TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended March 31, 2011

The three months ended March 31, 2011 compared to March 31, 2010

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

	2011	2010	% Change
Revenue	4,480	2,116	112%
Net Loss	(6,295)	(7,999)	-21%
Basic and diluted loss ($) per share	(0.02)	(0.05)	
Capital expenditure	10,852	4,443	144%
Total Assets	259,477	186,405	39%
Non-current Liabilities	(10,492)	(13,419)	-22%
Cash and working capital surplus	49,893	38,372	30%
Common shares outstanding			
Basic and diluted	260,629,769	187,169,769	

The following Management's Discussion and Analysis ("MD&A") is dated May 13, 2011 and should be read in conjunction with the Company's unaudited Interim Consolidated Financial Statements and related notes for the period ended March 31, 2011 as well as the audited Consolidated Financial Statements and the MD&A 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. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this MD&A and also the Company's AIF.

<u>Highlights and Significant Transactions</u>

The Company received State approval for a Pilot Production Project for the Doris oil discovery on the Akkulka field. This approval grants the right for oil production on the Akkulka field during the exploration period and allows the Company to install and operate production facilities for the planned 3,000-4,000 barrels of oil per day ("bopd") production target planned for the end of the second quarter of 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 to the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG") for a Production Contract that will allow for full field development and foreign or domestic sales. The Company is expected to apply for such a Production Contract after the appraisal programme for the Doris oil discovery is complete which is currently forecast for the first half of 2012.

The Company was granted an extension to the Kul Bas Exploration Period by the MOG for a further two years until November 11, 2013.

With sales of US$4.48 million in the three months ended March 31, 2011 the Company achieved a 112% increase on the same period of 2010 where sales were US$2.12 million. In 2011 gas sales of US$1.49 million (2010: nil) and oil sales of US$ 0.50 million (2010: nil) were achieved in Kazakhstan while refined product sales in Uzbekistan were US$2.42 million (2010:US$2.03 million) and sundry income was US$0.07 million (2010: US$0.09 million).

The Company recorded a net loss of US$6.30 million in the three months ended March 31, 2011 compared to a net loss of US$8.00 million in the three months ended March 31, 2010.

Capital expenditure, excluding the joint venture in Tajikistan, in the three months ended March 31, 2011 was US$10.85 compared to US$4.44 million in the three months ended March 31, 2010.

Production costs in the three months ended March 31, 2011 were US$1.75 million compared to US$0.97 million in the three months ended March 31, 2010 reflecting the additional production costs from the gas and oil production in Kazakhstan.

Administrative costs in the three months ended March 31, 2011 were US$6.48 million compared to US$4.78 million in the three months ended March 31, 2010.

Nature of Business

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

Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

Period ending	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
March 31	28,797.5	1,016,840	320	1,883	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. In 2011 there were 90 production days while in 2010 there were nil.

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 Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from both the Kyzyloi and Akkulka contracts.
- In 2010 the Bukhara Urals pipeline was closed throughout all of the first quarter and so there were no sales from the Kyzyloi field in that period.
- On January 5, 2006 Tethys' Kazakh subsidiary, TAG, executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from TAG's Kyzyloi field in Kazakhstan at an agreed price of $32 per thousand cubic metres ("Mcm") or $0.90 per thousand cubic feet ("Mcf") excluding value added tax ("VAT"). On May 1, 2009, this contract was further assigned to Asia Gas NG LLP.
- The Gas Supply Contract, which has a term until the earlier of December 1, 2012, the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, or when 850 thousand cubic metres (Mcm) has been delivered, is based on a take–or–pay principle and covers all gas produced from the Kyzyloi Field Licence and Production Contract area up to termination.
- To the end of Q1 2011 some 428,517 Mcm (approximately 15.1 Bcf) or 50% of the maximum contract volume under the Gas Supply Contract had been delivered.

Kazakhstan Gas Production (Akkulka contract)

Period ending	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
March 31	17,181.9	606,693	191	1,124	0	0	0	0

Note 1 Mcm/d is thousands of cubic metres per day and has been calculated based on the actual production days in the quarter. In 2011 there were 90 production days while in 2010 there were nil.

- As with Kyzyloi the Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from the Akkulka contract. The compressor related problems being experienced in the final quarter of 2010 were remedied in January 2011.
- On September 16, 2010 the Company announced that it had signed a contract with Asia Gas NG LLP priced at US$38 per Mcm (including VAT). Gas sold under this contract would be for domestic sales and as such is subject to a small (0.05%) royalty payment to the Kazakh State. The new Akkulka contract runs for a period of 2 years with the parties agreeing to assess the price after one year.

