TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three and six months ended June 30, 2011

The six months ended June 30, 2011 compared to June 30, 2010

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

	2011	**2010**	**% Change**
Revenue	8,657	8,146	6%
Net loss	(8,991)	(11,321)	-21%
Basic and diluted loss ($) per share	(0.03)	(0.06)	50%
Capital expenditure	25,686	11,759	118%
Total assets	261,144	184,082	42%
Non-current liabilities	(8,434)	(14,938)	-44%
Cash and working capital surplus	24,137	24,408	-1%
Common shares outstanding			
Basic and diluted	260,629,769	187,369,769	39%

The following Management's Discussion and Analysis ("MD&A") is dated August 15, 2011 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended June 30, 2011 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2010. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the requirements of the Disclosure and Transparency Rules ('DTR') of the Financial Services Authority ('FSA') in the United Kingdom as applicable to interim financial reporting. 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.

The Tethys Petroleum Limited Interim Report and Accounts consists of two documents as detailed below:

1) Management's Discussion & Analysis: this includes the requirements of the UK's Disclosure & Transparency Rules with respect to a half-yearly management report and the requirement of National Instrument 51-102 of Canadian Securities Administrators ("Canadian NI 51-102") in respect of a quarterly Management's Discussion & Analysis; and
2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of the UK's Disclosure & Transparency Rules with respect to half-yearly financial information, a directors' responsibility statement and the Independent Auditor's Report to Tethys Petroleum Limited on Review of Interim Financial Information, and the requirements of Canadian NI 51-102 with respect to a quarterly financial report.

Highlights and Significant Transactions

On 11 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 Company the right to produce oil from the Doris accumulation during the exploration period and allows for the installation and operation of production facilities for the planned 3,000-4,000 bopd (Phase 2) production target; currently estimated to commence before the end of 2011. The oil production facility was subsequently officially opened on 8 August 2011.

On 7 February 2011, the Company announced that the proposed amendments to the Kul-Bas Exploration and Production Contract had been incorporated into the contract by the MOG, granting an extension to the exploration period by a further two years until 11 November 2013.

On 17 February 2011, the Company announced that it had signed a Joint Venture agreement with Eurasia Gas LLP to build a joint venture oil terminal so that oil production from the Akkulka block can be delivered and sold to market.

On 18 May, 2011, the Company announced it has signed a contract with the Institute of Geology and Prospecting for Oil and Gas Department of the State Holding Company NHC Uzbekneftegas to study the potential of two separate prospective areas in Uzbekistan with a view to Tethys applying for suitable projects in these areas. The study involves the assessment of existing data and the oil and gas bearing prospectivity of the areas on the basis to prepare proposals for the Government of Uzbekistan for further exploration activities.

On 27 May 2011, the Company issued a holding statement with regard to oil being encountered in its Tajik exploration well East Olimtoi EOL09, noting that the interval, which showed oil in the drilling mud at surface together with high gas levels, had not been fully evaluated or tested but the observed oil flow was obviously a positive indication. This was followed on 9 June 2011, by an announcement that electric logs had now been run in the well which confirmed the probable presence of moveable hydrocarbons in the interval from 3,341 to 3,500 metres. Independent petrophysical interpretation indicated up to 32 metres of net hydrocarbon bearing pay in the section with porosities of up to 17%. No oil-water contact was interpreted in this section of the well. *See Operating income below*

On 7 July 2011, the Company announced initial results of the AKD-04 and AKD-05 appraisal wells on the Doris discovery. The AKD-05 well flowed clean oil at a stable rate of approximately 520 bopd from the Upper Jurassic Carbonate Zone. Subsequently the Company announced that the same zone had flowed at a rate in excess of 2,000 bpd (of which 1,568 barrels was oil) following acidisation. The AKD-04 well Upper Jurassic Carbonate interval was targeted to evaluate the oil-water contact which is separate from the Doris structure by a fault. The test showed a mixture of oil and water so further work has been carried out on the 3D seismic data which resulted in an additional refinement of the sand fan model for the Lower Cretaceous Sands and the likelihood that the oil deposits are primarily stratigraphically trapped.

On July 25, 2011 the Company announced that its entire issued ordinary share capital has been admitted to the standard category of the Official List of the Financial Services Authority and commenced trading on the main market of the London Stock Exchange under the ticker symbol "TPL"

On July 26, 2011, the Company announced that following acidisation its AKD05 Doris appraisal well in Kazakhstan has flowed some 2,088 barrels of fluid per day, of which 1,568 barrels per day was good quality (45 degrees API) oil. The well flowed with good surface pressures and the flow was limited by the surface facilities. Flow data indicate that the well would be capable of flowing around 3,000 barrels per day with reconfiguration of the production facilities.

