which can be offset against VAT costs on the Kyzyloi project. Average production for sales achieved in the three months to June 30, 2008 was 20 million cubic feet per day (20 MMcf/d) (~560 Mcm/d) from the initial six wells. During Q2 there were some minor field maintenance and measurement activities including pigging of the line and routine maintenance of the gas compressors resulting in some minor production shut downs.

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 to June 30, 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 Q2 in 2008 and Q2 in 2007 were:

- Prior to the IPO in June 2007 Tethys was a subsidiary of CanArgo Energy Corporation. Subsequent to the IPO there was a need for the recruitment of senior technical staff to ensure the exploration and development opportunities are maximized and gas reserves increased, together with the employment of suitably qualified management and staff to meet the needs of a growing company listed on the TSX.
- In the three months to June 30, 2008 costs of approximately US$200,000 were incurred by company personnel in relation to the public offering that raised US$50,000,000 (gross).
- Costs were incurred in Q2 in connection with the successful listing on the Regional Financial Centre of the Almaty Special Trading Floor (the RFCA operated by the Kazakh Stock Exchange) and a possible application for listing on the Hong Kong Stock Exchange. Listing on these exchanges may provide the Company with new avenues for future fund raising and increased liquidity.
- Business development costs were incurred in the months leading up to the successful signing of the Bokhtar PSC in Tajikistan.
- Other business development costs were incurred in the three months to June 30, 2008 notably in pursuing and developing potential opportunities in countries neighbouring Kazakhstan and Tajikistan.

Stock based compensation

Stock compensation costs of US$1,709,000 were incurred in Q2 of 2008 compared to US$16,339,000 in Q2 2007.

Interest

In the quarter to June 30, 2008 the Company earned US$124,000 in interest on its own funds compared to the same period in 2007 when there was a net interest charge of US$1,932,000.

Depletion, Depreciation and Accretion (DD&A)

Following the initiation of production from Kyzyloi on December 19, 2007 the Company was required to deplete cost relating to the proved properties in Kazakhstan, being both the Kyzyloi and Akkulka fields. The total DD&A charge for the quarter to June 30, 2008 was US$1,922,000 which was primarily made up of the US$1,872,000 for the amortization of proved property costs, on a unit of production basis. The DD&A charge for 2007 was US$14,000 when there had been no amortization of resource property cost.

Taxes

As at June 30, 2007 Tethys and its domestic subsidiary Tethys Kazakhstan Limited had 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 £600 (US$1,200) per annum. With effect from January 1, 2008 Guernsey had 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%. Following Tethys Petroleum Limited's move to the Cayman Islands, effected on July 17, 2008 the standard rate of income tax will continue to be 0%.

As at June 30, 2008 the Company was incorporated and headquartered in Guernsey, British Isles, but as per the resolution passed at the AGM on April 24, 2008 the process of redomiciling the company to the Cayman Islands was in its final stages. On July 18, 2008 it was announced that the continuance of the Company from the laws of Guernsey to the laws of the Cayman Islands had been completed on July 17, 2008.

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.

Under the Bokhtar PSC in Tajikistan, the State's production share includes all Tajik taxes, levies and duties.

For the six months ended June 30, 2008 compared to the six months ended June 30, 2007

	Six months ended June 30,		
	2008	**2007**	**% Change**
Financials (US$000's)			
Revenue	2,997	-	-
Net Loss	(9,981)	(22,438)	(55)
Basic and diluted loss (US$) per share	(0.22)	(1.71)	(87)
Capital Expenditure	13,105	22,438	(42)
Total Assets	115,957	89,648	29
Cash and working capital surplus	57,558	43,205	33

Highlights

- In January 2008 the Company received its first payment for commercial gas sales. Further payments were received from February to June 2008.
- On June 27, 2008 the Company completed a public offering raising gross proceeds of US$50,000,000. (Net proceeds to the Company were US$46,250,000 after deduction of brokers' commission and professional fees.)
- On June 13, 2008 the Company announced that it had signed the first ever Production Sharing Contract (PSC) awarded in Tajikistan covering a large part of the south west region of Tajikistan known as Bokhtar Area.
- In March 2008 the Company secured loan financing from a group of accredited investors in the amount of US$5,300,000 toward the purchase of a new drilling rig from China.
- Revenue generated in the six months to June 30, 2008 was US$2,997,000 compared to nil in the same period of 2007.
- A net loss of US$9,981,000 recorded in the six months to June 30, 2008 compared to a loss of US$22,438,000 for the same period in 2007. The six months to June 30, 2008 loss included non-cash items of US$2,280,000 relating to the US GAAP required treatment of costs associated with stock based compensation compared to a figure of US$16,339,000 for same period in 2007 and costs relating to Warrants of US$980,000 in 2008 compared to US$238,000 in the same period of 2007.
- In the period to June 30, 2008 wells AKK13 and AKK14 tested positive for gas production, which were the sixth and seventh wells in succession to do so.
- 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.
- The first exploration well on the Kul-Bas contract, KUL01, was completed in.

