TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the 3 months ended March 31, 2009

Introduction

This Management's Discussion and Analysis ("MD&A") for Tethys Petroleum Limited ("the Company") is dated May 15, 2009 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements (Interim Consolidated Financial Statements) for the period ended March 31, 2009, which are prepared in accordance with IFRS, as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2008, which were prepared under US GAAP. 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 the International Financial Reporting Standards ("IFRS"). Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this MD&A.

Tethys is an oil and gas exploration and production company focused on projects in Central Asia. Currently the Company has projects in Kazakhstan and Tajikistan and on April 9, 2009 it completed the acquisition of the entire interest in a Production Enhancement Contract ("PEC") for the North Urtabulak Oil Field in Uzbekistan. 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 Uzbekistan, the North Urtabulak oilfield lies in the Kashkadarya oblast and within the Amu Darya basin.

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. 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 Region of western Kazakhstan. An independent reserve report carried out by McDaniel & Associates Consultants Ltd., of Calgary, Alberta, Canada (the "McDaniel Reserve Report") estimated that Tethys had net proved plus probable reserves of 71.4 billion cubic feet (Bcf) (2.03 billion cubic metres (Bcm)) of natural gas in the Kyzyloi Field and the Akkulka Block as at December 31, 2008. 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 (known as the Booster Compression Station or "BCS") 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 March 31, 2009 this partnership had not completed and as such the Company currently owns 100% of the operating interest, but discussions are currently underway with the partners as to certain issues relating to the possible completion of this agreement.

IFRS ACCOUNTING

The Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will be used for Canadian publicly accountable enterprises for financial periods beginning on and after January 1, 2011 but as a foreign issuer, Tethys took the decision to do so for periods beginning January 1, 2009 and consequently has prepared its first financial statements in accordance with IFRS for the three month period ended March 31, 2009. The interim consolidated financial statements for the period ended March 31, 2009 are the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under generally accepted accounting principles in the United States of America ('US GAAP'). *See Changes to Accounting Policies on page 15*

Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this MD&A and also the Company's AIF.

Summary of Quarterly Results

The 2007 figures in the table below have not been prepared under IFRS while the 2008 figures have been restated to comply with IFRS requirements.

	Three months ended							
	US GAAP			IFRS				
	June 30 2007	**Sept 30 2007**	**Dec 31 2007**	**March 31 2008**	**June 30 2008**	**Sept 30 2008**	**Dec 31 2008**	**March 31 2009**
Financials ($000's)								
Revenue	-	-	194	1,431	1,566	1,485	878	529
Net loss	(20,117)	(2,969)	(16,372)	(4,640)	(4,848)	(5,354)	(7,696)	(6,056)
Basic and diluted loss ($) per share	(0.95)	(0.07)	(0.36)	(0.10)	(0.11)	(0.08)	(0.14)	(0.09)
Capital Expenditure	20,249	3,845	11,622	3,541	9,565	14,152	15,085	10,237
Total Assets	89,648	85,749	71,656	82,043	125,260	119,667	114,309	108,723
Cash and working capital surplus	43,205	37,161	25,773	23,762	57,558	36,921	21,490	8,169

The three months ended March 31, 2009 compared to the three months ended March 31, 2008

	Three months ended March 31,		
	2009	**2008**	**% Change**
Financials ($000's)			
Revenue	529	1,431	(63)
Net Loss	(6,056)	(4,640)	31
Capital Expenditure	10,237	3,541	188
Total Assets	108,723	82,043	33
Cash and working capital surplus	8,169	23,762	(152)

Highlights

- Revenue generated in the three months in Q1 2009 was $529,000 compared to $1,431,000 in Q1 2008 as a result of the Kyzyloi production being shut down in January and February 2009 due to maintenance work on compressors.
- The revenue in the three months to March 31, 2009 included $35,000 produced in Tajikistan.
- A net loss of $6,056,000 was recorded in the three months to March 31, 2009 compared to a loss of $4,640,000 for the same period in 2008.
- Capital expenditure of $10,237,000 was incurred in the three months to March 31, 2009 compared to a loss of $3,541,000 for the same period in 2008.

Net Loss

A net loss of $6,056,000 was recorded in the three months to March 31, 2009, compared to $4,640,000 in the three months to March 31, 2008. The principal differences between the two periods were:

- Revenue generated in Q1 2009 was $529,000 compared to $1,431,000 in Q1 2008.
- Operating costs for Q1 2009 were $285,000 compared to $67,000 for the same period in 2008.
- Depreciation, depletion and amortization (DD&A) in Q1 2009 was $517,000 compared to $1,105,000 in the same period of 2008.
- Stock based compensation costs in Q1 2009 were $704,000 compared to $841,000 in Q1 2008.
- Primarily as a result of the fall of the Kazakhstan Tenge against the USD there was an exchange loss in Q1 2009 of $1,698,000 compared to a $25,000 profit in the same period of 2008.
- Administrative expenses, other than stock based compensation and foreign exchange, incurred in Q1 2009 were $2,975,000 compared to $3,209,000 in the same period in 2008.