With oil, oil product and natural gas sales of US$8.657 million in the six months ended June 30, 2011 the Company achieved a 6% increase on the same period of 2010 where sales were US$8.146 million. In 2011 gas sales of US$3.354 million (2010: US$0.475 million) and oil sales of US1.608 million (2010: nil) were achieved in Kazakhstan while refined product sales in Uzbekistan were US$3.368 million (2010:US$7.67 million) and sundry income was US$0.403 million (2010: US$0.026 million).

The Company recorded a net loss of US$8.991 million in the six months ended June 30, 2011 compared to a net loss of US$11.321 million in the six months ended June 30, 2010.

Capital expenditure, excluding the joint venture in Tajikistan, in the six months ended June 30, 2011 was US$25.686 million compared to US$11.759 million in the six months ended June 30, 2010.

Production costs in the six months ended June 30, 2011 were US$3.525 million compared to US$2.875 million in the six months ended June 30, 2010 reflecting the additional production costs from the gas and oil production in Kazakhstan.

Administrative costs in the six months ended June 30, 2011 were US$10.661 million compared to US$8.552 million in the six months ended June 30, 2010.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") has its principal 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	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Three months ended March 31	28,797.5	1,016,840	320	1,883	0	0	0	0
Three months ended June 30	34,224.6	1,208,471	376	2,213	10,146	358,255	298	1,756
Total production	63,022.1	2,225,311	696	4,096	10,146	358,255	298	1,756

Note 1 Mcmpd is thousands of cubic metres per day and in Q2 2010 was calculated based on the actual production days in the quarter. In 2011 there were 181 production days while in 2010 there were 34.

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.

- 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.
- To the end of Q2 2011 some 456,400 Mcm (approximately 16,115 Bcf) or 53.7% of the maximum contract volume under the Gas Supply Contract that the Company has with Asia Gas NG LLP had been delivered. The Contract 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.

Kazakhstan Gas Production (Akkulka contract)

Period	2011				2010			
	Mcm[1]	Mcf[2]	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Three months ended March 31	17,181.9	606,693	191	1,124	0	0	0	0
Three months ended June 30	34,224.6	1,208,471	376	2,213	0	0	0	0
Total production	51,406.5	1,815,164	284	1,671	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 181 production days while in the same period 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 Q1 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)

Period	2011 Total Production			2010 Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	4,219	32,355	360	0	0	0
Three months ended June 30	10,269	78,763	866	0	0	0
Total production	14,488	111,118	614	0	0	0

** using 7.67 barrels = 1 tonne*

[1] Thousand cubic feet per day

- In October 2010 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.
- 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 giving an average of 1,156 bopd on production days.
- Between April 1, 2011 and June 30, 2011 because of work on building the necessary facilities, only 52 days of pilot production were achieved on the Doris discovery on the Akkulka contract giving an average of 1,515 bopd on production days.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

Period	2011 Total Production			2010 Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	14,945	115,076	1,278	20,869	160,691	1,785
Three months ended June 30	14,047	108,162	1,189	19,627	151,528	1,660
Total production	28,992	223,238	1,233	40,496	311,230	1,720

After State Take

Period	2011 **TPU[2] Share**			2010 **TPU Share**		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Three months ended March 31	6,502	50,065	556	10,434	80,342	893
Three months ended June 30	5,813	44,760	492	9,814	75,565	830
Total production	12,315	94,825	524	20,248	155,907	861

** 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 Q2 2011 achieved production just short of 600 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 both Q1 and Q2 of 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

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

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 through the use of jet pumps as well as reconfiguration of the water injection scheme.

Tajikistan Oil Production (Beshtentak field)

There was minimal oil production in Tajikistan in the six months to June 30, 2011 while in the same period of 2010 there was production of 4,442 barrels of which the Kulob Petroleum share was 4,042 barrels.

Production Summary

In the first six months of 2011 the oil and gas production levels achieved in terms of total days as opposed to production days (before the deduction of local governments share or taxation) were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	614	632	3,719	4,333
Uzbekistan	1,233	-		1,233
Tajikistan	-	-		-
Total	**1,847**	**632**	**3,719**	**5,566**

While in the same period of 2010 the figures were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	-	298	1,756	1,756
Uzbekistan	1,720	-		1,720
Tajikistan	-	-		-
Total	**1,720**	**298**	**1,756**	**3,476**

Financial Review

Loss before tax

The Company recorded a net loss after taxation of US$15.137 million in the six months ended June 30, 2011 compared to a net loss of US$11.321 million in the same period of 2010. The principal differences between the two periods were as follows:

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Sales and other revenues	4,177	6,030	-31%	8,657	8,146	6%
Other operating income	5,706	-	100	5,706	-	100%
Finance income	764	22	3373%	796	25	3084%
Total revenue and other income	10,647	6,052	76%	15,159	8,171	86%
Production expenses	(1,773)	(1,938)	-9%	(3,525)	(2,875)	23%

