A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada other than the Province of Québec, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities. This preliminary prospectus has not been approved by any competent authority, including the Guernsey Financial Services Commission.

This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereunder have not and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or the securities laws of any state of the United States of America (the "United States") and, subject to certain exceptions, may not be offered, sold or otherwise disposed of, directly or indirectly, within the United States or its territories or possessions except in transactions exempt from registration under the 1933 Act and under the securities laws of any applicable state. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States, its territories or possessions. See "Plan of Distribution".

PRELIMINARY PROSPECTUS DATED MAY 10, 2007

Initial Public Offering and Secondary Offering ● ,2007

TETHYS Petroleum

TETHYS PETROLEUM LIMITED

Treasury Offering:

$ ● (Minimum Offering)

$ ● (Maximum Offering)

A Minimum of ● and a Maximum of ● Ordinary Shares

Secondary Offering:

Up to $ ●

(● Ordinary Shares)

This prospectus qualifies the distribution (the "**Treasury Offering**") of ordinary shares ("**Ordinary Shares**") of Tethys Petroleum Limited ("**Tethys**" or the "**Company**"), a company formed under the laws of Guernsey, and the distribution (the "**Secondary Offering**") of up to ● Ordinary Shares held by CanArgo Limited (the "**Selling Shareholder**"), a wholly—owned subsidiary of CanArgo Energy Corporation ("**CanArgo**"), in each case at a price of $ ● per Ordinary Share (the "**Offering Price**"). See "*Principal Shareholders and Selling Shareholder.*" The Treasury Offering and the Secondary Offering are collectively referred to herein as the "**Offerings**" and the Ordinary Shares sold pursuant to the Offerings are collectively referred to herein as the "**Offered Shares**". The Offering Price of the Offered Shares was determined by negotiation between the Company, the Selling Shareholder, CanArgo and the agents, being Jennings Capital Inc., Tristone Capital Inc. and Haywood Securities Inc. (the "**Agents**"). The Treasury Offering is subject to a minimum number of ● Ordinary Shares (the "**Minimum Offering**") and a maximum number of ● Ordinary Shares (the "**Maximum Offering**"). No Ordinary Shares will be sold under the Secondary Offering unless the Maximum Offering has been sold. The Company will not receive any proceeds from the Secondary Offering.

Consent under *The Control of Borrowing (Guernsey) Ordinances, 1959 to 1989*, for the circulation of the final prospectus insofar as it relates to the Treasury Offering and the Secondary Offering and to the raising of money by the Treasury Offering will be sought. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council accept any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regards thereto.

There is currently no market through which the Ordinary Shares may be sold and purchasers may not be able to resell Ordinary Shares purchased under this prospectus.

Price: $ ● per Offered Share

	Offering Price	Agents' Commission(1)	Net Proceeds to the Company(2)	Net Proceeds to the Selling Shareholder(2)(3)
Per Ordinary Share	$ ●	$ ●	$ ●	$ ●
Minimum Offering	$ ●	$ ●	$ ●	$ ●
Maximum Offering	$ ●	$ ●	$ ●	$ ●
Maximum Offering and Secondary Offering(3)	$ ●	$ ●	$ ●	$ ●

Notes:

(1) The Agents will receive a cash commission (the "**Agents' Commission**") equal to 6% of the aggregate gross proceeds of the Offerings. In addition, the Company will grant to the Agents the Agents' Compensation Options (described below).

(2) Before deducting expenses of the Offerings, estimated to be $ ● , which will be paid by the Company and the Selling Shareholder on a *pro rata* basis based on the number of Ordinary Shares sold under the Treasury Offering and the Secondary Offering, respectively. The Company's share of expenses and the Agents' Commission in respect of the Treasury Offering will be paid by the Company from the proceeds of the Treasury Offering. The Selling Shareholder's share of expenses and the Agents' Commission in respect of the Secondary Offering will be paid by the Selling Shareholder from the proceeds of the Secondary Offering. See "*Plan of Distribution*".

(3) The Ordinary Shares offered by the Selling Shareholder pursuant to the Secondary Offering will only be sold if the maximum number of Ordinary Shares offered by the Company pursuant to the Treasury Offering has been sold. Numbers presented assume the Treasury Offering and the Secondary Offering are fully subscribed.

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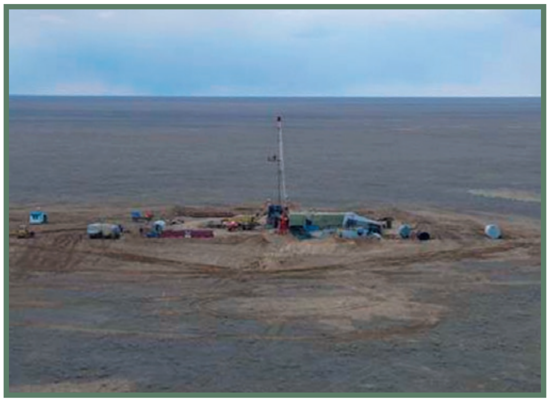

TETHYS Petroleum

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In addition to the commission described in note 1 above, as consideration for their services in connection with the Treasury Offering, the Company will grant to the Agents non—transferable options to acquire Ordinary Shares (the "**Agents' Compensation Options**") as follows:

Agents' Position	Maximum Number of Securities Held	Exercise Period	Exercise Price
Compensation options, being the Agents' Compensation Options	Up to ● Agents' Compensation Options, each such option entitling the holder thereof to purchase one Ordinary Share (subject to adjustment in certain circumstances)(1)	18 months from the date of issuance thereof on the closing of the Treasury Offering	$ ● per Ordinary Share

Note:

(1) The number of Agents' Compensation Options actually granted will be equal to 4.125% of the total number of Ordinary Shares sold under the Treasury Offering. The Agents' Compensation Options are qualified for distribution under this prospectus. The Agents' Compensation Options will be allocated among certain of the Agents based on their respective sales of Ordinary Shares under the Treasury Offering. See "*Plan of Distribution*".

The Offerings are not underwritten or guaranteed by any person. The Agents have agreed to offer the Offered Shares distributed under this prospectus on a "best efforts" basis. The Agents conditionally offer the Offered Shares if, as and when issued, sold and delivered by the Company in accordance with the conditions contained in the agency agreement referred to under "*Plan of Distribution*", subject to approval of certain legal matters relating to the Offerings on behalf of the Company by Borden Ladner Gervais LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. In connection with the Offerings, the Agents may effect transactions which stabilize or maintain the market price of the Ordinary Shares at levels other than those which otherwise might prevail on the open market. See "*Plan of Distribution*".

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Provided the Minimum Offering has been achieved, it is expected that the initial closing of the Offerings (the "**Closing**") will take place on or about ● , 2007, or such later date as the Company, the Selling Shareholder and the Agents may agree, but in any event no later than ● , 2007.

Notwithstanding the above, the Offerings will be discontinued in the event that a Closing in respect of the Minimum Offering has not occurred on or prior to the date which is 90 days from the issuance of a receipt for this prospectus, unless the subscribers who have subscribed within such period consent to the continuation of the Offerings.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Custodian (as defined herein), pending Closing of the Minimum Offering, pursuant to the provisions of the Agency Agreement (as defined herein). If the Minimum Offering has not been subscribed for prior to the 90 day period, the Custodian shall promptly return the proceeds of subscriptions to the subscribers without interest or deduction, unless such subscribers have otherwise instructed the Custodian.