Net (Loss)

A net loss of US$9,981,000 was recorded in the six months to June 30, 2008, compared to US$22,438,000 in the six months to June 30, 2008. The principal differences between the two periods were:

- Revenue generated in Q2 2008 was US$2,997,000 compared to nil in Q2 2007.
- Stock base compensation costs to June 30, 2008 were US$2,280,000 compared to US$16,339,000 in the same period of 2007.
- Depletion on proved properties in 2008 was US$1,872,000 compared to nil in the same period of 2007 as production did not commence until Q4 2007.
- Finance costs incurred to June 30, 2008, being costs related to the issue of warrants in connection with securing a loan for the rig, amounted to US$980,000 compared to US$230,000 in the same period of 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 subsidiary of CanArgo Energy Corporation.

Capital Expenditure

Capital expenditure in the period to June 30, 2008 was US$13,105,000 compared to US$ 22,438,000 in 2007. The primary areas of expenditure included:

- The figure for 2007 of US$20,259,000 included the purchase by Tethys Kazakhstan Limited (a subsidiary of the Company) of the 30% share of TAG not previously owned by the Company. This purchase was settled by the issuing of shares in the Company valued at US$15,000,000.
- The second and third installments with a combined total of US$4,071,000 were paid in relation to the purchase of the drilling rig, leaving only the final payment of 5% due on delivery outstanding.
- US$2,923,000 was spent in relation to the acquisition of drill strings and ancillary equipment for the drilling rig.
- Well Akkulka 14 was completed and work commenced on Akkulka 15.

- Initial and progress payments were made in relation to the compressors, pipes and construction that are the primary constituents of the Phase Two pipeline to transport gas from the Akkulka field to the Bukhara Urals pipeline.
- The first exploration well on the Kul-Bas contract was completed.

Revenue

Revenue realised in Q2 2008 was US$2,997,000.

On January 5, 2006, Tethys' Kazakh subsidiary, TAG (then BNM) executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from TAG'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 for sales achieved in the six months to June 30, 2008 was 18 million cubic feet per day (18 MMcf/d) (~525 Mcm/d) from the initial six wells, which included the start up period of production and optimising of the production facilities.

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 to June 30, 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

- Prior to the IPO in June 2007 Tethys was a subsidiary of CanArgo Energy Corporation. Subsequent to the IPO there was a need for the recruitment of senior technical staff to ensure the exploration and development opportunities are maximized and gas reserves increased, together with the employment of suitably qualified management and staff to meet the needs of a growing company listed on the TSX.
- Costs of approximatelyUS$200,000 were incurred by company personnel in relation to the public offering that raised US$50,000, 000 (gross).
- Costs were incurred in Q2 in connection with the successful listing on the Regional Financial Centre of the Almaty Special Trading Floor (the RFCA operated by the Kazakh Stock Exchange) and a possible listing on the Hong Kong Stock Exchange. Listing on these exchanges may provide the Company with new avenues for future fund raising and increased liquidity.
- Business development costs were incurred in the months leading up to the successful signing of the PSC in Tajikistan.
- Other business development costs were incurred in the six months to June 30, 2008 notably in pursuing and developing potential opportunities in countries neighbouring Kazakhstan and Tajikistan.

Stock based compensation

In the six months to June 30, 2008 US$2,280,000 of costs were incurred that related to the issuing of share options and share warrants to employees compared to US$16,339,000 in the same period of 2007. *Please see "Note 16 – Stock Based Compensation" per the Company's 2007 audited Consolidated Financial Statements for full details.*

Interest

In the quarter to June 30, 2008 the Company earned US$291,000 in interest on its own funds but paid out $157,100 in relation to the loan associated with the rig purchase. For the same period in 2007 there was a net interest charge of US$2,268,000.

