TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the year ended December 31, 2012

Summary of Annual results

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

	2012	2011	2010
Revenue from oil and gas sales	38,107	22,922	14,706
Other operating revenue	-	7,375	-
Total revenue and other income	38,107	30,297	14,706
Net loss	(20,904)	(26,989)	(29,649)
Basic and diluted loss ($) per share	(0.07)	(0.10)	(0.15)
Capital expenditure	17,501	41,902	38,293
Total Assets	251,953	263,391	267,748
Non-current Liabilities	(7,475)	(4,676)	(11,535)
Cash balance	2,227	11,631	79,135
Common shares outstanding			
Basic and diluted	286,707,744	286,692,744	260,629,769

The following Managementøs Discussion and Analysis (õMD&Aö) is dated March 28, 2013 and should be read in conjunction with the Companyøs Audited Consolidated Financial Statements and related notes for the year ended December 31, 2012. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Companyøs Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with the requirements of the Disclosure and Transparency Rules (õDTRö) with respect to DTR 4.1 õAnnual Financial Reportö of the Financial Services Authority (õFSAö) in the United Kingdom as applicable to annual financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the õForward-Looking Statementsö legal advisory wording contained at the end of this MD&A.

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The Tethys Petroleum Limited Annual Report and Accounts for 2012 consists of two documents as detailed below:

1) Managementøs Discussion & Analysis: this includes the documents required to be disclosed pursuant to National Instrument 51-102 of Canadian Securities Administrators õContinuous Disclosure Obligationsö (õCanadian NI 51-102ö) in respect of an annual Managementøs Discussion & Analysis and the documents required to be disclosed pursuant to DTR 4.1 õAnnual Financial Reportö ;and

2) Annual financial information: this includes the Consolidated Financial Statements, the documents required to be disclosed pursuant to Canadian NI 51-102 with respect to an annual financial report and the documents required to be disclosed pursuant to DTR 4.1, Directorsø Responsibility Statement and the Independent Auditorøs Report to Tethys Petroleum Limited.

Highlights and Significant Transactions

2012

On January 30, 2012, the Company announced the official inauguration of its Aral Oil Terminal (the "AOT") at Shalkar - a purpose built oil storage and rail loading facility for its oil shipments from the Doris oilfield. AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerøs company, Olisol Investment Limited (a subsidiary of Eurasia Gas). The initial aim for this facility was to enable the Company to increase production from the Doris field and April 13, 2012, saw the Company complete the first shipment of commercial oil production through the AOT.

Phase 2 of the AOT construction which allows an increase in throughput capacity from 4,200 barrels of oil per day up to 6,300 bopd was completed in November 2012 (subject to final state approval) with the installation of two 1,000 cubic metre tanks (approximately 12,500 barrels), associated dehydration and pumping equipment. The Company anticipates production levels of around 4,000 bopd in 2013. *See Joint Venture on page 7.*

On February 1, 2012, the Company announced it had signed a Memorandum of Understanding ("MOU") with the Uzbek State oil and gas company, National Holding Company "Uzbekneftegaz" ("UNG"). The objective of this MOU was to provide the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan.

February 9, 2012 saw the Company confirm the issue of a tender for the final stage of the seismic programme in Tajikistan. This programme subsequently commenced in Q3 2012 and the data will be used to firm up an initial deep well drilling location to exploit the very significant upside indicated by the seismic, gravity, gradiometry and magnetic aerial surveys previously carried out.

On March 21, 2012, the company announced Total Net Oil and Gas Reserves (barrels of oil equivalent: boe) consisting of 1P (Proved reserves) up 96% to 14.5 million boe and 2P (Proved + Probable reserves) up 45% to 25.3 million boe.

On April 18, 2012, the Company announced it had received permission from MOG to extend the Akkulka Exploration Contract for a further two years from March 10, 2013 to March 10, 2015. This would allow more comprehensive appraisal of the commercial discovery of oil at AKD01 and exploration of further identified prospects in the contract area.

On May 16, 2012, the Company announced an updated oil resource report prepared by Gustavson Associates for its Kazakhstan assets, estimating gross unrisked recoverable mean prospective oil resources of 1.23 billion barrels of oil plus 634 Bcf of gas (1.336 billion boe). The report also showed a substantial amount of prospective gas resources. The upgrade was attributed to additional 2D and 3D seismic acquisition and interpretation as well as drilling data.
On May 16, 2012, the Company through its 100% owned subsidiary, Chegara Production Limited (õCPLö), signed a new 25-year Production Enhancement Contract (õPECö) for a new oil field, the Chegara Group of Fields (õChegaraö) in Uzbekistan. The Chegara Group is an underdeveloped group of fields located 14 kilometers south-west of Tethysø existing asset in North Urtabulak. In addition, the Company also signed a further MOU, which agreed to a timetable for the potential signing of an Exploration Agreement for an exploration block in the highly prospective North Usyurt basin. Work is planned to commence on the Chegara PEC once certain Uzbek governmental permissions have been received *See Uzbekistan Operations Update on page 27.*

On June 29, 2012, the Company announced that its Kazakh subsidiary had reached agreement on a USD16.0 million funding facility. This facility was provided to Tethys Aral Gas (õTAGö) by a Kazakh bank via its partners in Kazakhstan, and is available to fund capital expenditures in Kazakhstan. An initial USD3.5 million of this facility was drawn down in June 2012 with further

monthly drawdowns in the period September to December 2012. By the end of the December 2012 some USD9.9 million had been drawn down. See *Liquidity and Capital Resources on page 20*.

On July 19, 2012, it was announced that the Company had received an updated independent Resource Report for its Tajikistan assets. These cover an area of approximately 35,000 sq. km and the estimated gross unrisked mean recoverable resources were 27.5 billion boe consisting of 114 trillion cubic feet (3,229 billion cubic metres) of natural gas and 8.5 billion barrels of oil and condensate.

On October 18, 2012, the Company announced that it had reached total depth of 2,750 metres on the AKD07 exploration/appraisal well and had run a production liner in order to test the Jurassic carbonate zone which appeared to be oil bearing from the drilling and wireline results. The Cretaceous õDynaö sand did not appear to have moveable oil and the õDorisö channel sand was not encountered. In the remainder of the well down to total depth, there were a number of sands encountered with limited hydrocarbon indications, however these zones were likely to be too thin to contribute to commercial production and would not be tested. *See Kazakhstan Operations Update on page 25.*

On December 21, 2012, the Company announced that it its subsidiary KPL had signed the Farm-Out Agreement for the Bokhtar PSC with subsidiaries of Total S.A. (õTotalö) and the China National Oil and Gas Exploration and Development Corporation (õCNODCö), a 100%-owned subsidiary of Chinese National Petroleum Company. This Farm-Out is for two thirds of KPLøs interest in the Bokhtar PSC for repayment of a portion of past costs and a forward carry in an agreed work programme. The Farm-Out is subject to the agreement of the Tajik government and certain other completion conditions. *See Tajikistan Operations Update on page 27*

2013

On January 31, 2013, the Company announced that it had effectively doubled the net price of the gas that it is selling in Kazakhstan. Two gas supply contracts have been signed by TAG with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC, for the Kyzyloi and Akkulka natural gas fields. The contracts are for annual volumes up to 150 million cubic metres at an increased net price of USD65 per 1,000 cubic metres (or USD1.84 per 1,000 cubic feet) of gas (USD72.8 per 1,000 cubic metres or USD2.06 per 1,000 cubic feet including VAT) net of marketing and distribution costs, and run through to December 31, 2013.

On February 28, 2013, the Company announced it had extended the exploration period for the Kul-Bas Exploration and Production Contract by a further two years until November 11, 2015. The Kul-Bas contract area surrounds the Akkulka contract area which contains the Company's producing oil and gas fields. This extension gives further time to explore this attractive area, which has several prospects and leads.

The oil and gas revenue in 2012 at USD38.107 million represented an increase of 66% on the 2011 figure of USD22.922 million.

The net loss for 2012 at USD24.088 million represented a reduction of 11% on the 2011 loss of USD26.989 million. *See Revenue on page 11.*

In the year to December 31, 2012, capital expenditure was USD17.501 million compared to USD41.902 million in the year ended December 31, 2011.

Production costs in the year to December 31, 2011 were USD12.970 million compared to USD10.785 million in the year ended December 31, 2011 reflecting the additional production costs associated with the enhanced levels of oil production achieved in Kazakhstan. Production cost per barrel in Kazakhstan were USD7.34 per barrel in the year to December 31, 2012 compared to USD8.46 in the year to December 31, 2011 ó see page 15.

In the year to December 31, 2012 the Company recorded a profit before non-cash items of USD3.418 million compared to a loss of USD3.932 million in the year to December 31, 2011. Profit before non-cash items (a Non GAAP measure) is defined as: Revenue less Production costs, Administrative Costs, Listing Expenses, Business Development Expenses and Foreign Exchange ó see table on page 12.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively õTethysö or õthe Companyö) has its principal executive office in Guernsey, British Isles. The domicile of Tethys Petroleum Limited is the Cayman Islands where it is incorporated. Tethysø principal activity is the exploration for and production of crude oil and natural gas. The Company currently has projects in the Republic of Kazakhstan, the Republic of Tajikistan and the Republic of Uzbekistan.

Financial and Operational Review

Reserves

Following the completion of the audit of the Kazakhstan reserves by an independent auditor, Gustavson & Associates Consultants Limited, independent oil and gas reservoir engineers of Calgary, Alberta, the Company announced Total Net Oil and Gas Reserves (barrels of oil equivalent: BOE) consisting of 1P (Proved reserves) 13.8 million BOE and 2P (Proved + Probable reserves) 24.0million BOE.

The NPV10 value after tax of the Companyøs Kazakh reserves as at December 31, 2012 was USD310.4 million.

The growth in the value of the Companyøs reserves is one of the Companyøs Key Performance Indicators (õKPIsö).