Should the initial Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Maximum Offering and the Secondary Offering being fully subscribed and ● , 2007.

An investment in the Offered Shares is speculative and involves a high degree of risk that should be considered by potential investors. The Company's business is subject to the risks normally encountered in the oil and gas industry in Central Asia and risks associated with the Company's early stage of development. An investment in the Offered Shares is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investments. See "*Risk Factors*".

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GENERAL MATTERS

As used in this prospectus, unless the context otherwise requires or indicates, the terms “Company”, “we”, “us” and “our” mean Tethys, including Tethys and its wholly-owned subsidiaries taken together as a whole.

Unless otherwise indicated, all information in this prospectus assumes that the Maximum Offering is fully subscribed and that the maximum number of Offered Shares are sold under the Secondary Offering.

Unless the context otherwise requires, the information in this prospectus reflects the consolidation of the 134,674,390 issued £0.01 par value ordinary shares of the Company (the “**Pre-Split Ordinary Shares**”) into 26,934,878 US$0.10 par value ordinary shares of the Company, being a consolidation of one new ordinary share (an “**Ordinary Share**”) for five Pre-Split Ordinary Shares effected on May 8, 2007 (the “**Share Consolidation**”) and to the issuance of 6,000,000 Ordinary Shares on May 9, 2007 in respect of the Company’s acquisition of the interest in BN Munai LLP it did not previously own.

Certain terms used throughout this prospectus are defined in “*Glossary of Terms*”. Certain technical terms used throughout this prospectus are defined in the “*Glossary of Abbreviations and Technical Terms*”.

For reporting purposes, the Company prepares its financial statements in U.S. dollars and in conformity with US GAAP which, as disclosed in the notes thereto, conforms in all significant respects with Canadian GAAP. See note 2 to the audited consolidated financial statements of the Company contained elsewhere in this prospectus confirming that there are no material differences between Canadian GAAP and US GAAP as it relates to the presentation of the Company’s financial statements. Unless otherwise indicated, all dollar amounts in this prospectus are expressed in Canadian dollars. References to “$” are to Canadian dollars, references to “US$” are to United States dollars and references to “£” are to British pounds.

FOREIGN JURISDICTIONS

The Company and the Selling Shareholder were incorporated under the laws of Guernsey and CanArgo was incorporated under the laws of Delaware, USA. Substantially all of the respective assets of the Company, the Selling Shareholder and CanArgo are located outside Canada. Although each of the Company, the Selling Shareholder and CanArgo has appointed Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario M5H 3Y4 as its agent for service of process in Canada, it may not be possible for investors to collect from the Company, the Selling Shareholder or CanArgo judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Tethys is hereby providing cautionary statements identifying important factors that could cause the Company’s actual results to differ materially from those set forth in forward-looking statements made in this prospectus. Any statements that express, or involve, discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “likely”, “expect”, “anticipate”, “believe”, “estimate”, “intend”, “plan”, “project”, “seek”, “continue”, “predict”, “potential”, “target”, “should”, “may”, “would”, “could”, “will”, “outlook” and similar expressions) are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the factors discussed throughout this prospectus. Among the key factors that have a direct bearing on the Company’s results of operations are the nature of the Company’s involvement in the business of exploration for, and development and production of oil and gas reserves and fluctuations in prices received for oil and gas fluctuations in interest rates. These and other factors are discussed herein under “*Risk Factors*” and elsewhere in this prospectus.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company, investors should not place undue reliance on any such forward-looking statements. Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in oil and gas prices; the results of exploration and development of drilling and related activities; fluctuation in foreign currency exchange rates; the uncertainty of reserve estimates; changes in environmental and other regulations; risks associated with oil and gas operations; the concentration of the Company's operations, assets and revenue in Kazakhstan and Tajikistan; changes in general political, social, economic and business conditions in Kazakhstan, Tajikistan and the Central Asia region; the other risks described under the heading "*Risk Factors*" and other factors, many of which are beyond the control of the Company. Further, any forward-looking statement is made only as of a certain date, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for management to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, the market and industry data contained in this prospectus is based upon information from the Kazakh and Tajik governments, independent industry information and other publications and the Company's management's knowledge of and experience in the markets in which the Company operates. While the Company believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. None of the Company, CanArgo, the Selling Shareholder or the Agents has independently verified any of the data from third party sources referred to in this prospectus or ascertained the underlying assumptions relied upon by such sources. In addition, the ability of the Agents to verify independently the industry data prepared by management of the Company is limited.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offerings and is qualified by and should be read in conjunction with the more detailed information, reserve data and financial data and statements appearing elsewhere in this prospectus. See "Glossary of Terms" for the meanings given to certain capitalized terms used in this prospectus summary.

INVESTMENT HIGHLIGHTS

Opportunity to invest in a Kazakhstan/Central Asia-focused energy company. In the recent past, some of the world's largest new discoveries have been made in Kazakhstan (for example, in the Kashagan field with estimated recoverable reserves of up to 18 billion bbl of oil), and the area has significant additional potential for future exploration and exploitation. The Company views Kazakhstan as a hydrocarbon-rich country with significant reserves already discovered and with good potential for additional discoveries in under-explored areas. According to the EIA, Kazakhstan produced approximately 1.29 million bopd in 2005 and has targeted an increase to production levels of 3.5 million bopd by 2015. To date, domestic gas production has been primarily as associated gas from oil and condensate developments. However, new discoveries of natural gas reserves has expanded the potential for domestic use of this resource. Tethys is developing a niche in this rapidly growing market. Kazakhstan now hosts many international and domestic oil and gas companies, some of which are among the world's largest energy companies, including Chevron Corporation, ExxonMobil Corporation, Total, Eni S.p.A. and British Gas. In addition, Kazakhstan is a signatory to the Extractive Industries Transparency Initiative promoted by the UK government. This initiative supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, natural gas and mining. This initiative also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. Accordingly, Management of the Company believes that Kazakhstan has developed a well-established legislative framework for the exploitation of its significant oil and natural gas potential. The Company believes that commencement of natural gas production from Tethys' Kyzyloi Field planned for July 2007 will make Tethys the first western company to develop a dry gas field in Kazakhstan.

