TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended December 31, 2010

Summary of Annual Results

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

Summary of Annual Results

	2010	2009	2008
Revenue	14,706	8,559	5,360
Net Loss	(29,649)	(21,720)	(22,184)
Basic and diluted loss ($) per share	(0.15)	(0.20)	(0.40)
Capital expenditure *	14,584	32,221	42,807
Total Assets	267,748	137,082	113,548
Non-current Liabilities	(11,535)	(18,345)	(6,084)
Cash and working capital surplus/(deficiency)	69,718	(157)	21,343
Common shares outstanding			
Basic and diluted	260,629,769	134,554,769	66,393,292

*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 March 21, 2011 of Tethys Petroleum limited (referred to with its subsidiaries as "Tethys" or the "Company") should be read in conjunction with the Company's audited Annual Consolidated Financial Statements and related notes for the year ended December 31, 2010. 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 Annual Information Form for the year ended December 31, 2010 ("AIF") including the Glossary of Abbreviations and Technical terms, which is integrated herein by reference.

IFRS accounting

The Accounting Standards Board ("AcSB") confirmed in February 2008 that 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 consolidated financial statements for the year ended December 31, 2009 were 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 ended 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 during the year ended December 31, 2010

- In February 2010, the Company announced the initial results of testing on the upper zone of the AKD01 ("Doris") oil discovery in the Akkulka Block in Kazakhstan. The upper zone flowed oil at a restricted rate of over 5,400 bopd. Combined with the testing on the lower zone in the well announced in December 2009, the well flowed oil at a combined rate in excess of 6,800 bopd. Well AKD01 encountered two oil-bearing zones, the lower zone being a Jurassic carbonate sequence at approximately 2,355 m and the upper zone, being a Cretaceous sandstone at approximately 2,174 m.
- In March 2010, the Company announced that it completed a private placement of 30,000,000 Ordinary Shares for gross proceeds of $46.5 million. The Ordinary Shares were placed at a price of C$1.55 each. The net proceeds of the offering were used by the Company for capital expenditures and general corporate purposes.
- In June 2010, the Company announced that its wholly owned Kazakh subsidiary, TAG received permission from the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG") to extend the Akkulka Licence and Exploration Contract for another two years, from March 10, 2011 to March 10, 2013, MOG extended the Akkulka Licence and Exploration Contract to enable detailed appraisal of the commercial discovery of oil at Doris along with further exploration in the contract area.
- 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, The extension to the exploration period gives the Company an additional two years to explore this area that has several prospects and leads and with a proved oil system in the Akkulka Block which is surrounded by the Kul-Bas area. In February 2011, the Company announced that the amendments to the Kul-Bas Exploration and Production Contract have been completed and incorporated into the contract.
- In September 2010, the Company commenced selling untreated oil at the well site of AKD01 to an oil trading company which began transporting the oil by truck to a location to the north of the town of Emba, located 450 km to the northeast.
- In September 2010, the Company entered into a second gas sales contract with Asia Gas NG LLP for domestic gas sales from the Akkulka Gas Field.
- 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 Uzbekistan in order to then sign a contract in accordance with the applicable legislation of Uzbekistan. The Company expects that such contract would be a similar contractual arrangement to the Company's North Urtabulak PEC in Uzbekistan.
- On October 20, 2010, the Company completed a public offering of 70,600,000 Ordinary Shares for gross proceeds of $100 million. The Ordinary Shares were placed at a price of C$1.45 each. The net proceeds of the offering are being used by Tethys to fund work on the Company's existing properties in Central Asia
- On October 25, 2010 the Company announced that it had received Kazakh State approved oil reserves for its Doris (AKD01) oil discovery in Kazakhstan.

- On October 28, 2010, the Company began operations on the NUR96H2 horizontal development well on the North Urtabulak Field. The well was subsequently completed in February 2011 and tested at rates in excess of 1,100 bopd.
- On November 17, 2010, the Company announced that it had obtained a stable flow of gas from the Jurassic interval in the East Komsomolsk KOM201 well in Tajikistan. Further work will be necessary to establish whether or not commercial gas flow can be obtained from this interval.
- On December 6, 2010, the Company announced that it had commenced drilling of the KBD01 (Kalypso) exploration well on the Kul-Bas Block in Kazakhstan.
- In January 2011 the Company received Kazakh State approval for the Pilot Production Project for the Doris oil discovery in the Akkulka Block. This approval gives the right to produce oil from the Akkulka Field during the exploration period and allows the Company to install and operate production facilities for the planned 3,000-4,000 bopd (Phase 2) production target targeted for the end of the second quarter of 2011. In order to advance this project on February 17, 2011, the Company signed a joint venture agreement to construct and operate a rail oil loading terminal. It is intended that this terminal will take crude oil from the Pilot Production Project and will be owned 50/50 with a new local partner, Eurasia Gas LLP, who have strong experience in the oil distribution business in Kazakhstan. Once appraisal and additional exploration of the deposit is completed the Company will be in a position to apply for to MOG for a production contract that will allow for full field development and foreign or domestic sales. The Company is expected to apply for a such a production contract after the appraisal program for the Doris oil discovery is complete which is forecast for the end of 2011 / Q1 2012.
- The Company generated revenues from refined product, oil and gas sales of US$14.70 million during the year ended December 31, 2010 compared to US$8.6m in the year ended December 31, 2009. As in the previous year the gas production in Kazakhstan in 2010 was significantly lower than anticipated due to closures in the first half of the year together with a period of reduced production in the second half. *See Kazakhstan Gas Production*
- Capital expenditure, excluding the joint venture in Tajikistan, in the year ended December 31, 2010 was US$38.66 million compared to US$32.22 million in the year ended December 31, 2009 which included capital expenditure in Tajikistan of US$16.94 million, as this expenditure pre-dated the joint venture.
- Capital expenditure in Tajikistan incurred by the Company's jointly controlled entity Seven Stars Energy Corporation (SSEC) in the year ended December 31, 2010 was US$19.9 million compared to US$16.9 million in the same period of 2009. The capital expenditure incurred in 2009 was funded directly by the Company. Funding of SSEC is provided under the terms of a loan agreement with the Company's subsidiary Tethys Tajikistan Limited, and if this is taken into account the total capital expenditure funded by the Company in 2010 was US$58.65 million.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") is a Cayman Island incorporated limited liability company with its principal executive office being in Guernsey, British Isles. Tethys is an oil and gas exploration and production 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 ("KASE") in Almaty, Kazakhstan.

Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

	2010				2009			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm	Mcf	Mcm/d	boe/d
Q1	0	0	0	0	15,602	550,907	600	3,532
Q2	10,146	358,255	298	1,756	36,809	1,299,726	404	2,381
Q3	44,215	1,561,232	481	2,829	38,755	1,368,439	421	2,479
Q4	41,449	1,463,564	451	2,652	27,766	980,417	514	3,026
Total	**95,810**	**3,383,051**	**439**	**2,587**	**118,932**	**4,199,489**	**452**	**2,662**

Note 1 Mcmpd is thousands of cubic metres per day and has been calculated based on the actual production days in the quarter or year and not the total number of days in the quarter or year. In 2010 there were 218 production days while in 2009 there were 263.

Note 2 boe is barrel of oil equivalent. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

- The Bukhara Urals pipeline, through which the gas output flows, was closed at the beginning of 2010 and did not re-open until May 27, 2010 when volumes through the pipeline were restricted to 360Mcmpd[1]. It was not until July 26, 2010 when volumes returned to pre-closure levels of 500Mcmpd.
- 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 before closing again (as above) on November 24, 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[2] 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 Q4 2010 some 393,377 Mcm or 46.3% of the maximum contract volume under the Gas Supply Contract had been delivered.

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

Kazakhstan Gas Production (Akkulka contract)

	2010				2009			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm	Mcf	Mcm/d	boe/d
Q4	24,244	856,056	279	1,640	0	0	0	0
Total	**24,244**	**856,056**	**279**	**1,640**	**0**	**0**	**0**	**0**

Note 1 Mcmpd is thousands of cubic metres per day and has been calculated based on the actual production days in the quarter or year and not the total number of days in the quarter or year. In 2010 there were 87 production days while in 2009 there were nil.

- On September 16, 2010 the Company 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.
- Compressor related problems in the final quarter of 2010 resulted in a reduced level of Akkulka production being achieved.

Kazakhstan Oil Production (Akkulka contract)

	Total Production		
	Tonnes	Barrels ("bbl")	barrels per day ("bbl/d")
86 days to December 1, 2010	**6,558**	**50,870***	**591**

- Between September 10 and December 1, 2010 a period of test production consisting of 86 days was carried out on the 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 transported 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.
- The untreated oil produced was being sold at the wellhead at an initial price of US$22/bbl.
- This test production was implemented to gain reservoir information, realise early cash flow and to prepare for the higher production and associated logistics for the next stage.

** using 7.757 barrels = 1 tonne*

Uzbekistan Oil Production (North Urtabulak PEC)
Total Production from TPU under PEC

	2010 Total Production			2009 Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	20,869	160,691	1.785	20,909	160,999	1,789
Three months ended June 30	19,627	151,128	1,660	22,755	175,214	1,925
Three months ended Sept. 30	17,512	134,842	1,466	24,697	190,167	2,067
Three months ended Dec. 31	15,048	115,869	1,259	21,710	167,167	1,817
Total production	**73,056**	**562,530**	**1,541**	**90,071**	**693,547**	**1,765**

After State Take

	TPU[3] Share			TPU Share		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	10,434	80,342	893	10,454	80,495	894
Three months ended June 30	9,814	75,565	830	11,377	87,603	927
Three months ended Sept. 30	7,182	55,301	601	12,348	95,080	1,033
Three months ended Dec.31	6,444	49,619	539	10,855	77,612	844
Total production	**33,874**	**260,830**	**714**	**45,034**	**322,000**	**882**

** using 7.7 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.
- 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. The actual production from this well dropped in the final quarter thus further reducing production.
- 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 after a short period production decreased significantly. It is believed that the location chosen in the reservoir was a locally less permeable part of the reefal reservoir than nearby.
- On October 28, 2010, the Company began operations on the NUR96H2 horizontal development well on the North Urtabulak Field. The well was subsequently completed in February 2011 and tested at rates in excess of 1,100 bopd.
- The Company has been investigating alternative methods to increase production and a programme of radial drilling was carried out in Q4 2010 as well as reconfiguring of the water injection scheme. See *Uzbekistan Drilling Update* on page 21.

(Update In the 24 hours to 8.00 am on March 21, 2011 Total Production was 1,416 bopd and TPU share 652 bopd.)

Tajikistan Oil Production (Beshtentak field)

	Total Production		**SSEC Share (after State Take)**	
	Tonnes	Barrels	Tonnes	Barrels
Year ended December 31, 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

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

Production Summary

In the final quarter of 2010 the following oil and gas production levels were achieved (before the deduction of local governments share or taxation) were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	591	730	4,292	4,883
Uzbekistan	1,259	-	-	1,259
Tajikistan	16	-	-	16
Total	**1,866**	**730**	**4,292**	**6,158**

Note As indicated in the sections above the Akkulka gas and oil production figures included in the Kazakhstan figures have been calculated based on the actual production days in the quarter and not the total number of days in the quarter.