Kazakhstan Oil Production (Akkulka contract)

	Total Production		
	Tonnes	Barrels*	bopd
26 days to March 31, 2011	**4,219**	**32,355**	**1,244**

** using 7.67 barrels = 1 tonne*

- Between January 1, 2011 and March 31, 2011 because of a combination of weather problems and work on building the necessary facilities only 26 days of pilot production were achieved on the Doris discovery on the Akkulka contract.
- In October the Company had 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.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

	2011			2010		
	Total Production			Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	15,130	116,501	1,294	20,869	160,691	1,785

After State Take

	TPU[1] Share			TPU Share		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	6,799	52,352	582	10,434	80,342	893

** using 7.7 barrels = 1 tonne*

- 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.
- 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 in March achieved production of 468 bopd.
- Well NU115, which had previously been producing in the region of 600 bopd 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 production from this well dropped further in the final quarter of 2010 which continued into Q1 2011 thus further reducing overall production levels.
- 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 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.
- 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.

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

Tajikistan Oil Production (Beshtentak field)

There was minimal oil production in Tajikistan in the three months to March 31, 2011 while in the same period of 2010 there was production of 2,500 barrels.

Production Summary

In the first quarter of 2011 the oil and gas production levels 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	511	3,007	3,598
Uzbekistan	1,294	-	-	1,294
Tajikistan	-	-	-	-
Total	**1,885**	**511**	**3,007**	**4,892**

Note As indicated in the sections above the Akkulka 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 before tax

The Company recorded a net loss after taxation of US$6.43 million in the quarter ended March 31, 2011 compared to a net loss of US$7.91 million in the same period of 2010. The principal differences between the two periods were as follows:

	2011	2010	Movement
Sales and other operating revenues	4,480	2,116	2,364
Finance income	32	3	29
Total revenue and other income	4,512	2,119	2,393
Production expenses	(1,752)	(974)	(778)
Depreciation, depletion and amortization	(2,612)	(692)	(1,920)
Listing expenses	(6)	(626)	620
G & A costs	(5,291)	(3,581)	(1,710)
Stock-based compensation	(1,193)	(1,193)	-
Finance costs	(47)	(2,822)	2,775
Foreign exchange gains (loss) net	200	14	186
Loss from jointly controlled entity	(209)	(150)	(59)
Loss before taxation	**(6,398)**	**(7,906)**	**1,508**

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 March 31		
	2011	2010	Change
Gas sales	1,491	0	-
Oil sales	501	0	-
Refined product sales	2,422	2,027	19%
Other revenue	66	89	-26%
	4,480	2,116	112%

- As stated above the Company is constantly monitoring the gas production levels with a view to maximizing the commercial benefit from both the Kyzyloi and Akkulka contracts. Actual levels achieved were 511 Mcm/d resulting in revenue of US$1.49 million.
- The gas sales generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan as referred to 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.
- There were no gas sales in the three months to March 31, 2010 because of pipeline closure.
- Also as stated above the untreated oil produced under the pilot production was being sold at the wellhead at an initial price of US$22/bbl which resulted in revenue of US$0.50 million (2010: nil).
- The Refined product sales are the result of oil production in Uzbekistan which resulted in revenue in the quarter of US$2.42 million (2010: US$2.02 million). The refined product revenue achieved in the first quarter of 2011 related to 2010 production. The 2011 production will be recognised as revenue when it has been both sold and delivered.

Operating expenses

	Three months ended March 31		
	2011	2010	Change
Operating and Production costs	1,752	974	80%

- Production costs in Kazakhstan were higher in the three months to March 31, 2011 compared to the same period in 2010 primarily as a result of the oil production but also as a result of the Akkulka gas production.
- There was a slight increase in the production costs of the refined products in Uzbekistan as a result of the increase in sales.

Depreciation, depletion and amortization expense

	Three months ended March 31		
	2011	2010	Change
DD & A costs	2,612	692	277%

- The DD&A in the three months to March 31, 2011 were a combination of the gas and oil production related figures in Kazakhstan and the refined product production in Uzbekistan.
- The absence of production in Kazakhstan in Q1 2010 resulted in no depreciation of oil and gas properties in that country during that period. The DDA charge in Q1 2010 was simply based on the refined product production in Uzbekistan which explains why the charge in Q1 2010 was significantly less than the Q1 2011 figure.

