TETHYS PETROLEUM LIMITED

(“Tethys” or the “Company”)

MANAGEMENT’S DISCUSSION AND ANALYSIS

for the three and nine months ended September 30, 2010

The nine months ended September 30, 2010 compared to September 30, 2009

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

	2010	2009	% Change
Revenue	11,319	5,752	97%
Net Loss	(18,439)	(15,554)	19%
Basic and diluted loss ($) per share	(0.10)	(0.16)	-38%
Capital expenditure *	23,710	23,353	2%
Total Assets	182,081	137,082	33%
Non current liabilities	(15,963)	(18,345)	-13%
Net assets	6,046	(157)	3,950%
Common shares outstanding			
Basic and diluted	187,969,769	134,554,769	

*The 2009 figure includes Tajikistan capital expenditure while in 2010 this is included in the joint controlled entity Seven Stars Energy Corporation (“SSEC”).

The following Management’s Discussion and Analysis (“MD&A”) dated November 12, 2010 should be read in conjunction with the Company’s unaudited Interim Consolidated Financial Statements and related notes for the period ended September 30, 2010 as well as the annual 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. The 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 wording 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 IFRSwill 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 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 March 31, 2009 the Company prepared its financial statements under accounting principles generally accepted in the United States of America (‘US GAAP’).

Highlights and Significant Transactions in nine months to September 30, 2010

- 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 Kazakhstan 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 C$46.5 million
- The Company generated revenues from refined product and gas sales of US$11.32 million in the nine months ended September 30, 2010 compared to US$5.75 in the nine months ended September 30, 2009.
- The Company recorded a net loss before taxation of US$15.68 million in the nine months ended September 30, 2010 compared to a net loss of US$15.55 million in the nine months ended September 30, 2009.
- Capital expenditure, excluding the joint venture in Tajikistan, in the nine months ended September 30, 2010 was US$23.71 million compared to US$23.35 million in the nine months ended September 30, 2009 which included capital expenditure in Tajikistan of US$12.03 million, as this expenditure pre-dated the joint venture.
- Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the nine months to September 30, 2010 was US$9.89 million compared to US$12.03 million in the same period of 2009 funded directly by the Company.
- Production costs in the nine months ended September 30, 2010 were US$4.11 million compared to US$1.99 million in the nine months ended September 30, 2009 reflecting the higher level of refined product sales in Uzbekistan.
- Administrative costs including the costs of stock based compensation in the nine months ended September 30, 2010 were US$16.77 million compared to US$12.34 million in the nine months ended September 30, 2009.

Highlights and Significant Transactions in three months to September 30, 2010

- The Company generated revenues from refined product and gas sales of US$3.17 million in the three months ended September 30, 2010 compared to US$2.43million in the three months ended September 30, 2009.
- The Company recorded a net loss before taxation of US$5.89 million in the three months ended September 30, 2010 compared to a net loss of US$3.94 million in the three months ended September 30, 2009.
- Capital expenditure, excluding the joint venture in Tajikistan, in the nine months ended September 30, 2010 was US$23.71 million compared to US$23.35 million in the nine months ended September 30, 2009 which included capital expenditure in Tajikistan of US$12.03 million, as this expenditure pre-dated the joint venture.
- Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the nine months to September 30, 2010 was US$9.89 million compared to US$12.03 million in the same period of 2009 funded directly by the Company.
- Production costs in the three months ended September 30, 2010 were US$1.24 million compared to US$0.75 million in the three months ended September 30, 2009 reflecting the higher level of refined product sales in Uzbekistan.

- Administrative costs including the costs of stock based compensation in the three months ended September 30, 2010 were US$5.36 million compared to US$4.19 million in the three months ended September 30, 2009.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") is a Cayman Island incorporated limited liability company with its principle executive office being in Guernsey, British Isles. Tethys is an oil and gas company currently operating 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. Tethys is currently listed on the main board of the Toronto Stock Exchange ("TSX") in Canada and also has a secondary listing on the Kazakhstan Stock Exchange in Almaty, Kazakhstan.

Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

	2010		2009		Change
	Mcm[1]	Mcf[2]	Mcm	Mcf	%
Three months to March 31	-	-	15,624	551,683	(100)
Three months to June 30	10,146	358,255	36,809	1,299,726	(72)
Three months to Sept. 30	44,215	1,561,232	38,755	1,368,439	14
Total production	54,361	1,919,487	91,188	3,219,848	(43)

- The Bukhara Urals pipeline, through which the gas output flows, was closed with effect from November 24, 2009 and did not re-open until May 27, 2010 when volumes through the pipeline were restricted to 360Mcm/d[3]. It was not until July 26th 2010 when volumes returned to pre-closure levels of 500Mcm/d. In the prior year the Bukhara Urals pipeline had also been closed from November 28, 2008 but re-opened on March 5, 2009. Then from the middle of May 2009, because of restrictions further up in the Bukhara-Urals Gas line, the Kyzyloi gas output was temporarily reduced to approximately half of its full production capacity. Full production did not recommence until the August 1, 2009.
- It was on January 5, 2006 that Tethys' wholly owned Kazakh subsidiary, TethysAralGaz LLP ("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 Mcm excluding value added tax ("VAT"). On May 1, 2009, this contract was assigned to Asia Gas NG LLP.
- The Kyzyloi 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 MMcm[4] 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 the termination of the Gas Supply Contract.
- To the end of Q3 2010 some 351,965 Mcm or 41% of the maximum contract volume under the Gas Supply Contract had been delivered.

[1] Thousand cubic metres
[2] Thousand cubic feet
[3] Thousand cubic feet per day
[4] Million cubic metres

Kazakhstan Oil Production (Akkulka contract)

- On September 16, 2010 announced that it had signed a gas sales contract for the initial sales of gas from the Akkulka gas field in Kazakhstan. First deliveries under this contract commenced on October 6, 2010.