Significant Producing Assets and Reserves in Kazakhstan. Tethys' assets are presently located in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the southeastern edge of, and is essentially an extension of, the prolific Pre-Caspian sedimentary basin. According to a report dated 2006 by the USGS, to date, discovered hydrocarbons in this basin total nearly 2.4 billion bbl of oil, and 2.4 TCF (68 Bcm) of gas. The Company believes that the North Ustyurt basin is an area of significant hydrocarbon potential, given that the area has had only relatively limited investment in the past and significant oil and natural gas have already been discovered in the area. Tethys currently holds substantial lands in this area, totalling over 2,700,000 acres (11,000 km^2). An investment in Tethys provides investors with exposure to an area that has had significant existing natural gas production through the proven Kyzyloi Field, and further potential upside for shallow gas in the surrounding Akkulka Exploration Licence and Contract area and much larger Kul-Bas Exploration and Production Contract area. As a result of earlier drilling operations, re-completions on certain existing wells and the success of two exploration wells, the Company has tested aggregate natural gas production in excess of 40 MMcf/d (1,133 Mcm/d). Two exploration wells drilled by the Company, the AKK04 and AKK05 wells, have tested dry gas at rates of 8.8 MMcf/d (249 Mcm/d) and 7.9 MMcf/d (224 Mcm/d), respectively (the Company anticipates to produce these wells at levels below their respective test rates). The Company has identified more than 15 additional drilling locations in the Akkulka Block and Kul-Bas Blocks, which have the potential to significantly increase production. The Company is currently completing the construction of a 32 mile (51 km) 325 mm diameter pipeline and associated compression plant, with a tie-in to one of Central Asia's major export trunklines. This is due to be completed in June 2007 with first gas soon after. The initial production rate is planned to be 22 MMcf/d (623 Mcm/d), but this infrastructure has been put in place with the intention of supporting a much larger capacity production rate of up to 72 MMcf/d (2.04 Mcm/d) with the Company intending to achieve this from exploration in the surrounding area, which can be achieved with additional compression and some looping. The natural gas price on the Uzbekistan/Kazakhstan border has risen by 66% in the last six months to US$2.83/Mcf (US$100/Mcm) and the Company believes that further increases are likely as regional energy prices increase.

Significant Additional Shallow Gas Resources. The Company believes that the Akkulka Block contains many potential targets for shallow gas at different stratigraphic levels. To date, the Company has drilled seven wells on the Akkulka Block with a further three wells planned before the end of 2007. In November 2005, the Company acquired the much larger Kul-Bas area totalling some 2,700,000 acres (11,000 km^2). A total of 15 amplitude anomalies similar to those in the Kyzyloi Field and the Akkulka Block have been mapped to date. Some of the anomalies in the southeastern section are located in close proximity to the Kyzyloi Field development infrastructure and the compressor station at the cut-in point at 562 miles (910 km) on the major export trunkline. Therefore, additional wells could be efficiently tied into the trunkline.

Large Exploration Area with Identified Oil and Gas Targets. Within the Akkulka Block and the Kul-Bas Block, seismic re-interpretation indicates that there are several leads and prospects with independently assessed un-risked mean prospective resources of approximately 690 MMBOE based on the Resource Report, using the assumptions on the hydrocarbon fill from this report, which the Company believes provides for significant exploration upside in the deeper Jurassic and Triassic sequences. The prospects may be analogous with the large Triassic deposits to the southwest in the Mangyshlak hydrocarbon province and along the Zhetybay Step. The upper Triassic-lower Jurassic sediments are within a large mega-sequence of post-rift sediments that thicken to the southwest and northeast off the Akkulka High. Most likely source rocks for both plays would be the lacustrine Triassic age sediments that produce the waxy oils of the Mangyshlak area. Traces of a similar waxy crude were recovered from the production test on the Company's AKK04 well. The Company considers the much larger Kul-Bas Block to also have significant oil and gas potential in deeper horizons ranging from the Carboniferous through to the Jurassic. Large condensate fields such as Urga (1.7 TCF/0.048 TCM) (Source: *"Uzbekistan — Gazprom Operations", APS Review Gas Market Trends, October 16, 2006*) have been discovered in the same basin just to the south in northern Uzbekistan. Further work is required to firm up prospects at these deeper levels on this large area, and Tethys has mobilized a seismic contractor to acquire further seismic data with this work due to commence in May 2007.

Significant Second Block in Kazakhstan. On May 10, 2007, Tethys entered into an agreement to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC. Closing of this acquisition is conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the Treasury Offering.

The Aral Vostochniy Block covers an area of approximately 2,800,000 acres (11,316 km^2) located to the east of the Aral Sea, which the Company believes has the potential for natural gas and possibly oil deposits. It is relatively under-explored but lies on the edge of the East Aral basin, the eastward extension of the North Ustyurt basin, in a similar structural position to Tethys' current acreage, and towards the south Turgay basin, site of large fields owned by PetroKazakhstan Limited.

Early entry into Tajikistan. Tethys believes that there is an opportunity for both oil and natural gas development potential in the "virgin" exploration territory of the Afghan-Tajik basin, a continuation of the prolific Amu Darya basin, in the Republic of Tajikistan to the southeast of Tethys' current assets in Kazakhstan. There are also opportunities for early oil and gas production through rehabilitation of existing fields. In January 2007, Tethys signed a Protocol of Intent with the Tajikistan government to negotiate a production sharing contract ("**PSC**") for the large Kulibsky (Kulob) area of south Tajikistan and in early March 2007, the Tajikistan government introduced production-sharing legislation for the first time which lays the fiscal and commercial framework for such a PSC. The Company believes that the previous lack of a legislative and commercial framework was the primary reason for western oil and gas companies not establishing themselves in Tajikistan. Tethys expects to have a PSC in place by the fall of 2007, allowing field rehabilitation work to commence and seismic data to be acquired to firm up several attractive leads in the area.

Experienced Management & Board. Tethys' management, technical team and key personnel have substantial operational, exploration and business development experience in the Caspian region and in the former Soviet Union in general. The Company's team has demonstrated the ability to successfully carry out exploration and development programs in this area, including oil and natural gas field development, exploration and downstream activities. Through a locally focused approach, the Company employs experienced local management and staff to develop and implement projects and considers itself to have built up a solid reputation in Kazakhstan and other parts of the former Soviet Union as well as developing a network of local and regional contacts and relationships which enhance their operations and ability to develop the Company's business. Dr. David Robson, the Company's President, Chief Executive Officer and Chairman of the Board of Directors, is an experienced petroleum geologist who has spent the last 17 years of his career developing projects in the former Soviet Union, in areas ranging from Siberia to Sakhalin and from Crimea to Kalmykia, initially for major and large independent oil and gas companies and then developing new companies. He was one of the founders and the Chief Executive Officer of London Stock Exchange-listed JKX Oil and Gas plc, where he established the first oil and gas joint venture in Ukraine. Dr. Robson developed the first non-state gas production project in Ukraine, drilled the first western well in the former Soviet Union Black Sea and carried out the first non-state drilling in Georgia in over 70 years. Dr. Robson also wrote the first production-sharing contract in Georgia. In 1997, he went on to form CanArgo (a corporation listed on the American Stock Exchange (AMEX) and the Oslo Stock Exchange), the most active oil and gas exploration and production company in Georgia. The Board of Directors brings considerable experience both in the business and financial arena, with the Company's Vice Chairman, The Rt. Hon Peter Lilley M.P., being a former Minister of Trade and Industry in the UK, as well as being formerly the Deputy Chairman of the UK Conservative Party, a leading Conservative Member of the UK Parliament and an election observer in the last Kazakhstan Presidential election.

THE COMPANY

Tethys' objective is to build a diversified oil and natural gas exploration and production company, initially focused on Kazakhstan and Central Asia, with a mixture of high potential exploration properties for longer term upside and asset growth, coupled with short-term cash flow projects.