Kazakhstan Gas Production (Kyzyloi contract) Mcf[4]

Period	2012				2011			
	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]
Q1	35,242.2	1,244,402	387	2,279	28,797.5	1,016,840	320	1,883
Q2	31,967	1,128,762	351	2,068	34,225	1,208,485	376	2,214
Q3	31,160	1,100,253	339	1,993	35,538	1,254,847	386	2,274
Q4	29,244	1,032,599	318	1,871	36,067	1,273,526	392	2,307
Total	127,613	4,506,015	349	2,052	134,628	4,753,697	369	2,171

Note 1 Mcm is thousands of cubic metres.
Note 2 Mcf is thousands of cubic feet.
Note 3 Mcm/d is thousands of cubic metres per day
Note 4 boe/d is barrel of oil equivalent per day. 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.

- Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main BukharaóUrals gas trunkline, where a compressor station was constructed at km910 on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.
- Initial production from the Kyzyloi Field was sold under the long-term take-or-pay contract signed between TAG and gas trading company GazImpex in January 2006. This contract was assigned in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP, who utilized the gas in the domestic Kazakh market. This contract was further assigned on May 1, 2009 to Asia Gas NG LLP. The contract price was USD32 per Mcm excluding VAT or USD35.84 per Mcm including VAT at the current 12% rate.

The long-term take-or-pay contract expired in December 2012 and in late January 2013 TAG signed a contract with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC. This Kyzyloi contract, along with a similar one for Akkulka, is for annual volumes up to 150 million cubic metres at an increased net price of USD65 per 1,000 cubic metres (USD 1.84 per 1,000 cubic feet) of gas (USD72.8 per 1,000 cubic metres or USD2.06 per 1,000 cubic feet including VAT) net of marketing and distribution costs, and runs through to December 31, 2013. This is effectively double the price obtained for previous gas sales in Kazakhstan.

- The gradual reduction in production levels in 2012 as compared to 2011is primarily the result of natural decline in the wells. No capital was invested in maintaining or increasing gas production due to the relatively low gas price being realized under the previous gas sales contract. It is expected more capital will be invested in 2013 under the higher gas price. The fact that one of the compressors was out of commission until June also had an impact on the slightly lower production levels although this had a bigger impact on Akkulka production
- To the end of 2012 some 662.3MMcm under the Gas Supply Contract had been delivered.

Kazakhstan Gas Production (Akkulka contract)

Period		2012					2011			
		Mcm	Mcf	Mcm/d	boe/d		Mcm	Mcf	Mcm/d	boe/d
Q1		16,273.1	574,605	179	1,053		17,181.9	606,693	191	1,124
Q2		14,373	507,504	158	930		22,651	799,807	249	1,465
Q3		12,808	452,265	139	819		22,867	807,434	249	1,463
Q4		11,862	418,830	129	759		20,204	713,403	220	1,293
Total		55,316	1,953,204	151	890		82,904	2,927,337	227	1,337

- On September 16, 2010, the Company commenced the second phase of gas development (referred to as õPhase 2ö of the Kyzyloi / Akkulka shallow gas development) with commencement of production from the Akkulka Field on October 6, 2010.
- In conjunction with this, the Company entered into a second gas sales contract with Asia Gas NG LLP pursuant to which gas was sold from the Akkulka Field at a price of USD33.93 per Mcm excluding VAT or USD38 per Mcm including VAT. Gas sold under this contract was for domestic sales and, as such, was subject to a Mineral Extraction Tax of approximately 0.5% to the Kazakh State.

  The Akkulka gas sales contract was to run for a period of two years. First deliveries under this contract commenced on October 6, 2010. As stated above in late January 2013 TAG signed a contract with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC. This Kyzyloi contract, along with a similar one for Akkulka, is for annual volumes up to 150 million cubic metres at an increased net price of USD65 per 1,000 cubic metres (USD 1.84 per 1,000 cubic feet) of gas (USD72.8 per 1,000 cubic metres or USD2.06 per 1,000 cubic feet including VAT) net of marketing and distribution costs, and runs through to December 31, 2013. This is effectively double the price obtained for previous gas sales in Kazakhstan.
- The gradual reduction in production levels in 2012 as compared to 2011 is primarily the result of natural decline in the wells. No capital was invested in maintaining or increasing gas production due to the relatively low gas price being realized under the previous gas sales contract. It is forecast that production will increase in 2013 by bringing on stream already drilled and easily connected gas wells that need minor work carried out on them, tying in some wells that need short pipelines, and drilling additional exploration wells. As also stated above one of the compressors was out of commission, which together with one Akkulka well being closed has resulted in a reduction in production levels.
- To the end of 2012, some 163.4 MMcm under the Gas Supply Contract had been delivered.

- TAG has made eleven shallow gas discoveries in the Akkulka Exploration Licence and Contract area. The Akkulka Production Contract now covers seven of these wells, of which four are currently producing from a similar horizon to the Kyzyloi Field and are tied into the Companyøs existing pipeline infrastructure, with additional compression having been installed at the BCS. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3.
- The Company is hopeful that, with the completion of the Kazakhstan ó China gas pipeline (which the Company understands is scheduled for 2013/2014), better gas prices may be obtained with more competition from gas buyers for supply.

Kazakhstan Oil Production (Akkulka contract)

	2012					2011				
Period	Gross fluid		Net	Net Production		Gross fluid		Net	Net Production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	17,149	105,082	94,463	91	1,038	4,219	32,359	30,030	90	334
Q2	46,099	289,957	266,391	91	2,927	10,269	78,143	74,244	91	815
Q3	42,148	265,102	251,321	92	2,732	18,579	156,129	144,624	92	1,572
Q4	59,241	372,620	341,974	92	3,717	21,292	178,493	165,324	92	1,797
Total	164,637	1,032,761	954,149	366	2,607	54,359	445,124	414,222	365	1,135

Note: These figures have been calculated on the total number of days in the period and have not been restricted to the number of production days as in pre-2012 MD&Aøs.

- On September 10, 2010, the Company commenced selling untreated oil at the well site of AKD01 (under test production at a permitted level of up to 750 barrels of oil per day (õbopdö)) to an oil trading company which transported the oil by truck to an oil loading terminal north of the town of Emba, located 450 km to the northeast of the well site, where it was treated before being transported to local refineries. Tethys sold the unprocessed oil at the wellhead at an initial price of USD22 per barrel (õbblö). This test production scheme was implemented to gain reservoir information, realize early cash flow and also to prepare for the higher production and associated logistics for the next stage.

- On January 11, 2011, TAG received Kazakh State approval from MOG for the Pilot Production Project for the Doris oil discovery in the Akkulka Block. This approval granted TAG the right to produce oil from the Doris discovery under the exploration contract and allowed the Company to install and operate production facilities for the planned (Phase 2) production target. Once the Pilot Production Project is fully completed, the relevant final reserve calculations will be submitted to MOG to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is expected to apply for a production contract after the appraisal programme for the Doris oil discovery is complete.

- AKD01 has been producing consistently since first coming on stream although during the first part of July, when there was a temporary shortage of rail trucks in Kazakhstan resulting in a shortage of tank space, the well was temporarily closed.
- Test production from well AKD05 commenced in June 2011 and carried on into July 2011. There was then a gap in August and September before commercial production commenced in October 2011. The well was closed during the severe winter before being reopened when the AOT came online before also being closed during early July 2012, as a result of the shortage of rail trucks.
- The AKD06 well was originally tested in November and December 2011 and was then closed until mid - April 2012 when it was opened for continued testing. This well continues to perform to expectations.
- In the three months from April 1 to June 30, 2012 following the opening of the AOT at Shalkar there was a significant increase in the amount of oil trucked. It should be noted that Tethys Aral Gas sells the oil at the

wellhead and does not participate in the trucking operation and therefore relies on a third party to ensure that the maximum amount of oil produced is trucked and sold. In the third quarter the oil produced and trucked steadily increased every month and this trend continued into the fourth quarter.

- The increase through the year was not as quick as originally hoped due to various issues experienced by the trucking company such as a serious shortage of rail trucks in Kazakhstan in July, which necessitated a reduction in the Companyøs daily production levels at that time, and generally learning how to optimise operating 120+ trucks over a 460km round trip through the Kazakh Steppe. The gradual increase in production since then has demonstrated that these issues are being successfully addressed, albeit slower than TAG would have liked, though further production increases in the fourth quarter would suggest that the Company is on route to achieving the maximum production output, which Tethys believes is up to 4,500 bopd with the current wells drilled. *See Joint Venture below and Outlook on page 23.*

Joint Venture

On February 17, 2011, the Company signed a joint venture agreement to construct and operate AOT, a rail oil loading terminal at Shalkar in Kazakhstan. Transcontinental Oil Transportation SPRL (õTOTö), a wholly owned subsidiary of the Company, and Olisol Investments Limited, a local partner with strong experience in the oil distribution business in Kazakhstan, each has a 50% interest in the project. In the second quarter commercial oil sales commenced through the AOT which effectively halved the oil trucking distance providing better control over the oil sales. Production was steadily increased over a period as each part of the sales chain was optimized.

The AOT facility construction comprises three phases:

Phase 1 - Completed

The Phase 1 facility has a loading capacity of 4,200 bopd and a storage capacity of 1,300 bbls. Under Phase 1 operations, the terminal has the ability to unload 10 road tankers and to simultaneously load 5 rail tankers.

Phase 2 ó Completed (subject to final state approval)

AOT Phase 2 construction allowed an increase in throughput capacity from 4,200 bopd up to 6,300 bopd with the installation of two x 1000 m3 tanks (approximately 12,500 bbls), associated dehydration and pumping equipment.

During Phase 2 operations the facility became operational 24 hours a day. Further enhancements during Phase 2 operations included oil and water metering systems and a heating capability for winter operations. All process equipment also become automated during Phase 2 operations. With the current well stock it is forecast that a production rate of at least 4,500 bopd could be achieved on a continual basis. Higher rates can be achieved but it is believed that these rates are most optimal for this reservoir with the current wells.

Under Phase 2 operations, the facility will incorporate an electrical dehydrator for the commercial treatment of crude oil.