Financial Review

Loss after tax

The Company recorded a net loss after taxation of US$29.31 million in the year ended December 31, 2010 compared to a net loss of US$21.72 million in the year ended December 31, 2009. The principal differences between the two years were as follows:

	2010	2009	Movement
Revenue	14,767	8,635	6,132
Operating expenses	(7,076)	(3,405)	(3,671)
DD & A	(5,885)	(3,238)	(2,647)
Exploration expenditure written off	-	(887)	887
Listing expenses	(1,288)	(1,652)	364
G &A costs	(19,555)	(14,252)	(5,303)
Share based costs	(5,956)	(2,628)	(3,328)
Finance costs	(214)	(682)	91
Foreign exchange	(337)	(2,397)	2,060
Loss from jointly controlled entity	(634)	(1,000)	366
Loss before tax	**(29,649)**	**(21,720)**	**(8,306)**

Revenue

Note

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

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Gas sales	1,982	931	113%	3,767	3,828	-2%
Oil sales	748	0	-*	748	0	-*
Refined product sales	631	1,901	-67%	9,851	4,731	108%
Other revenue	26	(25)	-204%	340	0	-*

* (-) undefined value

- The gas sales are generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan and as referred to in *Kyzyloi Gas Production* above are sold to Asia Gas NG LLP at agreed prices of $32 per Mcm excluding VAT for the Kyzyloi gas and $38 including VAT for the Akkulka gas.
- 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 despite Akkulka gas coming on stream in October 2010 the revenue generated from gas sales was consequently lower than in 2009.
- Gas sales for Q4 2010 were $1,982,000, made up of Kyzyloi and Akkulka sales, compared to $931,000 in 2009 purely relating to Kyzyloi sales.
- Gas sales for the year to December 31, 2010 were $3,767,000 compared to $3,828,000 in the same period of 2009.
- While oil sales from the Doris discovery actually began in September 2010 the revenue from test production in Q3 was booked against capital assets as required by IFRS. Revenue from oil sales in Q4 was booked as Company revenue and amounted to $748,000.
- Refined product sales for the year to December 31, 2010 were $9,851,000 compared to $4,731,000 in the same period of 2009 being a reflection of the fact that the Uzbekistan operation was only acquired in April 2009 and so the sales were only over a nine month period. Also during the course of 2010, a number of Uzbekistan refined product shipments were completed that related to 2009 production though this surplus from 2009 was at least in part offset by the absence of deliveries from the refinery in the final quarter of 2010.
- Deferred revenue from refined product sales, i.e. goods paid for awaiting delivery, at December 31, 2010 was $2,449,856.

For the three months ended December 31, 2010

- Gas sales for Q4 2010 were $1,982,000, made up of Kyzyloi and Akkulka sales, compared to $931,000 in 2009 purely relating to Kyzyloi sales.
- The Akkulka gas First deliveries under this contract commenced on October 6, 2010 but because of compressor related problems in the final quarter of 2010 resulted in a reduced level of Akkulka production being achieved
- Akkulka oil sales in Q4 2010 were $748,000 resulting from the selling of untreated oil at the well site of AKD01 to an oil trading company which began transporting the oil by truck to a location to the north of the town of Emba. Sales ceased on December 1, 2010 when the test production period ended.

- Refined product sales in Uzbekistan in Q4 2010 were $631,000 compared to $1,901,000 in Q4 2009 as a result of a delay on deliveries from the refinery. These deliveries should be completed in 2011.

Operating expenses

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Operating costs	2,965	1,416	109%	7,076	3,405	108%

- Total operating costs for the year to December 31, 2010 were $7,076,000 (2009: 3,405,000) made up as follows:

  Kazakhstan gas production $1,531,000 (2009:$1,092,000)

  Kazakhstan oil production $ 693,000 (2009: nil)

  Uzbekistan refined products $3,238,000 (2009: $2,313,000)

  Rigs and drilling equipment $1,419,000 (2009: nil).

- In Kazakhstan while the Kyzyloi gas revenue in the year to December 31, 2010 was lower than in 2009 there was little change in the operating 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.
- The introduction of Akkulka production from October 2010 saw an increase in gas operating costs in the final quarter. In addition there were property taxes of $327,000.
- Operating costs of the oil production in Kazakhstan included the start up costs for this new project.
- As stated above shipments in Uzbekistan in the year to December 31, 2010 were significantly higher than in the same period of 2009 which explains the higher level of operating costs. The purchase of spare parts for the drilling rigs plus repairs to other drilling equipment were incurred in Q4 2010.

For the three months to December 31, 2010

- Operating costs in the three months to December 31, 2010 were $1,413,000 (2009: $243,000) for Kazakhstan, $133,000 (2009: $1,173,000) in Uzbekistan and $1,419,000 on the rigs and drilling equipment.
- The significant increase in Kazakhstan operating costs in Q4 2010 while partially the result of the Akkulka gas coming on line in October was primarily the result of costs associated with the oil test production plus the property taxes.
- The reduction in Uzbekistan costs in Q4 2010 compared to Q4 2009 is the result of the low level of deliveries completed in that period. See *Uzbekistan Oil Production* above.
- The purchase of spare parts for the drilling rigs plus repairs to other drilling equipment were incurred in Q4 2010.

Depreciation, depletion and amortization expense

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
DD & A costs	2,200	203	984%	5,885	3,238	82%

- The increase in the DD&A charge in the year ended December 31, 2010 at $5,885,000 (2009: $3,238,000) was primarily the result of a significant increase in the drilling days for the Tykhe rig and associated equipment.
- The increase in DD&A charge in the three months to December 31, 2010 at $2,200,000 (2009: $203,000) was primarily the result of a higher level of depreciation of the Tykhe drilling rigs and ancillary equipment plus the fact that the Q4 2009 figure encompassed a correction to a previous quarter overstatement in 2009.

