MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This Management's Discussion and Analysis ("MD&A") for Tethys Petroleum Limited ("the Company") is dated November 14, 2008 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements (Interim Consolidated Financial Statements) for the period ended September 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 generally accepted accounting principles of the United States of America ("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 contract 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 named 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 that would have given the Company a 51% operating interest in these projects that includes the Bokhtar PSC. At September 30, 2008 this partnership had not completed and as such the Company currently owns 100% of the operating interest, but it is still likely that the partnership agreement will complete and discussions are currently underway with the partners as to certain issues relating to the completion of this agreement.

	Three months ended						
	March 31 2007	**June 30 2007**	**Sept 30 2007**	**Dec 31 2007**	**March 31 2008**	**June 30 2008**	**Sept 30 2008**
Financials (US$000's)							
Revenue	-	-	-	194*	1,431	1,566	1,485
Net loss	(2,321)	(20,117)	(2,969)	(16,372)	(4,701)	(5,280)	(6,551)
Basic and diluted loss (US$) per share	(0.14)	(0.95)	(0.07)	(0.36)	(0.10)	(0.11)	(0.10)
Capital Expenditure	2,285	20,249	3,845	11,622	3,541	9,565	14,152
Total Assets	33,751	89,648	85,749	71,656	73,546	115,957	109,422
Cash and working capital surplus	11,901	43,205	37,161	25,773	23,762	57,558	36,921

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

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

	Three months ended September 30		
	2008	**2007**	**% Change**
Financials (US$000's)			
Revenue	1,485	-	-
Net Loss	(6,551)	(2,969)	(120)
Capital Expenditure	14,152	3,845	268
Total Assets	109,422	85,749	27
Cash and working capital surplus	36,921	37,161	(1)

Highlights

- Revenue generated in the three months to September 30, 2008 was US$1,485,000 compared to nil in the same period of 2007.
- A net loss of US$6,551,000 was recorded in the three months to September 30, 2008 compared to a loss of US$2,969,000 for the same period in 2007. The net loss in the three months to September 30, 2008 included a depreciation charge of US$2,298,000 compared to US$20,000 in 2007 and foreign exchange loss of US$1,254,000 in 2008 compared to a gain of US$51,000 in the same period in 2007.
- Capital expenditure of $14,152,000 was incurred as the Company pursued its objectives of initiating Phase 2 gas production from the Akkulka field in Kazakhstan, drilling a deep well in Kazakhstan, the acquisition of drilling, production and related equipment and commencing operations in Tajikistan following the signing of the PSC in June 2008.

Net Loss

A net loss of US$6,551,000 was recorded in the three months to September 30, 2008, compared to US$2,969,000 in the three months to September 30, 2007. The principal differences between the two periods were:

- Revenue generated in Q3 2008 was US$1,485,000 compared to nil in Q3 2007.
- Operating costs for the three months to September 30, 2008 were $274,000 compared to nil for the same period in 2007. The figures in this latest period also showed an increase on previous quarters in 2008 in part as a result of higher labour costs and insurance premiums but also as a result of work done to optimize the Kyzyloi wells and compression regimes.
- Depletion on proved properties in Q3 2008 was US$2,240,000 compared to nil in the same period of 2007 as production did not commence until Q4 2007.
- Stock based compensation costs in Q3 2008 were US$812,000 compared to US$679,000 in Q3 2007.
- General & Administration costs incurred in Q3 2008 were US$3,347,000 compared to US$2,743,000 in the same period in 2007.
- Exchange rates moved significantly in the three months to September 30, 2008 resulting in an exchange rate loss of $1,254,000 relating primarily to Euros which are held for equipment purchases and Sterling which is held for employment and travel costs.

Capital Expenditure

Capital expenditure in the three months to September 30, 2008 was US$14,152,000 compared to US$3,845,000 in the same period of 2007. Prepayments to contractors also increased by US$1,625,000 in Q3 2008. The major items of expenditure were:

- Drilling and testing of well Akkulka 15, US$854,000.
- Preliminary costs in advance of commencing drilling of a deep well in Akkulka (AKD01) US$1,958,000.
- The third installment of US$2,192,050 was paid in relation to the purchase of a ZJ70 drilling rig, Telesto, leaving only the final payment of 5% due on delivery outstanding.

- The first two 30% installments of US$1,605,000 on the purchase of a ZJ30 drilling rig, Tykhe.
- US$1,799,000 on the acquisition plus transport to Tajikistan of a 50 tonne drilling rig and cementing unit.
- The second well in Kul-Bas, KUL02 was drilled and tested US$800,000.
- Purchase of pipes and construction materials relating to the transportation of Phase 2 gas from the Akkulka field to the Bukhara Urals pipeline US$800,000.