Phase 3 ó Ongoing

On completion of Phase 3, the facility will have an estimated loading capacity of 12,000 bopd and a storage capacity of 125,800 bbls of crude oil, plus an additional 12,580 bbl storage for refined products. Under Phase 3 operations, the terminal will have the ability to unload 10 road tankers and to simultaneously load 10 rail tankers.

In addition, AOT will be able to act as a rail logistics terminal for equipment to be moved to and from the Doris oil field and surrounding operations, and used to transport refined products for operations.

The Company is currently producing approximately 4,000 bopd. It is planned to expand the capacity of the terminal to more than 12,000 bopd upon completion of Phase 3 to accommodate future potential production growth which is dependent upon further drilling success.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

	2012			2011		
	Total			Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	9,004	64,379	707	14,945	106,857	1,187
Q2	8,795	62,885	691	14,047	100,436	1,104
Q3	8,350	59,703	649	10,891	77,871	846
Q4	8,075	57,735	628	9,291	66,431	722
Total	34,224	244,701	669	49,174	351,594	963

** using 7.15 barrels = 1 tonne*

After State Take

	TPU[1] Share 2012			TPU Share 2011		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	2,443	17,469	192	6,430	45,975	511
Q2	2,250	16,088	177	5,808	41,527	456
Q3	1,988	14,214	155	3,883	27,763	302
Q4	1,855	13,264	144	2,629	18,797	204
Total	8,536	61,035	167	18,750	134,063	367

- The Company, through Tethys Production Uzbekistan (õTPUö), owns a 100% contractor interest in the North Urtabulak PEC for the North Urtabulak Field, together with subsidiaries of Uzbekneftegaz (õUNGö). This field is located in southern Uzbekistan in the northern portion of the Amu Darya basin. The North Urtabulak PEC does not confer ownership of the North Urtabulak Field to TPU and no reserves or resources have been attributed to TPUøs interest under the North Urtabulak PEC to date.
- Under the North Urtabulak PEC, the contractor receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the contractor receives 20%, and the Uzbek State Partners 80% of the same.
- As at December 31, 2012, the Company was producing approximately 600 bopd (gross), 144 bopd (net), from 14 wells under the North Urtabulak PEC, of which 12 were past their first three years of production. Part of the North Urtabulak Field lies under a zone of active salt movement which has had limited production in the past due to drilling difficulties. Current production is approximately 425 bopd (gross), 98 bopd (net).
- In November 2011, the Company announced that it had signed an MOU with UNG, establishing a programme for Tethys to obtain a new PEC on an existing oilfield in Uzbekistan. This was followed by a further announcement on May 16, 2012, that the Companyøs wholly owned subsidiary Chegara Production Limited had signed a PEC for this same new oil field (the Chegara Group of fields). The contract will become effective following standard regulatory approvals, which include the issuance of a Governmental Decree. This is expected in Q3 2013.

[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.

- In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue providing the framework for a Joint Study and facilitate the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. Then on May 16, 2012 it was announced that a MOU had been signed, which agreed a timetable for the potential signing of an Exploration Agreement for a highly prospective Exploration block.

Tajikistan Oil Production (Beshtentak field)

		2012					2011			
		Total Production					Total Production			
		Tonnes	Barrels*	Production days	bopd		Tonnes	Barrels*	Production days	bopd
Total		4,648	34,597	365	95		2,481	18,468	365	50

The Beshtentak well BST20 was worked over by applying modern perforating and acidisation techniques. The Company announced in October 2011 that the well was producing over 500 bopd, accompanied by 12,500 cubic metres (441 thousand cubic feet) of gas per day on a restricted choke (10 mm ó 25/64 inch) with a flowing tubing head pressure of 26 atmospheres (377 psi). The oil has an API gravity of 38 degrees. Initial sales agreements were signed and the first payments from oil sales received.

The well was placed on oil production and the gas was tied into the nearby local gas grid but subsequently production performance indicated possible communication with the nearby BST103 well which is producing gas from the field for the city of Kulob, this gas being part of the õbase levelö production on the field assigned to the Tajik State. As a result, the BST20 production dropped significantly. At present, BST20 is producing approximately 70 bopd gross to the PSC. During 2012, workovers were conducted on two wells, namely BST65 and 21, however these were not initially successful and the wells are suspended pending evaluation of results and the conclusion of the recently announced farm-out agreement.

Production Summary

In the twelve months to December 31, 2012, 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	2,607		500	2,942		5,549
Uzbekistan	669		-	-		669
Tajikistan	95		-	-		95
Total	**3,371**		**500**	**2,942**		**6,313**

While in the same period of 2011 the production levels were as follows:

Country	Oil		Gas			Combined
	bopd		Mcm/d	boe/d		boe/d
Kazakhstan	1,135		596	3,508		4,643
Uzbekistan	963		-	-		963
Tajikistan	50		-	-		50
Total	**2,148**		**596**	**3,508**		**5,656**

Note: These figures have been calculated on the total number of days in the period and have not been restricted to the number of production days as in pre-2012 MD&Aøs.

The combined boe/d is another of the Companyøs KPIs.

Financial Review

Loss before tax

The Company recorded a net loss after taxation of USD20.904 million in the twelve months ended December, 2012 compared to a net loss of USD26.989 million in the same period of 2011. The principal differences between the two periods were as follows:

	Three months ended December 31				Twelve months to December 31		
	2012	**2011**	**Movement**		**2012**	**2011**	**Movement**
Sales and other revenues	11,426	7,416	54%		38,107	22,922	66%
Other operating income	-	747	-		-	7,375	-
Total revenue and other income	**11,426**	**8,163**	40%		**38,107**	**30,297**	26%
Production expenses	(3,569)	(3,867)	-8%		(12,970)	(10,785)	20%
Depreciation, depletion and amortisation	(5,867)	(3,427)	71%		(18,424)	(13,111)	41%
Impairment charge	-	(8,983)			-	(8,983)	
Exploration expenses	(955)	-	-		(1,093)	(1,807)	-40%
Listing expenses	-	-	0%		-	(606)	0%
Business development expenses	(970)	(437)	122%		(1,591)	(3,149)	-49%
Administrative expenses	(4,425)	(5,029)	-12%		(19,673)	(19,763)	0%
Share based payments	(473)	(703)	-33%		(2,932)	(3,814)	-23%
Foreign exchange gains/(loss) net	(121)	41	-395%		(455)	74	-715%
Fair value gain on acquisition of subsidiaries	-	27,381			-	27,381	
Loss on loan write-off	-	(24,423)			-	(24,423)	
Fair value gains/(loss)	269	(71)	-479%		53	(625)	-108%
Loss from jointly controlled entity	485	80	506%		191	(722)	-126%
Net finance (costs) / income	65	187	-65%		(1,083)	1,100	-198%
Loss before taxation	**(4,135)**	**(11,088)**	**-63%**		**(19,870)**	**(28,936)**	**-31%**
Taxation	(66)	1,664	-104%		(1,034)	1,947	-153%
Loss after taxation	**(4,201)**	**(9,424)**	**-55%**		**(20,904)**	**(26,989)**	**-23%**
Loss per share	(0.02)	(0.04)	-50%		(0.07)	(0.10)	-27%

Note

From January 1, 2012, the Company re-classified the administrative costs associated with two of its subsidiaries to business development expenses in the consolidated statement of comprehensive income. The comparative information has been reclassified to conform to the current presentation. The amount re-classified from administrative costs to business development in 2011 was USD786,447. Business development expenses are costs associated with identifying new business opportunities for the Company either within countries in which the Company is currently operating, or in new countries.

Revenue from the oil sales in Tajikistan is included in the financial statements of SSEC and in 2012 is included in the Companyøs consolidated revenue. Between December 31, 2009 and December 13, 2011, SSEC was a joint venture and as such its revenue was not included in the Companyøs consolidated revenue during that period.

The following table presents the Profit and Loss statement in terms of cash and non-cash items and from this it can be seen that in the twelve months ending December 31, 2012 the Company generated a Profit before non-cash items of USD3.418 million (2011: a loss of USD3.932 million) and in the three months to December 31, 2012 a Profit before non-cash items of USD2.341 million (2011: a loss of USD1.129 million) Profit before non-cash items (a Non GAAP measure) is defined as: Revenue less Production costs, Administrative Costs, Listing Expenses, Business Development Expenses and Foreign Exchange ó see table below.

	Three months ended December 31				Twelve months to December 31		
	2012	**2011**	**Movement**		**2012**	**2011**	**Movement**
Sales and other revenues	11,426	7,416	54%		38,107	22,922	66%
Other operating income	-	747	-		-	7,375	-
Total revenue and other income	**11,426**	**8,163**	40%		**38,107**	**30,297**	26%
Production expenses	(3,569)	(3,867)	-8%		(12,970)	(10,785)	20%
Foreign exchange gains/(loss) net	(121)	41	-395%		(455)	74	-715%
Listing expenses	-	-	0%		-	(606)	0%
Business development expenses	(970)	(437)	122%		(1,591)	(3,149)	-49%
Administrative expenses	(4,425)	(5,029)	-12%		(19,673)	(19,763)	0%
Profit before non-cash items	**2,341**	**(1,129)**	**-307%**		**3,418**	**(3,932)**	**-187%**
Share based payments	(473)	(703)	-33%		(2,932)	(3,814)	-23%
Depreciation, depletion and amortisation	(5,867)	(3,427)	71%		(18,424)	(13,111)	41%
Impairment charge	-	(8,983)	-		-	(8,983)	-
Exploration expenses	(955)	-	-		(1,093)	(1,807)	-40%
Fair value gain on acquisition of subsidiaries	-	27,381	-		-	27,381	-
Loss on loan write-off	-	(24,423)	-		-	(24,423)	-
Fair value gains/(loss)	269	(71)	-479%		53	(625)	-108%
Loss from jointly controlled entity	485	80	506%		191	(722)	-126%
Net finance (costs) / income	65	187	-65%		(1,083)	1,100	-198%
Loss before taxation	**(4,135)**	**(11,088)**	**-63%**		**(19,870)**	**(28,936)**	**-31%**
Taxation	(66)	1,664	-104%		(1,034)	1,947	-153%
Loss after taxation	**(4,201)**	**(9,424)**	**-55%**		**(20,904)**	**(26,989)**	**-23%**
Loss per share	(0.02)	(0.04)	-50%		(0.07)	(0.10)	-27%

Revenue

Total sales

	Three months ended December 31				Year ended December 31		
	2012	2011	Movement		2012	2011	Movement
Gas sales	1,329	1,800	-26%		5,875	7,027	-16%
Oil sales[1]	9,952	3,682	170%		27,507	8,185	236%
Refined product sales	102	1,869	-95%		4,478	7,255	-38%
Other revenue	43	65	-34%		247	455	-
	11,426	7,416	54%		38,107	22,922	66%

Note[1] Oil sales include sales in both Kazakhstan and Tajikistan.

