TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended March 31, 2010

The three months ended March 31, 2010 compared to March 31, 2009

(All references to $ are United States dollars unless otherwise noted)
(Tabular amounts are in thousands, unless otherwise stated.)

	2010	**2009**	**% Change**
Revenue	2,116	529	300%
Net Loss	(7,991)	(6,016)	33%
Basic and diluted loss ($) per share	(0.05)	(0.09)	-44%
Capital expenditure	4,443	10,237	-57%
Total Assets	186,405	108,201	72%
Long Term Liabilities	(13,419)	(5,595)	140%
Cash and working capital surplus	38,372	7,947	383%
Common shares outstanding			
Basic and diluted	187,169,769	67,793,292	

The following Management's Discussion and Analysis ("MD&A") is dated May 14, 2010 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements and related notes for the period ended March 31, 2010 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2009. 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. 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.

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. As a foreign issuer, Tethys elected early adoption for periods beginning January 1, 2009, with a transition date of January 1, 2008 and consequently prepared its first interim consolidated financial statements in accordance with IFRS for the three month period ended March 31, 2009. The audited consolidated financial statements for the year ended December 31, 2009 are the Company's first set of annual consolidated financial statements prepared under IFRS as issued by the International Accounting Standards Board. For all accounting periods prior to January 1, 2009 the Company prepared its financial statements under accounting principles generally accepted in the United States of America ('US GAAP').

Highlights and Significant Transactions

- On January 23, 2010 the Company completed a non-brokered private placement of 12.6 million shares raising US$10 million.
- On February 8, 2010 the Company announced that the testing of the Akkulka exploration well AKD01 had flowed oil at a combined rate from the upper and lower zones in excess of 6,800 barrels per day.
- On March 3, 2010 the Company completed a private placement of 30 million shares raising CAD$46.5 million
- The Company generated revenues from refined product sales of US$2.11 million in the three months ended March 31, 2010 compared to US$0.5 million from gas sales in the three months ended March 31, 2009.
- The Company recorded a net loss of US$8.0 million in the three months ended March 31, 2010 compared to a net loss of US$6.0 million in the three months ended March 31, 2009.
- Capital expenditure, excluding the joint venture in Tajikistan, in the three months ended March 31, 2010 was US$4.4 compared to US$4.2 million in the three months ended March 31, 2009.
- Production costs in the three months ended March 31, 2010 were US$1.0 million compared to US$0.3 million in the three months ended March 31, 2009 reflecting the additional production costs from the Uzbekistan acquisition.
- Administrative costs in the three months ended March 31, 2010 were US$4.7 million compared to US$3.7 million in the three months ended March 31, 2009.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") are headquartered in Guernsey, British Isles. The domicile of Tethys Petroleum Limited was moved from Guernsey, British Isles, to the Cayman Islands on July 17, 2008, where it is incorporated. Tethys is an oil and gas company production within the Republic of Kazakhstan, Republic of Uzbekistan and the Republic of Tajikistan. Tethys' principal activity is exploration for and production of crude oil and natural gas.

Financial and Operational Review

Kyzyloi Gas Production

	2010		2009		Change
	Mcm	Mcf	Mcm	Mcf	%
Three months to March 31	-	-	15,602	550,907	(100)

- The Bukhara Urals pipeline, through which the gas output flows, was closed with effect from November 24, 2009 and had not re-opened by March 31, 2010 meaning that there were no gas sales in the first quarter of 2010. The Company has been informed that it is expected the pipeline will be re-opened in the near future.
- In the prior year the Bukhara Urals pipeline was also closed from November 28, 2008 but re-opened on March 5, 2009. It is not expected that this will be a regular occurrence.
- 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 at an agreed price of $32 per thousand cubic metres ("Mcm") or $0.90 per thousand cubic feet ("Mcf") excluding value added tax ("VAT"). On May 1, 2009, this contract was further assigned to Asia Gas NG LLP.
- 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) 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.
- To the end of Q1 2010 some 297,567 Mcm (approximately 10.5 Bcf) or 35% of the maximum contract volume under the Gas Supply Contract had been delivered.