Revenue

The Revenue realised in Q3 2008 was US$1,485,000 compared to nil in the same period of 2007.

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 field production achieved in the three months to September 30, 2008 was 18.4 million cubic feet per day (MMcf/d) (~522 thousand cubic metres per day Mm^3/d)) and gas sales totalled 1.68 billion cubic feet (Bcf) or 47.52 million cubic metres (MMcm).

Although there were 92 days in Q3 2008 gross production was actually achieved on only 87 days as a result of the temporary shut-down of compressors for maintenance, the shut-down of wells for testing as per the State requirements and line pigging. If these shut-downs had not been necessary, average field production would have been 19.5 MMcf/d (552 Mcm/d) for the quarter. Delays with the delivery of separators from Ukrainian manufacturers for two additional Kyzyloi wells G12 and G16 resulted in these wells not being able to commence production as planned in August. These separators are expected on site in November and the wells will be brought on stream following installation and State consents, this likely to be in early December at which point field gas production is expected to increase significantly.

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 850MMcm (30 Bcf). To the end of Q3 2008 17.55% of this contract volume had been delivered.

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 Q3 in 2008 and Q3 in 2007 were:

- Additional staff related costs as the Company has built up resources to pursue its gas production objectives in Kazakhstan, developing the PSC opportunities in Tajikistan and looking for further prospects in Central Asia.
- Extensive travel related to pursuing the Company's gas production objectives in Kazakhstan, developing the PSC opportunities in Tajikistan and looking for further prospects in Central Asia.
- Office costs in Q3 2008 were higher than anticipated but the relocation of the London office should result in savings in future periods.

Stock based compensation

Stock compensation costs of US$812,000 were incurred in Q3 of 2008 compared to US$679,000 in Q3 2007.

Interest

In the quarter to September 30, 2008 the Company earned US$283,000 in interest on its own funds compared to US$451,000 the same period in 2007 reflecting the reduction in US$ interest rates in that period.

Depletion, Depreciation and Accretion (DD&A)

The total DD&A charge for the quarter to September 30, 2008 was US$2,293,000 which was primarily made up of the US$2,240,000 for the depletion of proved property costs, on a unit of production basis. The DD&A charge for the same period of 2007 was US$20,000 as there had been no depletion of proved property costs.

Taxes

As at September 30, 2008 Tethys Petroleum Limited was headquartered in Guernsey, British Isles and incorporated in the Cayman Islands, after moving its domicile from Guernsey, British Isles on July 17, 2008. No income or capital taxes are levied in the Cayman Islands.

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 nine months ended September 30, 2008 compared to the nine months ended September 30, 2007

	Nine months ended September 30,		
	2008	**2007**	**% Change**
Financials (US$000's)			
Revenue	4,482	-	-
Net Loss	(16,532)	(25,407)	35
Basic and diluted loss (US$) per share	(0.31)	(0.87)	
Capital Expenditure	27,257	26,360	3
Total Assets	109,422	85,749	27
Cash and working capital surplus	36,921	37,161	(1)

Highlights

- In January 2008 the Company received its first payment for commercial gas sales. Further payments were received from February to September 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 nine months to September 30, 2008 was US$4,482,000 compared to nil in the same period of 2007.

- A net loss of US$16,532,000 recorded in the nine months to September 30, 2008 compared to a loss of US$25,407,000 for the same period in 2007. The nine months to September 30, 2008 loss included non-cash items of US$3,092,000 relating to the US GAAP required treatment of costs associated with stock based compensation compared to a figure of US$17,018,000 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.
- The total DD&A charge for the period to September 30, 2008 was US$5,716,000 which was primarily made up of the US$5,561,000 for the amortization of proved property costs, on a unit of production basis. The DD&A charge for 2007 was US$48,000 as there had been no depletion of proved property costs.
- Exchange rates movements in Q3 2008 were the primary contributor to an exchange rate loss of $1,392,000 in the nine months to September 30, 2008.