Kazakhstan Gas sales

	Three months ended December 31				Year ended December 31		
	2012	2011	Movement		2012	2011	Movement
Gas sales	1,329	1,800	-26%		5,875	7,027	-16%

- The gas sales are generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan and, as referred to in *Kyzyloi Gas Production* above, were sold in 2012 to Asia Gas NG LLP at agreed prices of USD32 per Mcm excluding VAT for the Kyzyloi gas and USD38 including VAT for the Akkulka gas.
- Both of the existing sales contracts expired in December 2012.
- In late January 2013 two new gas supply contracts were signed by TAG with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company KazTransGas JSC, for the Kyzyloi and Akkulka natural gas fields. The contract is for annual volumes up to 150 million cubic metres at an increased net price of USD65 per 1,000 cubic metres (USD 1.84 per 1,000 cubic feet) of gas (USD72.8 per 1,000 cubic metres or USD2.06 per 1,000 cubic feet including VAT) net of marketing and distribution costs, and runs through to December 31, 2013. This price was effectively double the price previously obtained for gas sales in Kazakhstan.
- Gas sales for the twelve months to December 31, 2012 were USD5,875,000 compared to USD7,027,000 for the same period in the prior year. Gas sales for the three months to December 31, 2012 were USD1,329,000 compared to USD1,800,000 for the same period in the prior year. The decrease in 2012 was
- the result of limited natural field decline and limited capital being spent to increase production.

Kazakhstan Oil sales

A breakdown of oil sales in the years to December 31, 2012 and 2011 are as follows:

2012	Gross		Price at	Compensation	VAT	Net
	bbls	Revenue	wellhead			Sales
		$000	$/bbl	$000	$000	$000
Q1	89,024	2,670	30.0	79	278	2,313
Q2	245,231	7,876	32.1	118	831	6,927
Q3	252,994	8,037	31.8	186	841	7,010
Q4	324,929	10,730	33.0	231	1,126	9,382
	912,178	29,313	32.1	614	3,076	25,632

Figures for the prior year were:

2011	Gross		Price at	Compensation	VAT	Net
	bbls	Revenue	wellhead			Sales
		$000	$/bbl	$000	$000	$000
Q1	24,856	598	24.1	26	55	507
Q2	63,190	1,503	23.8	231	144	1,101
Q3	133,466	3,667	27.5	343	361	2,895
Q4	149,322	4,383	29.4	175	444	3,682
	370,834	10,151	27.4	775	1,004	8,185

In Kazakhstan the Companyøs current oil production is under a Pilot Production Scheme and therefore oil is sold only on the local market.

Net figures exclude the compensation for water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Shalkar. The associated water from production is separated at the well site and transported approximately 40km to a disposal facility. Water is currently being produced and disposed from the AKD01, AKD05 and AKD06 wells that together make up the current total production. The compensation water is a small amount of water in the crude that remains after the field separation.

The VAT can be recovered by the Companyøs Kazakh subsidiary.

It should be noted that this is the realized price at the wellhead and the Company therefore incurs no transportation and marketing costs beyond this. The Company notes that some other entities report their oil price somewhat differently, with transportation and marketing costs being reported separately. Tethysøoil is trucked 230 kilometres and then railed many hundreds of kilometres and according to figures provided by local oil buyers if oil was sold at the refinery and reported the price it would be closer to USD55 - USD60 per barrel. In 2013 the Company is hopeful of making additional gains in the realized price.

The oil sales in Q4 2012 showed an increase on Q3 2012 sales as a result of both higher production levels and a higher selling price. The oil sales in Q4 2012 at USD9,382,000 showed a significant increase on the same period in 2011 as a result of significantly higher production levels and a higher selling price.

The oil sales in the twelve months to December 31, 2012 saw a significant increase on the equivalent period in 2011 for the following reasons:

- While there were three wells producing in 2012 there was only the one in 2011. See *Kazakhstan Oil Production (Akkulka contract)* above.
- Increased deliveries and reduced turnaround time for trucks following the opening of AOT.
- Increased sales price as production increased and the opening of AOT.

Tajikistan Oil Sales

	Three months ended December 31			Year ended December 31		
	2012	2011	Movement	**2012**	2011	Movement
Oil sales	570	55	936%	1,875	55	3,309%

The Company announced in October 2011 that the well BST20 was producing over 500 bopd, accompanied by 12,500 cubic metres (441 thousand cubic feet) of gas per day on a restricted choke (10 mm ó 25/64 inch) with a flowing tubing head pressure of 26 atmospheres (377 psi). The oil has an API gravity of 38 degrees. Initial sales agreements were signed and the first payments from oil sales received.

The well was placed on oil production and the gas was tied into the nearby local gas grid but subsequently production performance indicated possible communication with the nearby BST103 well which is producing gas from the field for the city of Kulob, this gas being part of the õbase levelö production on the field assigned to the Tajik State. As a result, the BST20 production dropped significantly.

At present, BST20 is producing approximately 70 bopd gross to the PSC. See *Tajikistan Oil Production (Beshtentak field)* above.

Refined products sales (Uzbekistan)

	Three months ended December 31			Year ended December 31		
	2012	2011	Movement	2012	2011	Movement
Refined product sales	101	1,869	-95%	4,477	7,255	-38%

- Refined product sales for the twelve months to December 31, 2012 were USD4,477,000 compared to USD7,255,000 in the same period of 2011. This reduction was less than the drop in the Companyøs share of production in 2012 compared to 2011 because the sales in 2012 included products paid for in 2011 but not delivered until 2012, which had been identified as deferred revenue in the 2011 annual financial statements.

- Refined product sales for the three months to December 31, 2012 were only USD101,000 compared to USD1,869,000 in the same period of 2011. This low level of revenue in Q4 2012 was the result of deliveries from the refinery being put on hold. This situation has now been remedied and deliveries recommenced in February 2012.

- See *Uzbekistan Oil Production* above to see the drop in production from 2012 to 2011.

  Deferred revenue from refined product sales, i.e. goods sold and paid for but awaiting delivery, at December 31, 2012 was USD1,712,500 (December 31, 2011: USD1,839,000).

- Under the North Urtabulak PEC, TPU receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the company receives 20%, and the Uzbek State Partners 80% of the same. As at December 31, 2012 some 12 of the 14 producing wells were past the initial three years of production.

Production expenses

	Three months ended December 31				Year ended December 31		
	2012	2011	Change		**2012**	2011	Change
Kazakhstan	3,010	2,950	2%		9,975	7,429	34%
Uzbekistan	134	888	-85%		1,609	3,327	-52%
Tajikistan	364	29	1155%		1,243	0	100%
Other	61	0	0%		143	29	393%
	3,569	3,867	-8%		12,970	10,785	20%

Kazakhstan

Production costs in Kazakhstan were higher in the twelve months to December 31, 2012 compared to the same period in 2011 primarily as a result of the higher levels of oil production. See *Kazakhstan Oil Production (Akkulka contract)* above for details.

The split between the gas and oil production costs in the twelve months to December 31, 2012 in Kazakhstan was as follows:

	Years ended December 31, 2012	Year ended December 31, 2011
Kazakhstan gas production	USD 2,972,000	USD 3,662,000
Production cost per MMcf	USD 0.46	USD 0.47
Kazakhstan oil production	USD 7,003,000	USD 3,767.000
Production cost per barrel	USD 7.34	USD 8.46
Production cost per boe	USD 4.91	USD 4.38

Tajikistan

Production costs in Tajikistan in both the three months and the twelve months to December 31, 2012 were not significantly different as a large proportion of the production costs are fixed.

Uzbekistan

Production costs in Uzbekistan in both the three months and the twelve months to December 31, 2012 were significantly lower when compared to 2011 as the sales volumes in 2012 were lower than in the same periods in 2011. (see *Uzbekistan oil production and Refined product sales* above).

Depreciation, depletion and amortization expense

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
DD & A costs	5,867	3,427	71%	18,424	13,111	41%

- The DDA in Kazakhstan is directly related to the use of reserves and not only includes the capital costs incurred to date but also the capital costs anticipated in recovering these reserves. Following the receipt of the latest reserve report, the figure for Kazakhstan was higher in both the three months and the twelve months to December 31, 2012 not only because the revenues were higher in both periods, reflecting the fact that the reserves utilised in both periods were higher than in the same periods of 2011, but also because the anticipated capital expenditure has also increased.
- In Tajikistan the reserves attributed to Beshtentak were small and so as the oil production uses up these reserves the depreciation charge increases accordingly.

Impairment

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Impairment	-	8,983	-	-	8,983	-

- While the Company identified that an impairment adjustment was required in relation to North Urtabulak PEC in Q4 2011, no such adjustment was considered to be required in 2012.

Exploration and Evaluation

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Exploration and evaluation	955	-	-	1,093	1,807	-40%

- The USD955,000 costs incurred in Q4 relate to the costs incurred on wells KOM007, KOM180, KOM183 and HOJA022 in Tajikistan.

Business development expenses

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Business development	970	437	122%	1,591	3,149	-49%

From January 1, 2012, the Company re-classified the administrative costs associated with two of its subsidiaries to business development expenses in the consolidated statement of comprehensive income. The comparative information has been reclassified to conform to the current presentation. The amount re-classified from administrative costs to business development in 2011 was USD786,447. Business development expenses are costs associated with identifying new business opportunities for the Company either within countries in which the Company is currently operating, or in new countries.