Kazakhstan Oil Production (Akkulka contract)

	Total Production		
	Tonnes	Barrels ("bbl")	barrels per day ("bbl/d")
21 days to September 30, 2010	1,393	10,952*	522

- On September 10, 2010 test production commenced from the AKD01 ("Doris") discovery on the Akkulka contract.
- The Company commenced selling the untreated oil at the well site of AKD01 to an oil trading company which is transporting the oil by truck to a location north of the town of Emba, 450 km to the north-east, where it is treated before being transported to local refineries.
- Tethys plans to increase the daily production under this early production scheme to 750 bbl/d, this being dependent on the oil buyers providing more trucking capacity. The untreated oil produced is being sold at the wellhead at an initial price of US$22/bbl.
- This test production scheme is being implemented to gain reservoir information, realise early cash flow and to prepare for the higher production and associated logistics for the next stage.

** using 7.862 barrels = 1 tonne*

Uzbekistan Oil Production (North Urtabulak PEC)

	2010		**2009**	
	Total Production		Total Production	
	Tonnes	Barrels*	Tonnes	Barrels*
Three months to March 31	20,869	149,631	20,909	149,918
Three months to June 30	19,627	140,726	22,755	163,153
Three months to Sept. 30	17,512	125,561	24,697	177,077
Total production	57,008	408,747	68,361	490,148

	TPU[5] Share		TPU Share	
	Tonnes	Barrels*	Tonnes	Barrels*
Three months to March 31 , 2009	10,434	74,182	10,454	74,955
Three months to June 30, 2009	9,814	70,366	11,377	81,573
Three months to Sept. 30, 2009	7,182	51,495	12,348	88,535
Total production	27,430	196,673	34,179	245,063

** using 7.17 barrels = 1 tonne*

- The Company acquired its interest in the North Urtabulak PEC with effect from April 9, 2009 and 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.

[5] TPU is Tethys Production Uzbekistan, the Tethys subsidiary which holds the PEC. Tethys Production Uzbekistan is the trading name of Baker Hughes (Cyprus) Limited or BHCL.

- Well NU115 completed three years' production in June 2010 and so from July the Company's share of its output reduced from 50% to 20% in line with the terms of the PEC. The reduced share from this well was the primary contributory factor to the reduction in production from the previous quarter in 2010. Studies are underway to ascertain the feasibility of carrying out further work on this well.
- Drilling of a new well, NUR116 was completed in the first quarter of 2010 and production commenced in March 2010. While the well initially tested at a satisfactory rate of up to 600 bopd it was not long before production had decreased significantly. It is believed that the location chosen in the reservoir was a locally less permeable part of the reefal reservoir than nearby.
- The Company has been investigating alternative methods to increase production and a programme of radial drilling commenced in Q4 2010. See *Uzbekistan Drilling Update.*

Tajikistan Oil Production (Beshtentak field)

	Total Production		SSEC Share	
	Tonnes	Barrels	Tonnes	Barrels
Nine months to September 30, 2010	817	5,923	744	5,390

- Oil production commenced from the Beshtentak field in Q1, albeit on a small scale, and further work is underway aimed at increasing this production.
- The oil is being produced from well BST20 which is an existing well and the production is as a result of a workover. Further workovers are planned on other wells in the field
- Tethys has a 51% shareholding in SSEC but under the terms of a loan agreement with SSEC currently receives all revenues from production sales attributable to SSEC; a jointly controlled entity

Revenue

Note

Under IFRS the income from the sale of the untreated oil at the well site of AKD01 is not included as revenue in the Company's consolidated financial statements but is offset against the Akkulka O&G costs as the production contract had not yet been awarded and the income was generated from test production.

Revenue from the oil sales in Tajikistan is included in the financial statements of the Company's 51% owned joint venture in that country, SSEC and is not included in the Company's consolidated revenue figures.

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Gas sales	1,433	1,173	22%	1,785	2,897	-38%
Refined product sales	1,550	1,194	30%	9,220	2,830	226%
Other revenue	190	59	222%	314	25	1156%

- 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 excluding VAT.
- Gas sales in Kazakhstan in both 2010 and 2009 were affected by stoppages and production restrictions detailed in *Kyzyloi Gas Production* above. The stoppages in 2010 were longer than in 2009 and so the revenue from gas sales was consequently lower than in 2009.
- Following the return to full production of Kyzyloi gas production in July 2010 gas sales for Q3 2010 were $1,433,000 compared to $1,209,000 in 2009 when full production did not recommence until August.

- Gas sales for the nine months to September 30, 2010 were $1,785,000 compared to $2,897,000 in the same period of 2009.
- These pipeline 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 Company acquired the Uzbekistan operation in Q2 2009 and consequently the 2009 cumulative revenue of $2,830,000 only covers a period of six months as opposed to the nine months covered in 2010.
- During the course of Q2 2010, a number of Uzbekistan refined product shipments were completed that related to2009 production. The consequence of this was that the cumulative refined product revenue recognised in 2010 was higher than if it was linked purely to 2010 production and significantly higher than in the comparative period in 2009 when there had been no such backlog.
- Deferred revenue, i.e. goods paid for awaiting delivery, at September 30, 2010 was $2,439,000.
- Refined product sales in the three months to September 30, 2010 were $1,550,000 compared to $1,194,000 in the same period of 2009 reflecting the greater volume of deliveries completed in that period.