Net (Loss)

A net loss of US$16,532,000 was recorded in the nine months to September 30, 2008, compared to US$25,407,000 in the nine months to September 30, 2007. The principal differences between the two periods were:

- Revenue generated in Q3 2008 was US$4,482,000 compared to nil to Q3 2007.
- Stock base compensation costs to September 30, 2008 were US$3,092,000 compared to US$17,018,000 in the same period of 2007.
- Depletion on proved properties in 2008 was US$5,561,000 compared to nil in the same period of 2007 as production did not commence until Q4 2007.
- Finance costs incurred to September 30, 2008 in terms of costs related to the issue of warrants in connection with securing a loan for the rig, amounted to US$980,000 compared to US$238,000 in the same period of 2007.
- There was an increase in G&A costs following the Company's successful IPO in June 2007 as the Company has grown to pursue its commercial objectives.
- Exchange rates moved significantly in Q3 of 2008 resulting in an exchange rate loss of $1,254,000 relating primarily to Euros which are held for equipment purchases and Sterling which is held for employment and travel costs.

Capital Expenditure

Capital expenditure in the period to September 30, 2008 was US$27,257,000 compared to US$ 26,360,000 in 2007. The primary movements were as follows:

- The figure for 2007 of US$26,360,000 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.
- Workovers, base facilities and tie-ins on Kyzyloi US$1,618,000.
- Drilling and testing of wells Akkulka 14 and 15 and preparation for deep well on Akkulka US$5,190,000.
- Phase 2 compressors, pipes and construction work US$5,701,000.
- Seismic plus drilling and testing of the first two exploration wells on Kul-Bas US$663,000.
- The second and third installments with a combined total of US$4,071,000 were paid in relation to the purchase of the ZJ70 drilling rig, Telesto, leaving only the final payment of 5% due on delivery outstanding.
- US$4,527,000 was spent in relation to the acquisition of drill strings and ancillary equipment for the Telesto rig.
- US$3,210,000 on the first two installments of the ZJ30 drilling rig, Tykhe.
- US$1,799,000 on the acquisition plus transport to Tajikistan of a 50 tonne drilling rig and cementing unit.

Revenue

Revenue realised in Q3 2008 was US$4,482,000 compared to nil in 2007.

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 field production achieved in the nine months to September 30, 2008 was 18.5 MMcf/d (~525 Mcm/d) from the initial six wells, which included the start up period of production and optimising of the production facilities resulting in total production for sales 5.05 Bcf (143.11 MMcm).

During Q2 of 2008 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. This was followed in Q3 of 2008 by some further temporary production shut-downs as a result of shut-down of compressors for maintenance, the shut-down of wells for testing as per the State requirements and further line pigging. Up until April 9, 2008 the field production systems were being optimised and following this "running in" period, average production until the end of Q3 (excluding shut downs and testing etc) has been approximately 20 MMcf/d (566 Mcm/d).

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,MMcm (30 Bcf). To the end of Q3 2008 17.55% of this contract volume had been delivered.

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. These increases in company personnel resulted in higher employment related costs.
- Significant travel costs have been incurred in developing existing contracts in and pursuing other potential opportunities in Central Asia.
- 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 nine months to September 30, 2008 notably in pursuing and developing potential opportunities in countries in Kazakhstan and in countries neighbouring Kazakhstan and Tajikistan.

Stock based compensation

In the nine months to September 30, 2008 US$3,092,000 of costs were incurred that related to the issuing of share options and share warrants to employees compared to US$17,018,000 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 nine months to September 30, 2008 the Company earned US$574,000 in interest on its own funds. For the same period in 2007 there was a net interest charge of US$1,817,000.

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 period to September 30, 2008 was US$5,716,000 which was primarily made up of the US$5,561,000 for the depletion of proved property costs, on a unit of production basis. The DD&A charge for 2007 was US$48,000 when there had been no depletion of proved property costs.

Taxes

As at September 30, 2008 Tethys Petroleum Limited was headquartered in Guernsey, British Isles and incorporated in the Cayman Islands, after moving its domicile from Guernsey, British Isles on July 17, 2008. No income or capital taxes are levied in the Cayman Islands. 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 September 30, 2008:

	Sept 30, 2008	**Dec 31, 2007**	**Movement**	**Movement Details**
Cash	36,989	26,692	10,297	$50 million raised in June 2008 via TSX plus loan in March 2008 less nine months expenditure.
Prepayments	1,044	351	693	Increased insurance payments paid in June & July 2008.
Accounts Receivable	552	219	333	The 2007 balance represents 12 days revenue at December 31, 2007 compared to 30 days at September 30, 2008.
Non-current Prepayments	6,754	3,062	3,692	Prepayments and stage payments to contractors for pipes, compressors, drilling rigs and their transport.
Value added tax	3,749	2,752	997	Payments made to bring equipment into Kazakhstan including the stage payments referred to in previous point.
Accounts payable	553	1,388	(835)	Settlement of large invoice for drilling.
Loan debt	4,921	0	4,921	Loan of $5.3 million received in March 2008 less capital content of 6 repayments to September 30, 2008.
Share capital	145,555	99,483	46,072	Public Offering net receipts
Contributed Surplus	6,619	3,527	3,092	Additional stock based compensation charge for 2008
Warrants	17,535	16,555	980	Recognition of fair value of warrants issued under long term debt agreement.
Accumulated deficit	(68,156)	(51,625)	(16,531)	Loss for 9 months to September 30, 2008.