Capital Expenditure

Capital expenditure in the three months to March 31, 2009 was $10,237,000 compared to $3,541,000 in the same period of 2008. Prepayments to contractors decreased from $1,514,000 at December 31, 2008 to $594,000 at March 31, 2009. The major items of expenditure were:

- Seismic costs in Tajikistan $4,925,000
- Progress payment on ZJ30 rig $1,872,000
- Coiled tubing unit plus other rig ancillary equipment $810,000
- Akkulka deep well and compressor station $1,404,000
- Well rehabilitation and workovers in Tajikistan $930,000.

Revenue

Total revenue realised in Q1 2009 consisted of $494,000 in Kazakhstan and $35,000 in Tajikistan.

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 field in Kazakhstan. In December 2007 this contract was assigned to Kazakhstani Petrochemical Company Kemikal LLP ("KNK"), who will utilise the gas in the domestic Kazakh market (the "Gas Supply Contract") The agreed price is US$0.90 per thousand cubic feet (Mcf) (US$32 per thousand cubic metres (Mcm)) plus VAT which was 13% in 2008 moving to 12% in 2009. The VAT receipts can be offset against VAT costs incurred on the Kyzyloi project. The Gas Supply Contract, which has a term until the earlier of December 1, 2012, the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, or when 850 thousand cubic metres (Mcm) (approximately 30Bcf) has been delivered, is based on a take–or–pay principle and covers all gas produced from the Kyzyloi Field Licence and Production Contract area up to termination.

On November 28, 2008 InterGas Central Asia initiated necessary maintenance work on the Bukhara-Urals trunk line to the north of Tethys's tie-in point which resulted in the trunk-line being shut down for a period. Tethys decided to use this time to carry out maintenance on its own compressors at the BCS and to begin installation of compressors for the Akkulka Phase 2 Development following the arrival on site of both the compressors and the installation engineers. Unfortunately because of extreme weather conditions this process took significantly longer to complete than was anticipated with the result that production did not recommence until March 5, 2009. There was consequently no revenue generated in Kazakhstan in the months of January and February 2009, which explains the difference in revenue generated in Q1 2009 compared to Q1 2008.

In January 2009 Tethys' subsidiary Kulob Petroleum Limited, ("KPL") signed a 1-year gas sales contract with OJSC Kulyabgaz to supply gas to the town of Kulob in Southern Tajikistan. The price under the contract was fixed for the period of the contract at 300 Somoni (approximately USD86 per thousand cubic metres ("Mcm") (USD2.44 per thousand cubic feet ("Mcf")) and the initial contract was to supply up to 65,000 cubic metres (2.3 million cubic feet) of gas per day. Initial limited gas supply commenced and the gas was delivered through a 12 kilometre (7.5 mile) pipeline from the Khoja Sartez Field on which KPL has commenced initial work on existing wells that it has rights to under the Bohktar Production Sharing Contract (the "PSC") signed in June 2008. Supply ceased in March 2009 when gas to the value of $35,000 had been supplied.

Royalties

In Kazakhstan in 2009 royalties were replaced by Mineral Extraction Tax (MET). MET on domestic sales is anticipated to be 0.5% of revenue or 10.0% of revenue on export sales. Kyzyloi sales are currently domestic and as such the MET at 0.5% will compare favourably with the previous royalty of 2.0%.

Operating costs

Despite the reduction in production in the current quarter as a result of the maintenance work on the compressors there was no significant reduction in the operating costs. The labour force had to be maintained and was used on the monitoring of wells every few days plus the turning over the existing compressors every few days to prevent them from being damaged in the cold weather. Some costs are also fixed by well and need to be paid whether or not there is production.

Note Administrative Costs under IFRS include G&A costs, stock based compensation costs and exchange differences.

General and Administrative Expenses

Administrative expenses, other than stock based compensation and foreign exchange, incurred in Q1 2009 were $2,975,000 compared to $3,209,000 in the same period in 2008. As a result of the movement in the exchange rate between the Kazakhstan Tenge and USD the Kazakhstan administrative costs were very similar to Q1 2008 but there were some savings on travel costs and professional fees in other parts of the Company.

Stock based compensation

The stock compensation costs of the options issued under the 2007 Long Term Stock Incentive Plan was $704,000 in Q1 of 2009 compared to $841,000 in Q1 2008.