Production expenses

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Production costs	1,236	748	65%	4,111	1,989	107%

- Production costs in the nine months to September 30, 2010 were $745,000 (2009: $774,000) for Kazakhstan and $3,105,000 (2009: $1,023,000) in Uzbekistan with a further $261,000 being incurred on the rigs and drilling equipment.
- As stated above shipments in Uzbekistan in the nine months to September 30, 2010 were significantly higher than in the same period of 2009 which explains the higher level of production costs.
- In Kazakhstan while the revenue in the nine months to September 30, 2010 was significantly lower than in the same period of 2009 there was little change in the production costs as even during the closure periods the labour force had to be maintained and was used on the monitoring of wells plus maintenance of the existing compressors.
- Production costs in the three months to September 30, 2010 were $444,000 (2009: $358,000) for Kazakhstan and $801,000 (2009: $391,000) in Uzbekistan.
- The increase in Uzbekistan costs in Q3 2010 compared to Q3 2009 is a combination of increased deliveries and an increase in the cost per barrel as a result of the reduced production levels. See *Uzbekistan Oil Production* above.

Depreciation, depletion and amortization expense

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
DD&A costs	1,635	1,120	46%	3,685	3,035	21%

- The increase in the DD&A charge in the nine months to September 30, 2010 at $3,685,000 (2009: $3,035,000) was primarily the result of the higher level of Uzbekistan production plus higher costs relating to increased drilling days for the Tykhe rig and associated equipment.The increase in the DD&A charge in the three months to September 30, 2010 compared to the same period in 2009 was due to the charge for AOE equipment and and the Tykhe rig.

- The increase in DD&A charge in the three months to September 30, 2010 at $1,635,000 (2009: $1,120,000) was primarily the result of a higher level of depreciation in AOE equipment and of the Tykhe drilling rigs and ancillary equipment.

Listing costs

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Listing costs	31	0	100%	1,230	0	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 September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Gen admin & selling expenses	4,529	3,423	32%	12,675	9,950	27%
Stock based compensation	836	768	9%	4,096	2,392	71%
	5,365	4,191	28%	16,771	12,342	36%

General administration and selling expenses in the nine months to September 30, 2010 were up on the same period as a result of the following:

- There were no TPU costs in Q1 2009.
- There were no Tethys Uzbekistan costs in Q1 or Q2 in 2009.
- The first Company-wide salary review in two years was completed in April 2010.
- Extra salary and travel costs associated with the increased activity level as a result of the oil discovery,
- A number of no-recurring bonuses associated with the oil discovery and fund raising.
- Additional travel and associated costs in connection with the fund raising completed in October 2010.

General administration and selling expenses in the three months to September 30, 2010 were up on the same period as a result of the following:

- Extra salary and travel costs associated with the increased activity level as a result of the oil discovery,
- Additional travel and associated costs in connection with the fund raising completed in October 2010

Stock based compensation

- Stock based compensation expenses increased in the three months to September 30, 2010 and were greater than the comparative period in 2009 principally due to the new share options issued during Q1and Q2 in 2010.
- Stock based compensation expenses increased in the nine months to September 30, 2010 for the same reason as that given above.

Finance expenses

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Foreign exchange gain (loss) - net	(184)	147	-225%	(337)	(2,275)	-85%
Fair value gain/(loss)	(738)	(160)	361%	(266)	(221)	20%
Loss from jointly controlled entity	(178)	0	100%	(422)	0	100%
Finance Income	20	0	0%	45	49	-8%
Finance costs	288	(284)	-201%	(134)	(1,353)	-90%

- The foreign exchange loss in 2009 was primarily the result of the movement in the Kazakhstan Tenge ("KZT") 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 US$. At September 30, 2010 the rate was KZT147.47 to the US$.
- 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 (Canadian dollars or C$) other than the Company's functional currency (US$) for financial reporting purposes plus 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 and are lower in 2010 over 2009 as a result of the capitalisation of interest costs, which was not effected in 2009 until Q4.

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 September 30, 2010 are as follows:

	September 30, 2010 $'000
Capital assets	(4,124)
Tax losses	705
Other	99
	(3,320)

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

	9 months ended September 30, 2010 $'000
Loss before income taxes	(15,686)
Income tax rate	20%
Expected income tax expense (recovery)	(3,137)
Increase / (decrease) resulting from:	
Non-deductible expenses	(82)
Impact of effective tax rates in other foreign jurisdictions	2,084

Losses and tax assets not utilised/recognised	3,820
Other	68
	2,753
Current income tax expense (recovery)	31
Deferred tax expense (recovery)	2,722
	2,753

Capital Expenditure

Capital expenditure in the nine months to September 30, 2010 was $23,710,000 while a further $1,748,000 of prepayments on capital projects was also incurred.

	Three months ended September 30			Nine months ended September 30		
	2010	2009	Change	**2010**	2009	Change
Kazakhstan	11,106	2,992	271%	19,764	6,473	205%
Uzbekistan	628	442	42%	3,634	1,227	100%
Other and Corporate	217	4,904	100%	312	15,653	-98%
	11,951	8,338	43%	23,710	23,353	2%

Major items of capital expenditure in 2010 were:	Three months to Sept 30, 2010	Nine months to Sept 30, 2010
Kazakhstan		
• Akkulka deep exploration well (AKD01)	8	1,626
• Akkulka deep appraisal well (AKD02)	1,939	5,689
• Akkulka deep exploration well (AKD03)	2,633	6,480
• Akkulka deep exploration well (AKD04)	553	553
• Akkulka re-entry deep well (G6RE)	1,295	1,295
• Akkulka drilling and related equipment	65	1,204
• Akkulka 3D and 2D seismic	1,182	2,289
• Kul Bas seismic and geological works	596	1,169
Uzbekistan		
• Well workovers	628	1,607
• NUR116 development well		1,805

Tajikistan

Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the nine months to September 30, 2010 was US$9.89 million compared to US$12.03 million in the same period of 2009 funded directly by the Company:

• Seismic exploration incl processing	153	1,753
• Komsomolsk appraisal well (KOM200)	43	1,053
• Komsomolsk exploration well (KOM201)	2,432	5,225
• Well rehabilitation and workovers	294	534
• East Olimtoi (EOL09) exploration well	114	411

Summary of Quarterly Results

The 2009 and 2010 comparative figures in the table below have been prepared under IFRS while the 2008 figures have been restated to comply with IFRS requirements.