- Business development costs relate to costs incurred in the Company's pursuit of new contracts in Central Asia. These costs relate primarily to the pursuit of various contracts in Uzbekistan and Tajikistan.
- A large proportion of the costs in the three months and the twelve months to December 31, 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 but also included costs in Uzbekistan and Tajikistan.

Administrative expenses

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Staff costs	2,124	2,356	-10%	9,416	8,383	12%
Travel costs	832	894	-7%	3,091	3,548	-13%
Office costs	328	586	-44%	2,491	2,500	0%
Professional fees	706	705	0%	2,516	2,577	-2%
Marketing costs	196	155	26%	846	1,255	-33%
Other costs	239	333	-28%	1,313	1,500	-12%
	4,425	5,029	-12%	19,673	19,763	0%

Review

As stated in the Q3 MD&A the Company has initiated a review of all costs with a particular focus on Administrative expenses. The objective of this review is twofold:

1. A push to reduce costs in all areas but particularly Administrative costs;
2. A review of categorization of costs to ensure that the Company is behaving consistently with other similar oil and gas companies, which will facilitate appropriate comparison within its peer group.

As stated in the Businesss development above USD786,477 previously included in Administrative costs have been moved to Business Development or Operating costs. Where costs have been represented as Business Development the 2011 figures have been adjusted accordingly to ensure that comparisons with prior periods are valid.

For the twelve months ended December 31, 2012 total Administrative expenses were much the same as the same period of the previous year but it should be noted that 2012 included costs for Tajikistan whereas in 2011 these were not included in the consolidated accounts but were accounted for in the Joint Venture figures.

For the twelve months to December 31, 2012:

- Travel costs were running at a consistently lower level than in 2011.
- Marketing costs were also down which in part reflected the Company reducing its social sponsorship costs particularly in Kazakhstan.
- These savings were partly offset by higher staff costs though these should be seen to reduce in the forthcoming quarters.

For the three months to December 31, 2012:

- Staff costs, travel costs and office costs were all down on the same period of 2011.

Share based payments

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Share based payments	473	703	-33%	2,932	3,814	-23%

In the twelve months to December 31, 2012, some 5,505,000 options were granted, 15,000 were exercised and 549,000 were forfeited or expired.

In the three months to December 31, 2012, no options were granted.

Foreign exchange

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Foreign exchange loss / (gain) - net	121	(41)	-395%	455	(74)	-715%

A foreign exchange loss was incurred in the twelve months ending December 31, 2012 compared to a small exchange gain in the equivalent period in 2011. This loss can be attributed primarily to a slight strengthening of the GBP against the USD.

Fair value

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Fair value loss / (gain) - net	(269)	71	-479%	(53)	625	-108%

The Fair Value gain in the twelve month periods ending December 31, 2012 was the cost of the interest rate swap offset by the gain on the fair value of warrants issued by the Company that were denominated in a currency other than the Companyøs functional currency for financial reporting purposes.

The Fair Value loss in the twelve month periods ending December 31, 2011 was the cost of the interest rate swap offset by gains on foreign currency hedging and the fair value of warrants issued by the Company that were denominated in a currency other than the Companyøs functional currency for financial reporting purposes.

Joint venture

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
(Profit) / loss from jointly controlled entity	(485)	(80)	506%	(191)	722	-126%

Profit from the jointly controlled entity in 2012 represented the Companyøs 50% share in AOT, while the 2011 figure represented the Companyøs 51% share in the loss incurred by SSEC.

Net finance costs

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Finance costs / (income) / - net	(65)	(187)	-65%	1,083	(1,100)	-198%

Finance costs consist primarily of interest costs net of any interest income. With very little capital expenditure in both the three months or twelve months periods to December 31, 2012 then little of the interest expense incurred in those periods could be capitalized.

Taxation

	Three months ended December 31			Year ended December 31		
	2012	2011	Change	**2012**	2011	Change
Current tax expense / (recovery)	(65)	(11)	491%	233	-	-
Deferred tax expense / (recovery)	1	(1,653)	-100%	801	(1,947)	-141%
	66	(1,664)	-104%	1,034	(1,947)	-153%

The current tax charge comprises a tax charge in Uzbekistan of USD233k (2011: Nil) where the prior yearsø losses have been fully utilized.

The deferred tax charge reflects the change in deferred tax arising as a result of tax losses not being utilized. The recovery in 2011 was due in part to the impairment of Uzbek assets (see *notes 12 and 13 of the 2012 Audited Consolidated Financial Statements*) and a favourable increase in asset tax pools in Kazakhstan.

Capital Expenditure

	Three months ended December 31			Year ended December 31		
	2012	**2011**	Change	**2012**	**2011**	Change
	$	$	%	$	$	%
Kazakhstan	3,939	4,002	-2%	8,929	37,020	-76%
Uzbekistan	98	167	-41%	471	3,772	-88%
Tajikistan	4,131	880	369%	8,043	880	814%
Other and Corporate	2	19	-89%	58	230	-75%
	8,170	5,068	61%	17,501	41,902	-58%

As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned capital expenditure.

Major items of capital expenditure in the three months to December 31, 2012 were:

Kazakhstan

- AKD07 USD2.73 million

Tajikistan

- Seismic survey USD3.31 million
- Beshtentak USD0.36 million

Major items of capital expenditure in the twelve months to December 31, 2012 were:

Kazakhstan

- AKD07 USD4.51 million
- AKD05 USD0.72 million
- Akkulka appraisal wells tie ins USD0.63 million

Tajikistan

- Seismic survey USD5.49 million
- Persea USD0.64 million
- Beshtentak USD0.59 million

Summary of Quarterly Results

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

Financials	Mar 31 2011	Jun 30 2011	Sep 30 2011	Dec 31 2011	Mar 31 2012	Jun 30 2012	Sep 30 2012	Dec 31 2012
Revenue	4,480	4,177	6,849	7,416	6,487	10,204	9,990	11,426
Net loss	(6,293)	(2,696)	(8,575)	(9,424)	(6,848)	(4,870)	(5,117)	(4,069)
Basic and diluted loss ($) per share	(0.02)	(0.01)	(0.03)	(0.04)	(0.02)	(0.02)	(0.02)	(0.01)
Capital expenditure	10,852	14,834	11,148	5,068	1,209	3,310	4,812	8,170
Total assets	259,477	261,144	255,066	263,391	253,945	253,153	252,083	251,953
Total long term liabilities	(10,492)	(8,434)	(8,295)	(4,676)	(5,656)	(5,752)	(9,437)	(7,475)
Cash balance	57,400	35,855	18,425	11,631	4,803	4,446	1,620	2,227

Significant factors influencing quarterly results above included:

- Oil sales in Kazakhstan steadily increased from Q2 2011.
- In Q2 2011 the revenue from the rental of drilling equipment to the Tajik JV was recognized and this continued to the end of 2011. For further clarification refer to *Note 7 of the* Companyø's Audited Consolidated Financial Statements.
- Uzbekistan production and sales have fallen away significantly from Q3 2011.
- There was an impairment adjustment in Uzbekistan in Q4 2011 of USD8.98 million.
- Kazakhstan oil sales were significantly affected by adverse weather conditions in Q1 2012.
- The opening of the AOT in April 2012 saw a significant increase in oil production in Kazakhstan combined with an increase in the price per barrel resulting in a significant increase in oil revenue.

- As a result of the delay to the commencement of the higher oil production levels in Kazakhstan and the related impact on funds, the Company postponed much of its planned 2012 capital expenditure to 2013.

Financial position

The following table outlines significant movements in the consolidated balance sheets from December 31, 2011 to December 31, 2012.

	Dec 31, 2012	Dec 31, 2011	Movement	Movement Details
Property, plant and equipment	121,097	128,918	-7,821	Little capital expenditure was incurred in the period while DD&A was incurred in line with production
Intangible assets	107,374	99,959	7,415	Expenditure incurred in Tajikistan and Kul-Bas in the period.
Prepaids and other receivables	6,444	10,217	-3,773	Reduction in prepayments to contractors in line with reduced capital expenditure.
Trade and other receivables	7,703	5,478	2,225	Increase oil sales in Kazakhstan
Cash and cash equivalents	1,750	10,746	-8,996	Refer to Consolidated Statement of Cash Flows in the annual financial statements
Restricted cash	477	885	-408	Funds no longer required as security against foreign exchange hedging arrangement.
Derivative financial instruments - interest rate swap	0	630	-630	This arrangement expired in 2011
Other reserves	41,075	38,530	2,545	Stock based compensation expense incurred in the period.
Accumulated deficit	-165,385	-144,962	-20,423	Loss incurred for the twelve months to December 31, 2012, attributable to the shareholders.
Non-current financial liabilities - borrowings	3,688	1,632	2,056	Additional funding raised in the quarter relating to Phase 3 of the drilling equipment based loan.
Current financial liabilities - borrowings	13,625	8,396	5,229	Settlement of the two loans related to the Uzbekistan well NU116 less funds raised through the drilling equipment loan.
Derivative financial instruments - warrants	523	264	259	Movement in the fair value of the liability together with expiry of some warrants
Current taxation	233	0	233	Taxation charge on profits generated by TPU in Uzbekistan
Trade and other payables	8,231	10,179	-1,948	Reduction in trade payables in Kazakhstan and Tajikistan

Contractual obligations and liabilities as at December 31, 2012

	Payments Due by Period USD'000s				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 years
Financial borrowings	17,313	13,625	3,688		
Operating leases	1,612	913	407	292	
Trade and other payables	8,582	8,231	351		
Commitments[1]	25,861	20,707	5,154		
Total contractual obligations	**53,368**	**43,476**	**9,600**	**292**	**0**

[1]The primary constituents of the commitments are the work plans in Kazakhstan which encompass capital expenditure, production expenditure and administrative costs**.** *See note 28 of the 2012 Audited Consolidated Financial Statements.*

Liquidity and Capital Resources

See Note 20 *Financial liabilities – borrowings* in the Companyøs Audited Consolidated Financial Statements.