Exchange loss

Following the Kazakhstan central bank's decision to cease supporting the Tenge against the USD the exchange rate dropped from a figure around 120 to 150 to each USD. As a result of this change the Kazakhstan operations incurred an exchange loss of $1,760,000 which was the principal cause of the Company's total exchange loss of $1,698,000

Depletion, Depreciation and Accretion (DD&A)

The total DD&A charge for Q1 2009 was $517,000 compared to $1,105,000 in Q1 2008. The primary explanation of the reduction is that the Oil and Gas Property and Equipment (O&G) costs are depleted on a unit of production basis and because of the production shut down in January and February 2009 the production was significantly lower than in the same period in 2008.

Interest

In Q1 2009 the Company earned $30,000 in interest on its own funds compared to $167,000 in Q1 2008 reflecting significant the reduction in interest rates in that period.

Interest paid consisted of interest paid on the Rig Telesto loan, interest on the historical costs, which are payments due to the Kazakhstan government under the Kyzyloi contract due quarterly until March 31, 2012, and the amortization of the fair value of the warrants issued in connection with the rig financing.

Taxes

There is no current period income tax charge (2008 – $Nil).

Tethys is domiciled in the Cayman Islands which has no company income tax.

At March 31, 2009, the Company's Kazakhstan based subsidiary Tethys Aral Gas LLP had net operating loss carry forwards ("NOLs") for income tax purposes of approximately $4,357,093 (2008 – $4,393,500). If the NOLs are not utilized to reduce taxable income in future periods, they will expire in various amounts from 2012 through 2016. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2008 to March 31, 2009:

	March 31, 2009	Dec 31, 2008	Movement	Movement Details
Intangible assets	17,941	12,076	5,865	Primarily the Tajikistan seismic contract plus well workovers in Tajikistan.
Property, plant and equipment	74,360	70,211	4,149	Third installment on ZJ30 rig plus work on Phase 2 compressor station and deep well and payment for coiled tubing unit.
Non-current other receivables	4,533	6,357	(1,824)	Reduction in VAT balance due to exchange movement plus completion of stages of compressor station and Akkulka drilling resulting in transfer from contractor prepayments to property, plant and equipment.
Current trade and other receivables	2,999	2,664	335	Invoiced revenue from March gas production.
Cash and cash equivalents	7,966	22,200	(14,234)	See Cashflow Statement in Interim Consolidated Financial Statements
Share capital	145,839	145,237	602	Shares issued to vendor in part settlement of the Coiled Tubing Unit.
Other reserves	26,927	26,223	704	Stock based compensation
Accumulated deficit	(72,879)	(66,823)	(6,056)	Loss incurred in Q1 2009
Non-current financial liabilities	(4,916)	(5,096)	180	Capital repayments on Telesto loan.
Trade and other payables	2,263	2,734	(471)	Settlement of several large invoices received in Q4 2008.

Recent acquisition

On April 9, 2009 the Company completed the acquisition from the British company Rosehill Energy Ltd ("Rosehill"), of its wholly-owned subsidiary (the "Contractor") which held Rosehill's entire interest in the Production Enhancement Contract ("PEC") for the North Urtabulak Oil Field in Uzbekistan.

The consideration for the purchase of this project was 15 million ordinary shares in Tethys restricted from resale for periods up to one year from completion. With immediate effect Tethys took over the running of the business of the Contractor and began working to increase further oil production from the North Urtabulak field. Work is underway on further production enhancement both through workovers on existing wells, improvement of beam pumps etc. In addition a dedicated gas lift system is planned to be installed in the near future which we believe should significantly increase oil production. Tethys is also considering other development activities including further development well drilling and the potential of working on other nearby fields referenced in the PEC. The oil produced under the PEC is refined at a local refinery and the Contractor uses its own marketing agents to sell its share of the refined products at market prices.

Liquidity and Capital Resources

As at March 31, 2009 the Company had a working capital surplus, including cash, of $8,169,000 while at March 31, 2008 the working capital surplus was $23,762,000.

Liquidity Risk

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at March 31, 2009. Also the Company has both short-term and longer term contractual commitments that will necessitate cash outflows. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. While these factors create doubt about the Company's ability to continue as a going concern, as discussed in Note 2 to the Interim Consolidated Financial Statements to March 31, 2009, management is confident of achieving the Company's short term plans.

Overdue receivables

As at March 31, 2009 the amounts payable to the Company relating to sales production in the two months prior to the production shut down at the end of November 2008 had not been settled and remained outstanding. The amount involved was approximately $1,000,000 and was several months overdue. The Company has however now received a letter from the buyer dated April 29, 2009 in which they explained that the interruption in our supply in Q4 2008 (due to installation of Phase 2 facilities) had caused them some problems with their customers but this had now been resolved. It went on to state that they intend to clear all of the overdue plus current debt over the next couple of months.