Listing costs

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Listing costs	58	1,652	-96%	1,288	1,652	-22%

- These costs relate primarily 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 December 31		Year ended December 31	
	2010	**2009**	**2010**	**2009**
	$000	$000	$000	$000
Staff costs	3,358	1,536	8,741	5,467
Travel costs	1,034	807	3,380	2,590
Office costs	369	468	2,080	1,835
Professional fees	727	589	2,577	1,909
Marketing costs	260	228	835	704
Other costs	632	670	1,942	1,728
	6,380	4,298	19,555	14,233
Stock based compensation	2,360	240	5,956	2,628
	8,740	4,538	25,511	16,861

General administration and selling expenses for the year ended December 31, 2010 were up on the same period as a result of the following:

- Primary factors in the increase in the staff costs were costs associated with fund raising in the first and final quarters of the year, a company-wide salary review in April, the first in two years, and increased activity in the Company's areas of operations,
- A primary area of increased staff costs was Kazakhstan which was necessitated by the development requirements of the "Doris" discovery plus the increased administrative burden in Kazakhstan associated with new procurement rules.
- Travel costs were up as a result of the fund raising activities, the fact that the Company operates in three countries plus the pursuit of further contracts throughout Central Asia.

Professional fees were up as a result of an increased need for legal, accounting and tax consultancy in the countries in which the Company operates.

For the three months to December 31, 2010

- The primary cause of the increase in costs in Q4 2010 at $6,380,000 (2009: $4,298,000) were increased staff and travel costs associated with the successful fund raising of $100 million completed in October 2010 plus the higher level of staff recruited to cope with the increased activity in Kazakhstan.

Stock based compensation

- Stock based compensation expenses relate to stock options and warrants issued in 2010 and prior years. The increase in 2010 on the 2009 figure reflects an increase in the number of options and an increase in the Company's share price.

Finance expenses

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Foreign exchange (gain)/loss - net	0	122	-100%	337	2,397	-86%
Fair value gain/(loss)	(242)	258	-194%	24	479	-95%
Loss from joint venture	212	1,000	-79%	634	1,000	-37%
Finance Income	(16)	(27)	-41%	(61)	(76)	-20%
Finance costs	56	(1,150)	-105%	190	203	-6%

- There was a reduction in the foreign exchange loss as the 2009 loss 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$. At December 31, 2010 the rate was KZT147.40 to the US$.
- 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. The negative figure indicated in Q4 2009 was the result of the capitalisation of interest charged to finance costs in previous quarters.

Taxation

The taxation charge refers to a deferred taxation liability. For further details refer to the *Audited Consolidated Financial Statements for the year ending December 31, 2010*

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Tax	718	214	236%	3,471	214	1522%

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

Tax expense for the year ended December 31, 2010 increased compared to the prior year as a result of the Company incurring non-capital tax losses in certain jurisdictions for which no related tax assets have been recognized. Also, in relation to the Company's operations in Kazakhstan, tax expense increased as a result of the derecognition of certain tax benefits which had been recognized in prior years. See *Note 9 of the 2010 Audited Consolidated Financial Statements* for more details.

Capital Expenditure

Capital expenditure during the year ended December 31, 2010 was $38,293,000 while a further $3,298,000 of prepayments on capital projects was also incurred.

	Three months ended December 31			Year ended December 31		
	2010	2009	Change	**2010**	2009	Change
Kazakhstan	13,294	2,080	539%	33,058	8,553	287%
Uzbekistan	1,303	2,482	-48%	4,937	3,709	100%
Other and Corporate	(13)	4,306	-100%	298	19,959	-99%
	14,584	8,868	64%	38,293	32,221	19%

Major items of capital expenditure in 2010 were:

	Three months ended Dec 31, 2010	Year ended Dec 31, 2010
Kazakhstan		
• AKD01plus oil production facilities	2,660	4,290
• Akkulka appraisal wells	1,715	7,960
• Akkulka deep exploration well	2,280	8,760
• Akkulka re-entry deep well	1,995	3,254
• Akkulka drilling and related equipment	1,180	2,390
• Akkulka 3D and 2D seismic	3,040	5,325
• Kul Bas seismic and geological works	2,145	3,315
Uzbekistan		
• Well workovers	778	2,385
• NUR116 development well	-	1,805
• Radial drilling	485	485

Tajikistan

Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the year to December 31, 2010 was US$19.9 million compared to US$16.9 million in the same period of 2009 funded directly by the Company:

	Three months ended Dec 31, 2010	Year ended Dec 31, 2010
• Seismic exploration including processing	215	1,950
• Komsomolsk appraisal well plus base	175	2,920
• Komsomolsk exploration well	3,760	12,105
• Well rehabilitation and workovers	250	1,300
• East Olimtoi exploration well	690	1,095

Summary of Quarterly Results

The figures in the table below have been prepared under IFRS requirements.