Administrative expenses

	Three months ended March 31		
	2011	2010	Change
Staff costs	2,065	1,316	57%
Travel costs	961	619	55%
Office costs	577	372	55%
Professional fees	684	453	51%
Marketing costs	318	203	57%
Other costs	686	619	11%
	5,291	3,582	48%
Stock based compensation	1,193	1,193	0%
	6,484	4,775	36%

General administration and selling expenses for the quarter ended March 31, 2011 were up on the same period of the previous year as a result of the following:

- Primary factors in the increase in the staff costs were increased levels of staff particularly in Kazakhstan but also in other areas of operations plus there was a salary review completed in Q2 2010. This salary review was the first in two years,
- One area of increased staff costs in Kazakhstan was necessitated by the development requirements of the "Doris" discovery plus the increased administrative burden in Kazakhstan associated with new government regulatory requirements.
- Travel costs were up as a result of increased staff travelling throughout the three countries in which the Company currently operates combined with the pursuit of new contracts both within these countries and others in Central Asia.
- Professional fees were up as a result of a number of "one off" costs including computer software, legal costs associated with new offices and larger than anticipated disbursements associated with both audit and legal fees.

Stock based compensation

- Stock based compensation expenses relate to stock options issued in Q1 2011 and options and warrants issued in prior years.

Finance expenses

	Three months ended March 31		
	2011	2010	Change
Foreign exchange gains-net	(200)	(14)	1329%
Fair value loss	8	2,501	-100%
Loss from joint venture	209	150	39%
Finance Income	(32)	(3)	966%
Finance costs	39	321	-88%

- The Fair Value gain or loss on derivative financial instruments reflects the movement in the fair value of warrants issued by the Company that are denominated in a currency other than the Company's functional currency for financial reporting purposes and the impact of interest rate swaps.
- Loss from the jointly controlled joint venture represents the Company's 51% share in the loss incurred by SSEC.
- Finance costs consist primarily of interest costs.

Taxation

	Three months ended March 31		
	2011	2010	Change
Tax	103	(93)	100%

There was a slight movement in the deferred tax position in Q1 2011 as a result of the capital expenditure in Kazakhstan.

Capital Expenditure

Capital expenditure during the quarter ended March 31, 2011 was US$10.85 million while a further US$1.83million of prepayments on capital projects was also incurred.

	Three months ended March 31		
	2011	2010	Change
Kazakhstan	8,045	2,140	276%
Uzbekistan	2,777	2,261	23%
Other and Corporate	30	42	100%
	10,852	4,443	144%

Major items of capital expenditure in the three months to March 31, 2011 were:

Kazakhstan

- Doris oil production US$2.50 million
- G6 well US$0.50 million
- Akkulka appraisal wells US$5.00 million
- Kalypso (Kul Bas) US$1.40 million

Uzbekistan

- Well NU96 US$2.67 million

Tajikistan

Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the three months to March 31, 2011 was US$3.00 million compared to US$2.28 million in the same period of 2010 funded directly by the Company.

Summary of Quarterly Results

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

In the three months ending	Jun 30 2009	Sept 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010	Sept 30 2010	Dec 31 2010	Mar 31 2011
Financials ($000's)								
Revenue	2,797	2,426	2,807	2,116	6,030	3,173	3,387	4,480
Net loss	(5,593)	(3,944)	(6,166)	(7,999)	(3,322)	(7,118)	(11,210)	(6,295)
Basic and diluted loss ($) per share	(0.06)	(0.03)	(0.05)	(0.05)	(0.02)	(0.04)	(0.04)	(0.02)
Capital expenditure	4,778	8,337	8,868	4,443	7,316	11,950	14,584	10,852
Total assets	127,577	124,627	137,082	186,405	184,082	182,081	267,748	259,477
Total non-current liabilities	(5,299)	(4,997)	(18,345)	(13,419)	(14,938)	(15,963)	(11,535)	(10,492)
Cash and working capital surplus	17,351	6,369	(157)	38,372	24,408	6,046	69,718	49,893

Significant factors influencing quarterly results

- There were stoppages in Kyzyloi gas production in the quarters ending, 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.
- Akkulka gas production commenced in Q3 2010. Oil sales from oil test production from Doris commenced in Q4 2010 resulting in revenue of US$748,000 in Q4 2010 and $501,000 in Q1 2011.
- 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 (gross) 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 following table outlines significant movements in the consolidated balance sheets from December 31, 2010 to March 31, 2011:

	Mar 31, 2011	Dec 31, 2010	Movement	Movement Details
Property, plant and equipment	122,250	115,653	6,597	Continuing investment in Akkulka Deep oil property, offset by DD&A plus the drilling of well NU96 in Uzbekistan.
Intangible assets	18,738	16,892	1,846	Expenditure on Kul Bas and Akkulka exploration in Kazakhstan.
Non-current other receivables	14,937	12,320	2,617	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Loan receivable from joint controlled entity	38,179	35,460	2,719	Funds provided to SSEC to cover capital and company costs of Tajikistan subsidiaries.
Inventories	2,452	2,121	331	Movement in levels of finished product in Uzbekistan offset by a reduction in the level of spares in Kazakhstan.
Trade and other receivables	3,230	3,680	(450)	Reduction in Kazakh trade debtors and prepayments
Cash and cash equivalents	57,400	79,135	(21,735)	Refer to *Cash Flows* on the following page.
Derivative financial instruments - interest rate swap	1,274	1,472	(198)	Movement in fair value valuation of the anticipated liability.
Other reserves	35,555	34,261	1,294	Stock based compensation expense in the three months to March 31, 2011.
Accumulated deficit	(124,318)	(118,023)	(6,295)	Loss incurred for the quarter ended March 31, 2011.
Non-current financial liabilities - borrowings	1,950	2,853	(903)	Decrease as a result of the transfer to short term liabilities
Deferred taxation	3,956	4,070	(114)	Movement in deferred tax liability of Kazakhstan and Uzbekistan less a small income tax expense.
Current financial liabilities - borrowings	6,005	5,047	958	Movement from long term liabilities and the amortization of the debt discount.
Derivative financial instruments - warrants	214	405	(191)	Movement in the fair value of the liability together with expiry of some warrants
Deferred revenue	27	2,450	(2,423)	Reduction as a result of Uzbek product invoiced in 2010 delivered in Q1 2011.
Trade and other payables	8,217	8,788	(571)	Decrease in trade payables primarily in Kazakhstan

Contractual obligations and liabilities as at March 31, 2011

Contractual Obligations	Total	Payments Due by Period $'000s Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Financial borrowings	$7,955	$6,005	$1,950	-	-
Operating leases	$759	$433	$326	-	-
Trade and other payables	$8,896	$8,217	$679		
Commitments	$8,896	$6,196	$2,700	-	-
Total contractual obligations	**$26,506**	**$20,851**	**$5,655**	**$0**	**$0**

The Company is confident that it will satisfy these commitments as and when they fall due.

Liquidity and Capital Resources

As at March 31, 2011 the Company had a working capital surplus, including cash, of $49,893,000 while at December 31, 2010 the Company had a working capital surplus, including cash, of $69,309,000. The primary cause of this movement was a reduction in the cash balance from $79.1 million to $57.4 million in the first quarter of 2011 a movement of $21.7 million.

Cash Flows

The movement in the cash balance during the three months to March 31, 2011 compared to what happened in the same period of 2010 can be broken down as follows:

	31 March 2011	31 March 2010	% Change
Net cash used in operating activities	(5,070)	(5,372)	-6%
Net cash used in investing activities	(16,484)	(8,236)	100%
Net cash generated from financing activities	(262)	55,252	-100%
Foreign exchange effect on cash	81	(14)	
Net increase/(decrease) in cash and cash equivalents	(21,735)	41,630	152%

Operating activities

While the revenue in 2011 at $4,480,000 showed an encouraging increase on the 2010 figure of $2,116,000 this increase was offset by an increase in total costs plus a reduction in deferred revenue to give a reduction of some $300,000 in terms of cash used in operating activities on the same period in the prior year at $5,070,000 (2010: $5,372,000).

Investing activities

In the three months to March 31, 2011, due primarily to the Akkulka oil development, there was a significant increase in capital expenditure of $10,852,000 (2010:$4,442,000) and prepayments to contractors of $1,827,000 (2010: $1,027,000). A further $2,878,000 (2010: $2,280,000) 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 $905,000 (2010: $451,000) combined with the total capital expenditure to give a total for net cash used in investing activities of $16,484,000 (2010:$8,236,000)

Financing activities

There were no financing activities completed in Q1 2011 while three private placements generating gross receipts of $61,000,000 were completed in Q1 2010.