Capital Management

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its expenditures on commitments from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity. In 2008 the Company also entered into long term debt agreements to finance the purchase of two drilling rigs. These loans are not subject to any externally imposed capital requirements.

As the Company is engaged in acquiring properties and exploring for crude oil and natural gas, it does not currently have sufficient revenue generating activities to fund all of the Company's commitments. The Company is therefore required to fund a significant portion of its commitments from existing cash and cash equivalent balances or seek additional financing through debt issuances or equity markets.

Financing decisions are made by Management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plan. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which the financing is available and in consideration of the balance between shareholder value creation and prudent financial risk management.

Debt levels are monitored by using the non-GAAP financial metric of Net Debt to Capitalization. Net Debt is calculated as the sum of long term debt balances (including the current portion) less the balance of cash and cash equivalents. There was no Net Debt at March 31, 2009 as the cash and cash equivalents exceeded the total of long term loans.

Cash Generation
On March 5, 2009 the Company announced that Kyzyloi was now producing from eight wells, an increase of two wells from 2008 production. The revenue generated from this production was $494,000 ($553,000 including VAT) to March 31, 2009. With the benefit of these additional wells and the commencement of Phase 2 gas production on Akkulka, which is now anticipated at the end of Q2 2009 there could be a doubling of the 2008 daily production. The Phase 2 gas price has yet to be fixed and there has been considerable uncertainty over gas prices in Central Asia in recent months. If in the coming months the Company is unable to negotiate a satisfactory long term sales price it may enter into a short term contract for the initial production of Phase 2 gas with a view to negotiating a better price at the end of 2009. Achievement of a satisfactory price on the Phase 2 gas production, along with the existing Kyzyloi revenue, would put the Company's Kazakhstan operations in a position where it was generating funds surplus to what is required to meet the minimum work programme and both the Company's operating and administrative costs. If however Akkulka gas production is delayed then the Company would need to either source further funding or to scale back on its costs.

On January 11, 2009 the Company signed a one year sales contract to supply up to 65 Mcm of gas per day to the town of Kulob in Tajikistan. The contract price is fixed at 300 Somoni (approximately US$86) per Mcm and is not adjusted for exchange rate fluctuations.

The Company is optimistic that it will soon see the benefits of its recent acquisition of the Production Enhancement Contract ("PEC") for the North Urtabulak Oil Field in Uzbekistan in terms of a positive cash flow.

Use of Funds

Set out below is a comparison of the actual use of funds to date and remaining to be expended against what was projected in the prospectus dated June 18, 2007. The primary differences were in relation to:

	Per June 18, 2007 Prospectus	Incurred to Mar 31, 2009	Planned in 2009
Kazakhstan			
Shallow drilling plan, compressors for Phase 2, exploration well, acquisition opportunities, Aral Vostochniy and well workovers	33,000	32,600	3,200
Tajikistan			
Seismic surveys, well rehabilitation and Alimtai exploration well	7,500	2,300	
Repayment of Short Term Loan	5,000	5,000	
Working Capital	500	1,650	
	46,000	41,550	3,200

Set out below is a comparison of the actual use of funds to date and remaining to be expended against what was projected in the prospectus dated June 19, 2008. The primary differences were in relation to:

- The Company ordered a second drilling rig, primarily for use in Tajikistan
- Further drilling and related equipment was purchased for use on the shallow drilling and production programme in Kazakhstan and in Tajikistan.
- Work has not yet commenced on the West Kul-Bas deep well.
- Unplanned expenditure on a supply and storage base at Bozoi, Kazakhstan, and additional capital spares
- Although new projects have been considered none has yet been considered suitable.

	Per June 19, 2008 Prospectus	Incurred to Mar 31, 2009	Planned in 2009
Kazakhstan			
Shallow Wells and Tie-Ins, deep well, additional seismic and infrastructure	28,100	4,500	1,400
Tajikistan			
Horizontal drilling, seismic, deepening potential gas exploration well plus infrastructure	8,415	6,425	1,075
Drilling rigs plus ancillary equipment	5,000	15,230	580
New Projects	3,500	500	
Working Capital and General Corporate Purposes	1,385	2,500	
	46,400	29,155	3,055

Capital Expenditure - Contractual Commitments

There are items in the previous schedules that refer to planned expenditure, which are not mandated by contractual commitments but as at December 31, 2008 the Company's contractual commitments in terms of capital expenditure were as follows:

Kazakhstan minimum work programmes remaining in 2009	$ 1,976,500
Drilling rigs plus ancillary equipment	$ 580,000
	$2,556,500

Contractual obligations and liabilities

The Company's contractual obligations and liabilities as at March 31, 2009 were:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Long term debt	$8,258,726	$1,808,215	$6,450,511	-	-
Operating leases	$847,956	$645,852	$202,104	-	-
Purchase obligations	$2,556,500	$2,556,500	-	-	-
Other long term obligations *	$864,900	$173,000	$345,950	$345,950	-
Total contractual obligations	$12,528,082	$5,183,567	$6,998,565	$345,950	-

Operating leases consist primarily of leases for offices

* Under the terms of Kyzyloi Field Licence and Production Contract, historic costs totaling $1,211,000 are payable in equal portions of $43,244 on a quarterly basis to the Kazakhstan government from the third year of production. Eight quarterly payments had been paid to March 31, 2009, totaling $345,952 leaving an outstanding balance of $864,900. The quarterly payments are due to continue until March 2014.

Future growth

The Company believes that when Phase 2 gas from Akkulka comes on stream then with the Kyzyloi production and the PEC in Uzbekistan it will meet its minimum work programme and operating and G&A costs. However in order not only to maintain the Company's current capacity but to meet the Company's planned growth objectives, which include funding planned development activities, the Company would require additional capital. Possible sources of funding include an issue of new shares and new debt arrangements. The Company is aware, particularly in the current market conditions, that there can be no assurances that equity financing will be available when required or that it will be sufficient to meet all of those requirements, or for other corporate purposes, or if the equity or debt financing is available, that it will be on terms that is acceptable to the Company. The inability of the Company to access sufficient capital for its growth objectives would impact on the Company's preferred planned growth targets.

While the Company acknowledges that current market conditions are undoubtedly more challenging than in the same period in 2008 it believes that that there does remain fund raising opportunities that it could pursue to fund growth objectives which the Company believes could add additional cash flow. However any additional sale of equity is likely to be at significantly lower prices compared to the first half of 2008.

The Company is also actively seeking partners in certain projects, preferably strategic partners who may bring capital into specific projects, or purchase significant interests in existing projects and assist the Company in building its business in Central Asia. Farm outs and possible asset sales are also being considered as part of an overall strategy to balance risk and optimize the Company's portfolio in order to bring available capital to bear on the most significant projects.

Stockholder Equity

As at March 31, 2009 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 67,793,292 had been issued and 50,000,000 preference shares of which none had yet been issued. In the period between March 31, 2009 and the date of this MD&A a further 15,000,000 Ordinary Shares were issued in connection with the purchase from Rosehill Energy Limited of its subsidiary that owned the entire interest in the Production Enhancement Contract ("PEC") for the North Urtabulak Oil Field in Uzbekistan. See *Recent Acquisition* above.

As at March 31, 2009 a total of 18,641,956 (December 31, 2008 – 18,311,956) ordinary shares are reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. Details of the options and warrants are given in Note 7 to the Interim Consolidated Financial Statements for the period ended March 31, 2009 for further details of such options and warrants.

Environmental

The Company's operations are subject to environmental regulations in the jurisdictions in which it operates and the Company carries out its activities and operations in material compliance with all relevant and applicable environmental regulations and pursuant to best industry practices. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. Payments made by the Company to date have been very small. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on semi-annual basis for information purposes and no payments are applicable.

Under the Bokhtar PSC in Tajikistan, any Development Plan shall also include an abandonment and site restoration programme together with a funding procedure for such programme. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account by KPL which shall be held in the joint names of the State and the KPL or their respective nominees, or its designee. KPL's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the Development Area shall be limited to the obligation to place the necessary funds in the approved account. In addition any relinquished areas must be brought into the same condition as they were prior to their transfer to KPL (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable. An independent environmental base line study has been carried out on the Beshtentak oilfield.

At present, the Company believes that it meets all applicable environmental standards and regulations, in all material respects, and has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations.

OUTLOOK

In the Company's MD&A for the year ended December 31, 2008 it was stated that Management had reviewed the impact of the recent significant changes in the world economic situation, including the significant decline in energy prices and the decline in the market price for the Company's shares, on its current and planned projects and had no plans to curtail any project that had commenced in the course of 2008 or that were included in the commitment capital expenditure listings above, following this assessment. This remains the Company's position at the end of Q1 2009. As also stated in the 2008 MD&A uncommitted capital expenditure is constantly under review and as a result some growth plans previously considered have been put on hold until such time as the position of the markets becomes clearer particularly with regard to future gas pricing, production revenues and fundraising opportunities that may be available to the Company. The current focus of the short-term work programs remains focused on development and production enhancement projects that will enhance short to medium term cash flow.