Depreciation, depletion and amortization	(3,215)	(1,358)	137%	(5,827)	(2,050)	184%
Exploration and evaluation expenditure written off	-	(53)	-100%	-	(90)	-100%
Listing expenses	(327)	(573)	-43%	(333)	(1,200)	-87%
Business development expenses	(1,208)	(53)	2,179%	(1,229)	(92)	1,236%
G & A costs	(5,391)	(4,919)	10%	(10,661)	(8,460)	26%
Stock-based compensation	(864)	(1,659)	-48%	(2,057)	(2,853)	-28%
Finance costs	(39)	(101)	-61%	(78)	(421)	-81%
Fair value gain / (loss) on derivative financial instruments	(315)	2,973	-111%	(323)	472	-168%
Foreign exchange gains (loss) net	16	(167)	-110%	216	(152)	-242%
Loss from jointly controlled entity	(302)	(93)	225%	(511)	(244)	109%
Loss before taxation	**(2,771)**	**(1,889)**	47%	**(8,991)**	**(9,794)**	-8%

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 June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Gas sales	1,863	476	291%	3,354	475	606%
Oil sales	1,101	-	100%	1,608	-	100%
Refined product sales	946	5,643	-83%	3,368	7,670	-56%
Other revenue	267	(89)	-400%	327	1	327%
	4,177	6,030	-31%	8,657	8,146	6%

- 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 632 Mcm/d resulting in revenue of US$3.354 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 and the pipeline was only opened from May 27, 2010 at reduced production levels which resulted in the gas revenue being $0.475 million in both Q2 2010 and for the six months to June 30, 2010.
- 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 in the first quarter of 2011 rising to $25/bbl during the second which resulted in total revenue of US$1.608 million (2010: nil) for the six months and $1. 101 million for the three months to June 30, 2011 (2010:nil).
- The Refined product sales are the result of oil production in Uzbekistan which resulted in revenue in the first six months of 2011 of US$3.368 million (2010: US$7.670 million) and $0.946 million in the three months to June 30, 2011 (2010:$5.643 million). The reduced figures in 2011 were primarily the result of a build up of deliveries not being released from the refinery, although the reduced volumes would also be a contributory factor. It is anticipated that the backlog of deliveries sitting at the refinery at June 30, 2011 will be cleared in Q3 which will boost both the Company's revenue and cash flows in that period.

Other operating income

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Other operating income	5,706	-	100%	5,706	-	100%

Since the beginning of 2010 through a wholly owned subsidiary the Company has leased its ZJ30 drilling rig together with associated equipment to a subsidiary of its jointly controlled entity SSEC in Tajikistan. This rig and equipment was used in Tajikistan in drilling both of the Komsomolsk wells and is now being used to drill the Persea well. The renting of the equipment is on a full commercial basis and appropriate invoices have been issued to cover the entire rental period. In accordance with the SSEC shareholders agreement, the amounts receivable in respect of the rental are to be added to the loan due from that entity.

On 27 May 2011, the Company issued a holding statement with regard to oil being encountered in its Tajik exploration well East Olimtoi EOL09, noting that the interval, which showed oil in the drilling mud at surface together with high gas levels, had not been fully evaluated or tested but the observed oil flow was obviously a positive indication. This was followed on 9 June 2011, by an announcement that electric logs had now been run in the well which confirmed the probable presence of moveable hydrocarbons in the interval from 3,341 to 3,500 metres. Independent petrophysical interpretation indicated up to 32 metres of net hydrocarbon bearing pay in the section with porosities of up to 17%. No oil-water contact was interpreted in this section of the well.

As a result of these developments which could indicate oil sales may commence in Tajikistan in the coming months the directors have revisited this matter and now consider it appropriate that the revenue from the rig rentals be included in the Q2 2011 interim financial statements. Accordingly, 'Other operating income' for the 6 months ended 30 June 2011 includes $5,706,435 in respect of these transactions, of which $3,835,320 relates to the year ended 31 December 2010. The invoices have not been settled and there is consequently no impact on the Company's cash flows. There is also no impact on tax expense as a result of this income being recognised. Refer to *Note 9 to Condensed Consolidated Interim Financial Statements.*

Finance income

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Finance income	764	22	3,373%	796	25	3,084%

In addition to the operating income the Directors have given similar consideration to the position of interest on the loan to jointly controlled entity SSEC with the result that cumulative interest income of $719,785 on the loan of $48,821,005 as at 30 June 2011 has been recognised for the period to 30 June 2011. Of this amount, $420,489 relates to the year ended 31 December 2010. This change also has no effect on tax expense or cash flows. Refer to *Note 9 to Condensed Consolidated Interim Financial Statements.*

Operating expenses

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Operating & production costs	1,773	1,938	-9%	3,525	2,875	23%