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 March 31, 2011.

	March 31, 2011	**March 31, 2010**
	$	**$**
Total financial liabilities - borrowings	7,955	11,820
Less: cash and cash equivalents	(57,400)	(48,927)
Net debt / (funds)	(49,445)	(37,107)
Total equity	234,522	157,570
Total capital	185,077	120,463

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:

	Per October 4, 2010 Prospectus	**Incurred to March 31, 2011**	**To be Spent**
Kazakhstan			
Appraisal and Exploration Wells	47,500	7,365	40,135
Production and Processing Infrastructure	19,800	4,930	14,870
Seismic Data	6,000	3,040	2,960
Tajikistan			
Production and Processing Infrastructure	3,760	-	3,760
Seismic Data	3,000	350	3,000
Exploration and Appraisal Drilling Wells	4,000	-	4,000
Uzbekistan			
Seismic Data	2,000	-	2,000
Production Drilling	5,940	2,670	3,270
Total	92,000	18,355	73,645

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

The primary differences were in relation to:

- The Komsomolsk well, KOM200, encountered unexpected drilling challenges and cost more than was anticipated and is not yet fully completed. As a result the processing plant has not yet been constructed.
- A decision on installation of the Gas Lift Compression system is waiting on the results of the revised water injection programme.

	Per June 12, 2009 Prospectus	**Incurred to March 31, 2011**	**To be Spent**
Tajikistan			
East Komsomolsk - KOM 200 appraisal well Phase 1	3,500	3,500	-
Infrastructure - Komsomolsk gas Processing plant	2,000		2,000
East Komsomolsk - gas development well KOM 201	3,500	3,500	-
Additional seismic on Bokhtar PSC	3,660	3,660	-

Uzbekistan			
North Urtabulak Gas Lift Compression System	1,190		1,190
North Urtabulak new well.	4,000	4,000	-
Workovers			
	17,850	14,660	3,190

Stockholder Equity

As at March 31, 2011 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 260,629,769 (2010: 187,169,769) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

As at the date of this report, May 13, 2011, a total of 31,275,572 (2010: 27,990,455) 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, May 13, 2011, is 22,713,000 and the number of warrants outstanding is 9,488,455 .

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 second half of 2011.

With its projects in Kazakhstan, Uzbekistan and Tajikistan giving a balance of short-term cash flow and upside potential the Company is looking to capitalize on its "Doris" commercial oil discovery in Kazakhstan, its strong business position in Uzbekistan and Tajikistan combined with 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 ongoing demand for gas. Higher oil prices have not yet being fully realized in Central Asia but if world prices remain high it is likely that increased Central Asian prices will follow in due course. The placements of equity completed in the course of 2010 have provided the Company with the resources it needs to advance its operating plans, in particular the Doris oil appraisal, development and additional exploration. The Company believes that having 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 the Company's cash flow.

On April, 17, 2011 the Government of the Republic of Afghanistan announced that the Company is one of five international companies who have pre-qualified for a tender to explore and develop oil and gas deposits in northern Afghanistan. The process represents the first round of the Afghan Government's plan to issue licenses to foreign energy companies.

Kazakhstan Operations Update

The AKD04 (Dero) appraisal well has now reached total depth of 2,566 metres and electric logging has been carried out. This well is located on the separate Dero part of the structure to the east of the AKD01 Doris oil discovery and was designed to ascertain the potential in the Upper Jurassic carbonate zone and the edge of the Lower Cretaceous (Aptian) sandstone in this area. Interpretation of the well data shows both the Jurassic carbonate and the Aptian sand to be present in the well with both showing indications of hydrocarbons. These two horizons were the zones that tested oil in the AKD01 well. Production casing has now been run which will be followed by an appropriate testing programme - following receipt of the usual consents from Kazakh authorities.

In the AKD05 Doris appraisal well, the 9 5/8" casing has been set and it is drilling ahead. This well is currently on prognosis and should reach planned total depth of 2,500 metres by the end of this month.

Further evaluation of the recently acquired 3D seismic dataset using state of the art processing and interpretation techniques is revealing the probable presence of sand fans in the Cretaceous sandstone sequence and these data are being integrated with the results of the well data to plan future appraisal well locations in the greater Doris area.