	Mar 31 2009	**Jun 30 2009**	**Sept 30 2009**	**Dec 31 2009**	**Mar 31 2010**	**Jun 30 2010**	**Sept 30 2010**	**Dec 31 2010**
Financials ($000's)								
Revenue	529	2,797	2,426	2,807	2,116	6,030	3,173	3,387
Net loss	(6,016)	(5,593)	(3,944)	(6,166)	(7,991)	(21,658)	(7,118)	(11,210)
Basic and diluted loss ($) per share	(0.09)	(0.06)	(0.03)	(0.05)	(0.05)	(0.06)	(0.04)	(0.04)
Capital expenditure	10,237	4,778	8,337	8,868	4,443	7,316	11,950	14,584
Total assets	108,201	127,577	124,627	137,082	186,405	184,082	182,081	267,748
Total long term liabilities	(5,595)	(5,299)	(4,997)	(18,345)	(13,419)	(14,938)	(15,963)	(11,535)
Cash and working capital surplus	7,947	17,351	6,369	(157)	38,372	24,408	6,046	69,718

Significant factors influencing quarterly results

- There were stoppages in Kyzyloi gas production in the quarters ending, 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 which relate to 2009 production. The consequence of this was that the refined product revenue recognized 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, C$46,500,000 (gross) in March 2010 and $100 million in October 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. In Q4 2010 the loan related to the Telesto rig plus a portion of the Tykhe loan were repaid early.

Financial position

The significant movements in the balance sheets were as follows:

	Dec 31, 2010	Dec 31, 2009	Movement	Movement Details
Intangible assets	16,892	24,378	(7,486)	Expenditure on Akkulka Dee and Kul Bas less transfer of expenditure of Akkulka Deep appraisal and exploration wells to Property, Plant and Equipment.
Property, plant and equipment	115,653	73,171	42,482	Primarily consisting of the transfer of Akkulka Deep from exploration expenditure in Kazakhstan plus expenditure on wells in Uzbekistan less the DD&A charge for the year.
Non-current other receivables	12,320	5,171	7,149	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Loan receivable from joint controlled entity	35,460	21,727	13,733	Funds provided to SSEC to cover costs in Tajikistan for seismic survey, KOM200, KOM201, EOL09 etc.
Inventories	2,121	2,368	(247)	Movement in cost of spares
Trade and other receivables	3,680	2,311	1,369	Build up of trade debtors in Kazakhstan plus increase in prepayments.
Cash and cash equivalents	79,135	7,297	71,838	Refer to Consolidated Statement of Cash Flows in the annual financial statements
Derivative financial instruments - interest rate swap	1,472	(95)	1,567	Movement in fair value valuation of the expected liability
Share capital	323,285	167,203	156,082	Equity was increased during as a result of 2 private placements totaling 22.615m shares, a public placement of 110.6m shares and the exercise of warrants and options amounting to 2.86m shares less associated costs
Other reserves	34,261	27,775	6,486	Stock based compensation expense in the twelve months to December 31, 2010.
Accumulated deficit	(118,023)	(88,374)	(29,649)	Loss incurred for the year ended December 31
Non-current financial liabilities - borrowings	2,853	9,324	(6,471)	Decrease as a result of early repayment of the Telesto rig loan plus the transfer of remaining Tykhe loan balances to short term liabilities
Advanced Equity Subscriptions	-	3,750	(3,750)	Funds received in advance of January 2010 completion of a $5 million private placement

Deferred taxation	4,070	598	3,472	Movement in deferred tax liability since December 31, 2009
Current financial liabilities - borrowings.	5,047	1,086	3,961	Movement from long term liabilities and partial early repayment of the Tykhe loan
Derivative financial instruments - warrants	405	1,053	(648)	Movement in the fair value of the liability following issue of CD$ warrants in connection with short term loan
Deferred revenue	2,450	3,113	(663)	Reduction in Uzbekh product awaiting delivery
Trade and other payables	8,788	6,786	2,002	Increase in trade payables primarily in Kazakhstan as a result of capital expenditure invoices received in December.

Contractual obligations and liabilities as at December 31, 2010

	Payments Due by Period $'000s				
	Total	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**After 5 years**
Financial borrowings	$7,900	$5,047	$2,853	-	-
Operating leases	$666	$456	$210	-	-
Trade and other payables	$9,509	$8,788	$458	$128	$135
Commitments	$8,896	$6,196	$2,700	-	-
Total contractual obligations	**$26,971**	**$20,487**	**$6,221**	**$128**	**$135**

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

Liquidity and Capital Resources

As at December 31, 2010, the Company had a working capital surplus, including cash, of $69,309,000. The position at the end of December represented a significant improvement 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:

- On October 20, 2010 the Company completed an equity issue of 70.6 million shares raising gross proceeds of US$100 million.
- 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.

The Company is confident that with its current level of funds plus the anticipated revenue from Kazakhstan and Uzbekistan that it will be able to achieve its capital expenditure plans for 2011.

Cash flows

	2010	**2009**	**Change**
Net cash used in operating activities	(16,824)	(10,074)	67%
Net cash used in investing activities	(56,643)	(30,365)	87%
Net cash generated from financing activities	145,304	25,559	469%
Foreign exchange difference	1	(23)	
	71,838	(14,903)	582%

Operating activities

While the revenue in 2010 at $14,706,000 showed an encouraging increase on the 2009 figure of $8,559,000 this was offset by an increase in total costs plus an increase in non-cash working capital to give an increase in terms of cash used in operating activities at $16,824,000 (2009:$10,074,000). The increase was driven by the higher loss for the year, offset by increased depreciation, depletion and amortisation and share based payment charges. The increase in non-cash working capital was the result of increased levels of activity.

Investing activities

In 2010, due primarily to the Akkulka oil development, there was a significant increase in capital expenditure of $38,293,000 (2009:$32,221,000). A further $14,070,000 (2009: nil) was made in payments made on behalf of the jointly controlled entity which was primarily capital expenditure. A further increase in the VAT receivable of $4,148,000 (2009: $670,000) combined with the total capital expenditure to give a total for net cash used in investing activities of $56,643,000 (2009:$30,365)

Financing activities

From several private placements in Q1 2010 and a public offering in October 2010 the Company raised net proceeds of $149,770,000 (2009: $17,906,000) which together with a small increase in the form of debt of $1,840,000 (2009: $5,020,000) linked to the Uzbekistan well less the repayment of the Telesto loan and partial repayment of the Tykhe loan resulted in a net inflow of funds of $145,304,000 (2009: $25,559,000).