The Company is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas resources in Central Asia, currently in Kazakhstan and Tajikistan. The Company's assets are presently located in three contiguous blocks in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the southeastern edge of the prolific Pre-Caspian sedimentary basin and is, at the Carboniferous stratigraphic level and deeper, an extension of the Pre-Caspian Sedimentary basin. In addition, the Company has entered into an agreement to acquire the rights to explore on another very extensive land block in Kazakhstan, the Aral Vostochniy Block, an area of approximately 2,800,000 acres (11,316 km^2) to the east of the Aral Sea, in the East Aral basin, an extension of the North Ustyurt basin. The Company has also negotiated a Protocol of Intent which gives the Company the exclusive rights for a period to negotiate a PSC for a large area of southern Tajikistan. The Company believes that its areas in Kazakhstan and Tajikistan possess significant hydrocarbon potential, given that these areas have significant oil and natural gas discoveries, but have had only limited investment.

In Kazakhstan, the Company owns its current interests through a wholly-owned Kazakh limited liability partnership named BN Munai LLP ("**BNM**"). As a result of this ownership, the Company currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). BNM also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area, and a 100% interest in the Kul-Bas Exploration and Production Contract area. These lands are all within the Aktobe Oblast region of western Kazakhstan. The McDaniel Reserve Report estimates that Tethys has proved plus probable reserves of 64.5 Bcf (1.8 Bcm) of natural gas in the Kyzyloi Field and the Akkulka Block, which are expected to commence production in July 2007. See "*Statement of Reserves Data and Other Related Information*". Tethys is currently completing construction of a 32 mile (51 km) 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station is being built, with a tie-in point agreed upon with the trunkline's owner, Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.

The following table sets forth additional summary information relating to the Company's reserves and exploration lands. Reserves and net present value estimates are based on the McDaniel Reserve Report.

Reserves as of March 31, 2007 — Forecast Pricing

Company Net Working Interest (MMcf)(1)	
Proved	38,442
Proved plus probable	64,488
Proved plus probable plus possible	85,788
Net Present Value at 10% after Tax (US$ millions)	
Proved	17,134
Proved plus probable	32,914
Proved plus probable plus possible	41,928

Note:

(1) After royalties.

See "*Statement of Reserves Data and Other Related Information*" and "*Property Descriptions*".

PROPERTIES

The following table summarizes the Company's principal properties in Kazakhstan and Tajikistan as of March 31, 2007:

Property	Basin	Gross Acreage (acres)	Expiry/Option Date
Kazakhstan			
Production Contracts			
The Kyzyloi Field Licence and Production Contract	North Ustyurt	70,967	June 2014
Exploration Contracts			
The Akkulka Exploration Licence and Contract	North Ustyurt	341,121	September 2009
The Kul-Bas Exploration and Production Contract	North Ustyurt	2,688,695	November 2030
Aral Vostochniy Block	East Aral	2,797,184	November 2010(1)
Tajikistan			
Protocol of Intent			
Kulob Area	Afghan-Tajik Basin	2,223,900	N/A(2)
Total Acreage		**8,121,867**	

Notes:

(1) The term of the Aral Vostochniy Exploration Contract is currently to November 2008. It is a condition, in favour of the Company, to the Company's acquisition of NBC that the Aral Vostochniy Exploration Contract be extended to November 2010. The acquisition of NBC is also conditional on the Company raising at least US$25,000,000 in gross proceeds pursuant to the Treasury Offering. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

(2) The Company does not have a licence or contract at this time but it is in the process of negotiating a PSC over the area.

The principal properties of the Company are located within the Aktobe Oblast region of western Kazakhstan and consist of the Kyzyloi Field (under the terms of the Kyzyloi Field Licence and Production Contract), the Akkulka Block (under the terms of the Akkulka Block Exploration Licence and Contract) and the Kul-Bas Block (under the terms of the Kul-Bas Exploration and Production Contract). In addition, the Company has the right to acquire the large Aral Vostochniy Block in Kazakhstan and also has the right to conduct technical evaluation and negotiation in respect of oil and gas activities in the Kulibsky (Kulob) region of Tajikistan. A summary description of each of these properties is provided below.

Kyzyloi Field

Kyzyloi is a shallow gas field containing sweet (no sulphur) natural gas (~97% methane) in sandstones of Paleogene age at depths up to approximately 2,000 ft (610 m). The field is well defined both on Soviet-era seismic data and on more recent data shot by the JNOC in 1995 to 1996, and can be clearly seen as amplitude anomalies or "bright spots" on this data. The field was first discovered in 1966, and several wells were drilled both to test and delineate the deposit, which is interpreted as being a simple anticlinal structure with sand pinch-out to the north and west.

Previous drilling has left several suspended wells on the field, which were drilled but not fully tested or completed. BNM has now re-entered five wells and carried out production tests to ascertain gas produceability and firm-up reserves. One well was tested prior to BNM's involvement. Aggregate gas production from the wells tested to date has exceeded 24 MMcf/d (680 Mcm/d). These wells, together with an additional well yet to be tested, form the basis for the initial development of the Kyzyloi Field. In addition, during the exploration drilling program carried out in 2005 by BNM, the Akkulka AKK05 exploration well encountered gas in two sandstone horizons, in the Kyzyloi Sandstones and the Oligocene Sandstones, and was tested from the Kyzyloi Sandstone interval at rates of up to 7.9 MMcf/d (224 Mcm/d) of dry gas. The results of this well and seismic mapping indicate that this well has proved a northeasterly extension of the Kyzyloi Field and this area, now named North-East Kyzyloi, will be included in the initial Kyzyloi development.

The McDaniel Reserve Report estimates net proved plus probable economically recoverable reserves of approximately 50.04 Bcf (1.42 Bcm) for the Kyzyloi Field, including North-East Kyzyloi.

A 32 mile (51 km) 325 mm diameter pipeline and compressor station is currently being constructed to tie-in the development to the major Bukhara–Urals trunkline and first gas production is expected in July 2007, at an initial planned gas rate of approximately 22 MMcf/d (623 Mcm/d).

Akkulka Block

The Akkulka area has had a history of regional shallow gas exploration, mainly in the 1960s, with regional gravity, magnetic and seismic surveys and shallow stratigraphic wells. This work identified the Bozoi gas fields (currently the Bozoi underground gas storage ("**UGS**") facility), the Kyzyloi Field and the North Kyzyloi Field. Some deep wells during this period located along the main Akkulka High indicated the presence of reservoir rock and potential hydrocarbons in the upper Mesozoic.

Recoverable net proved plus probable gas reserves within the Akkulka Exploration Licence and Contract area is estimated by the McDaniel Reserve Report at 14.45 Bcf (0.41 Bcm) based upon drilling and testing.

Akkulka well successes to date are as follows:

- The AKK04 well, tested dry gas at maximum rate of 8.80 MMcf/d (249 Mcm/d) discovering a new gas deposit (now named Central Akkulka) located some 12.5 miles (20 km) east of the Kyzyloi Field; and
- The AKK05 well (now named North-East Kyzyloi) tested dry gas at a maximum rate of 7.9 MMcf/d (224 Mcm/d) per day of dry gas. The AKK05 accumulation is located some 4 miles (6.5 km) north of the Kyzyloi Field. The well is now preserved for future tie-in to the greater Kyzyloi development.