	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sept 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010	Sept 30 2010
Financials ($000's)								
Revenue	878	529	2,797	2,426	2,807	2,116	6,030	3,173
Net loss	(7,645)	(6,016)	(5,593)	(3,944)	(6,166)	(7,991)	(3,322)	(7,118)
Basic and diluted loss ($) per share	(0.13)	(0.09)	(0.06)	(0.03)	(0.05)	(0.05)	(0.02)	(0.04)
Capital expenditure	15,085	10,237	4,778	8,337	8,868	4,443	7,316	11,940
Total assets	113,548	108,201	127,577	124,627	137,082	186,405	184,082	182,081
Total long term liabilities	(6,084)	(5,595)	(5,299)	(4,997)	(18,345)	(13,419)	(14,938)	(15,963)
Net assets	21,343	7,947	17,351	6,369	(157)	38,372	24,408	6,046

Significant factors influencing quarterly results

- There were stoppages in Kyzyloi gas production in the quarters ending December 31, 2008, March 31, 2009, December 31, 2009, March 31, 2010 and June 30, 2010 plus a period of reduced production in the quarters ending June 30, and September 30, 2009.
- The TPU operation in Uzbekistan was acquired by the Company in April 2009.
- During the course of the Q2 2010 a number of Uzbekistan refined product shipments were completed for 2009 production. The consequence of this was that the refined product revenue recognised in Q2 2010 was significantly higher than if it was linked purely to Q2 2010 and previous quarters were lower than if they matched the associated quarter's production.
- The Company raised $20,000,000 (gross) in June 2009, $15,000,000 (gross) in January 2010 and C$46,500,000 (gross) in March 2010. All of these funds were the result of the issue of equity.
- In December 2009 the Company's Tajikistan operations were transferred to a jointly controlled venture (SSEC).
- From Q4 2009 the non current liabilities included the "Deferred gain on assets transferred to jointly controlled entity". There was also an increase in long term borrowings of $4,100,000 in Q4 2009 in connection with the drilling of NU116 in Uzbekistan..

Financial position

The significant movements in the balance sheets were as follows:

	Sept 30, 2010	Dec 31, 2009	Movement	Movement Details
Intangible assets	44,835	24,378	20,457	Expenditure on Akkulka deep appraisal and exploration wells
Property, plant and equipment	74,542	73,171	1,371	Primarily expenditure in Uzbekistan encompassing the final payment on NU116 and workovers on other wells.
Non-current other receivables	9,203	5,171	4,032	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Loan receivable from joint controlled entity	31,593	21,727	9,866	Funds provided to SSEC to cover costs in Tajikistan for seismic survey, KOM200, KOM201 etc.
Inventories	3,327	2,368	959	The increase was primarily a build up in spares as a result of the increased activity in Kazakhstan
Trade and other receivables	3,358	2,311	1,047	At the end of Q3 2010 trade debtors were outstanding for two months plus there had been an increase in prepayments
Cash and cash equivalents	12,917	7,297	5,620	See Consolidated Statement of Cash Flows in the Q3 financial statements
Derivative financial instruments - interest rate swap	1,336	(95)	1,431	Movement in fair value valuation of the expected liability
Share capital	226,028	167,203	58,825	The increase related to the two private placements referred to above for 30 million shares and 12.6 million shares respectively plus the completion of a private placement initiated in December 2009 involving 10 million shares less associated costs
Other reserves	31,811	27,775	4,036	Stock based compensation expense in the nine months to Sept 30, 2010.
Accumulated deficit	(106,813)	(88,374)	(18,439)	Loss incurred in the nine months to Sept 30, 2010.
Non-current financial liabilities - borrowings	8,003	9,324	(1,321)	Decrease as a result of the balloon payment on the Telesto loan of $2.6 million which has now moved to current liabilities plus the repayments made during the nine months net of the loan associated with well NU116 in Uzbekistan
Shares to be issued	-	3,750	(3,750)	Funds received in advance of January 2010 completion of a $5 million private placement
Deferred taxation	3,320	598	2,722	Movement in deferred tax liability since December 31, 2009
Current financial liabilities - borrowings.	3,515	1,086	2,429	Movement from long term liabilities of balloon payment of $2.6 million due at the end of the Telesto loan period is due in March 2011
Derivative financial instruments - warrants	2,399	1,053	1,346	Movement in the fair value of the liability following issue of CD$ warrants in connection with short term loan

Deferred revenue	2,439	3,113	(674)	Reduction in Q3 of BHCL goods paid for awaiting delivery

Contractual obligations and liabilities as at September 30, 2010

Contractual Obligations	Payments Due by Period $'000s				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Long term debt	$11,518	$3,515	$8,003	-	-
Operating leases	$687	$441	$246	-	-
Trade and other payables	$7,470	$6,708	$762	-	-
Purchase obligations and commitments	$7,459	$4,759	$0	$2,700	-
Joint venture purchase commitments	$977	$977	-	-	-
Total contractual obligations	$28,111	$16,400	$9,011	$2,700	-

The Company is confident that it will satisfy these commitments in full.

Liquidity and Capital Resources

As at September 30, 2010, the Company had a working capital surplus, including cash, of $6,046,000. The position at the end of September represented a positive turnaround from the position at December 31, 2009, when there was a deficit of $157,000, which was primarily the result of the following actions taken by the Company:

- The private placement of 10,000,000 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 CAD$46,500,000.