In Kazakhstan, the Company's current plans are limited to satisfying the 2009 Minimum Work Programme for each of the three contracts.

In Tajikistan, the Company will initiate its exploration work with an extensive seismic survey while carrying out rehabilitation and workover activities on existing deposits, to construct field reservoir models and consider horizontal and inclined drilling, field pressure support and similar techniques to increase production of oil and gas, and to look at cost effective approaches to deepening existing wells to test exploration targets.

As stated above in Uzbekistan work is already underway on further production enhancement both through workovers on existing wells, improvement of beam pumps etc. In addition a dedicated gas lift system is planned to be installed in the near future which we believe should significantly increase oil production. Tethys is also considering other development activities including further development well drilling and the potential of working on other nearby fields referenced in the PEC.

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.

The price of the contract signed with the town of Kulob in Tajikistan at 300 Somoni (US$86) per Mcm would be subject to plus or minus movement in sales revenue of $20,400 per annum for every 1% movement in the exchange rate but production ceased in Q1 2009.

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 and a number of Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the quarter ended March 31, 2009 was US$267,030 (2008 - US$321,300).

Oilfield Production Consultants (OPC) Ltd and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to the optimization of the existing compressors and those to be installed as part of Phase 2 gas production from Akkulka, and has consulted on certain reservoir modelling work on projects in Tajikistan. Total fees in the quarter ended March 31, 2009 were US$102,066 (March 31, 2008- Nil).

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.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. The Company does not currently utilise derivative financial instruments.

Trade receivables, loans and other receivables
Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables in the statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, net of any impairment. Interest income is recognised by applying the effective interest rate method, except for short term receivables where the recognition of interest would be immaterial.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions which are readily convertible to cash. Cash equivalents are short term deposits with a maturity of less than three months.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Trade payables
Trade payables due are recognised on an accruals basis and are stated initially at fair value and subsequently measured at amortized cost using the effective interest method.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of royalties, value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities as described below.

Revenues from crude oil and natural gas sales are recognised when the oil and gas has been lifted and the risk of loss transferred to a third-party purchaser. The Company uses the entitlement method to account for its revenue from sales of oil and gas production, whereby the Company recognises revenue based on its direct ownership interest in its underlying oil and gas properties.

Interest income is recognized on a time-proportion basis using the effective interest method.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalised and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalised represents the actual amount of borrowing cost incurred. Where funds used to finance an asset or project form part of general borrowings, the amount capitalised is calculated by using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation including deferred taxation

The tax expense represents the sum of current tax payable and deferred tax. Current tax payable is based on the taxable profits for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability settled. Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

Share–based incentives

The Company operates an equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. At each reporting date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive directors that make strategic decisions.

Critical Accounting Policies and Estimates

The interim consolidated financial statements for the three months ended March 31, 2009 have been prepared in accordance with IAS 34 - Interim Financial Reporting and are in accordance with IFRS 1 - First-time Adoption of IFRS, as they are part of the period covered by the Company's first IFRS financial statements for the year ending December 31, 2009.

Please refer to the interim consolidated financial statements for the three months ended March 31, 2009 Note 3 *Summary of Significant Accounting Policies* for details of the Company's accounting policies and to Note 25 Transition to IFRS for the reconciliations of the changes resulting from this transition. See also *Changes to Accounting Policies* below.

A summary of the Company's significant accounting policies can be found in Note 3 to the interim consolidated financial statements for the three months ended March 31, 2009. 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 and gas exploration and evaluation expenditure

Oil and natural gas exploration and evaluation expenditures are accounted for using a modified 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Exploration and evaluation expenditures, including license acquisition costs, are capitalised as exploration and evaluation assets when incurred. Expenditure directly associated with an exploration well is capitalised until the determination of reserves is evaluated. If reserves are not identified, these costs are charged to expense. All other associated exploration and evaluation expenditure are carried forward as an asset in the statement of financial position where the rights of tenure of the property are current and it is considered probable that the costs will be recouped through successful development of the property, or alternatively by its sale. Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

If it is determined that commercial discovery has not been achieved in relation the property, all other associated costs are charged to expense. If commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

Where commercial production in an area of interest has commenced, oil and gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved and probable reserves of the relevant area. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with future development expenditure to develop the proved and probable reserves. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

Other property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

Drilling rigs and related oil and gas equipment	Unit of production 3,650 days operating days
Motor vehicles	Straight line 4 years
Computer equipment	Straight line 3 years
Office equipment	Straight line 5 years

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 & Associates Consultants Ltd ("McDaniel"), to evaluate the recoverable reserves of all of the Company's contracts in Kazakhstan as at December 31, 2008 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.