Kul-Bas Block

The Kul-Bas Exploration and Production Contract area surrounds the Akkulka Block and has similar geological, tectonic and structural features to the Akkulka Block.

The Company considers this large area to be under-explored, only being subject to regional magnetic, gravity and seismic surveys in the Soviet-era with limited stratigraphic wells (i.e. very shallow in the southern part surrounding Akkulka Block).

Tethys has made a preliminary assessment of the 1995–1996 vintage JNOC 2D seismic data. The Company considers prospective horizons to be similar to Akkulka with the possible addition of a Palaeozoic play in the northwest of the block, where sedimentary cover thins and source rock maturity and reservoir properties would in their view most likely have been preserved. BNM has engaged a seismic contractor to acquire additional data on the Kul-Bas Block, and work on this is expected to commence in May 2007.

Aral Vostochniy Block

On May 10, 2007, Tethys entered into an agreement with the owner of NBC to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through the Company's wholly-owned subsidiary TKL. Closing of this acquisition is conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the Treasury Offering.

The Aral Vostochniy Block covers an area of approximately 2,800,000 acres (11,316 km^2) located to the east of the Aral Sea which the Company believes has the potential for natural gas and possibly oil deposits. It is relatively under-explored but lies on the edge of the East Aral basin, the eastward extension of the North Ustyurt basin, in a similar structural position to Tethys' current acreage, and towards the South Turgay basin, site of large fields owned by PetroKazakhstan Limited.

In a report prepared in April 2006 by the MEMR, JSC Oil and Gas Research and Project Institute ("**OGRPI**"), it was noted that the Aral Vostochniy Block was essentially an exploration area with the potential primarily for natural gas. The report estimated that the area may contain approximately 1,483 Bcf (42 Bcm) of recoverable natural gas and up to 81 mmbbl of recoverable oil, principally in oil-rims in identified shallow structures. The OGRPI estimates are not classified as reserves or resources as set out in the COGE Handbook. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*" and "*Risk Factors*".

Tajikistan

In January 2007, the Company signed a Protocol of Intent with the government of Tajikistan related to conducting oil and gas operations in Tajikistan. The Protocol of Intent gives Tethys the exclusive right to carry out technical evaluations and negotiations with the aim of entering into a contractual arrangement to carry out oil and gas exploration activities in the Kulibsky (Kulob) region of southern Tajikistan, to consider involvement in the Alimtai prospect in that region, and for co-operation in increasing production on currently operating fields in Tajikistan.

See "*Property Descriptions*" for a more detailed description of each of the Company's properties.

SELECTED FINANCIAL INFORMATION OF TETHYS

The following table sets out certain selected financial information of the Company as at December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006. This financial information has been derived from the audited consolidated financial statements of the Company appearing elsewhere in this prospectus. These results should also be read in conjunction with the disclosure under the heading "*Management's Discussion and Analysis*". The Company's financial statements are prepared in accordance with US GAAP. There are no material differences between US GAAP and Canadian GAAP as it relates to the presentation of the Company's financial statements.

	Year Ended December 31,		
	2006	**2005**	**2004**
		(US$000s)	
Operating Revenue	—	—	—
Operating Expenses	—	—	—
Net Income (Loss)	(6,943)	(2,065)	(612)
Capital Expenditures	10,390	1,315	24
Net Income (Loss) per share (basic and diluted)[1]	(0.49)	(20.82)	(6.12)

	As at December 31,	
	2006	**2005**
	(US$000s)	
Balance Sheet Data:		
Total Assets	19,587	5,686
Cash and Working Capital (Deficiency)	434	(4,430)

Note:

(1) Prior to giving effect to the Share Consolidation.

See *"Selected Financial Information of Tethys"* and *"Management's Discussion and Analysis"*.

SUMMARY RESERVES INFORMATION

The Company's reserves are currently comprised of natural gas. Tethys engaged McDaniel to evaluate Tethys' natural gas reserves as at March 31, 2007, and in connection therewith McDaniel prepared a report, dated April 24, 2007 and effective March 31, 2007 (the "**McDaniel Reserve Report**") evaluating the Company's natural gas reserves as at March 31, 2007. The following tables set forth certain summary information relating to the natural gas reserves of the Company and the present value of future net cash flows associated with such reserves as at March 31, 2007.

The information set forth below is derived from the McDaniel Reserve Report which has been prepared in accordance with the standards contained in the COGE Handbook and the reserves and resources definitions contained in NI 51-101. All evaluations of future net cash flows are stated prior to provision for indirect costs and after deduction of royalties, estimated future capital expenditures and well abandonment and lease reclamation costs. It should not be assumed that the present values of estimated future net cash flows shown below are representative of the fair market value of the natural gas reserves. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas reserves may be greater than or less than the estimates provided herein.

See *"Statement of Reserves Data and Other Related Information"* for a complete description of the McDaniel Reserve Report and further information regarding the Company's natural gas reserves.

SUMMARY OF OIL AND GAS RESERVES

Reserves Category	Natural Gas (MMcf) March 31, 2007 Forecast Prices Gross (MMcf)	Forecast Prices Net (MMcf)	Constant Prices Gross (MMcf)	Constant Prices Net (MMcf)
PROVED				
Developed Producing	—	—	—	—
Developed Non-Producing	26,526	25,995	26,526	25,995
Undeveloped	12,701	12,447	12,701	12,447
TOTAL PROVED	39,227	38,442	39,227	38,442
TOTAL PROVED PLUS PROBABLE	65,804	64,488	65,804	64,488
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	87,539	85,788	87,539	85,788

Constant Prices and Costs
Net Present Value of Future Net Revenue
As of March 31, 2007

Reserves Category	Before Income Taxes Discounted at (%/year) 0	5	10	15	After Income Taxes Discounted at (%/year) 0	5	10	15
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
PROVED								
Developed Producing	—	—	—	—	—	—	—	—
Developed Non-Producing	13,257	11,824	10,672	9,730	12,997	11,622	10,512	9,602
Undeveloped	12,833	10,207	8,227	6,709	9,669	7,678	6,175	5,023
TOTAL PROVED	26,089	22,032	18,899	16,439	22,666	19,299	16,687	14,625
PROBABLE	40,502	30,803	23,873	18,804	24,919	18,770	14,421	11,265
TOTAL PROVED PLUS PROBABLE	66,591	52,835	42,772	35,243	47,585	38,069	31,107	25,889
POSSIBLE	40,031	26,414	17,873	12,353	19,124	12,355	8,175	5,512
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	106,622	79,249	60,645	47,596	66,708	50,424	39,283	31,402

Note:

(1) Table may not add due to rounding.