Rig loans

In December 2011 the Company closed on the first tranche of a maximum USD10 million loan facility amounting to USD3,965,240, which is secured by the ZJ70 and ZJ30 rigs and other equipment. This facility gives lenders the choice of two methods of repayment designated Option A and Option B. The remaining two tranches of the USD10 million facility (i.e. a total of USD6,034,760) were closed during the first quarter of 2012.

Under Option A, which has a term of one year, lenders have the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date. Option B, which has a term of two years, gives lenders the right to receive equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date.

The interest payable on the borrowed funds is 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each USD100,000 principal amount of the loan advanced to the Company. As at December 31, 2012, a total of 5,000,000 warrants had been issued to lenders. Such warrants will be exercisable at a 25% premium to the price of the volume weighted average CAD price of the shares on the TSX for the 5-day period prior to the day the borrower receives the funds in its bank account.

Lenders have security over the shares of Imperial Oilfield Services Limited which has no other assets except the drilling rigs and associated equipment.

During December 2012, following the agreement of all loan holders, Tranche 1 Option A loan holders with loans maturing in December 2012 rolled over their loans for a further period of one year. The original loans were de-recognised and the new loans were recognised at fair value. The associated warrants were re-issued at an exercise price of CAD0.64. Furthermore extensions of warrant expiry dates were granted to all loan holders, except two officers of the company who were re-issued with warrants upon expiry of the original warrants. Loans that were due to mature in February and March 2013, which represented tranches 2 and 3 of the rig loan were also rolled over.

Kazakh loan

On June 29, 2012 the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the õbank loan facilityö).

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Companyøs consent, and is a bank loan to Eurasia Gas Group LLP, the Companyøs joint venture partner in Aral Oil Terminal LLP, whereby Eurasia Gas Group LLP draws down on the bank loan facility entirely at the direction and discretion of the Company and funds

are transferred to the Companyøs subsidiary. TAG. The bank loan facility has a term of up to four years depending on the Companyøs requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

A formal loan agreement was signed with Eurasia Gas Group LLP for 2.35 billion KZT with a drawdown period of one year from the date of first drawdown (May 31, 2012). Repayment and interest terms are agreed for each drawdown, upon drawdown.

As at December 31, 2012, 675 million KZT (USD4,510,072) of funds had been advanced to the Company in relation to the loan agreement, with a repayment period over 4 years and monthly repayments of both principal and interest (at 16.1%). By December 31, 2012, 150 million KZT had been repaid. Of the total funds drawn, USD3,393,220 is outstanding as at December 31, 2012, with USD1,017,340 presented as current and USD2,375,880 presented as non current liabilities.

During the last quarter of 2012, a further 810 million KZT (USD5,385,620) was advanced by Eurasia Gas Group LLP, the formal terms of which had not been finalised by December 31, 2012, therefore the amount has been presented as a current liability in full.

In case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

Certain assets have been pledged by both Tethys Aral Gas LLP (õTAGö) and the Joint Venture Aral Oil Terminal (õAOTö) at Shalkar as security for the above-mentioned bank loan facility (note 13) which represents a financial guarantee to the Company.

Cash Flows

The movement in the cash balance during the twelve months to December 31, 2012 compared to what happened in the same period of 2011 can be broken down as follows:

	December 31 2012	**December 31 2011**	**% Change**
Net cash generated / (used) in operating activities	1,358	(12,558)	-111%
Net cash used in investing activities	(15,729)	(67,928)	-77%
Net cash generated from financing activities	5,388	12,107	-55%
Foreign exchange difference	(13)	(10)	30%
	(8,996)	(68,389)	87%

The movement in the cash balance during the three months to December 31, 2012 compared to what happened in the same period of 2011 can be summarised as follows:

	December 31 2012	**December 31 2011**	**% Change**
Net cash generated/(used) in operating activities	2,707	(2,689)	-201%
Net cash used in investing activities	(5,307)	(16,454)	-68%
Net cash generated/(used) from financing activities	3,183	12,869	-75%
Foreign exchange difference	21	4	425%
Decrease in cash and cash equivalents	604	(6,270)	-110%

Operating activities

In the twelve months to December 31, 2012 the Company generated a small amount of cash from its operating activities compared to the USD12.5 million that was used in operating activities in the same period of 2011 which was primarily the result of higher oil revenues in Kazakhstan.

This operating surplus was even more evident in the three months to December 31, 2012 compared to the same period in 2011.

Investing activities

A slower than forecast increase in oil production resulted in the cash inflow for the twelve months to December 31, 2012 being less than was anticipated and as a result some of the planned capital expenditure was pushed back into 2013. The amount of capital expenditure incurred in the twelve months was significantly less than the same period of 2011.

As with the twelve months in 2012 the reduced revenue in the three months to December 31, 2012 resulted in there being less cash available in the quarter for capital expenditure.

Financing activities

The funds raised in tranches 2 and 3 of the drilling equipment loan (See *Liquidity and Capital Resources* above) were used to repay loans associated with the drilling of a well in Uzbekistan that were due for settlement in the first quarter of 2012. The Company also received funds through its Kazakh partners amounting to USD9.9 million.

In the three months to December 31, 2012 the Company received funds from its Kazakh partners in the sum of USD5.4 million while also as noted above Tranche 1 Option A loan holders with loans maturing in December 2012 rolled over their loans for a further period of one year.

Capital management

The Companyøs capital structure is comprised of shareholdersø equity and debt.

The Companyøs 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 Companyøs 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 borrowingsø as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as ÷equityø as shown in the consolidated statement of financial position plus net debt.

	December 31 2012	**December 31 2011**	**% Change**
Total financial liabilities - borrowings	17,313	10,028	73%
Less: cash and cash equivalents	(1,750)	(10,746)	-84%
Net debt / (funds)	15,563	(718)	-2268%
Total equity	220,153	237,880	-7%
Total capital	235,716	237,162	-1%

The net debt at December 31, 2012 was USD15.563 million while there was no net debt at December 31, 2011 but the Company has assessed the position and is confident that future cash flows will be sufficient to service this debt and to support ongoing operations. See *Funding* below

Funding

The directors have considered the Companyøs current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in concluding whether it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2012. The Companyøs activities, together with the factors likely to affect its future development, performance and position are set out in this Management Discussion & Analysis document. The financial position of the Company, its cash flows and liquidity position are as set out in the consolidated financial statements and discussed further in this Management Discussion & Analysis document. The Company reports a loss for the twelve months ended December 31, 2012 of USD24.1 million (2011: USD27.0 million) and has net current liabilities of USD9.9 million as at 31 December 2012. As at February 28, 2013, the Company held cash of USD2.3 million.

Phases 1 and 2 of the AOT rail terminal at Shalkar have been completed (though Phase 2 is still subject to State Commission approval) which, following the installation of two 1,000 cubic metre tanks (approximately 12,500 barrels), associated dehydration and pumping equipment, allows an increase in throughput capacity from 4,200 barrels of oil per day up to 6,300 bopd. The terminal will cope comfortably with the production levels of 4,000 bopd, which the Company believes will be sufficient to generate adequate levels of cash to fund its ongoing activities and its current capital expenditure plans.

In the third quarter of 2012 the oil produced and trucked steadily increased every month and this trend continued into the final quarter of the year. The further production increases in the fourth quarter would suggest that we are on route to achieving the maximum production output, which Tethys believes is 4,500 bopd with the current wells drilled but our cash flow forecasts have been based on 4,000 bopd.

To assist with its commitments, the Company put in place a loan secured against drilling equipment. The total amount of the loan was USD10 million and the first tranche of USD4 million was completed in December 2011, the second tranche of USD3.2 million was completed in February and of the final tranche of USD2.8 million, was completed in March 2012. With regard to those lenders who elected for Option A, the loans were due for settlement after 12 months which would have seen USD2.17 million repaid in December 2012, USD2.40 million in February and USD1.30 million in March. All of these loans have been successfully rolled over for a further twelve months and repayments in full assumed in the cash flows for the period under consideration

Also the Company through its Kazakh subsidiary had reached agreement on an USD16.0 million (KZT 2,460 million) funding facility. This facility is provided to Tethys Aral Gas (õTAGö) by a Kazakh bank via its partners in Kazakhstan, and is available to fund capital expenditures in Kazakhstan. While the funds were initially provided in the form of a loan this was subsequently changed in January 2013 to be on an advanced payment of sales basis. An initial USD3.5 million of this facility was drawn down in June 2012 with further monthly drawdowns in the period September to December 2012 resulting in a total of USD8.9 million at the end of the year. A request for a further USD4 million has been submitted and we are anticipating these funds to be received shortly.

While the Directors are confident based on discussions with their Kazakh partners that the USD4 million will be received shortly, should it not do so or be delayed then the Company is confident that appropriate steps can be taken to ease this situation through the postponement of certain capital expenditure items combined with the short term deferral of certain supplier payments. In the longer term the increased production levels in Kazakhstan should fund the Companyøs ongoing operations while the Company makes further arrangements for other areas of expansion.

The Company is currently adopting a prudent approach to cash management and will proceed with such projects when certain milestones have been met and adequate funding is available. Discussions have also been initiated with regard to reserve based lending and on other corporate and project related financing options. Discussions are ongoing with a number of banks which could see the Company adding to or replacing the existing Kazakh loan.

With regard to longer term requirements, 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

On October 26, 2012, the Company announced that Kulob Petroleum Limited, its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract in Tajikistan, had signed a MOU to execute a farm-out agreement (õFOAö) on the PSC. The potential acquiring party was an international oil and gas company. This was followed on December 21 2012 when it was announced that the Company had signed a FOA with subsidiaries of

Total S.A. and the China National Oil and Gas Exploration and Development Corporation. Should this FOA go ahead then the Company cash flow would be boosted by a sum of approximately USD60 million.