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 December 31, 2010.

	Dec 31, 2010	Dec 31, 2009
	$	$
Total financial liabilities - borrowings	7,900	10,410
Less: cash and cash equivalents	(79,135)	(7,297)
Net debt / (funds)	(71,235)	3,113
Total equity	323,285	106,604
Total capital	252,050	109,717

If the Company was in a net debt position, the Company would assess whether the projected cash flow was sufficient to service this debt and support ongoing operations. Consideration would be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity.

Use of Funds

Set out below are details of the planned use of funds as detailed in the prospectus dated October 4, 2010:

The majority of this expenditure is anticipated to be incurred in 2011.

	Per October 4, 2010 Prospectus	Incurred to Dec 31, 2010	To be Spent
Kazakhstan			
Appraisal and Exploration Wells	47,500	465	47,035
Production and Processing Infrastructure	19,800	2,430	17,370
Seismic Data	6,000	3,040	2,960
Tajikistan			
Production and Processing Infrastructure	3,760	-	3,760
Seismic Data	3,000	-	3,000
Exploration and Appraisal Drilling Wells	4,000	-	4,000
Uzbekistan			
Seismic Data	2,000	-	2,000
Production Drilling	5,940	-	5,940
Total	92,000	5,935	86,065

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 Tajik processing plant is not yet required and will be constructed in the future.
- A decision on installation of the Gas Lift Compression system in Uzbekistan still to be made based on field performance.

	Per June 12, 2009 Prospectus	**Incurred to Dec 31, 2010**	**To be Spent**
Tajikistan			
East Komsomolsk - KOM 200 appraisal well Phase 1	3,500	3,500	-
Infrastructure - Komsomolsk gas Processing plant Phase 1	2,000		2,000
East Komsomolsk - gas development well KOM 201 Phase 2	3,500	3,500	-
Additional seismic on Bokhara 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	14,660	3,190

Stockholder Equity

As at December 31, 2010 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 260,629,769 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 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 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 a 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 a price of C$1.55 each. The placement was completed on March 1, 2010.

On October 20, 2010 the Company completed a public equity issue of 70,600,000 Ordinary Shares for gross proceeds of US$100 million. The Ordinary Shares were placed at a price of C$1.45 each.

As at the date of this report, March 21, 2011, a total of 31,275,572 (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. The number of options outstanding as at the date of this report, March 21, 2011, is 22,263,000 (2009:11,706,000) and the number of warrants outstanding is 10,283,455 (2009:12,783,455).

OUTLOOK

The Company does not anticipate that the recent developments in the Middle East and Libya will have a significant impact on its operations, other than there may be some benefit from higher oil prices on its existing oil sales in Uzbekistan and its anticipated oil sales in Kazakhstan in the coming months.

With its projects in Kazakhstan, Uzbekistan and Tajikistan giving a balance of short-term cash flow and upside potential the Company believes that it is in a good position to capitalize on its recent Doris commercial oil discovery in Kazakhstan, its strong business position in Uzbekistan and Tajikistan, and even before the recent events in the Middle East and Libya, the recent increase in energy prices. The Company's gas production in Kazakhstan is currently being sold at relatively low prices on the domestic market but with the planned Kazakhstan – China gas pipeline, which the Company understands will become operational in 2013, and liberalization of the Kazakh gas market, there is potential for significant increases in gas prices, given China's projected increase in gas demand. Current higher oil prices are not yet being fully realized in Central Asia but if prices remain high it is likely that increased Central Asian prices will result. The recent placements of equity have given the Company the resources it needs to advance its current activities, in particular the Doris oil appraisal, development and additional exploration. The Company believes that having now received approval for the Pilot Production Scheme this should result in significant additional oil production in Kazakhstan and further work on the Company's existing and potential assets in Uzbekistan should also help strengthen cash flow.

Kazakhstan Drilling Update

The Company completed drilling of its first "deep" exploration well in the area, well AKD01 ("Doris") on the Akkulka Block in December 2009. The upper zone flowed oil at a restricted rate of over 5,400 bopd. Combined with the lower zone, well AKD01 has flowed oil at a combined rate in excess of 6,800 bopd. The two reservoir zones are in the Jurassic and lower Cretaceous sequences at depths of approximately 2,355 m and 2,174 m respectively. Thus far the Company has drilled one appraisal well (AKD02) in proximity to the Doris oil discovery that was spudded in April 2010 with preliminary results announced in June 2010.

The AKD02 well is approximately 4 km to the northwest of the AKD01 well. Despite the fact that oil shows were observed in the core, the lower Cretaceous zone showed low hydrocarbon saturation, possibly due to a fault between two wells. The Jurassic carbonate zone appeared to be oil bearing but the reservoir quality was not as good as in the AKD01 well. Further testing is planned utilising radial drilling in an attempt to establish commercial production. The AKD03 ("Dione") exploration well, which is located approximately 10 km to the southwest of the AKD01 Doris discovery well (on a separate prospect), reached its targeted depth at 3,975 m in January 2011. A comprehensive testing program commenced in March 2011 upon approval by the Kazakh State on up to eight separate zones that have been identified on logs. A further potential hydrocarbon bearing sand (possibly Triassic in age) was identified at the base of the well, but due to challenging drilling conditions in this area the Company decided to stop and test the zones already identified. Furthermore the 3D seismic data that has recently been interpreted indicates that the deeper zones might be exploited better through a future sidetrack of AKD03 or potentially of well G6, where similar sand was encountered or a new well designed primarily to evaluate this deeper zone. A decision in this respect will be made after the AKD03 testing program is complete and the 3D seismic interpretation fully completed. The ZJ70 rig "Telesto" was moved from AKD03 to KBD01 (Kalypso) in January 2011 to continue drilling this well to its targeted depth while a testing rig is carrying out the smaller program on AKD03.