- Production costs in Kazakhstan were higher in the six months to June 30, 2011 compared to the same period in 2010 primarily as a result of the oil production but the Akkulka gas production, which was not being produced in the same period of 2010, was also a contributory factor.
- Production costs in Q2 2011 were also higher in Kazakhstan as a result of the oil production and Akkulka gas production which was not there in the same period of 2010.
- The increase in Kazakhstan operating costs was offset by a reduction in costs in Uzbekistan. The delays in deliveries of the refined products in Uzbekistan, *see Revenue above*, had a significant impact on the revenues being generated in Uzbekistan in Q2 2011 with a resultant knock on effect to the cost of sales or production expenses recognised in those three months.
- Revenue from Uzbekistan was also lower for the six months to June 30, 2011 as a result of the delay in deliveries from the refinery, with a similar consequent knock on effect on the cost of sales or production expenses.

Depreciation, depletion and amortization expense

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
DD & A costs	3,215	1,358	137%	5,827	2,050	184%

- The DD&A in the three months to June 30, 2011 were a combination of the gas and oil production related figures in Kazakhstan and the refined product production in Uzbekistan.
- The DDA is directly related to the use of reserves and consequently the figure for Kazakhstan was higher in both the three months and the six months to June 30, 2011 because the revenues were higher in both periods reflecting the fact that the gas and oil the reserves utilised in both periods were higher than in the same periods of 2010.
- The absence of any production in Kazakhstan up to May 27, 2010 resulted in no depreciation of oil and gas properties in Q1 2010 and only a small charge in Q2 2010.
- The increased Kazakhstan charges in both Q1 and Q2 2010 were in part offset by the reduced revenue (reserve usage) in Uzbekistan in the same periods.

Listing expenses

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Listing expenses	327	573	-43%	333	1,200	-72%

- The 2011 figures include costs related to the London listing that was subsequently completed in July 2011.
- The 2010 figures relate to the aborted possible listing on the Hong Kong Stock Exchange.

Business development expenses

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Business development expenses	1,208	53	2,179%	1,229	92	1,236%

- Business development costs relate to costs incurred in the Company's pursuit of new contracts in Central Asia. The majority of the costs in 2011 were incurred with respect to the tender held by the government of Afghanistan for an Exploration and Production Sharing Contract relating to three exploration/development areas located in the north of the country within the Amu Darya basin.

G & A costs

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Staff costs	2,242	2,260	-1%	4,307	3,576	20%
Travel costs	777	805	-3%	1,738	1,423	22%
Office costs	673	763	-12%	1,250	1,135	10%
Professional fees	802	623	29%	1,486	1,076	38%
Marketing costs	612	198	209%	909	400	127%
Other costs	285	270	6%	971	850	14%
	5,391	4,919	10%	10,661	8,460	26%

General and Administration expenses for the six months ended June 30, 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 in the six months to June 30, 2011 were increased levels of staff particularly in Kazakhstan but also in other operational areas plus there was a company-wide salary review completed in Q2 2010, which was the first in two years.
- Travel costs in the six months to June 30, were up as a result of increased staff travelling throughout the three countries as the Company looks to develop its operations and revenue.
- 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 incurred by our previous auditors following the introduction of an interim audit prior to the 2010 year-end audit.
- The principal factor in the increased marketing costs were up as a result of sponsorship of a number of social programs at a combined cost of $250,000 primarily in the development of the Shalkar region in Kazakhstan, incurred by both Tethys Aral Gas and Kul Bas where these projects lie. The Company also incurred costs with the contracting of a new company involved in public and governmental relations.

General and Administration expenses for the three months ended June 30, 2011 were up on the same period of the previous year as a result of the following:

- Professional fees were up as a result of a number of "one off" costs including computer software and legal costs associated with office leases etc..
- The principal factor in the increased marketing costs were up as a result of sponsorship of a number of social programs primarily in the development of the Shalkar region in Kazakhstan, incurred by both Tethys

Aral Gas and Kul Bas where these projects lie. The Company also incurred costs with the contracting of a new company involved in public and governmental relations.

Share based payments

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Share based payments	864	1,659	-48%	2,057	2,853	-28%

- Share based payment expenses relate to stock options and warrants issued in 2011 and prior years. While there has been an increase in the total number of shares issued at June 2011 as opposed to June 30, 2010 the fall in the Company's share price and consequently the 2011 option price reduces the cost by the Company.

Finance expenses

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Foreign exchange loss	(16)	167	-110%	(216)	152	-242%
Fair value gain	315	(2,973)	-111%	323	(472)	-168%
Loss from joint venture	302	93	225%	511	244	109%
Finance costs	39	101	-61%	78	421	-81%

- 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 and forex hedging.
- 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 which have reduced as a result of early repayment of some loans.