Testing of the AKD03 (Dione) exploration well continues after the successful test of a new sandstone zone in the Upper Jurassic, which flowed dry oil at over 400 barrels per day. The company believes that a significantly higher flow rate may be achieved with a horizontal or high angle completion, and will determine optimized well designs as part of the overall development plan following completion of the appraisal and exploration programme. The overlying Upper Jurassic carbonate has now been tested but no commercial oil flow was obtained. Testing will now be undertaken on the good quality potentially oil-bearing Cretaceous sandstone interval (which is similar to the main reservoir zone in the AKD01 well) and which shows the best reservoir properties of the zones being tested. The extent and potential of this Dione flank structure is currently being evaluated using the new 3D seismic dataset.

The KBD01 (Kalypso) wildcat exploration well is currently at a depth of 2,498 metres. This well is being drilled on a large structure some 50 km to the north west of the Doris discovery with its primary target being at approximately 4,000 metres and with secondary targets above this. Seismic shows this prospect to have up to 400 metres of potential vertical closure. Hydrocarbon shows have been observed in the drilled section. It is expected that this well will reach total depth in July 2011.

Tajikistan Drilling Update

The Company's regional seismic acquisition programme was completed with 693 km of data being acquired and processing and interpretation continues, these data being primarily aimed at identifying further exploration potential. Based on these data the Company is planning to drill a new exploration well to a depth of up to 3,000 m using its ZJ30 rig Tykhe. This well is expected to commence operations in Q2 2011.

The Company has previously stated that it is seeking a suitable farm-in partner for its exploration programme in Tajikistan and these geophysical data are an important part of the information relating to such a potential farm-in. Discussions with several parties are ongoing.

The KOM201 well which lies adjacent to Dushanbe reached a total measured depth of 2,456 metres in November 2010 in what is interpreted to be the Triassic sequence. Gas flow was obtained from the Jurassic sequence and testing commenced in January 2011. Radial drilling was initiated to increase production rates but so far without success. Further testing of the Jurassic is underway at present. Wireline logs had indicated hydrocarbons may be present in the secondary, overlying targets of the Cenomanian, Hauterivian and Bukhara and it is planned to test these zones once testing of the Jurassic is complete.

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 recommenced in September 2010 and it is currently at a depth of 3,064 meters targeting a Palaeogene reservoir prognosed at a depth of 3,800 metres. The rig has been significantly upgraded and the well is expected to reach target depth at the end of Q2 2011.

Uzbekistan Drilling Update

In November 2010, operations began on the NUR96H2 horizontal development well on the North Urtabulak Field. 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 successfully at over 1,100 bopd and is now producing 460 bopd. This well reached a total depth of 3,060 metres with a producing section of 437 metres of lateral hole within this section.

The Company has started the process to import jet-pumping equipment in order to evaluate its suitability to the Jurassic carbonate reservoirs present in Uzbekistan and optimise production at North Urtabulak, results are expected in Q3 2011.

The Company also continues to and intends to carry out further production enhancement techniques on North Urtabulak including radial drilling, revised water injection, and the drilling of new wells, to capitalise on the relatively high world oil prices and increasing short-term cash flow through increasing production.

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 under a 'flow through" contract from Vazon in the period ended March 31, 2011 was $765,362 (March 31, 2010 – $541,849). Some 50% of the increase was the result of remuneration increases, some 35% the result of new staff and remainder office related costs.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to compression optimization and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended March 31, 2011 were $11,422 (March 31, 2010 – $27,000).

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 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:

	Mar 30, 2011	Dec 31, 2010
	$	$
Trade receivables	1,310	1,661
Cash and cash equivalents	57,400	79,135
Investments	1,017	1,015
Loan receivable from jointly controlled entity	38,179	35,460
	97,906	117,271

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 March 31, 2011.

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 12 above in *Contractual obligations and liabilities as at March 31, 2011.*

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.

Because of the current level of interest rates being less than 1% the Company's exposure to interest rate risk on short term deposits is minimal

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 March 31, 2011 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.

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 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 and early 2011 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 per annum.

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 from the Company for 2010 amount to $444,000, which covered 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 IFRIC Interpretations issued by the IFRS Interpretations Committee.

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 – Certification of Disclosure in Annual and Interim Filings. The CEO and the CFO of Tethys are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of March 31, 2011 which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at March 31, 2011. The Company's control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

Under the supervision of the CEO and the CFO, an evaluation was conducted of the effectiveness of internal control over financial reporting based on "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2010. 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, 2010 have been identified. A similar exercise will be carried out in the course of 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" 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. 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.