Depletion, Depreciation and Accretion (DD&A)

Following the initiation of production from Kyzyloi on December 19, 2007 the Company was required to deplete cost relating to the proved properties in Kazakhstan, being both the Kyzyloi and Akkulka fields. The total DD&A charge for the quarter to June 30, 2008 was US$3,418,000 which was primarily made up of the US$3,321,000 for the amortization of proved property costs, on a unit of production basis. The DD&A charge for 2007 was US$28,000 when there had been no amortization of resource property cost.

Taxes

As at June 30, 2007 Tethys and its domestic subsidiary Tethys Kazakhstan Limited had 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 £600 (US$1,200) per annum. With effect from January 1, 2008 Guernsey had 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%. Following Tethys Petroleum Limited's move to the Cayman Islands, effected on July 17, 2008 the standard rate of income tax will continue to be 0%.

As at June 30, 2008 the Company was incorporated and headquartered in Guernsey, British Isles, but as per the resolution passed at the AGM on April 24, 2008 the process of redomiciling the company to the Cayman Islands was in its final stages. On July 18, 2008 it was announced that the continuance of the Company from the laws of Guernsey to the laws of the Cayman Islands had been completed on July 17, 2008.

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.

Under the Bokhtar PSC in Tajikistan, the State's production share includes all Tajik taxes, levies and duties.

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2007 to June 30, 2008:

	June 30, 2008	Dec 31, 2007	Change	Movement details
Cash	58,903	26,692	32,211	Funds inflow from Public Offering on June 27, 2008.
Prepayments	675	351	324	New office rent deposit, insurance premiums, new computer system prepayments.

Accounts receivable	586	219	367	Production commenced December 19, 2007 and revenue invoiced was for 12 days compared to 30 at June 30, 2008.
Other current assets	271	790	(519)	At Dec 2007 there was an outstanding debt of US$400,000due from Tethys' previous parent, CanArgo Energy Corp that was duly settled in February 2008.
Non-curr. prepayments	5,129	3,062	2,067	Prepayments to contractors for pipes, compressors, drilling and transport of rig from China.
Capital Assets	47,195	37,472	9,723	Capital expenditure of US$13,105,000 less DD&A of US$3,418,000 plus ARO of US$36,000.
Accounts payable	991	1,388	(397)	Settlement of large invoice for drilling.
Long term debt	5,114	-	5,114	Loan of US$5,300,000 provided in March less capital content of first three monthly repayments.
Share capital	145,733	99,483	46,250	PO net receipts of US$46,250,000
Contributed surplus	5,807	3,527	2,280	Stock based compensation US$2,280,000
Warrants	17,535	16,555	980	Fair value of Warrants associated with the long term debt recognized during the period
Accumulated deficit	(61,606)	(51,625)	(9,981)	Loss for six months

Liquidity and Capital Resources

As at June 30, 2008 the Company had a working capital surplus, including cash, of US$57,558,000 while at December 31, 2007 the working capital surplus was US$25,773,000.

Cash Generation

In 2008 the monthly cash being generated from current gas production levels is approximately US$500,000 (US$565,000 including VAT) and this is not anticipated to increase significantly under the existing contract. The Company is anticipating completion of Phase 2 production in Kazakhstan which could see it doubling its existing production. As this additional gas will come from Akkulka field the price is not yet fixed and based on the current gas prices there should be a significant boost to revenue and consequently cash.

***Public Offering* (PO)**

On June 27, 2008 Tethys successfully completed a public offering having placed 21,276,596 shares at a price of US$2.35 raising US$ 50,000,000 (gross), US$46,250,000 (net). The Ordinary Shares are listed on the Toronto Stock Exchange.

Listing on Kazakhstan RFCA

On May 22, 2008, the Company announced that it had been included in the official list of Companies listed on the Regional Financial Centre of the Almaty Special Trading Floor (the "RFCA") operated by the Kazakhstan Stock Exchange JSC. Listing on this exchange could provide the Company with a new avenue for future fund raising and increased liquidity.

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 a drilling 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% (9.3% APR). 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. Lenders have security over the shares of Tethys Petroleum Inc. ("TPI") which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. To June 30, 2008 Tethys had incurred US$5,949,850 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$4,310,000 represents total payments due beyond June 2009.