Taxation

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Tax	75	(1,433)	-105%	178	(1,527)	-112%

There was a slight movement in the deferred tax position in Q2 2011 as a result of the capital expenditure in Kazakhstan.

Capital Expenditure

Capital expenditure during the quarter ended June 30, 2011 was US$14.834 million while a further US$1.71 million of prepayments on capital projects was also incurred.

	Three months ended June 30			Six months ended June 30		
	2011	2010	% Change	**2011**	2010	% Change
Kazakhstan	14,164	6,518	117%	22,209	8,658	157%
Uzbekistan	574	745	-23%	3,351	3,006	11%
Other and Corporate	96	53	81%	126	95	33%
	14,834	7,316	103%	25,686	11,759	118%

Major items of capital expenditure in the three months to June 30, 2011 were:

Kazakhstan

- Doris oil production US$1.40 million
- Akkulka appraisal wells US$7.20 million
- Kalypso (Kul Bas) US$1.80 million

Uzbekistan

- Workovers US$0.57 million

Tajikistan

Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the three months to June 30, 2011 was US$4.50 million compared to US$6.40 million in the same period of 2010 funded directly by the Company.

Major items of capital expenditure in the six months to June 30, 2011 were:

Kazakhstan

- Doris oil production US$ 3.90 million
- Akkulka appraisal wells US$12.20 million
- Kalypso (Kul Bas) US$ 3.20 million

Uzbekistan

- Well NU96 US$2.76 million

Tajikistan

Capital expenditure in Tajikistan incurred via its jointly controlled entity Seven Stars Energy Corporation (SSEC) in the six months to June 30, 2011 was US$10.50 million compared to US$9.80 million in the same period of 2010 funded directly by the Company.

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 June 30, 2011	To be Spent
Kazakhstan			
Appraisal and Exploration Wells	47,500	18,443	29,057
Production and Processing Infrastructure	19,800	7,820	11,980
Seismic Data	6,000	3,070	2,930
Tajikistan			
Production and Processing Infrastructure	3,760	2,302	1,458
Seismic Data	3,000	1,160	1,840
Exploration and Appraisal Drilling Wells	4,000	1,512	2,488
Uzbekistan			
Seismic Data	2,000	-	2,000
Production Drilling	5,940	2,764	3,176
Total	92,000	37,071	54,929

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 wells, KOM200 and KOM201, encountered unexpected drilling challenges and cost more than was anticipated and is currently suspended awaiting completion at some future date. As a result the processing plant has not yet been constructed.
- A decision on installation of the Gas Lift Compression system in North Urtabulak is waiting on the results of the revised water injection programme.

	Per June 12, 2009 Prospectus	Incurred to June 30, 2011	To be Spent
Tajikistan			
East Komsomolsk - KOM 200 appraisal well	3,500	3,500	-
Infrastructure - Komsomolsk gas Processing plant	2,000	-	2,000
East Komsomolsk - gas development well KOM 201 Phase 2	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	
	17,850	14,660	3,190

Summary of Quarterly Results

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

	Sept 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010	Sept 30 2010	Dec 31 2010	Mar 31 2011	Jun 30 2011
Financials ($000's)								
Revenue	2,426	2,807	2,116	6,030	3,173	3,387	4,480	4,177
Net loss	(3,944)	(6,166)	(7,999)	(3,322)	(7,118)	(11,210)	(6,294)	(2,696)
Basic and diluted loss ($) per share	(0.03)	(0.05)	(0.05)	(0.02)	(0.04)	(0.04)	(0.02)	(0.01)
Capital expenditure	8,337	8,868	4,443	7,316	11,950	14,584	10,852	14,834
Total assets	124,627	137,082	186,405	184,082	182,081	267,748	259,477	261,144
Total long term liabilities	(4,997)	(18,345)	(13,419)	(14,938)	(15,963)	(11,535)	(10,492)	(8,434)
Cash and working capital surplus	6,369	(157)	38,372	24,408	6,046	69,718	49,893	24,137

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.
- 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, $501,000 in Q1 2011 and $1,101,000 in Q2 2011.
- The TPU operation in Uzbekistan was acquired by the Company in April 2009.
- During the course of 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.
- Refined product shipments were delayed in the first two quarters in 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 $100,000,000 (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 June 30, 2011:

	Jun 30, 2011	Dec 31, 2010	Movement	Explanation of movement
Property, plant and equipment	129,179	115,653	13,526	Continuing investment in Akkulka Deep oil property, offset by DD&A
Intangible assets	23,458	16,892	6,566	Expenditure on Kul Bas
Non-current other receivables	14,590	12,320	2,270	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Loan receivable from joint controlled entity	48,821	35,460	13,361	Funds provided to SSEC to cover costs in Tajikistan for seismic survey, KOM200, KOM201, EOL09 etc.
Inventories	3,228	2,121	1,402	Increase in finished product as a result of delayed deliveries
Trade and other receivables	3,974	3,680	294	There was an increase in Kazakhstan trade debtors reflecting the increased revenue levels.
Cash and cash equivalents	32,346	79,135	(46,789)	Refer to Consolidated Statement of Cash Flows in the interim financial statements
Restricted cash	3,509	-	3,509	Increase due to monies placed on temporary deposit as security against the forex hedge.
Derivative financial instruments -interest rate swap	982	1,472	(490)	Movement in the estimation of fair value
Other reserves	36,537	34,261	2,276	Stock based compensation expense in the six months to June 30, 2011.
Accumulated deficit	(127,014)	(118,023)	(8,991)	Loss incurred for the period
Non-current financial liabilities – borrowings	-	2,853	(2,853)	Transfer to short term liabilities
Deferred taxation	3,880	4,070	(149)	Movement in deferred tax liability of Kazakhstan and Uzbekistan
Current financial liabilities – borrowings	7,999	5,047	2,952	Movement from long term liabilities
Derivative financial instruments – warrants	44	405	(361)	Movement in the estimation of fair value
Derivative financial instruments –forex hedge	194	-	194	Movement in the estimation of fair value
Deferred revenue	674	2,450	(1,776)	Reduction as a result of Uzbekh product delivered in the period to June 30,2011
Trade and other payables	10,991	8,788	2,211	Increase in trade payables linked to capital expenditure primarily in Kazakhstan

Contractual obligations and liabilities as at June 30, 2011

Contractual Obligations	Total	Payments Due by Period $'000s Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Financial borrowings	7,999	7,999		-	-
Operating leases	940	628	312	-	-
Trade and other payables	11,627	10,991	349	287	
Commitments	3,249	3,249		-	-
Total contractual obligations	**23,815**	**22,867**	**661**	**287**	**0**

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

Liquidity and Capital Resources

As at June 30, 2011 the Company had a working capital surplus, including cash, of $24.137 million while at December 31, 2010 the Company had a working capital surplus, including cash, of $32.346 million.

Cash Flows

The movement in the cash balance during the six months to June 30, 2011 compared to what happened in the same period of 2010 can be broken down as follows:

	June 30 2011	June 30 2010	% Change
Net cash used in operating activities	(7,696)	(9,062)	15%
Net cash used in investing activities	(38,441)	(22,722)	69%
Net cash generated from financing activities	(524)	54,749	-101%
Foreign exchange difference	(128)	(30)	30%
	(46,789)	22,935	304%

Operating activities

While there was a reduction in the pre-tax loss is the six months to June 30, 2011 compared to the same period in 2010 the reduction in cash used in operating activities was $1.366 million reflecting a build up in accrued expenses.

Investing activities

In the six months to June 30, 2011, due primarily to increased capital expenditure relating to the Doris oil discovery, there was a significant increase in cash used in investing activities when compared to the same period in 2010.

Included in the investment activities is an increase in restricted cash of $3.509 million. Of this $3.0 million relates to cash held temporarily on deposit in support of the foreign exchange hedging and will be released over the coming months.

Financing activities

There were no financing activities completed in the six months to June 30, 2011 while an increase in borrowings of $1.840 plus three private placements generating gross receipts of $54.134 million were completed in the six months to June 30, 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 regularly updated forecasts of the expected timing and level of capital and operating expenditure required to meet both 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. The Company is fully aware of the current volatile market conditions and has no current plans to raise funds through the issue of equity.

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 borrowings at June 30, 2011 were significantly lower that at the same point in 2010 primarily because of repayments on the rig loans.

Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt. There was no net debt at June 30, 2011.

	June 30 2011	**June 30 2010**
	$	**$**
Total financial liabilities - borrowings	7,999	11,665
Less: cash and cash equivalents	(32,346)	(30,232)
Net debt / (funds)	(24,347)	(18,567)
Total equity	226,382	167,203
Total capital	274,541	148,636

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.

Stockholder Equity

As at June 30, 2011 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 260,629,769 (2010: 187,369,769) 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, August 15, 2011, a total of 31,275,572 (2010: 22,460,372) 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, August 15, 2011, is 22,863,000 and the number of warrants outstanding is 12,783,455.

Auditors

At the AGM held in Grand Cayman on June 27, 2011 KPMG Audit Plc were appointed as auditors of the Company. PwC had been the previous auditors.