Subsequent to September 30, 2010 the Company announced on October 20, 2010 that it had completed a public offering of 70,600,000 Ordinary Shares for gross proceeds of US$100 million.

Capital 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 capital expenditures 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. There was no net debt at September 30, 2010.

	Sept 30, 2010	**Dec 31, 2009**
	$	$
Total financial liabilities - borrowings	11,518	10,410
Less: cash and cash equivalents	(12,917)	(7,297)
Net debt / (funds)	(1,399)	3,113
Total equity	151,026	106,604
Total capital	149,627	109,717

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

Use of Funds

Set out below are details of the planned use of funds to as detailed in the prospectus dated October 12. 2010:

	Per October 12, 2010
Tajikistan	
Production and Processing Infrastructure	3,760
Seismic Data	3,000
Exploration and Appraisal Drilling Wells	4,000
Kazakhstan	
Appraisal and Exploration Wells	47,500
Production and Processing Infrastructure	19,800
Seismic Data	6,000
Uzbekistan	
Seismic Data	2,000
Production Drilling	5,940
Total	**92,000**

Set out below are details of the planned use of funds to as detailed in the prospectus dated June 12, 2009.

The primary differences were in relation to:

- The Komsomolsk well, KOM200, encountered unexpected drilling challenges and costing more than was anticipated and is not yet completed.
- The second Komsomolsk well (exploration well KOM201) is also proving challenging but should be completed in Q4 2010.
- The Tajik processing plant is planned to be constructed in the future.
- Seismic work is ongoing but may be terminated without penalty.
- A decision on installation of the Gas Lift Compression system is for North Urtabulak is waiting on completion of the current dynamic field model.

	Per June 12, 2009 Prospectus	**Incurred to Sept 30, 2010**	**To be Spent**
Tajikistan			
East Komsomolsk - KOM 200 appraisal well Phase 1	3,500	6,140	-
Infrastructure - Komsomolsk gas Processing plant Phase 1	2,000		2,000
East Komsomolsk - gas development well KOM 201 Phase 2	3,500	5,178	-
Additional seismic on Bokhtar PSC	3,660	1,569	2,091
Uzbekistan			
North Urtabulak Gas Lift Compression System	1,190		1,190
North Urtabulak new well.	4,000	4,000	-
Workovers			
	17,850	16,887	5,281

Stockholder Equity

As at September 30, 2010 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 187,969,769 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 subject to regulatory approval. 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 (C$0.53) 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 subject to regulatory approval. The Ordinary Shares were placed at a price of C$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 C$46.5 million subject to regulatory approval. The Ordinary Shares were placed at an average price of C$1.55 each. The placement was completed on March 1, 2010.

As at September 30, 2010 a total of 34,643,827 (December 31, 2009 – 24,489,455) 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 consolidated financial statements for the year ended December 31, 2009.

At the AGM held on May 7, 2009 a resolution was passed whereby the number of shares which are reserved for issuance under the Stock Incentive Plan was altered to 12% of the number of Ordinary Shares outstanding at the time of the grant of options rather than the fixed figure of 7,511,760 shares.

OUTLOOK

As a result of the turbulence in the world economic markets, including the significant decline in energy prices and the decline in the market price for the Company's shares in the second half of 2009 the focus of the Company's short-term capital expenditure programs at the beginning of 2010 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 and which the Company believes is commercial.

On February 12, 2010 the Company announced a private placement of 30 million shares raising C$46.5 million and then on February 23, 2010 announced that it planned to carry out appraisal drilling on the AKD01 oil discovery (named "Doris") to evaluate and establish the size and potential of the discovery and provide some of the necessary data to obtain a production contract. In addition further seismic data would be acquired including a 3D seismic survey over the Doris discovery together with the shooting of additional targeted 2D seismic lines to firm up further potential in the area.

On October 4, 2010 the Company announced that it had filed a preliminary short form prospectus in the provinces of British Columbia, Alberta and Ontario, Canada for a new issue of ordinary shares. The aim of the offering was to provide funding for near term production, development and appraisal activities in Kazakhstan, Tajikistan and Uzbekistan, to further expand the Company's oil development in Kazakhstan, and to acquire additional data to potentially enhance the value of the Company's exploration assets. Subsequently on October 20, 2010 the Company announced that it had completed its public offering of 70,600,000 Ordinary Shares for gross proceeds of US$100 million.

Kazakhstan Drilling Update

In February 2010, the Company announced the results of testing on the AKD01 ("**Doris**") oil discovery in the Akkulka contract area in Kazakhstan. The well flowed good quality oil from two zones at a restricted rate in excess of 6,800 bopd. The lower zone was a Jurassic carbonate sequence at approximately 2,355 m and the upper zone a Cretaceous sandstone at approximately 2,174 m. The Company believes that this is the first commercial discovery of oil in the eastern part of the North Ustyurt sedimentary basin.

Following the success of AKD01 the Company embarked on an exploration and appraisal programme to ascertain the size, potential and commerciality of the oil discovery, which was named "Doris". This involved further 2D seismic data, a 3D seismic survey, exploration and appraisal drilling, and a commercial assessment of the discovery including the potential for early production.