Capital Expenditure Commitments

Current capital expenditure commitments:

	Total	**To June 2008**	**Outstanding**
	$	**$**	**$**
Phase 2 – Compression plus tie-ins	6,000,000	3,750,000	2,250,000
Drilling, testing and workovers	7,150,000	1,140,000	6,010,,000
Kul-Bas - Seismic and drilling	3, 870,000	-	3,870,000
Total for Kazakhstan	17,020,000	4,890,000	12,130,000
Telesto drilling rig	10,300,000	8,873,000	1,427,000

Summary	**$**
Working capital surplus at June 30, 2008	57,558,000
Current capital expenditure commitments Kazakhstan	12,130,000
Current capital expenditure commitments Tajikistan	1,500,000
Telesto drilling rig	1,427,000
Loan outstanding	5,114,000
Total current commitments	20,171,000
Surplus	37,387,000

The Company currently has more than sufficient funds to meet all of its existing commitments. If the Company is to meet all of its future plans (*see Outlook below)* then it will need to generate additional cash either from the increased gas sales as planned or it will need to seek an alternative source of funding.

Stockholder Equity

At the AGM on April 24, 2008 the authorized share capital of the Company was increased by an additional 200,000,000 Ordinary Shares and 50,000,000 Preference Shares. The Preference Shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008. Significant terms related to preference shares are summarized below:

1. may be issued in one or more series;
2. are entitled to any dividends in priority to the Ordinary Shares;
3. confer upon the holders thereof rights in a winding-up in priority to the Ordinary Shares;
4. and may have such other rights, privileges and conditions (including voting rights) as the Board may determine prior to the first allotment of any series of Preference Shares, provided that if a series of Preference Shares has no or limited voting rights it shall be designated as such by the Board.

As at June 30, 2008 the Company had authorized share capital of 700,000,000 ordinary shares of US$0.10 par value of which 66,393,292 had been issued and 500,000,000 preference shares of which none had yet been issued. There had been no change in the period between June 30, 2008 and the date of this MD&A. As at the date of this MD&A, there are 6,735,000 stock options and 9,652,504 warrants to purchase ordinary shares in the company issued and outstanding.

OUTLOOK

The Company believes that the outlook for its business in Kazakhstan and Tajikistan is positive. As well as its commitments the Company has plans to further grow and develop its business, these being more fully described in the prospectus filed for the Public Offering completed on June 27, 2008. The Company's gas production in Kazakhstan should increase significantly at the end of 2008 when the Akkulka shallow gas Phase 2 development commences, but meanwhile production from the Kyzyloi field itself is slightly down (by approximately 5%) from the average level for Q2 due to well shut-ins associated with well testing and with a higher than expected pressure in the Bukhara-Urals pipeline. The more general plans are as follows:

In Kazakhstan; to carry out further drilling for additional shallow gas deposits in the Akkulka and Kul Bas areas, and given success to enhance it's the capacity of its production facilities to bring on stream additional gas production (beyond Phase 2) and to carry out further deep drilling in the Akkulka and Kul Bas areas, in particular an additional deep well which is likely to be drilled in the Kul Bas block.

In Tajikistan, to carry out additional seismic surveys and workover activities on existing deposits including the Beshtentak, Khoja Sartez and Komsomolsk fields, to construct field reservoir models and consider horizontal drilling, field pressure support and similar techniques to increase production of oil and gas, and to look at the possibility of deepening existing wells to test exploration targets. The Company would look to fund its 51% share of these expenditures and to begin a comprehensive exploration and development program in the large Bokhtar PSC area.

The Company's experience to date, operating as it does in remote areas, leads the Company to consider the acqusition of additional drilling, production and related equipment to build up and optomise its operating capabilities leading to an overall cost benefit and the ability to meet the Company's targets and objectives.

The Company is also considering several opportunities for new project acquisitions in the Central Asian area and would assign or procure funding for this as appropriate, in addition to the potential for third party funding.

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 consequently 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 ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson, Ms. Landles (Corporate Secretary and Executive Vice President) and other Vazon 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 six months to June 30, 2008 were US$455,355

Upon completion of the loan referred to in *Rig Financing* above, Kraken Financial Group, which has one common director with the company, was entitled to receive 6% commission of the funds it was responsible for introducing to be taken in the form 81,447 shares. Kraken Financial Group also acted as broker for Tethys in the placement of various insurance policies, including D&O, for which the combined annual premiums were US$112,000.

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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 consolidated 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 consolidated 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 different net Revenue. 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 Revenue and the carrying value of capital assets. The Company engaged independent third party specialists in reserve engineering, McDaniel International Inc., to evaluate the prospective resources of all of the Company's contracts in Kazakhstan 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 Revenue 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 Revenue and can impact the carrying amount of capital assets. *See Risk Factors – Production variances from Reported Reserves.*
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 this 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 Additional Information Form (AIF) dated March 28, 2008 for the year ended December 31, 2007 and to the MD&A that accompanied the audited Consolidated Financial Statements for the year ended December 31, 2007