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. The Company currently has no debt under such arrangements.

Impairment of non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less cost to sell and value in use).

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Provisions for other liabilities and charges

General

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. The increase in the provision due to passage of time is recognized as interest expense.

Decommissioning liability
Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when a legal or constructive obligation arises. The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of exploration and evaluation expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, whilst the charge arising from the accretion of the discount applied to the abandonment provision is treated as a component of finance costs.

The Company recognises neither the deferred tax asset regarding the temporary difference on the decommissioning liability nor the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

Foreign currencies
The interim consolidated financial statements are presented in US Dollars, which is the Company's functional and reporting currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Inventories
Inventories are shown at the lower of cost or net realisable value. Cost is determined on a first-in-first-out method.

Investments
Investments comprise restricted current balances that are held on deposit with banks in the Republic of Kazakhstan in respect of the Company's decommissioning liabilities in this country and are classified as non-current.

CHANGES TO ACCOUNTING POLICIES

The Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will be used for Canadian publicly accountable enterprises for financial periods beginning on and after January 1, 2011 but as a foreign issuer, Tethys took the decision to do so for periods beginning January 1, 2009 and consequently has prepared its first financial statements in accordance with IFRS for the three month period ended March 31, 2009.

Please refer to Interim Consolidated Financial Statements as at March 31, 2009

Impact of adoption of IFRS
These interim consolidated financial statements for the period ended March 31, 2009 are the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under generally accepted accounting principles in the United States of America ('US GAAP'). In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in Note 2 to the Interim Consolidated Financial Statements as at March 31, 2009.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

IFRS 3 Business Combinations
This standard has not been applied to acquisitions of subsidiaries that occurred before January 1, 2008, the Company's transition date.

IFRS 1 Asset retirement obligations

The Company has elected to apply exemption from full retrospective application of Asset retirement obligations as allowed under IFRS 1. As such the Company has re-measured the provisions as at January 1, 2008 under IAS 37, estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation, and recalculated the accumulated depreciation, depletion and amortisation under IFRS.

The following explains the material adjustments to the statement of financial position of the Company at January 1, 2008:

		$
(a)	Reclassification of cost from property, plant and equipment to intangible assets. In accordance with IAS 16, IAS 38 and IFRS 6 the Company reallocated certain costs relating to unproved properties from property, plant and equipment to intangible assets.	7,661
	Expense pre licence expenditure. On discontinuance of the policy of full cost accounting, expenditure incurred prior to the date on which the Company obtaining legal title to the relevant licences or concessions to explore and develop areas of interest, previously capitalised within the full cost pool, is written off.	(326)
	Net effect –increase in intangible assets	7,335
(b)	Reclassification of cost from property plant and equipment to intangible assets.	(7,661)
	Reverse impairment loss. On transition to IFRS, a previous impairment loss recognised for Kazakhstan oil and gas properties in the year ended December 31, 2007 was reversed. US GAAP establishes a 'cost ceiling' for each cost center which limits the amount of costs that can be capitalized in each cost center. If a cost center's unamortized capitalized costs exceed the ceiling, the net capitalized costs must be written down to the ceiling. In calculating the ceiling limit under US GAAP, the present value of estimated future net revenues is computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved reserves. The present value of estimated future net revenues is computed using a discount factor of 10% and assuming continuation of existing economic conditions. At the date of transition to IFRS, all CGUs were assessed for impairment by comparing the carrying value of the CGU to the recoverable amount. Recoverable amount was determined as value in use and was calculated as the present value of future cash flows expected to be derived from the CGU. The present value of future cash flows was computed on a pre-tax basis by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 5%.	12,800
	Expense unsuccessful exploration and evaluation cost. On the discontinuance of full cost accounting, drilling expenditures associated with unsuccessful exploration wells drilled prior to December 31, 2007 were expensed. These costs were previously included in the carrying value of the full cost pool.	(3,799)
	Expense pre licence expenditure. On discontinuance of the policy of full cost accounting, expenditure incurred prior to the date on which the Company obtaining legal title to the relevant	(907)