Tajikistan Oil Production (Beshtentak field)

	Total Production		SSEC Share	
	Tonnes	Barrels*	Tonnes	Barrels*
Three months to March 31, 2010	350	2,500	319	2,275

- Oil production has now commenced from the Beshtentak field albeit on a small scale and further work is underway aimed at increasing this production. The sale of the Q1 production was not completed until May 2010.
- The oil is being produced from well BST20 which is an existing well and the production is the result of a workover. Further workovers are planned.
- Tethys has a 51% shareholding in SSEC.

Uzbekistan Oil Production (North Urtabulak PEC)

	Total Production		Tethys Share	
	Tonnes	Barrels*	Tonnes	Barrels*
Three months to March 31, 2010	20,869	149,212	10,434	74,606

** using 7.15 barrels = 1 tonne*

- The Company acquired its interest in the North Urtabulak PEC with effect from April 9, 2009 and so had no rights to the production prior to that date. Production is under a Production Enhancement Contract ("PEC") for the North Urtabulak oilfield with subsidiaries of the Uzbek State oil and gas company NHC Uzbekneftefgas.
- Drilling of a new well, NUR116, commenced in November 2009 and production commenced in March 2010. The well originally tested at a rate of up to 600 bopd but since then production has decreased and is currently approximately 100 bopd. It is believed that at this location in the reservoir is locally less permeable than nearby and the Company is investigating methods to increase production.

Revenue

	Three months ended March 31		
	2010	**2009**	**Change**
Gas Sales	-	529	-100%
Refined Products sales	2,116	-	100%

- The gas sales are generated from the Kyzyloi contract in Kazakhstan and as referred to in *Kyzyloi Gas Production* above are sold to Asia Gas NG LLP at an agreed price of $32 per Mcm ($0.90 per Mcf) excluding VAT.
- There were no gas sales in the three months to March 31, 2010 because of the stoppages and production restrictions detailed in *Kyzyloi Gas Production* above. Gas sales in 2009 were $529,000.
- These pipelines stoppages could result in the Kyzyloi gas being sold after December 1, 2012, the termination date of the existing sales contract, at a sales price that could be greater than the existing contracted price of $32 per Mcm.
- The Refined product sales are the result of oil production in Uzbekistan which the Company only acquired in April 2009.

Production expenses

	Three months ended March 31		
	2010	**2009**	**Change**
Production costs	974	285	242%

- Production costs in the three months to March 31, 2010 were $187,000 for Kazakhstan and $787,000 in Uzbekistan
- Despite the absence of production in Kazakhstan in the first quarter of 2010 there was no significant reduction in the production costs. The labour force had to be maintained and was used on the monitoring of wells every few days plus 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.

Depreciation, depletion and amortization expense

	Three months ended March 31		
	2010	**2009**	**Change**
DD & A costs	692	517	34%

- The DD&A in the three months to March 31, 2010 was primarily the result of the Uzbekistan production combined with the depreciation of the drilling rigs and ancillary equipment.
- The absence of production in Kazakhstan resulted in no depreciation of oil and gas properties in that country.

Listing costs

	Three months ended March 31		
	2010	**2009**	**Change**
Listing costs	626	-	100%

- These costs related to the possible secondary listing of the Company's ordinary shares on the Hong Kong Stock Exchange, a course of action which the Company has since decided not to pursue.

Administrative expenses

	Three months ended March 31		
	2010	**2009**	**Change**
General, administration & selling costs	3,582	3,016	19%
Stock based compensation	1,193	704	69%
	4,775	3,720	28%

- General administration and selling expenses in the three months to March 31, 2010 were up on 2009 primarily as a result of costs associated with both of the new Uzbekistan subsidiaries Tethys Production Uzbekistan (formally BHCL) and Tethys Uzbekistan B.V. plus some Asia Oilfield Equipment BV (AOE) costs.
- Stock based compensation expenses in the first quarter of 2010 relate to stock options and warrants. The principal cause of the increase in 2010 was related to the share options issued in the period.