Liquidity and Capital Resources

As at September 30, 2008 the Company had a working capital surplus, including cash, of US$36,921,000 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 close to US$500,000 (US$565,000 including VAT) and this is not anticipated to increase significantly under the existing contract. The Company is anticipating two additional wells in the Kyzyloi contract coming on line and completion of the Phase 2 gas production on Akkulka by year end. Production from these Phase 2 facilities will commence once State approval has been given but this is anticipated no later than the end of January 2009. These additions could see a doubling of the existing production. As Phase 2 is from the Akkulka field the price has yet to be fixed and based on the current gas prices there could 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.

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.
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$4,093,000 represents total payments due beyond September 2009.

Planned Capital Expenditure

	Total Planned $	Incurred To Sept 30, 2008 $	Yet to be Incurred $
Kyzyloi – including workovers and tie-ins	2,788,000	1,618,000	1,170,000
Akkulka - Phase 2, Compression plus tie-ins	10,004,000	5,701,000	4,303,000
Akkulka - Drilling, testing and workovers	10,966,000	5,190, 000	5,776,000
Kul-Bas - Seismic and drilling	3,870,000	2,380,000	1,490,000
Total for Kazakhstan	27,628,000	14,889,000	12,739,000
Telesto drilling rig plus ancillary equipment [1]	11,495,000	10,477,000	1,018,000
Tykhe drilling rigplus ancillary equipment [1]	9,345,000	4,815,000	4,530,000

Summary	**$**
Working capital surplus at September 30, 2008	36,921,000
Current capital expenditure yet to be incurred in Kazakhstan	12,739,000
Current capital expenditure yet to be incurred in Tajikistan	3,000,000
Drilling rigs	5,548,000
Loan outstanding	4,921,000
Total current commitments	26,208,000
Surplus	10,713,000

[1] *These balances include the figures in Note 10 Commitments and Contingencies in the Interim Consolidated Financial Statements.*

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 September 30, 2008 the Company had authorized share capital of 700,000,000 ordinary shares of which 66,393,292 had been issued and 50,000,000 preference shares of which none had yet been issued. There had been no change in the period between September 30, 2008 and the date of this MD&A. As at the date of this MD&A, there are 6,675,000 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 two further wells come on line in the Kyzyloi contract followed by the commencement of the Akkulka shallow gas Phase 2 development.

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 the capacity of its production facilities to bring on stream additional gas production (beyond Phase 2) and to carry out further drilling in the Akkulka and Kul Bas area.

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 is beginning 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, has convinced the Company of the benefit of having its own drilling, production and related equipment to enable it to optimize 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 Phase 2 gas sales from gas produced from the Akkulka Block has yet to be agreed and therefore could be sensitive 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 cost charged to Tethys for services from Vazon in the nine months to September 30, 2008 was US$763,235.

Upon completion of the loan referred to in Note 7 of the Interim Consolidated Financial Statements, in March 2008 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 Directors & Officers, for which the combined annual premiums were US$112,000.

Oilfield Production Consultants (OPC) Ltd, which has one common director with the company, has charged Tethys a monthly retainer fee for engineering expertise and also provided services relating to the optimization of the existing compressors and those to be installed as part of Phase 2 gas production from Akkulka. Total fees in the nine months to September 30th, 2008 were $239,141.

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, apart from the long term fixed gas supply contract relating to the first 850 MMcm (30 Bcf) of gas production from the Kyzyloi field. 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.

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 in the oil and gas industry. The Company applies a ceiling test to the capitalized cost in the full cost pool. The ceiling test limits such costs 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.

IFRS

It is the intention of the Company to switch to the basis on which its financial statements are prepared from US GAAP to that of the International Financial Reporting Standards (IFRS) with effect from January 1, 2009. To this end the Company has had its auditors, PriceWaterhouseCoopers prepare a Diagnostic identifying the process to be followed and have secured the services of a suitably qualified consultant to assist in its implementation.

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 September 30, 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 September 30, 2008 that has materially affected or that is reasonably likely to affect, Tethys' control over financial reporting. The Company's control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

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.