To date one appraisal well has been drilled (AKD02), an exploration re-entry of a previously drilled well on a separate prospect (named **Dodone**) carried out (G6RE) and a new exploration well (AKD03) is being drilled on a prospect to the south of Doris named **Dione**. With respect to seismic date acquisition, some 290 km^2 of 3D seismic data has now been acquired which the Company believes will be the catalyst for the full appraisal of the Doris oil discovery with resulting drilling commencing once these data are interpreted. Additionally, a further 88 km^2 of 3D data is also being acquired over the Dodone prospect, and a 45km 2D dataset has been acquired over the **Daphne** exploration prospect also in the Akkulka block and with similar potential. In the Kul-Bas exploration block, a 122km 2D seismic programme has already been interpreted and used to define a new exploration prospect similar to Doris named **Kalypso**. The Company expects this entire seismic program to be fully interpreted by year end with the additional appraisal and exploration prospects to be identified at that time The AKD02 appraisal well was spudded in April 2010 and preliminary results announced in June 2010. The well is located approximately 4 km to the north-west of the AKD01 well. Despite the fact that oil shows were observed in the core, the lower Cretaceous zone appears to shows low hydrocarbon saturation, possibly due to a fault between two wells. The Jurassic carbonate zone appears to be oil bearing and is in the process of being tested currently awaiting acidisation equipment. The initial testing shows some inflow but as in the Jurassic carbonate zone in AKD01 acidisation (and likely fracture stimulation) will be required to fully evaluate the potential of this unit. This well may be side tracked subject to the results of the Cretaceous zone testing and the 3D seismic. Data from the AKD02 well showed the Cretaceous to be thicker than initially expected, and pressure data from this well and from the testing of AKD01 indicates a potentially significantly deeper oil-water contact in the Cretaceous reservoir than was expected from the initial seismic mapping (prior to the current 3D survey).

The G6 well, which is located approximately 16 km to the west of the AKD01 well on the separate Dodone prospect, was originally drilled in 2001 by the then contractor on the Akkulka block and was abandoned after being junked without running casing or testing although with oil shows and some oil being noted as recovered to surface. The well was re-evaluated using data from AKD01 and AKD02 and at least two zones with potential hydrocarbons were indentified. The re-entry and near bore sidetrack of well G6 (named well G6RE) was drilled to a depth of 2,835 m encountering the potential hydrocarbon bearing zones identified in well G6. The most attractive of these zones is a 20 metre zone at a depth of approximately 2,775 m which shows good hydrocarbon saturations. It was planned to carry out a production test on this deeper zone first, but as this zone was found to have significantly higher pressures than expected, the well configuration was not optimum for such a test. As such the well has been plugged back to the casing shoe at 2,392 m and a flow test is being carried out on the upper Jurassic carbonate zone (the lateral equivalent of the lower zone in AKD01). This interval, which is at a depth of approximately 2,320 m appears to have significantly lower porosity than the lower zone in this well but nonetheless potential hydrocarbons in the rock. Testing of this interval is currently ongoing with a 12 metre section having been perforated and a low pressure acidisation applied. Pressure was observed at the wellhead but following the recommendations of Schlumberger a full hydraulic fracture stimulation will now be carried out which will involve mobilising additional high pressure pump capacity to the field and the timing of this fracture stimulation has not yet been finalised. . Following testing of the upper Jurassic interval it is planned to sidetrack the well to reach and test the deeper potential hydrocarbon bearing zone observed in G6. In this instance it is planned to set the casing deeper to cope with the higher pressures now known to exist in this deeper zone so that zone can then be tested optimally.

The AKD03 **(**Dione**)** exploration well, which is located approximately 10 km to the south-west of the AKD01 Doris discovery well (on a separate prospect), is currently at a depth of 3,862 m. This well is planned to be drilled to a depth of approximately 4,400 m aiming for total depth in the Permo-Carboniferous sequence. Four potential hydrocarbon intervals have been encountered to date, identified from drilling and/or wireline log data. These comprise; a potential oil bearing zone in good quality Cretaceous sandstones (these appearing similar to the reservoir in the AKD01 Doris discovery well), an upper Jurassic carbonate zone (as encountered in AKD01, AKD02 and G6) a further sandy carbonate interval below the Jurassic carbonate, and a potential oil bearing interval in the deeper middle Jurassic sequence. This is a coal bearing sequence of probable deltaic origin, with hydrocarbon indications in likely channel sandstones. The deeper target for this well is in the Triassic sequence (which had oil shows in thin sands in well AKD01), and potentially the upper part of the Permo-Carboniferous. Once drilling is completed, testing of this well is planned with the objective of assessing the potential for the production of commercial hydrocarbons and the possible extent of the reservoirs.

In June 2010, the Company announced that the Ministry of Oil & Gas of the Republic of Kazakhstan ("MOG") had agreed to extend the Akkulka Exploration Contract (the "Akkulka Contract") which contains the Doris discovery for another two years, from March 10, 2011 to March 10, 2013. The MOG have extended the Contract to enable detailed appraisal of the commercial discovery of oil at AKD01 ("Doris") along with further exploration in the Contract area. This extension allows the Company to take a more planned approach to the appraisal of Doris and the exploration of the surrounding area. Further exploration and appraisal wells are now planned for 2011.

In September 2010, the Company commenced selling untreated oil under the Test Production Scheme at the well site of the AKD01 (Doris) well to an oil trading company which is transporting the oil by truck to the north of the town of Emba, located 450 km to the north-east, where it is being treated before being transported to local refineries. Tethys plans that initial daily production under this early production scheme will be 750 bbl/d which will be sold at the wellhead at an initial price of US$22/bbl for the untreated oil. This test production scheme is being implemented to gain reservoir information, realise early cash flow, and also to prepare for the higher production and associated logistics for the next stage. Initial production data shows the AKD01 well to be performing well.

In October 2010, the Company announced that it had received approved oil reserves (in the C1 and C2 categories) from the Kazakh State Reserve Committee (part of the State Committee for Geology) for the AKD01 (Doris) oil discovery. This is an important step forward with respect to the approval of the Pilot Production Project for Doris which is currently under consideration by the MOG with the Company expecting approval of this project by year end.