Forecast Prices and Costs
Net Present Value of Future Net Revenue
As of March 31, 2007

Reserves Category	Before Income Taxes Discounted at (%/year) 0	5	10	15	After Income Taxes Discounted at (%/year) 0	5	10	15
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
PROVED								
Developed Producing	—	—	—	—	—	—	—	—
Developed Non-Producing	12,731	11,405	10,332	9,450	12,622	11,321	10,266	9,398
Undeveloped	14,359	11,353	9,099	7,380	10,868	8,582	6,867	5,559
TOTAL PROVED	27,090	22,759	19,431	16,830	23,490	19,903	17,134	14,958
PROBABLE	45,399	34,425	26,612	20,917	27,402	20,587	15,781	12,304
TOTAL PROVED PLUS PROBABLE	72,490	57,183	46,043	37,747	50,892	40,490	32,914	27,261
POSSIBLE	47,421	31,199	21,064	14,538	21,226	13,662	9,014	6,064
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	119,911	88,382	67,107	52,285	72,118	54,153	41,928	33,326

Note:

(1) Table may not add due to rounding.

SUMMARY RESOURCES INFORMATION

The Company engaged the services of McDaniel to evaluate the prospective resources of 49 oil and gas prospects in the areas that are subject to the Kyzyloi Field Licence and Production Contract, the Akkulka Exploration Licence and Contract and the Kul—Bas Exploration and Production Contract (collectively, the "**Contracts**") owned by Tethys in western Kazakhstan. Their evaluation as at March 31, 2007 is contained in a report dated April 26, 2007 (the "**Resource Report**"). Prospective resources are those quantities of natural gas and oil that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. As a result of the lack of sufficient exploration drilling, the prospective resources estimated and included in the Resource Report cannot be classified as reserves pursuant to NI 51-101.

A Summary of the prospective crude oil and natural gas resources for the total of the Contract areas is presented below:

Prospective Resources at March 31, 2007(1)(2)(3)

	Low Estimate(4)(5)	Best Estimate(4)(6)	High Estimate(4)(7)	Unrisked Mean(8)	Risked Mean(8)
Total Company					
Crude Oil Resources, mbbl	63,468	203,765	663,523	293,559	24,704
Natural Gas Resources, MMcf	547,468	1,807,375	6,186,835	2,703,640	249,841
BOE Resources, mbbl	154,712	504,994	1,694,662	744,165	66,344

Notes:

(1) Based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own estimated probability of geological success.

(3) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.

(4) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources. The resource range presented above is "unrisked", meaning that it is valid in the event of successfully finding hydrocarbons in each and every prospect. In this case, the possible range of recoverable resources would likely lie in the range between the low estimate and the high estimate.

(5) The low estimate reported is the P90 quantity derived from probabilistic analysis. This means that there is at least a 90% probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the low estimate. This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation.

(6) The best estimate is based upon the expected value, based upon the outcome of a probabilities analysis. The Company considers this to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term is a measure of central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean).

(7) The high estimate is the P10 quantity. This means that there is at least a 10% probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the high estimate. This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation.

(8) "**Unrisked Mean**" resources are calculated by taking the mean of each resource value within the range of the probabilistic analysis. "**Risked Mean**" resources are calculated based on the probability of geological success applied to the Unrisked Mean resource estimates.

See "*Prospective Resources*" for a more detailed description of the prospective resources for each Contract. See "*Property Descriptions*" for a description of the material terms of each of the Contracts and the properties that are subject to each of the Contracts.

PROPOSED WORK PROGRAM

The Company has dedicated US$12,700,000 to its work program for the years 2007, 2008 and 2009. The amount committed to the work program will increase to US$18,300,000 if the Minimum Offering is achieved and US$49,600,000 if the Maximum Offering is achieved. To date, the Company has secured three drilling rigs under long term contracts. These rigs are primarily under contract in connection with the drilling of the shallow gas prospects on the Akkulka Block. The Company anticipates that an additional tender will be carried out for the Kul-Bas Block work program. The Company also intends to actively pursue contracting a rig to enable it to undertake its drilling program on the Akkulka Block for deeper oil prospects.

On the development side, the Company plans to drill an infill well on North-East Kyzyloi in the last quarter of 2007. A further development well is expected to be drilled to the northeast of the Company's AKK04 well in late 2008 and an infill well is planned to be drilled to the south of the North-East Kyzyloi structure. On the exploration side, the Company plans to drill the AKK08 well next with operations commencing in May 2007 followed by the west-central Akkulka Block well (AKK09) which the Company also plans to commence drilling in May 2007. A further shallow exploration well is planned to be drilled by the Company later in 2007. The Company's exploration plan will continue with the drilling of ten shallow gas exploration wells on the Kul-Bas Block, with five wells planned to be drilled in 2007 and another five wells planned to be drilled in the first half of 2008. The Company expects to drill those exploration wells which are closest to the Bukhara-Urals pipeline and the nearby compressor station first. The Company also plans to begin drilling a deep exploration well on the Akkulka Block sometime in the third or fourth quarter of 2007, depending on financing and the results of the deep well tender which is planned to commence in the near future.

Due to the nature of the oil and gas industry, work programs are regularly reviewed with respect to the success of expenditures and other opportunities that become available. The Company's actual work program will vary depending upon a number of factors, including drilling success, availability of drilling equipment and assessment of newly acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. See "*Use of Proceeds*", "*Proposed Work Program*" and "*Risk Factors*".

THE OFFERINGS

Issuer:	Tethys Petroleum Limited
Selling Shareholder:	CanArgo Limited (a wholly-owned subsidiary of CanArgo)
Treasury Offering:	● Offered Shares under the Minimum Offering ● Offered Shares under the Maximum Offering
Secondary Offering:	Up to ● Offered Shares
Offering Price:	$ ● per Offered Share
Offering Amount:	$ ● pursuant to the Minimum Offering $ ● pursuant to the Maximum Offering Up to $ ● pursuant to the Secondary Offering Up to $ ● total under the Offerings
Form of Offerings:	Marketed offerings in all provinces of Canada other than Québec by way of long form prospectus on a "best efforts" basis. Private placement in the United States pursuant to exemptions from the requirements of the 1933 Act and offering to other jurisdictions as permitted by applicable securities laws and as mutually agreed upon by the Agents, CanArgo, the Selling Shareholder and the Company.

Ordinary Shares Outstanding:

	As at ● , 2007		
	Prior to Completion of the Treasury Offering	After Completion of the Minimum Offering	After Completion of the Maximum Offering
Ordinary Shares (basic)[(1)(2)] . . .	26,934,878	●	●

Notes:

(1) After giving effect to the Share Consolidation and after giving effect to the issuance of 6,000,000 Ordinary Shares (30,000,000 Pre-Split Ordinary Shares) on May 9, 2007 in respect of the Company's acquisition of the interest in BNM it did not previously own. See "*General Development of the Business — Company History*".

(2) Without giving effect to the proposed issuance of 1,500,000 Ordinary Shares as consideration in connection with the acquisition of NBC (Aral Vostochniy Block) or to the exercise of any of the options and warrants referred to under "*Options and Warrants to Purchase Securities*".