The G6 well, which is located approximately 16 km to the west of the AKD01 well, was originally drilled in 2001 by the then contractor on the Akkulka Block and was abandoned without running casing or testing. The re-entry of well G6 (named well G6RE, on the separate Dodone prospect) was drilled to a depth of 2,835 m in order to test a deeper potential oil bearing zone identified from the wireline logs in the original G6 hole. A possibly Triassic sand interval was encountered in this well which appears to be hydrocarbon bearing and is similar to the interval encountered in well AKD03. This interval is at a higher reservoir pressure and the well configuration prevented testing of this zone. The Jurassic carbonate zone encountered in well AKD01 is also present in this well and appears to be hydrocarbon bearing but not of as good a quality as in well AKD01. Further testing is planned utilising radial drilling in an attempt to establish commercial production. In November 2010, both the 3D and 2D seismic acquisition programs on the Doris oil discovery and surrounding exploration area had been completed and first data has been interpreted. The next two wells to be drilled on the Doris oil discovery have been identified. Drilling of the first well is planned to commence during the first quarter of 2011 with an already contracted ZJ30 rig. As well as

providing more detailed information on the discovered field, the seismic program has identified several new exploration targets at various depths in the vicinity.

Two appraisal wells were located in January 2011 based upon the mapping of the 3D seismic and incorporating results from the pressure transient analysis of the testing on the Cretaceous horizon in AKD01. A tender process has just been completed for the drilling of the wells and they are expected to be spudded in the near future. AKD05 will be drilled immediately up-dip of the AKD01 whilst AKD04 ("Dero") will be drilled to the east of the Doris crest in order to test the continuation of the structure there, both wells will target both the lower Cretaceous sandstones and Jurassic carbonates that were successfully tested in AKD01 as well as a possible third, overlying, horizon in the Albian sandstone horizon.

In December 2010, the Company commenced drilling of the KBD01 ("Kalypso") exploration well located approximately 50 km to the northwest of the Doris oil discovery and has a planned total depth of 4,000 m. This well is targeting potential reservoirs at several stratigraphic levels from the Cretaceous to the Permo-Carboniferous Initially spudded with an available ZJ30 rig, drilling of the well is now continuing with the Company's ZJ70 rig Telesto. Currently the well is at a depth of approximately 900 metres. The KBD01 well is the first deep exploration well to be drilled by the Company on the Kul-Bas Block, which also contains several other attractive prospects.

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 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% royalty payment to the Kazakh State. 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 on October 7, 2010. Production from both Kyzyloi and Akkulka was expected to total some 1,000 Mcmpd however a mechanical failure on one of the Company's compressors at the BCS and workover activity on the field wells restricted production to some 730 Mcmpd. These technical issues had not been resolved before the end of 2010.

Tajikistan Drilling Update

In May 2010, the Company commenced drilling of the directional KOM201 well on the eastern part of the Komsomolsk Field under Dushanbe. The well reached a total depth of 2,456 m and encountered a 310 metre column of Jurassic limestone with wireline logs and drilling data indicating that it is gas-bearing. Testing commenced in January 2011 with gas flow being obtained from the well on an open hole test. Production casing has been run and preparations are underway to apply radial drilling in an attempt to stimulate the well and obtain commercial gas flow. Wireline logs indicate hydrocarbons may be present in the secondary targets of the Cenomanian and Hauterivian.

The KOM201 well was drilled adjacent to Dushanbe where there is a high demand for gas by local industry and the population. Currently the vast majority of gas consumed is being imported and the current price is $227 per Mcm ($6.42 per Mcf). One of the largest cement plants in the region lies above the field, and just to the west of Dushanbe is one of the largest aluminium plants in the former Soviet Union as well as gas fired power generation thus giving a good market at potentially good prices and with existing infrastructure. Tajik State owned and operated gas pipelines are close to the Company's well sites in the Komsomolsk Field. The Group also has access to separator facilities.

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 arrived in September 2010 and the drilling rig has now been upgraded to enable operations to proceed more effectively. The well is currently at a depth of 2,901 m and is targeting a Palaeogene reservoir prognosed at a depth of 3,800 m.

Limited oil production commenced on the Beshtentak Field in January 2010. This production was 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 program which the Company has recently undertaken on the North Urtabulak Field in Uzbekistan a program of radial drilling has commenced on Beshtentak, this being the first time such technology has been applied in Tajikistan.

Uzbekistan Drilling Update

In May 2010, Tethys announced that it had tested and put on production the NUR116 well at the North Urtabulak Field in Uzbekistan with a test rate of some 610 Bopd after acidisation. However, later the well declined due to it being in a less permeable area of the field and is not producing. The well was drilled to a total depth of 2,484 m (8,150 ft) into the Jurassic reef carbonate reservoir.

In November 2010, the Company successfully completed a radial drilling program on five wells on the North Urtabulak Field, with four of the wells having four laterals, and one with eight laterals. The radial drilling was successful with horizontal lateral bores up to 100 metres being achieved in the reservoir and a significant increase in oil production. The Company plans to expand its program of radial drilling on additional suitable deposits.