Tethys anticipates the second stage of the oil production scheme (Pilot Production Project) for the production from Doris to commence in the second quarter of 2011 whereby production is planned to increase to 3,000 to 4,000 bbl/d. The increased production will require a more significant trucking operation. Tethys has not yet determined whether trucking will be performed by the Company or a third party transporter. Once this trucking operation has been established and production has been increased, the Company expects to realize improved margins on the production from Doris due to more effective transportation and offtake.

The Company has identified further potential oil bearing prospects similar to Doris in the large Kul-Bas contract area which surrounds the Akkulka Contract area. Risk on these prospects has been reduced with the discovery of the proved oil system in Doris. Further 2D seismic data has been acquired and currently two prospects, named Kalypso and Klio have been identified in the central part of the Kul-Bas contract area. It is planned to commence drilling Kalypso immediately after completion of the AKD03 (Dione) exploration well. In August 2010 MOG agreed to extend the Exploration Period for the Company's Kul-Bas Exploration and Production Contract for two years from November 11, 2011 to November 11, 2013 (subject to certain routine amendments to the contract). The extension to the exploration period gives Tethys an additional two years to explore this area.

Kazakhstan Second Phase Gas Production (Akkulka Gas Production Contract)

The Company's second gas development project in Kazakhstan (Akkulka) ties-in some of the shallow gas discoveries made in the Akkulka Block to the existing infrastructure, and was completed and certified by the State Commission in Kazakhstan in August 2010. Six shallow dry gas wells in the Akkulka Block have been completed and tied-in to the Company's pipeline. Gas produced from the Company's Kyzyloi and Akkulka fields is separately metered and flows along the company-built 56 km pipeline to Tethys' booster compressor station ("BCS") adjacent to the tie-in point to the major Bukhara-Urals export trunkline system where gas-fired reciprocating compressors compress the gas into the trunkline. As part of the Akkulka (Phase 2) gas development two additional compressors were installed at the BCS. A further five shallow dry gas discoveries remain to be tied in to the gas development.

In September 2010, the Company entered into a second gas sales contract with Asia Gas NG LLP pursuant to which gas from the Akkulka Gas Production Contract is being sold at a price of US$38/Mcm (including value added tax ("VAT") which can be recovered by the Company). Gas sold under this contract is for domestic sales and as such, is subject to a 0.5% Mineral Extraction Tax. The new gas sales contract runs for a period of two years and the parties have agreed to assess the price after one year. Kyzyloi field (Phase 1) gas production is currently also being sold under the long-term take-or-pay contract with Asia Gas NG LLP at a price of US$36/Mcm (including VAT which can be recovered by the Company). Both contracts should have terminated before the end of 2013. Supplies of gas under the Akkulka gas supply contract commenced in October 2010. Production from both Kyzyloi and Akkulka is expected to total some 1,000 Mcm/d. However a mechanical failure on one of the Company's compressors at the BCS and workover activity on the field wells is currently restricting production to some 730 Mcm/d. These technical issues are expected to have been addressed before the end of this year.

Tajikistan Drilling Update

The Company is currently working on an exploration / appraisal drilling programme on the Komsomolsk structure under the capital city of Dushanbe, drilling of an exploration well in the south-east of its Contract Area south of the city of Kulob, increasing oil production from the Beshtentak oilfield in the north-east of its Contract Area, and acquiring additional seismic data for future exploration.

The Company has recently completed drilling of the directional exploration well KOM201 well on the eastern part of the Komsomolsk structure. KOM201 has now reached, as planned, a total measured depth of 2,456 m in what is interpreted to be the Triassic sequence. The well drilled through a thick sequence of Jurassic limestone of some 310 metres that appears to be gas-bearing with good gas shows, good pressures and up to 56% hydrocarbon gases recorded at surface which is encouraging. The initial results show that the reservoir has similar characteristics to other commercial gas wells in the area. It is planned to carry out an open hole test on this thick sequence with initial results expected before the end of this year. An additional potential gas-bearing zone was encountered in the Cenomanian, which is also productive in the immediate area. This well is targeting the unexplored east part of the East Komsomolsk structure that has not been produced historically.

The KOM201 well is being drilled adjacent to the capital city of Dushanbe where there is a high demand for gas by local industry and the population, indeed the surface location of the well is very close to the major cement plant in the region (which is a large gas consumer). Currently the vast majority of gas consumed is being imported and the current price is $254 /Mcm.

The East Olimtoi exploration well EOL09 is targeting an attractive prospect on the edge of a salt induced structure some 40 km south-west of the city of Kulob. Operations on the well were suspended for some time waiting on the arrival of specialist equipment (which required permits) from the United States. This equipment has now arrived and the well is being prepared for the re-commencement of operations. The well is currently at a depth of 2,901 metres and is targeting a Palaeogene reservoir prognosed at a depth of 3,800 metres.

Limited oil production commenced on the Beshtentak oilfield in January of this year. This production has been achieved through simple workovers on existing wells. Work on the field resulting from the full field computer modelling carried out by the UK engineering company OPC suggests that additional oil could be recovered from the field and studies are underway to look at the viability of a new well – probably inclined or horizontal. Meanwhile, given the technical success of the radial drilling programme which the Company has recently undertaken on the North Urtabulak field in Uzbekistan a programme of radial drilling is planned on Beshtentak, this being the first time such technology has been applied in Tajikistan and given the shallower depth of the reservoir may be even more effective than in North Urtabulak.

The Company's seismic acquisition programme continues, these data being primarily aimed at identifying further exploration potential. The Company has previously stated that it is seeking a suitable farm-in partner for its exploration programme in Tajikistan and these seismic data are an important part of the information relating to such a potential farm-in. Discussions with several parties are ongoing.