Finance expenses

	Three months ended March 31		
	2010	**2009**	**Change**
Foreign exchange (gain)/loss	(14)	1,753	101%
Fair value (gain)/loss on derivative financial instruments	2,501	(40)	
Loss from jointly controlled entity	150	-	100%
Finance costs	321	323	-1%

- The foreign exchange loss in 2009 was primarily the result of the movement in the Kazakhstan Tenge against the $ resulting from the Kazakhstan central bank's decision to stop supporting the Tenge against the $ and the rate moved from approximately KZT123 to KZT150 to the $. At the March 31, 2010 the rate was KZT148 to the $.
- The Fair Value gain or loss on derivative financial instruments reflects the movement in the fair value of warrants issued by the Company that are denominated in a currency other than the Company's functional currency for financial reporting purposes and the impact of interest rate swaps.
- Loss from the jointly controlled joint venture represents the Company's 51% share in the loss incurred by SSEC.
- Finance costs consist primarily of interest costs.

Taxation

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

The temporary differences comprising the net deferred income tax liability as at March 31, 2010 are as follows:

	March 31, 2010 $
Capital assets	(1,808)
Tax losses	768
Other	348
	(692)

The provision for income taxes is different from the expected provision for income taxes for the following reasons:

	March 31, 2010 $
Loss before income taxes	(7,906)
Income tax rate	20%
Expected income tax expense (recovery)	(1,581)
Increase / (decrease) resulting from:	
Non-deductible expenses	160
Impact of effective tax rates in other foreign jurisdictions	1,254
Rate reduction on future income taxes	3
Losses and tax assets not utilised/recognised	250
Other	7
	93
Current income tax expense (recovery)	-
Deferred tax expense (recovery)	93
	93

Capital Expenditure

	Three months ended March 31		
	2010	**2009**	**Change**
Kazakhstan	2,140	2,051	4%
Uzbekistan	2,261	-	100%
Corporate and other	42	2,236	(98%)
	4,443	4,287	4%
Assets held within Joint Venture			
Tajikistan	2,280	5,950	(62%)

Major items of capital expenditure in 2010 were:

Kazakhstan

- Akkulka deep exploration well (AKD01) $1,035,000
- Akkulka deep appraisal well (AKD02) $644,000
- Akkulka deep exploration well (AKD01) $115,000
- Akkulka drilling and related equipment $346,000

(Prepayments to contractors include $770,000 for exploration well AKD03 and $375,000 for AKD01.)

Uzbekistan

- Well workovers $450,000
- Final payment for drilling new NUR116 development well $1,805,000

Tajikistan

- Seismic exploration in $500,000
- Komsomolsk appraisal well (KOM200) $1,010,000
- Komsomolsk appraisal well (KOM201) $250,000
- Well rehabilitation and workovers $250,000
- East Olimtoi (EOL09) exploration well $215,000

Summary of Quarterly Results

The 2008 figures previously prepared under US GAAP have been restated to comply with IFRS requirements.

	June 30 2008	**Sept 30 2008**	**Dec 31 2008**	**March 31 2009**	**June 30 2009**	**Sept 30 2009**	**Dec 31 2009**	**March 31 2010**
Financials ($000's)								
Revenue	1,566	1,485	878	529	2,797	2,426	2,807	2,116
Net loss	(5,023)	(4,964)	(7,645)	(6,016)	(5,594)	(3,946)	(6,166)	(7,991)
Basic and diluted loss ($) per share	(0.11)	(0.07)	(0.13)	(0.09)	(0.06)	(0.03)	(0.05)	(0.05)
Capital Expenditure	9,565	14,152	15,085	10,237	4,778	8,337	8,868	4,443
Total Assets	124,968	119,326	113,548	108,201	127,577	124,627	137,082	186,405
Total long Term Liabilities	5,611	5,413	6,084	5,595	5,299	4,997	18,345	(13,419)
Cash and working capital surplus	56,719	36,598	21,343	7,947	17,351	6,369	(157)	38,372

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2009 to March 31, 2010:

	March 31, 2010	Dec 31, 2009	Movement	Movement Details
Intangible assets	26,186	24,378	1,808	Expenditure on Akkulka deep appraisal and exploration wells
Property, plant and equipment	75,356	73,171	2,185	Expenditure in Uzbekistan encompassing the final payment on NU116 and workovers on other wells.
Non-current other receivables	6,491	5,171	1,320	This is a combination of prepayments made in Kazakhstan on wells AKD01, AKD02 and AKD03 plus the increase in VAT recoverable balance.
Loan receivable from joint controlled entity	23,897	21,727	2,170	Funds provided to SSEC to cover costs in Tajikistan.
Cash and cash equivalents	48,927	7,297	41,630	The increase is the result of two private placements completed in the quarter; one for CAD$ 46.5 million and one for $10 million plus the receipt of $2 million in loan notes in connection with the drilling of NU116 in Uzbekistan.
Share capital	224,975	167,203	57,772	The increase related to the two private placements referred to above for 30 million shares and 12.6 million respectively plus the completion of a private placement initiated in December 2009 involving 10 million shares less associated costs
Other reserves	28,968	27,775	1,193	Stock based compensation expense in the three months to March 31, 2010.
Accumulated deficit	(96,373)	(88,374)	(7,999)	Loss incurred in the three months to March 31, 2010.
Deferred gain on of assets to jointly controlled venture	3,699	3,659	40	Gain on sale of assets to SSEC.
Non-current financial liabilities - borrowings	8,031	9,324	(1,293)	Increase as a result pf the $2 million loan notes referred to above less the balloon payment on the Telesto loan of $2.6 million which has now moved to current liabilities as it is due in March 2011.
Advanced Equity Subscriptions	-	3,750	(3,750)	Funds received in advance of January 2010 completion of a $5 million private placement.
Deferred taxation	692	598	93	Tax expense for three months ended March 31, 2010

Current financial liabilities - borrowings.	3,789	1,086	2,703	Balloon payment of $2.6 million due at the end of the Telesto loan period is due in March 2011 which is now less than 12 months.
Derivative financial instruments - warrants	3,405	1,053	2,352	Movement in the liability following issue of CD$ warrants in connection with short term loan.
Deferred revenue	2,204	3,113	(909)	Movement in BHCL goods paid for awaiting delivery.
Trade and other payables	5,726	6,786	(1,060)	Settlement of a number of accruals built up towards the end of 2009 including audit and listing fees.

Contractual obligations and liabilities as at March 31, 2010

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Long term debt	$11,820,000	$3,789,000	$8,031,000	-	-
Operating leases	$636,000	$336,000	$300,000	-	-
Trade and other payables	$6,564,000	$5,726,000	$838,000	-	-
Purchase obligations	$17,029,900	$14,429,900	$0	$2,600,000	-
Joint venture purchase commitments	$2,009,000	$2,009,000	-	-	-
Total contractual obligations	$38,058,900	$26,289,900	$9,169,000	$2,600,000	-

Liquidity and Capital Resources

As at March 31, 2010 the Company had a working capital surplus, including cash, of $38,372,000 while at December 31, 2009 the working capital deficit was $157,000. The position at the end of March represented a significant turnaround from the position at December 31, 2009 and this was primarily the result of the following actions taken by the Company:

- The private placement of 10 million shares for gross proceeds of $5,000,000 of which $3,750,000 had been received before December 31, 2009 was successfully completed in January 2010.
- A second private placement was successfully completed in January 2010 consisting of 12,615,000 shares for gross proceeds of $10,000,000.
- A further private placement was completed in March 2010 consisting of 30,000,000 shares for gross proceeds CD$46,500,000.

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 19, 2008.

The primary differences were in relation to:

- The purchase of two drilling rigs and associated equipment for use on the shallow drilling and production programme in Kazakhstan and in Tajikistan.
- 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, 2010**	**To be Spent**
Kazakhstan			
Shallow Wells and Tie-Ins, deep well, additional seismic and infrastructure	28,100	14,000	14,100
Tajikistan			
Horizontal drilling, seismic, deepening potential gas exploration well plus infrastructure	8,415	8,142	273
Drilling rigs plus ancillary equipment	5,000	17,663	-
New Projects	3,500	500	3,000
Working Capital and General Corporate Purposes	1,385	1,385	-
	46,400	41,690	17,373

Set out below are details of the planned use of funds to as detailed in the prospectus dated June 11, 2009.

The primary differences were in relation to:

- The Komsomolsk well, KOM200, encountered unexpected drilling challenges and is costing more than was anticipated and is not yet completed. As a result the processing plant has not yet been constructed.
- A decision on installation of the Gas Lift Compression system is waiting on completion of the current dynamic field model.