In November 2010, operations began on the NUR96H2 horizontal development well on the North Urtabulak Field. This well, which twinned a previous well that produced over 2,000 Bopd prior to a mechanical failure in that well, was drilled in the most prolific part of the reservoir. In February 2011, the Company announced the initial results of testing on the NUR96H2 horizontal development well at the North Urtabulak field in Uzbekistan. The well tested at over 1,100 Bopd and is on production. This well reached a total depth of 3,060 m (10,039 ft) with a producing section of 437 m (1,434 ft) of lateral hole within this section.

There are a number of other fields in the area and the Company is in discussions with Uzbekneftegas on possible participation in these. The Company opened a representative office in Tashkent and is discussing not only these projects but broader co-operation with Uzbekneftegas in both exploration and development in Uzbekistan.

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 year ended December 31, 2010 was $2,525,885 (2009 – $1,677,113).

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 year ended December 31, 2010 were $182,740 (2009 – $497,697).

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 described below and the risk factors and additional information regarding the Company, included in its 2010 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:

	Dec 31, 2010	**Dec 31, 2009**
	$	**$**
Trade receivables	1,661	905
Cash and cash equivalents	79,135	7,297
Investments	1,015	659
Loan receivable from jointly controlled entity	35,460	21,727
	117,271	30,588

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers 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 December 31, 2010.

The Company's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets and forecasts, 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 may seek 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 15 above in *Contractual obligations and liabilities as at December 31, 2010.*

There can be no assurance that debt or equity financing will be available when required 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 been $207,746 in the current year (2009 - $ 38,250).

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 10% at December 31, 2010 with all other variables held constant, the Company's foreign exchange gain or loss would have been affected by $101,000, for CDN had the $ changed by 10% the exchange gain or loss would have been affected by $120,000 and for the Kazakhstan Tenge (KZT) it would have been affected by $652,000. Please refer to *Note 3 of the 2010 audited consolidated financial statements*.

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 of fluctuations in oil and gas prices in 2010 on the Company's operations was only evident in the operations in Uzbekistan. Production from both the Kyzyloi and Akkulka contracts in Kazakhstan are sold at fixed prices, at least until the end of 2012, and so the fluctuation in world commodity prices had no effect on the Company's monthly revenue from the Kazakh gas 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. Should the oil production in Kazakhstan comes on stream in Q2 at a rate of 3,000-4,000 bopd as planned then a fall in oil prices will result in lower than anticipated 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. Problems with closure of the pipeline and reduced production levels were encountered in both 2009 and 2010.

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 the Akkulka gas field under the Gas Supply Contract is fixed in US dollars until September, 2012 and consequently there is no sensitivity to currency movements or market movements in the gas price.

The price of oil sales from the Doris discovery planned at 3,000-4,000 bopd (Phase 2) commencing in the second quarter of 2011 has yet to be agreed and therefore would be sensitive to movements in the market price. On a production level of 3,000 bopd a 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 $1,095,000.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At gross production levels of 1,250 bopd the movement of $1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of $228,125 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 due from the Company for 2010 amount to $444,000, which cover a payment per well on the Doris discovery, plus waste removal and gas firing. 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 should include an abandonment and site restoration programme together with a funding procedure for such programme. All funds collected pursuant to the funding procedure should be allocated to site restoration and abandonment and 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 current 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 annual consolidated financial statements for the year ended December 31, 2010 Note 2 *Summary of Significant Accounting Policies* for details of the Company's accounting policies.

Changes in accounting policy and disclosures.

(a) New and amended standards adopted by the Company

The following new and amended accounting standards are mandatory and relevant for the Company for the first time for these financial statements:

- 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.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

- IFRS 9 'Financial instruments' – issued in November 2009. This standard is the first step in the process to replace IAS39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets, which may affect the Company's accounting for its financial assets. The standard is not applicable until January 1 2013 but is available for early adoption. The Company is yet to assess the full impact of IFRS 9.

Fair value estimation

Effective January 1, 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the reporting date at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. The Company does not have any assets or liabilities that require Level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. For the Company, Level 2 inputs include prices that can be corroborated with other observable inputs for substantially the complete term of the contract.

Level 3: Unobservable inputs. The Company does not use Level 3 inputs for any of its recurring fair-value measurements.

As at December 31, 2010 the Company's only financial liabilities measured at fair value on a recurring basis were the warrant liability and interest rate swap described in Note 18 of the audited consolidated financial statements for 2010, the measurement inputs of which is designated as Level 2 and Level 3 respectively.

At December 31, 2010, the interest rate swap described in Note 18 is classified as Level 3 in the fair value hierarchy. The inputs required to measure the fair value of the interest rate swap include production and price assumptions that are reliant on adjustments or interpolation made by management to an otherwise standard valuation model. A reconciliation from the beginning balance to the ending balance of the interest rate swap has been included at Note 18 of the audited consolidated financial statements.

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 December 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 December 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 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, 2010. While no material weaknesses relating to the design of the Company's system of ICFR or relating to the Company's operations as at December 31, 2010 were identified a revised copy of the Company's accounting policy was issued. A new self assessment control process was introduced which will be tested in 2011.

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", "prognosed" 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 2011 capital investments projections, and the potential source of funding therefore; drilling targets and objectives. 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 required equity or debt financings if any; 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 that the Company expects to apply to MOG for a construction contract; that the China gas pipeline will become operational in 2013; that the Company will be able to achieve its capital expenditure plans; that China's projected increase in gas demand will potentially increase gas prices; that Central Asian gas prices will increase; that the approval of the Pilot Production Scheme could result in additional oil production in Kazakhstan and further work on the Company's existing and potential assets in Uzbekistan could help strengthen cash flow; that the Company plans to expand its program of radial drilling on additional deposits; the Company's expectation that the contract contemplated by the MOU with UNG will be similar to the North Urtabulak PEC contract; the Company's expectations with respect to gas prices and demand. 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.