		$
	licences or concessions to explore and develop areas of interest, which were previously capitalised within the full cost pool, is written off.	
	Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation. The discounted value of the future cash flows related to funding the Company's decommissioning liabilities in relation to oil and gas properties is increased due to a change in the discount rate applied from a risk adjusted rate as required by US GAAP to a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This results in an addition to the carrying value of oil and gas properties. This increase in carrying value is depreciated over the remaining life of the relevant field in accordance with the Company's depreciation policy.	389
	Reduction in depletion of oil and gas properties. Each producing field or concession is depreciated separately using the unit of production method based on proved and probable reserves. Under US GAAP depreciation was based on the countrywide full cost pool of all proved properties, both producing and non-producing, and calculated on the unit of production method over only the proved reserves.	33
	Net effect – increase in property, plant and equipment	855
(c)	Adoption of IFRS 2. The expense relating to employee options is recognised individually for each vesting tranche over the applicable vesting period, as opposed to on a straight line method over the total requisite service period as permitted by US GAAP.	646
	Effect - increase option reserve	646
(d)	Increase in asset retirement provision. The provision relating to the cost of future restoration cost of oil and gas properties increases in line with the increase noted in (b) above. The increase is partially offset by lower accretion due the lower discount rate.	389
	Effect – increase in provisions for liabilities and charges.	389
(e)	The cumulative effect of these transition adjustments on the accumulated deficit as at January 1, 2008 is a decrease of:	7,155

The nature of adjustments from US GAAP to IFRS at March 31, 2008 is similar to those at January 1, 2008. There is one additional adjustment relating to share warrants and long term liabilities (see (c) and (e) below). Explanations are disclosed in note 22.1.

		$
(a)	Reclassification of cost from property, plant and equipment to intangible assets	7,795
	Expense pre licence expenditure	(327)
	Net effect – increase in intangible assets	7,468
(b)	Reclassification of cost from property, plant and equipment to intangible assets	(7,795)
	Reverse impairment loss	12,800

	Expense unsuccessful exploration cost	(3,799)
	Expense pre licence expenditure	(907)
	Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation.	306
	Reduction of depletion of oil and gas properties	424
	Net effect – increase in property, plant and equipment	1,029
(c)	Adoption of IFRS 2	915
	Adoption of IAS 32. The Company previously recognised the fair value of foreign currency denominated share warrants as equity within other reserves. On adoption of IFRS the fair value of such warrants is initially recognised as a foreign currency denominated liability, which is subsequently re-measured at each reporting date with the resulting foreign exchange gain or loss being recognised in income.	(980)
	Net effect - decrease in other reserves	(65)
(d)	Increase in asset retirement provision. Effect – increase in provisions for liabilities and charges.	366
(e)	Adoption of IAS 32 as explained in (c) above. Effect – increase in non current liabilities	980
(f)	The cumulative effect of these transition adjustments on the accumulated deficit as at March 31, 2008 is a decrease of:	7,216

New and amended accounting standards

The following new and amended accounting standards are mandatory for the first time for the financial year beginning January 1, 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. The Company has elected to present a single statement of comprehensive loss. The interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

- IAS 23 (amendment), 'Borrowing costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This has no impact on the Company as its policy has always been to capitalise borrowing cost on qualifying assets.

- IFRS 2 (amendment), 'Share-based payment'. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date.

All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amended standard does not have a material impact on the Company's financial statements.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2009, but are not currently relevant for the Company:

- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

Accounting Standards and Interpretations issued but not yet effective

Certain Accounting Standards and Interpretations are in issue which are not required to be adopted until after 2009 and have not been early adopted by the Company. As at the date of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements but may have an impact on the Company's accounting policies, were in issue but not yet effective. Management is assessing the impact of these new standards on the Company's accounting policies and the financial statements:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The Company does not have any investment in associates or joint ventures.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive loss. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) to all business combinations from January 1, 2010.

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after July 1, 2009.

- IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after July 1, 2009.

Accounting systems

The Company makes use of Sun Systems accounting software package to meet its accounting requirements. This is a well established package which will enable the Company to meet all of the accounting requirements under IFRS.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 – Certification of Disclosure in Annual and Interim Filings. The CEO and the CFO 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 IFRS.

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of March 31, 2009 which it believes is effective for a company of its size.

Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at March 31, 2009. Even allowing for the transition to IFRS there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2009 that has materially affected or that is reasonably likely to affect Tethys' internal controls 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 either by Company personnel or on advice from the Company's auditors, then the management of Tethys has put in place appropriate procedures to mitigate these risks.

Under the supervision of the CEO and the CFO, in 2008 Management conducted an evaluation of the effectiveness of internal control over financial reporting based on "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2008. A similar exercise will be carried out in the course of 2009.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures (DC+P) as that term is defined in NI 52-109. Disclosure controls and procedures have been designed by the Tethys Management, under the supervision of the CEO and CFO, 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.

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 2009 capital investments projections, and the potential 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 its drilling operations; delays in the delivery of its drilling rigs; 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.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; future prices for natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business: gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. 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

For full details of the risk factors please refer to the MD&A filed with the December 31, 2008 audited consolidated financial statements or to the Company's AIF.