Shareholdings Post-Closing:	After giving effect to the Closing of the Minimum Offering, CanArgo will indirectly hold approximately ● % of the issued and outstanding Ordinary Shares, the remaining ● % of which will be held by current shareholders of the Company (other than CanArgo) and by investors under the Offerings. After giving effect to the Closing of the Maximum Offering and assuming full subscription of the Secondary Offering, CanArgo will indirectly hold approximately ● % of the issued and outstanding Ordinary Shares, the remaining ● % of which will be held by current shareholders of the Company (other than CanArgo) and by investors under the Offerings (● % and ● %, respectively, if the Maximum Offering is sold but no Offered Shares are sold in the Secondary Offering). See "*Principal Shareholders and Selling Shareholder*".
Closing:	Provided the Minimum Offering has been subscribed for, the initial Closing will take place on or about ● , 2007, subject to change, as the Agents, the Company, the Selling Shareholder and CanArgo may agree, and in any event not later than ● , 2007. One or more additional Closings may occur until the earlier of the Maximum Offering being subscribed and ● , 2007. See "*Plan of Distribution*".

Use of Proceeds:	The Company expects to receive approximately $ ● of net proceeds from the Minimum Offering and approximately $ ● of net proceeds from the Maximum Offering, after deducting the Agents' Commission in respect of the Treasury Offering and the Company's share of the estimated expenses of the Offerings. The proposed use of the net proceeds of the Treasury Offering by the Company is anticipated to be as follows:

	Minimum Offering	Maximum Offering
Kazakhstan		
Kul-Bas Block/Akkulka Block — shallow drilling and infrastructure (5 to 10 wells)	US$●	US$●
Akkulka Block — Triassic/Jurassic exploration well	—	US$●
Acquisition opportunities for properties with proven oil production	US$●	US$●
Purchase of NBC and initial work on the Aral Vostochniy Block	US$●	US$●
Tajikistan		
Seismic surveys and data processing and interpretation	US$●	US$●
Well rehabilitation	US$●	US$●
Alimtai exploration well	—	US$●
Repayment of Short-Term Loan	US$●	US$●
Working Capital and General Corporate Purposes	—	US$●
Total	**US$●**	**US$●**

The amounts and timing of the expenditures will vary depending upon a number of factors, including drilling success, availability of drilling equipment, assessment of newly acquired seismic data over the Company's exploration blocks and unexpected expenses. While it is currently intended by management of the Company that the net proceeds of the Treasury Offering will be expended as set forth above, actual expenditures may in fact differ from these amounts and allocations. Although the Company has not agreed to any further acquisitions other than the purchase of NBC (Aral Vostochniy Block), the Company proposes to review and consider acquisition opportunities of properties with proven oil/condensate or natural gas reserves. Accordingly, the Company has allocated US$6,000,000 to fund any such acquisition opportunities. If such opportunities do not arise in 2007 or 2008, any funds so allocated will be used for working capital and general corporate purposes. See "*Use of Proceeds*" and "*Risk Factors*".

The Company will not receive any of the proceeds of the Secondary Offering.

Eligibility for Investment:	In the opinion of Borden Ladner Gervais LLP, counsel for the Company, and Blake, Cassels & Graydon LLP, counsel for the Agents, the Ordinary Shares, if issued on the date hereof, would be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans provided that the Ordinary Shares were listed on a designated/prescribed stock exchange.

RISK FACTORS

An investment in the Ordinary Shares should be considered highly speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and gas reserves in Kazakhstan and Tajikistan. The Company's business is subject to the risks normally encountered in the oil and gas industry such as: competition with companies having greater resources; the ability to market production of natural gas; fluctuations in the market price and demand for oil and gas; uncertainty regarding acquisitions, exploration and production; risks relating to hedging activities; the need for, and ability to obtain, funding; political, economic and other uncertainties inherent in international operations; foreign currency risks; the effect of government regulation and policies; foreign legal and regulatory regimes; security concerns; variability between production and reported reserves evaluations; the ability of the Company to conclude agreements with foreign governments; availability of equipment and restrictions on access; various operating hazards such as fire, explosion and others; environmental regulation, risks and obligations; reliance on third party operators and key personnel; the recurring losses of the Company and the Company's ability to remain a going concern; costs associated with new products and the use of new technologies; potential delays in the initial production of the Company's natural gas reserves; the ability of the Company to maintain and enforce its property interests; difficulties the Corporation may experience developing effective disclosure controls and financial reporting controls and procedures; potential conflicts of interests involving some of the Company's directors; and the reliance of the Company on CanArgo and the Selling Shareholder.

There are additional risks to purchasers of Offered Shares associated with the nature and structure of the Offerings such as: the absence of a market through which Ordinary Shares may be resold; share price volatility; discretion of the Company over the use of proceeds from the Offerings; uncertainty regarding the declaration of dividends; investment dilution; the potential for further sales of Ordinary Shares by the Selling Shareholder; and the potential inability to enforce judgments outside of Canada. The reserve and recovery information contained in this prospectus are estimates only and the actual production and ultimate reserves recovered from the Company's properties may be greater or less than the estimates contained in this prospectus. See "*Risk Factors*".

GLOSSARY OF TERMS

In this prospectus, the capitalized terms set forth below have the following meanings:

"**1933 Act**" means the *U.S. Securities Act of 1933*, as amended;

"**Agency Agreement**" means the agency agreement dated ● , 2007 relating to the Offerings among Tethys, the Selling Shareholder, CanArgo and the Agents, as more particularly described under the heading *"Plan of Distribution*";

"**Agents**" means Jennings Capital Inc., Tristone Capital Inc. and Haywood Securities Inc.;

"**Agents' Commission**" means the cash commission of 6% of the aggregate gross proceeds of the Offerings payable to the Agents pursuant to the Agency Agreement;

"**Agents' Compensation Options**" means the options granted by the Company to certain of the Agents exercisable at any time on or before the date that is 18 months from the closing date of the Treasury Offering, to acquire a number of Ordinary Shares equal to 4.125% of the total number of Ordinary Shares sold under the Treasury Offering at a price of $ ● per Ordinary Share;

"**AIM**" means the Alternative Investment Market of the London Stock Exchange plc;

"**Akkulka**" or "**Akkulka Block**" means the area that is subject to the Akkulka Exploration Licence and Contract;

"**Akkulka Exploration Licence and Contract**" means BNM's exploration licence and contract in respect of the Akkulka Block;

"**AMI Agreement**" means the area of mutual interest and non-compete agreement entered into between Tethys and CanArgo on January 24, 2007;

"**Aral Vostochniy**" or "**Aral Vostochniy Block**" means the area that is subject to the Aral Vostochniy Exploration Contract;

"**Aral Vostochniy Exploration Contract**" means NBC's exploration contract in respect of the Aral Vostochniy Block;

"**BNM**" means BN Munai LLP, a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

"**Board of Directors**" means the board of directors of the Company, as constituted from time to time;

"**Canadian GAAP**" means Canadian generally accepted accounting principles;

"**CanArgo**" means CanArgo Energy Corporation, the promoter of the Company for the purpose of the Treasury Offering;

"**CanArgo Notes**" means the previously issued senior subordinated convertible notes of CanArgo in the principal amount of US$13,000,000, which notes are convertible into ordinary shares of Tethys owned by CanArgo;

"**CEO Services Agreement**" means the management services agreement to be entered into between the Company and Vazon prior to Closing providing for, among other things, the services of Dr. David Robson as President and Chief Executive Officer of the Company;

"**CIS**" means the Commonwealth of Independent States;