Uzbekistan Drilling Update

The Company has just commenced a radial drilling programme of five wells on the North Urtabulak oil field, with four of the wells having four laterals, and one having eight laterals. Technically the radial drilling appears to have worked successfully with horizonal lateral bores up to 100 m being achieved in the reservoir. It is still too early to say what will be the ultimate effect on oil production (as such laterals typically take some time to clean up) however on some wells there appears to have been a significant increase in oil production. It is hoped that the application of this technology, never before applied in this region, will result in increased production on this field. If successful, the Company would expect to expand its programme of radial drilling on suitable deposits.

The Company has now commenced a new conventional horizontal development well (NUR96H2) on the North Urtabulak field. This well, which is twinning a previous well which produced over 2,000 bopd prior to a mechanical failure in that well, is being drilled in what is the most prolific part of the reservoir. It is expected that this well will be put on production by the end of the year and will add significantly to field production.

Current gross production under the PEC is 1,200 bopd with Tethys intending to increase this production level through the radial drilling programme, enhanced water injection and new wells such as the NUR96H2 well. A recently completed dynamic field reservoir model indicates that additional oil can be recovered from the field.

Uzbekistan MOU

In September 2010, the Company signed a Memorandum of Understanding ("**MOU**") with the Uzbek State oil and gas company, National Holding Company "Uzbekneftegaz" ("**UNG**"). The MOU states that Tethys and UNG will conduct joint studies to determine the possibilities of improving hydrocarbon recovery on certain long-term production fields in the Republic of Uzbekistan in order to then sign a contract in accordance with the applicable legislation of the Republic of Uzbekistan.

The Company expects that such contract would be a similar contractual arrangement to the Production Enhancement Contract ("**North Urtabulak PEC**") that a subsidiary of the Company has over the North Urtabulak Field in Uzbekistan that has operated successfully for some 10 years. Under this contract, the Company's subsidiary is allocated refined products for the oil it produces and sells these on the export market in United States dollars.

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 September 30, 2010 was $1,799,557 (September 30, 2009 – $1,176,330).

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 in Kazakhstan and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended September 30, 2010 were $182,740 (September 30, 2009 – $377,611).

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.

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

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

Financial Risk Management

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange. 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.

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:

	Sept 30, 2010	**Dec 31, 2009**
	$	**$**
Trade receivables	12,761	7,482
Cash and cash equivalents	12,917	7,297
Investments	770	659
Loan receivable from jointly controlled entity	31,593	21,727
	58,041	37,165

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.

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 September 30, 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 September 30,2010*.

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.

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 and indeed this is what has happened in the last eighteen month period. In terms of the sums available for deposit 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. As an example if the Company could maintain the cash and cash equivalent as at September 30, 2010 for a whole year then a change in interest rates of 1% would increase/decrease the interest earned by an amount of approximately $120,000.

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 are denominated in a currency other than the US$. A significant portion of expenditures in Kazakhstan and Tajikistan are denominated in local currency, the Tenge and Somoni, respectively. There is limited availability in exchange rate derivatives to manage exchange rate risks with these currencies and so the Company looks to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan. The Company also incurs expenditure in GBP on a regular basis and looks to manage this exchange rate at least in the short term by forward purchasing.

While the Company holds the majority of its cash and cash equivalents in U.S. dollars it does hold other balances, mainly British Pounds Sterling ("GBP") and Canadian dollars ("CDN"), to meet the requirements to fund ongoing general and administrative and other spending requirements in these currencies. In addition a significant portion of the funds received in the fund raising completed in 2010 were received in CDN. With regard to the GBP, had the $ changed by 1% at September 30 , 2010 with all other variables held constant, the Company's foreign exchange gain or loss would have been affected by $5,000 and for CDN had the $ changed by 1% the exchange gain or loss would have been affected by $3,500.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as marketability of production and commodity prices.

Marketability of Production

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Commodity price risk

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices. 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. A substantial material decline in prices from historical average prices could reduce the Company's ability to borrow funds. As such, fluctuations in oil and gas prices could materially and adversely affect the Company's business, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for gas prices in the region is good, the recent fall in both prices and demand caused by the recent economic slowdown in Europe and the FSU and in particular the gas dispute between OAO GazProm and Ukraine described below has lead to significant uncertainties as to the price of and demand for Central Asian gas which may continue to have an impact on the pricing and demand for Kazakh gas in the short term.

The impact on demand for oil and gas of the economic downturn is not uniform. For example, demand has risen in China but fallen in the U.S. Also, there needs to be consideration of production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and as such there are many differing opinions on the cause of recent price changes.

This impact on the Company's operations was only evident in the operations in Uzbekistan. The gas production in Kazakhstan is sold at a fixed price, and so the fluctuation in world commodity prices had no effect on the

Company's monthly revenue from the Kazakh operations. In Uzbekistan, the Company sells refined petroleum products on a monthly basis, and the fall in the oil price in the first and second quarters of 2009 reduced monthly revenue.

The Bukhara-Urals trunkline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian and Kazakh economies, it is anticipated that there would be significant efforts to minimize any disruption in supply.

However, there are external factors that may affect this. For example, in December 2008 to January 2009 a dispute between the Russian gas company OAO GazProm and Ukraine, resulted in a temporary closure of the Russian gas export system to Europe which, although not directly related, did have a significant knock-on effect on the whole export system, including gas flowing through the Central Asian gas trunkline network.

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 a plus or minus movement in the sales revenue of $339,450 per annum.

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 a 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 and interim 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").

Please refer to the annnual consolidated financial statements for the year ended December 31, 2009 Note 2 *Summary of Significant Accounting Policies* for details of the Company's accounting policies and the *CRITICAL ACCOUNTING POLICIES AND ESTIMATES* per the MD&A for the year-ended December 31, 2009 for a discussion of those accounting policies.

New and amended accounting standards

- IFRS 3 'Business Combinations' - the Company has adopted the revised version of this standard, with effect from January 1, 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 September 30, 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 September 30, 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 on 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.