OUTLOOK

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of short-term cashflow projects and long-term high potential exploration projects focused in the Central Asian region. The Company's approach involves a mix of early cashflow production and development projects, for both natural gas and oil, as well as high potential exploration prospects looking to generate significant commercial upside. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

While the Company's long-term ambition is to occupy a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets, the specific focus of management in the remainder of 2011 is to:

- appraise the Doris oil field discovery in the Akkulka Block, Kazakhstan;
- increase oil production from the Doris oilfield and complete the installation of phase two production and sales facilities;
- continue exploration drilling on the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- acquire contracts on new existing oil fields and exploration acreage in Uzbekistan;
- acquire more geophysical data to firm up the location of a deep exploration well in Tajikistan;
- complete the East Olimtoi EOL09 exploration well in Tajikistan;
- drill a mid-depth exploration well (Persea) in Tajikistan;

In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities as a means of developing its business and sharing financial and/or commercial risks and is actively pursuing farmouts and similar arrangements on its Tajik and Uzbek assets.

Kazakhstan Operations Update

On August 8, 2011 the Company announced the opening of its Doris oil production facilities in Kazakhstan. Oil is currently being trucked from this location at a rate of approximately 1,500 barrels of oil per day ("bopd"), which will increase to 2-2,500 bopd with the new production facilities. With the opening of the new rail-loading facility in Q4 of this year, which will reduce the trucking distance by half, it is planned to increase production to 4,000 bopd. The production facility and terminal are designed for potentially much greater production rates in the future. The new production facility was officially opened in 8 August 2011.

On July 26, 2011, the Company announced that following acidisation its AKD05 Doris appraisal well in Kazakhstan has flowed some 2,088 barrels of fluid per day, of which 1,568 barrels per day was good quality (45 degrees API) oil. The well flowed with good surface pressures and the flow was limited by the surface facilities. Flow data indicate that the well would be capable of flowing around 3,000 barrels per day with reconfiguration of the production facilities.

On 7 July 2011, the Company announced initial results of the AKD-04 and AKD-05 appraisal wells on the Doris discovery. The AKD-05 well flowed clean oil at a stable rate of approximately 520 bopd from the Upper Jurassic Carbonate Zone. Subsequently the Company announced that the same zone had flowed at a rate in excess of 2,000 bpd (of which 1,568 barrels was oil) following acidisation. The AKD-04 well Upper Jurassic Carbonate interval was targeted to evaluate the oil-water contact which is separate from the Doris structure by a fault. The test showed a mixture of oil and water so further work has been carried out on the 3D seismic data which resulted in an additional refinement of the sand fan model for the Lower Cretaceous Sands and the likelihood that the oil deposits are primarily stratigraphically trapped. Based on this 3D mapping the location of the next Doris area well (AKD-06) has been chosen and the well was spudded on August 1, 2011.

On 18 April 2011, the Company announced the initial results of testing on the AKD-03 exploration well ("Dione") on the Akkulka block in Kazakhstan. The well tested 43° API oil from a secondary target in a Jurassic age sandstone at a rate of over 400 bopd. Subsequently 40° API oil was also tested from a sandstone of Middle Cretaceous. However the previous injection of drilling fluids and related chemicals to safely stabilise the well for drilling deeper has resulted in significant formation damage which has resulted in minor flow to date on the initial test from the damaged formation.

The AKD06 appraisal well has been spudded and is currently at a depth of 633 metres. The AKD06 well is appraising the Doris oil discovery and is targeting the Cretaceous sand that flowed in the AKD01 well at 5,400 bopd of light crude with low paraffin and sulfur content. It is located to the south-east of the AKD01 well.

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.

The Kalypso (KBD-01) wildcat exploration well which is targeting primarily a large potential structural closure at carboniferous level is currently at a depth of 4,128 metres. This well is being drilled some 50 km to the north west of the Doris discovery with its primary target being at approximately 4,250 – 4,300 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 Q3 2011.

Tajikistan Operations Update

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 recommenced in Q2 2011 after a significant rig upgrade. On 27 May 2011, the Company issued a holding statement with regard to oil being encountered in the well, noting that the Alay interval, which showed oil in the drilling mud at surface together with high gas levels, had not been fully evaluated or tested but the observed oil flow was obviously a positive indication. This was followed on 9 June 2011, by an announcement that electric logs had now been run in the well which confirmed the probable presence of moveable hydrocarbons. Following the running of casing, high pressure tie-back string and upgraded blow out preventor, the well now at total depth of 3,775 metres in the Akdzhar formation having drilled through the Bukhara Palaeogene carbonate reservoir. Electric logs are currently being run prior to the commencement of a testing program..

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The Company's regional seismic acquisition programme was completed in Q1 2011with 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 spudded the Persea 1 exploration well in June 2011 using its ZJ30 rig Tykhe. The well is a 2,700 metres vertical well targeting the Paleogene Buhkara limestone and overlying Alay formation and is close to the town of Kurg0n-Teppa. It is expected that the well will reach total depth by October 2011.

The Company has commenced the gravity, gradiometry and magnetic aerial survey. The survey will cover the entire area of the 35,000 km2 Bokhtar Production Sharing Contract Area and will provide additional and more aerially extensive data to complement the existing seismic acquisition. Over 34% of the survey data has now been acquired and the final processed data and results are expected in Q4 2011.