The Directors have examined these matters to form a view on the Companyøs ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances referred to above, the Directors have a reasonable expectation that the company has adequate resources and potential to continue operations for at least the next twelve months. For these reasons they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at December 31, 2012 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 286,707,744 (2011: 286,692,744) 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, March 28, 2013, a total of 34,388,129 (2011: 31,115,572) ordinary shares were reserved under the Companyøs Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at the date of this report is 33,699,000 and the number of warrants outstanding is 9,777,494

Resource Reports

Kazakhstan

On May 16, 2012, the Company issued a press release where it stated that it had received an updated oil Resource Report for its Kazakhstan assets that estimated gross unrisked recoverable mean prospective oil resources of 1.17 billion barrels. Subsequent to the issue of this press release Gustavson Associates revised their audit figures for prospective resources for the Tethys Petroleum Kazakh acreage upwards to a mean unrisked total recoverable resource of 1.230 billion bbls and 634.4 bcf, this is effective April 30, 2012.

Tajikistan

On July 19, 2012 the Company announced that it had received an updated independent Resource Report for its Tajikistan assets. These cover an area of approximately 35,000 sq. km and the estimated gross unrisked mean recoverable resources were reported to be 27.5 billion barrels of oil equivalent (boe), effective June 30, 2012. The upgrade from the figures reported previously was the result of data acquisition and interpretation from both the seismic and aeromagnetic and gravity surveys together with well data.

In addition, best case gross contingent resources of 47 mmboe was assessed across three fields in the report i.e. Beshtentak, Komsomolsk and East Olimtoi.

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on page 32 of this MD&A.

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of oil and gas field development projects and long-term high potential exploration projects focused on the Central Asian region. 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 short term is to:

- fully appraise the Doris and Dione oil field discoveries in the Akkulka Block, Kazakhstan;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- focus on completing the farm in with Total and CNODC;
- pursue and develop the Chegara PEC in Uzbekistan;
- acquire contracts on new exploration acreage in Uzbekistan;

In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities and as stated above the Company is currently to looking to complete a farm out in Tajikistan with subsidiaries of Total S.A. and the China National Oil and Gas Exploration and Development Corporation.

Kazakhstan Operations Update

Oil operations

On January 30, 2012, the Company announced the official inauguration of its AOT terminal ó a new storage and rail loading facility for its oil shipments from the Doris oilfield. The AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerøs company, Olisol Investment Limited. The facilities were fully completed in Q1 2012 and following a visit by a Kazakh governmental State Commission, the Company completed the first shipment of commercial oil production through the AOT at Shalkar on April 13, 2012. The initial plan for the AOT was to enable the Company to increase production to approximately 4,000 bopd, which was achieved in the latter days of June 2012.

Phase 2 is completed (subject to final state approval) which allowed an increase in throughput capacity from 4,200 bopd up to 6,300 bopd with the installation of two x 1000 m3 tanks (approximately 12,500 bbls), associated dehydration and pumping equipment. Phase 3 will see the capacity of the terminal expanded to more than 12,000 bopd (over a further two phases) to accommodate future potential production growth dependent upon further drilling results, or third party production. *Refer to Joint Venture on page 7.*

Production from the Akkulka area is planned to remain at 4,000 bopd in 2013 from the existing drilled wells, further production increases will be sought but are dependent on the results of the appraisal / exploration drilling planned for 2013. Further evaluation of the 3D seismic dataset acquired using state of the art processing and interpretation techniques is revealing the potential for the 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/exploration well locations in the greater Doris area.

On September 10, 2012, drilling commenced on the AKD07 appraisal/exploration well in Kazakhstan and, as the well was completed significantly quicker than originally projected, on October 12, 2012, the preliminary results were announced. The initial drilling and electric log results indicated potential hydrocarbons in the Jurassic limestone sequence and lower down in a thin Jurassic sandstone near the current total depth of the well. It was also announced that drilling was to recommence on the well towards a planned total depth ("TD") of 2,750 metres in order to more fully assess the potential hydrocarbon bearing zones in the Upper Jurassic sand sequence.

On October 18, 2012, when drilling had reached the 2,750 metres the Company announced that it had run the production liner in order to test the Jurassic carbonate zone which appeared to be oil bearing from the drilling and wireline log results. The results of the TD logging confirmed those of the previous wireline logging indicating potential oil in the Jurassic carbonate some 30 metres deeper than the previous lowest known oil encountered in the area. On November 13, 2012, the Company announced that testing had now been temporarily suspended in the Jurassic carbonate whilst further options were evaluated, one of which is to bring in a pump to lift the well. During the initial testing of this zone no formation oil was recovered after perforating, although hydrocarbons were indicated from the wireline logs. Further extraction of formation fluids is required to fully ascertain the oil potential of the Jurassic carbonate potentially requiring pumping and/or acidisation. Currently no pump is available and as such there are no immediate plans for such testing. An ongoing review of AKD07 and other wells previously drilled

in the Jurassic carbonate has indicated that oil production may be possible from the wells in this horizon which have previously yielded inconclusive results. These wells may be tested as part of an integrated pumping programme at a convenient time, a technique that has had some success with the AKD05 well which is producing oil with the use of a progressive cavity pump (PCP). Also in well AKD07 final log results from the well indicated the õDynaö sheet sand was present and of good quality but does not appear to have any moveable hydrocarbons. The õDorisö channel sand is now interpreted as being absent, the interval being represented by non-reservoir flood plain deposits. As such the downdip extension of the Doris channel sand still remains to be found with the reservoir sand geometry within the floodplain and proven oil system still to be fully delineated.

Further exploration/appraisal targets in the greater Doris area are currently being finalized for drilling in 2013 while additional exploration/appraisal prospects have been identified using the newly interpreted 3D and 2D data.

Gas operations

TAG has made eleven shallow gas discoveries in the Akkulka Exploration Licence and Contract area. The Akkulka Production Contract now covers seven of these wells, and four are currently producing from a similar horizon to the Kyzyloi Field and are tied into the Companyøs existing pipeline infrastructure, with additional compression having been installed at the Bozoi Compressor Station. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3. Further to the signing of the new gas sales contracts it is planned to workover some of the Akkulka wells with a view to increasing gas production. The first wells likely to be worked on are AKK05 and AKK14.

Exploration – Kul Bas

Plans are in place to test well KBD01 on the Kul Bas contract in 2013 and a contract has been placed for the shooting of additional 2D seismic.

Tajikistan Operations Update

In 2011, Tethys carried out an aeromagnetic graviometry survey over more than half of the PSC Area. The initial analysis of the data from the aerial graviometry survey completed at the end of 2011 has revealed several attractive prospective areas with the potential presence of very large deep sub-salt and sub-thrust prospects within the Bokhtar PSC Area including potential Jurassic reefs located on the edge of likely Permian basement high features. Jurassic reefs form some of the most prolific fields in the Amu Darya basin and no wells have ever been drilled through the overlying salt layer in Tajikistan to date.

The 2012 seismic programme saw the acquisition of approximately 501km of new 2D seismic in the Vaksh valley. When processed and interpreted in 2013, it is expected to identify some possible locations for a deep pre-salt well to be drilled. However, when the proposed farm-out is completed it is planned to invest in the acquisition of a complete regional grid of 2D seismic data and then further detailed seismic coverage before finally locating the deep drilling programme. This will provide a lower risk, more informed investigation of the substantial prospectivity seen to date.

The Company announced an updated resource report on July 19, 2012 prepared by Gustavson Associates for its Tajikistan assets estimating gross unrisked mean recoverable resources of 27.5 billion barrels of oil equivalent (114TCF gas and 8.5 billion barrels of oil) within the Tethys PSC acreage.

At present, BST20 is producing approximately 70 bopd gross to the PSC. During 2012, workovers were conducted on two wells, namely BST65 and 21, however these were not initially successful and the wells are suspended pending evaluation of results and the conclusion of the farm-out agreement.

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. On December 21, 2012, the Company announced that it its subsidiary KPL had signed the Farm-Out Agreement for the Bokhtar PSC with subsidiaries of Total S.A. (õTotalö) and the China National Oil and Gas Exploration and Development Corporation (õCNODCö), a 100%-owned subsidiary of Chinese National Petroleum Company. This Farm-Out is for two thirds of KPLøs interest in the Bokhtar PSC for repayment of a portion of past costs and a forward carry in an agreed work programme. The Farm-Out is subject to the agreement of the Tajik government and certain other completion conditions.

Uzbekistan Operations Update

As previously reported the Company intends to focus future efforts in Uzbekistan on developing new contracts such as the Chegara PEC and on potential exploration activities. The North Urtabulak project is a late stage re-development and incremental production project on an old field and the Company has used this project as a base to develop additional projects and build a significant business presence in Uzbekistan. Currently these new projects include the Chegara PEC (Chegara is a much less developed, producing field located to the south of North Urtabulak) and a potential exploration block in the North Ustyurt basin (which is south of the Doris discovery in the same basin in Kazakhstan and which the Company believes has considerable exploration potential).

North Urtabulak PEC

A number of workovers are planned for the second half of 2013 and early 2014 with a view to boosting production from the existing contract.

Uzbekistan Oil Production MOU

On May 16, 2012, the Company signed a PEC for the Chegara Group of fields, located within the Amu Darya basin, some 14 kilometres south-west of the North Urtabulak field. The PEC has a term of twenty-five years and under this new PEC, Chegara Production Limited is allocated refined products for the crude oil it produces and sells these refined products on the export market. Unlike the North Urtabulak PEC, under the terms of the Chegara PEC, Tethys has been granted exclusive rights to conduct operations on the Chegara Group of fields.

As of December 31, 2012, the Company is waiting for final governmental approvals to commence operations on the Chegara PEC. These approvals are in their final stages and are expected to be finalised in Q2 2013 with the issuance of a Governmental Decree. The Chegara PEC has a similar contractual arrangements to the North Urtabulak PEC that TPU currently has over the North Urtabulak Field, and which has operated successfully for approximately 14 years. Under this contract TPU is allocated refined oil products and sells these on the export market in U.S. Dollars. The Company believes these new fields offer significant upside and good potential to increase oil production in the near to mid-term.

Uzbekistan Exploration MOU

In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue to provide the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan. On February 1, 2012, the Company signed a further MOU with UNG with the objective of providing the framework for a Joint Study and the negotiation process for an Exploration Agreement relating to certain blocks in the North Ustyurt Basin ó a basin the Company believes has very similar geological characteristics as the Kazakh portion of the basin and the extensive modeling of the Doris oil discovery and surrounding area can be useful if applied to the Uzbek portion of the basin.