	Per June 12, 2009 Prospectus	Incurred to Mar 31, 2010	To be Spent
Tajikistan			
East Komsomolsk - KOM 200 appraisal well Phase 1	3,500	5,672	-
Infrastructure - Komsomolsk gas Processing plant Phase 1	2,000		2,000
East Komsomolsk - gas development well KOM 201 Phase 2	3,500	250	3,250
Additional seismic on Bokhtar PSC	3,660		3,660
Uzbekistan			
North Urtabulak Gas Lift Compression System	1,190		1,190
North Urtabulak new well.	4,000	4,000	-
Workovers			
	17,850	9,922	10,100

Stockholder Equity

As at March 31, 2010 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 187,169,769 had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

On December 21, 2009 the Company announced that it would complete a non-brokered private placement of 10,000,000 Ordinary Shares for gross proceeds of US$5 million. The sum of $3,750,000 was received in December 2009 with the balance of $1,250,000 received in January 2010. The Ordinary Shares were placed at a price of US$0.50 each. The placement was completed in January 2010.

On January 11, 2010 the Company further announced that it would complete a non-brokered private placement of 12,615,000 Ordinary Shares for gross proceeds of US$10 million. The Ordinary Shares were placed at a price of $0.79 (CAD$0.82) each. The placement was completed in January 2010.

On February 12, 2010 the Company announced an additional private placement of 30,000,000 Ordinary Shares for gross proceeds of CAD$46.5 million. The Ordinary Shares were placed at an average price of CAD$1.55 each. The placement was completed on March 2, 2010.

As at March 31, 2010 a total of 27,990,455 (March 31, 2009 – 18,641,596) ordinary shares were 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 8 to the Audited consolidated financial statements for the year ended December 31, 2009.

OUTLOOK

In previous MD&A's 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 that it had no plans to curtail any project that had commenced in the course of 2009 or that were included in the commitment capital expenditure listings above, following this assessment. In the second half of 2009 the focus of the short-term capital expenditure programs had been on both meeting the expenditure plans set out in the short form prospectus issued on June 11, 2009 and on development and production enhancement projects that would improve short to medium term cash flow.

Following the announcement on February 8, 2010 that the testing of the Akkulka exploration well AKD01 had flowed oil at a combined rate in excess of 6,800 barrels per day the Company outlook changed, with what might potentially be a significant oil discovery. On February 12, 2010 the Company announced a private placement of 30 million shares raising CAD$46.5 million and then on February 23, 2010 the Company announced that it now planned to drill at least two appraisal wells on the AKD01 oil discovery (now named "Doris") to evaluate and establish the size and potential of the discovery and provide the necessary data to obtain a production contract. These wells will be extensively evaluated with coring, detailed geophysical logging and testing. A further appraisal well may also be drilled if deemed necessary after evaluating the results of the first two wells. In addition TAG plans to carry out a 3D seismic survey over the Doris discovery and shoot additional targeted 2D seismic lines to firm up further potential in the area. TAG issued tenders for both the drilling and seismic acquisition. The drilling contractor was selected and the first appraisal well (AKD02) was spudded on April 1, 2010. Tethys demobilised its ZJ70 rig "Telesto" from the AKD01 location and has mobilised the rig to a prospect located in a similar structural position to the southwest which has been named "Dione" and drilling of AKD03 is due to commence in May. The seismic contract has been awarded and the programme is expected to commence in Q2 2010 and will be targeted to provide additional data for the second appraisal well which should commence drilling in the summer.

The drilling of the AKD02 well is on schedule and is currently at a depth of approximately 1,500_meters preparing to run 245 mm casing. It is expected to have initial results from this well in the second half of June 2010.

While the Akkulka Production Contract was finally approved by the Kazakhstan authorities in December 2009 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. The Company 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 2010. The Company believes that even at a price matching that of the Kyzyloi contract when Phase 2 gas from Akkulka comes on stream then together with the Kyzyloi production and the PEC in Uzbekistan it will be in a position to more than cover its production and G&A costs of its existing operations. Gas production from Kyzyloi and Akkulka is anticipated to commence in May 2010.