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

Uzbekistan Operations 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 of the well. The well tested successfully at over 1,100 bopd and is now producing close to 600 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 initial results of the recent jet pump trial on the North Urtabulak oilfield were successful with oil rates on the two test wells increasing by some 20%. Further work is now underway to ascertain the economics of extending the use of jet pumps on the field (and potentially on any new fields the Company is successful in contracting) which, together with the likely effects of the water injection reconfiguration carried out earlier this year should have a positive impact on oil production levels from the field in the later half of 2011.

The Company also continues to and intends to carry out further production enhancement techniques on North Urtabulak including revised water injection (which should begin to have an impact on field production in Q3 2011), 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 June 30, 2011 was $1,576,734 (June 30, 2010 – $1,142,828). 61% of the increase was the result of remuneration increases, 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 June 30, 2011 were $11,422 (June 30, 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.

There have been no changes in the related parties transactions described in the last annual report.

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Tethys' business may be impacted by various risks not all of which are within its control. 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. All risks which were detailed at that time have not changed and remain appropriate.

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

The Company has identified its principal risks for the second half of 2011 to include:

- Exploration and development expenditures and success rates, though considerable technical work is undertaken to reduce related areas of risk and maximise opportunities.
- Oil and gas sales volumes and prices.

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 was:

	June 30, 2011	**Dec 31, 2010**
	$	**$**
Trade receivables	7,483	1,661
Cash and cash equivalents	32,346	79,135
Investments	1,057	1,015
Loan receivable from jointly controlled entity	48,821	35,460
	89,707	117,271

Included in the trade receivables balance at June 30, 2011 was $3,000,000 security deposit held by HSBC Bank in support of the hedging arrangement put in place in may 2011. *See Hedging Arrangement below.*

Of the remaining trade receivable balance the single biggest item is the trade receivable balance in Kazakhstan being the result of contracted sales to one customer for gas and one customer for oil. The Company does not believe it is dependent upon either customer for sales due to the nature of gas and oil products and the associated market. The Company's gas sales in Kazakhstan commenced in December 2007 and its oil sales in September 2010. The Company has not experienced any credit loss to date.

In Uzbekistan, the Company makes use of two customers where 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 (BBB or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Previously the Company's minimum rating was A- but after careful consideration this was relaxed to BBB in relation to Investec Bank plc. Within the Central Asian countries banks with the international 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 June 30, 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. Revenue and expenditure levels, both actual and projected, are reviewed on a regular basis and forecasts updated on a regular basis. These forecasts enable the Company to identify when additional financing might be needed or expenditure plans adjusted.

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 June 30, 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 were available, that it would be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material 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.

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 June 30, 2011 with all other variables held constant, the Company's foreign exchange gain or loss would have been affected by $12,928, for CDN had the $ changed by 10% the exchange gain or loss would have been affected by $81,014 and for the Kazakhstan Tenge (KZT) it would have been affected by $1,096,774.

Hedging arrangement

As a result of its operations in the United Kingdom and Guernsey the Company incurs expenditure in GBP on a regular basis and because of concerns relating to the exchange rate has entered into a hedging arrangement with HSBC Bank which runs to May 2012. In this arrangement the Company can convert up to $1 million on a set day each month at the lower of the market rate or a maximum secured rate of $1.6495. In support of this arrangement the Company had to hold funds in the form of a security deposit with the bank though the balance required reduces during the period of the hedge. The initial balance of the security deposit was $3 million but by August 4, 2011 this balance had reduced to $0.9 million.

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan, Tajikistan or Uzbekistan to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Kazakhstan, Tajikistan or Uzbekistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be exchangeable into U.S. Dollars or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Soum into U.S. Dollars or Pounds Sterling to meet its foreign currency obligations.

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. The Company currently 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 oil and/or 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. As such, fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, 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 oil and gas prices in the region is good, the recent events in Africa and the Middle East demonstrate the volatility and uncertainties of the oil and gas industry. 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.

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 should have no effect on the Company's revenue from the Kazakh gas operations. In Uzbekistan, the Company sells refined petroleum products on a monthly basis and is consequently also subject to movements in the oil price. The price of oil sales from the Doris discovery commencing in the latter part of 2011 has yet to be agreed and therefore would be sensitive to movements in the market price.

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 fourth 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, safety and health and sanitary regulations in the jurisdictions in which it operates. Whilst the Company believes that it carries out its activities and operations in material compliance with these environmental, safety and health and sanitary regulations, there can be no guarantee that this is the case. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. 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.

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. However, the discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

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 June 30, 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 June 30, 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.

"Bernard Murphy"

Bernard Murphy, Chief Financial Officer