On May 16, 2012, the Company signed an additional MOU to agree to a timetable for the potential signing of this Exploration Agreement. After approval by UNG and the Uzbekistan government an Exploration Agreement will be negotiated.

As of December 31, 2012, the Company was proceeding with negotiations for exploration blocks in the North Ustyurt and expects to make significant progress toward acquiring this highly prospective acreage in the coming year.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited (õVazonö) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Executive Chairman, is the sole owner and managing director.

Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2012 was USD 2,432,239 (2011 ó USD3,295,754).

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract.

The guarantee comprises a charge over the assets of one of the Companyøs subsidiaries, Tethys Tajikistan Limited (õTTL), equalling amounts owing under the management services contract from time to time. At December 31, 2012 the amount owed to Vazon by the Company was USD438.

Oilfield Production Consultants Limited

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company. Total fees for the year ended December 31, 2012 were USD66,150 (2011 ó USD11,422). OPC participated in the 2011 loan financing described in note 20, advancing USD200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD15,030. The loan was advanced under the same conditions and terms afforded to non-related parties. As a result of agreeing to the rollover, discussed in note 20, the term of the warrants was extended which did not result in any change in fair value.

_Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing described in note 20 for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP 300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants were issued at a fair value of USD2,940 and USD25,891 respectively.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to USD154,078 for the year ended December 2012.

Dr. David Robson has a close family member employed by the Company on standard terms and conditions.

An interest bearing loan of GBP 32,278 was advanced to a Board Director at an interest rate of 3%. As at December 31, 2012 the loan remained unpaid. The loan was settled in January 2013.

Two further non-interest bearing loans of USD50,960 and USD76,251 were advanced to two officers in respect of relocation arrangements during the year (2011 - USD51,374 to one officer). Balances outstanding at the year end were USD21,368 and USD50,682 respectively (2011 - USD9,531).

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 2012 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.

The Company has identified its principal risks for 2013 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;
- Retention and extension of existing licences; and

- Liquidity.

Financial Risk Management

The Companyøs activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign exchange. The Companyøs overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Companyøs financial performance.

As detailed in *Liquidity and Capital Resources* above guarantees have been put in place with respect to the loan secured against the Companyøs drilling equipment together with the loan facility provided by Eurasia Gas, which are detailed in Note 20 *Financial liabilities – borrowings* in the Companyøs Audited Consolidated Financial Statements.

Furthermore, in case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return, as also detailed in Note 20 *Financial liabilities – borrowings* in the Companyøs Audited Consolidated Financial Statements.

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 Companyøs cash and cash equivalents and accounts receivable balances.

With respect to the Companyøs 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:

	December 31, 2012	**December 31, 2011**
Trade receivables	2,096	837
Cash and cash equivalents	1,750	10,746
Restricted cash	2,020	2,292
Loan receivable from jointly controlled entities	2,403	2,013
	8,269	15,888

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to three customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. The Companyøs sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At December 31, 2012 the trade receivable amounted to USD2,096,671 (2011 - USD836,837), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

In Uzbekistan, the Company has one customer. Full payment is required before delivery of the oil and therefore there is limited exposure to credit risk in this country.

In Tajikistan, the Company has four customers. Full payment 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 counterparty banks used are those with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however deposits held with these banks are kept to a minimum as far as possible.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company does not believe that the

balance is impaired at the reporting date. The carrying amount of the loans receivable represents the maximum exposure to credit risk at each balance sheet date.

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 Companyøs ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2012. *See Funding on page 26.*

The Companyøs 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 21 above in *Contractual obligations and liabilities as at December 31, 2012.*

Particularly in the current climate, there can be no assurance that debt or equity financing will be available or sufficient to meet the Companyøs 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 Companyøs financial condition, timing of activities and results of operations and prospects.

Interest rate risk

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

The Company is exposed to interest rate risk on short term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Company. A change of 100 basis points in the interest rate would have had a change of USD4,344 in the interest earned in the current year (2011 - USD305,365).

As at the reporting date the Companyøs interest rate profile was:

	Fixed rate financial instruments	**Variable rate financial instruments**	**Total**
At December 31, 2012	**USD000**	**USD000**	**USD000**
Restricted cash	1,543	477	2,020
Cash and cash equivalents	-	1,750	1,750
Financial liabilities - borrowings	(17,313)	-	(17,313)
	(15,770)	2,227	(13,543)

	Fixed rate financial instruments	**Variable rate financial instruments**	**Total**
At December 31, 2011	**USD000**	**USD000**	**USD000**
Restricted cash	1,407	885	2,292

Cash and cash equivalents	3,465	7,281	10,746
Financial liabilities - borrowings	(10,028)	-	(10,028)
Interest rate swap	630	-	630
	(4,526)	8,166	3,640

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 Companyøs cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions denominated in a currency other than the US dollar. In addition, a portion of expenditures in Kazakhstan and Tajikistan are denominated in local currency, the Tenge and Somoni, respectively. The Company also attempts to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

During 2011, the Company used an exchange rate derivative to manage its risk as a result of the significant exchange rate fluctuation of the USD against GBP (note 20.4).

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

The carrying amounts of the Companyøs significant foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

In US$ equivalent at December 31, 2012	**CAD '000**	**GBP '000**	**EUR '000**	**KZT '000**
Cash and cash equivalents	1	220	21	1,032
Trade and other receivables	-	39	18	11,840
Trade and other payables	(53)	(449)	(6)	(448)
Financial liabilities - borrowings	-	(2,005)	-	(8,559)
Net exposure	**(52)**	**(2,195)**	**33**	**3,865**

In US$ equivalent at December 31, 2011	**CAD '000**	**GBP '000**	**EUR '000**	**KZT '000**
Cash and cash equivalents	137	810	62	1,647
Trade and other receivables	-	31	42	12,651
Trade and other payables	-	(229)	-	(4,187)
Financial liabilities - borrowings	-	(433)	-	-
Net exposure	**137**	**179**	**104**	**10,111**

The following table details the Companyøs sensitivity to a 10% movement in US dollars against the respective foreign currencies, which represents managementøs assessment of a reasonably likely change in foreign exchange rates.

2012 Effect in US$'000	**CAD**	**GBP**	**EUR**	**KZT**
Profit or (loss) before tax	(5)	(219)	3	386
2011 Effect in US$'000				
Profit or (loss) before tax	14	18	10	1,011

A 10% strengthening of the US dollar against the currencies above at December 31, 2012 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.Foreign currency risk

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. While there are in fact restrictions on repatriation of capital and distribution of earnings from Uzbekistan to foreign entities, the Company has not been affected by this as it is paid for its refined product sales in US Dollars outside of Uzbekistan. There can be no assurance, those restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan 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. 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 Companyøs production could have a material adverse effect on the Companyøs 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. In Kazakhstan the Company has fixed price gas contracts up to the end of 2012. Two gas supply contracts were signed by TAG with Intergas Central Asia JSC, ata fixed price and run through to December 31, 2013.

The Companyøs oil contract in Kazakhstan, its refined products in Uzbekistan and its oil sales in Tajikistan are subject to commodity price fluctuation and 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 because of 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. Beyond 2012 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 various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, consideration needs to be given to 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.

As previously stated gas production from both the Kyzyloi and Akkulka contracts in Kazakhstan are sold at fixed prices, at least until the end of 2013, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2012. In Uzbekistan, the Company sells refined petroleum products on a monthly or bi-monthly basis and is consequently also subject to movements in the oil price. In Tajikistan although the current production levels are not significant the oil price is subject to fluctuation.

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 31, 2013 and the Akkulka gas field under the Gas Supply Contract is fixed in US dollars also until December 31, 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 currently running at approximately 4,000 bopd, is sensitive to movements in the market price. On a production level of 4,000 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in the sales revenue of USD1,460,000 per annum.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At net production levels of 150 bopd, a movement of USD1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of USD54,750 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. In Tajikistan, the Company is subject to environmental regulation and its activities are subject to inspection by the appropriate authority in that country.

At present, the Company believes that it meets satisfactory environmental standards in all material respects in all of the areas in which it operates, 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 condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards (õIFRSsö) and IFRIC Interpretations issued by the IFRS Interpretations Committee.

Please refer to the annual consolidated financial statements for the year ended December 31, 2012 Note 2 *Summary of Significant Accounting Policies* for details of the Companyøs accounting policies.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of December 31, 2012, which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at December 31, 2012. The Companyøs 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 of the effectiveness of internal control over financial reporting based on õInternal Control ó Integrated Frameworkö issued by the Committee of Sponsoring Organisations of the Treadway Commission was carried out in Q3 of 2012. Based on this evaluation management concluded that the Companyøs internal control over financial reporting was effective as at December 31, 2012. No material weakness relating to the design of the Companyøs system of ICFR or relating to the Companyøs operations as at December 31, 2012 was identified.

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 Companyøs management as appropriate to allow timely decisions regarding disclosure.

The CEO and CFO conducted an evaluation of the effectiveness of the Companyøs DC+P as at December 31, 2012 and concluded, based on that evaluation, that the Companyøs DC+P were designed effectively to provide reasonable assurance that, as at December 31, 2012, information required to be disclosed by the Company in its annual filings is accumulated, recorded, processed, summarized and reported within the time periods specified in securities legislation and communicated to the Companyøs management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethysø shareholders and potential investors with information regarding the Company and its subsidiaries, including managementøs assessment of Tethysø and its subsidiariesø future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as õforward-looking statementsö) within the meaning of the õsafe harbourö provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as õanticipateö, õbelieveö, õexpectö, õplanö, õintendö, õforecastö, õtargetö, õprojectö 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 2013 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 Companyøs 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 Companyøs and its subsidiariesø 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 Companyøs and its subsidiariesø 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 Companyøs ability to generate sufficient cash flow from operations to meet its current and future obligations; the Companyøs ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Companyøs and its subsidiariesø 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 Companyøs 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 Companyøs ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Companyøs demands. Statements relating to õreservesö or õresourcesö or õresource potentialö 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.