While within Tajikistan the Company has a partner in its joint venture, SSEC, the Company continues to seek partners in 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 (including the possible farm out of certain of the Company's Tajik assets) are also being considered as part of an overall strategy to balance risk and optimise the Company's portfolio in order to bring available capital to bear on the most significant projects. No agreements have been entered into as at the date of this MD&A

In Tajikistan, the Company has now commenced oil production from the Beshtentak field and is carrying out further work aimed at increasing this production. The Komsomolsk KOM200 gas appraisal well reached the top of the Jurassic sequence and hydrocarbons were indicated both whilst drilling and on electric logs, and an open hole flowback test was carried out which resulted in a stable gas flow, albeit accompanied by water from water bearing zones in the large open hole section. However the drillstring then became stuck, probably due to differential pressures, and to date the Company has not been successful in retrieving the string. Work is now on hold for KOM200 but has commenced towards the drilling of a new well (KOM201) to the north east of KOM200. Tethys' ZJ30 drilling rig "Tykhe" is currently being moved to the KOM201 location and it is expected that drilling of this well will commence towards the end of May. It is planned to come back to KOM200 once specialist equipment has arrived in Tajikistan and KOM201 is completed. Work on the East Olimtoi exploration well EOL09 is currently suspended whilst additional equipment is mobilised to Tajikistan to continue drilling to the target zone which is some 1,000 metres (3,280 feet) from the current depth. Recent seismic data has confirmed the exploration potential of this prospect which the Company regards as a possible high impact well if successful. The Company is continuing with its seismic survey programme in Tajikistan with the aim of identifying other targets and is looking at other drilling possibilities. As stated above the Company is actively seeking partners in certain projects, preferably strategic partners, and has begun a farm-out process with respect to certain of its Tajik assets having held a data room for interested parties.

In Uzbekistan the Company drilled a new development well, NUR116, which commenced producing in March but production levels have declined in the period since the end of March. A dynamic field reservoir model is now close to completion and based on this a more optimised field development will be planned. Further drilling opportunities are being explored together with a programme of acidisation and radial drilling to further enhance existing production. The Company is looking at other opportunities in Uzbekistan, both in additional field redevelopment and in exploration but these are subject to reaching agreement with the Uzbek government on such projects.

In order not only to maintain its current capacity but to meet the future 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 while the Company has taken the decision not to pursue a possible secondary listing on the Hong Kong Stock Exchange at this time it has not ruled out pursuing alternative courses of action.

Sensitivities

The price of gas sales from gas produced from the Kyzyloi gas field under the Gas Supply Contract is fixed in US dollars until December 1, 2012 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 sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At gross production levels of 1,860 bopd the movement of $1 per barrel on the price received by the company would result in plus or minus movement in the sales revenue of $339,450 per annum.

Transactions with Related Parties

Vazon Energy Limited
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 other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the period ended March 31, 2010 was $541,849 (March 31, 2009 – $343,505).

Oilfield Production Consultants
Oilfield Production Consultants (OPC) Limited 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 compression optimization and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended March 31, 2010 were $27,000 (March 31, 2009 – $136,103).

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 Risk Management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management, in particular, the Executive Board of Directors.

Summarized below are risks which may be material to the Company's future performance. See also "*Risks and Uncertainties*".

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

	March 31	**December 31**
	2010	**2009**
	$	**$**
Trade receivables	866	905
Cash and cash equivalents	48,927	7,297
Investments	687	659
Loan receivable from jointly controlled entity	24,047	21,727
	74,527	30,588

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to only one customer during the year. The Company does not believe it is dependent upon this customer for sales due to the nature of gas products and the associated market. The Company's sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At March 31, 2010 the trade receivable amounted to $866,000 and was several months overdue. The Company has however has been informed by the buyer that they intend to clear all of the overdue debt when gas supply recommences, which is anticipated within the very near future. At the end of the first quarter of 2009 we had a very similar position and all of the debt was cleared in due course. The Company has consequently decided not to make a provision against the outstanding debt as it does not consider the balance to be impaired.

In Uzbekistan, the Company makes use of two customers. Full payment is in US Dollars and is required before delivery of the oil and therefore there is limited exposure to credit risk in this country.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of the counterparties are banks with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Within the Central Asian countries banks with these ratings are generally not available.

The Company is exposed to credit risk in relation to its loan receivable from a jointly controlled entity to the extent that the jointly controlled entity fails to meet its contractual obligations. The Company does not believe that the balance is impaired at the reporting date. The carrying amount of the loan receivable represents the maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at March 31, 2010.

The Company's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorizing project expenditures and ensuring appropriate authorization of contractual agreements. The budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Company seeks additional financing based on the results of these processes.

The timing of cash outflows relating to financial liabilities and commitments at the reporting date are summarized on page 8 above in *Contractual obligations and liabilities as at March 31,2010.*

There can be no assurance that debt or equity financing will be available or sufficient to meet the Company's requirements or if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations and prospects.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rate and foreign exchange rates.

Commodity price risk

Commodity price risk arises from the effect that fluctuations of future commodity process may have on the price received for sales of gas and refined oil products. The marketability and price of natural gas and oil that is produced and may be discovered by the Company will be affected by numerous factors that are beyond the control of the Company.

Natural gas prices are subject to wide fluctuations, the Company has entered into a fixed price contract for sales of gas from the Kyzyloi field. However, any material decline in natural gas prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Company's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' gas reserves, if the Company elected not to produce from certain wells at lower prices.

Any material decline in refined oil product prices could result in a reduction of the Company's Uzbekistan net production revenue.

All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company is exposed to interest rate risk on short term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Company. A change of 1% in the interest rate would have had an immaterial change in the interest earned both in the current or prior year.

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions denominated in a currency other than the US dollar. In addition, a significant portion of expenditures in Kazakhstan and Tajikistan are denominated in local currency, the Tenge and Somoni, respectively. The Company is not currently using exchange rate derivatives to manage exchange rate risks but is attempting to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

The Company holds the majority of its cash and cash equivalents in US dollars. However, the Company does maintain deposits in other currencies, in order to fund ongoing general and administrative activity and other expenditure incurred in these currencies.

Capital risk management

The Company's capital structure is comprised of shareholders' equity and debt.

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 and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

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 plans. 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 financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

	March 31, 2010	December 31, 2009
	$	$
Total financial liabilities - borrowings	11,820	10,410
Less: cash and cash equivalents	(48,927)	(7,297)
Net debt / (funds)	(37,107)	3,113
Total equity	224,975	167,203
Total capital	187,868	170,316

The Company is not currently subject to any externally imposed capital restrictions.

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2009 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com

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 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.

Within the PEC in Uzbekistan in the event that the Company advises the Operating Committee that it no longer intends to perform any Operating Services on a well then it is required to plug and abandon such well at its own expense or the State gas company shall immediately assume responsibility for such well. In the latter such event the Company shall have no responsibility with regard to plugging and abandoning the well. While operating the well the Company is required to observe all environmental laws of the Republic of Uzbekistan.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Boards ("IASB").

New and amended accounting standards

- IFRS 3 'Business Combinations' - the Company has adopted the revised version of this standard, with effect from 1 January 2010. The revised standard still requires the purchase method of accounting to be applied to business combinations but introduces some changes to the accounting treatment. Assets and liabilities arising from business combinations that occurred before January 1, 2010 were not required to be re-stated and thus there was no effect on the company's reported income or net assets on adoption.

- IAS 27 'Consolidated and Separate Financial Statements' - the Company has adopted the amended version of IAS 27, also with effect from January 1, 2010. This requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control. When control is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss recognized in profit or loss. There was no effect on the Company's reported income or net assets on adoption.

- IAS 38 'Measurement of non-current assets (or disposal groups) classified as held for sale' – the Company has adopted the amendment to this standard, with effect from January 1, 2010, which clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits grouping of intangible assets as a single asset if each asset has similar useful economic lives. There was no effect on the Company's reported income or net assets on adoption.

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, 2010 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, 2010. 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.

Under the supervision of the CEO and the CFO, an evaluation was conducted 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, 2009. No material weakness relating to the design of the Company's system of ICFR or relating to the Company's operations as at December 31, 2009 have been identified. A similar exercise will be carried out in the course of 2010.

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 2010 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 financings; product supply and demand; market competition; ability to realise 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.