"**Closing**" means a closing of the Offerings, which initial closing is anticipated to occur, provided the Minimum Offering has been achieved, on or about ● , 2007, subject to postponement as the Agents, the Company, the Selling Shareholder and CanArgo may agree, but not later than ● , 2007;

"**Companies Laws**" means *The Companies (Guernsey) Law, 1994*, as amended;

"**Company**" or "**Tethys**" means Tethys Petroleum Limited and includes, except where the context otherwise requires, the Company's direct and indirect wholly-owned subsidiaries;

"**Contracts**" means, collectively, the Kyzyloi Field Licence and Production Contract, the Akkulka Exploration Licence and Contract and the Kul-Bas Exploration and Production Contract;

"**Custodian**" means Jennings Capital Inc., in its capacity as custodian pursuant to the Agency Agreement;

"**EIA**" means Energy Information Administration (United States);

"**Gas Supply Contract**" means the take-or-pay natural gas supply contract between BNM and Gaz Impex dated January 5, 2006 in respect of gas sales from the Kyzyloi Field;

"**Gaz Impex**" means Gaz Impex S.A. LLP, an unaffiliated limited liability partnership registered in the British Virgin Islands;

"**Georgia**" means the Republic of Georgia;

"**Group**" or "**Tethys Group**" means the Company, its subsidiaries and interests in limited liability partnerships, including for the avoidance of doubt TSL, TKL, BNM, Kul-Bas, TMG, TSK, TTL and KPL;

"**Intergas Central Asia**" means a division of KazTransGas, which itself is part of the Kazakh state company KazMunaiGaz;

"**JNOC**" means Japanese National Oil Company;

"**Kazakhstan**" means the Republic of Kazakhstan;

"**KPL**" means Kulob Petroleum Limited, a wholly-owned subsidiary of TTL;

"**Kul-Bas**" means Kul-Bas LLP, a limited liability partnership registered in Kazakhstan in which BNM has a 100% interest;

"**Kul-Bas Block**" means the area that is subject to the Kul-Bas Exploration and Production Contract;

"**Kul-Bas Exploration and Production Contract**" means Kul-Bas' exploration licence and production contract in respect of the Kul-Bas Block;

"**Kyzyloi**" or "**Kyzyloi Field**" means the area that is subject to the Kyzyloi Field Licence and Production Contract;

"**Kyzyloi Field Licence and Production Contract**" means Tethys' field licence and production contract in respect of the Kyzyloi Field;

"**McDaniel**" means McDaniel & Associates Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta, Canada;

"**McDaniel Reserve Report**" means the independent engineering evaluation of the Company's natural gas reserves prepared by McDaniel, dated April 24, 2007 and effective March 31, 2007;

"**MEMR**" means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan;

"**MI 52-110**" means Multilateral Instrument 52-110 *Audit Committees* of the Canadian Securities Administrators;

"**NBC**" means Nursat-Bauyr & Co. LLP, a limited liability partnership registered in Kazakhstan;

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

"**Offered Shares**" means, collectively, the Ordinary Shares being offered under the Treasury Offering and the Secondary Offering;

"**Offering Price**" means $ ● per Offered Share (after giving effect to the Share Consolidation);

"**Offerings**" means, collectively, the Treasury Offering and the Secondary Offering;

"**Ordinary Shares**" means the US$0.10 par value ordinary shares in the share capital of the Company (after giving effect to the Share Consolidation) as such will be constituted on the date of Closing;

"**Plan**" means the proposed stock incentive plan of the Company referred to as the "2007 Long Term Stock Incentive Plan";

"**Pre-Split Ordinary Shares**" means the £0.01 par value ordinary shares of the Company as they were constituted prior to the Share Consolidation;

"**Production Sharing Law**" means the production sharing legislation passed by the Tajik government in March 2007;

"**Protocol of Intent**" means a Protocol of Intent entered into among Tethys, the Ministry of Energy and Industry of Tajikistan and the State Committee for Investments and Property Management of Tajikistan on January 31, 2007;

"**PSC**" means production sharing contract;

"**Resource Report**" means the independent engineering evaluation of 49 oil and gas prospects in the areas that are subject to the Contracts prepared by McDaniel, dated April 26, 2007 and effective March 31, 2007;

"**SCR**" means the MEMR State Commission of Reserves of Kazakhstan;

"**Secondary Offering**" means the public offering of an aggregate of up to ● Offered Shares held by the Selling Shareholder pursuant to this prospectus;

"**Selling Shareholder**" means CanArgo Limited, a wholly-owned subsidiary of CanArgo;

"**Share Consolidation**" means the consolidation of the 134,674,390 issued £0.01 par value ordinary shares of the Company into 26,934,878 US$0.10 par value ordinary shares of the Company, on the basis of one new ordinary share for five existing ordinary shares of the Company effected on May 8, 2007;

"**Short-Term Loan**" means the US$5,000,000 short-term loan made to Tethys, which was completed on September 7, 2006, the proceeds of which were used by Tethys to fund certain of its development activities in Kazakhstan;

"**Tajikistan**" means the Republic of Tajikistan;

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.), as amended;

"**Tenge**" means Kazakh Tenge, the lawful currency of Kazakhstan;

"**TKL**" means Tethys Kazakhstan Limited, a wholly-owned subsidiary of the Company;

"**TMG**" means TethysMunaiGaz LLP, a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

"**Treasury Offering**" means the public offering of ● Ordinary Shares from the treasury of the Company pursuant to this prospectus;

"**TSK**" means Tethys Services Kazakhstan LLP, a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

"**TSL**" means Tethys Services Limited, a wholly-owned subsidiary of the Company;

"**TTL**" means Tethys Tajikistan Limited, a wholly-owned subsidiary of the Company;

"**UK**" or "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland;

"**Umbrella Management Services Agreement**" means the management services agreement to be entered into between the Company and Vazon prior to Closing providing for, among other things, the services of Vazon and the services of Ms. Liz Landles, Graham Wall and George Mirtskhulava as executive officers of the Company;

"**USA**", "**United States**" or "**U.S.**" means the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;

"**US GAAP**" means US generally accepted accounting principles; and

"**Vazon**" means Vazon Energy Limited, a company incorporated in Guernsey that is owned by the President and Chief Executive Officer of the Company.

GLOSSARY OF ABBREVIATIONS AND TECHNICAL TERMS

In this prospectus, the abbreviations and technical terms set forth below have the following meanings:

"**2D**" means seismic data recorded along discrete tracks;

"**API**" means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density;

"**bbl**" means barrels;

"**Bcf**" means billion cubic feet;

"**Bcm**" means billion cubic metres;

"**BOE**" means barrels of oil equivalent;

"**bopd**" means barrels of oil per day;

"**Bozoi Sandstones**" means Eocene age sandstone with gas saturated thicknesses of up to 26 ft (8 m) that are generally found in the interval 1,148 ft to 1,805 ft (350 m to 550 m) below surface;

"**C1**" is a Russian reserve definition which means the reserves of a deposit (or a portion thereof) whose oil or natural gas content has been determined on the basis of commercial flows of oil or natural gas obtained in wells and positive results of geological and geophysical exploration of non-probed wells;

"**Carboniferous**" means a geological period from 359.2 to 299 million years ago;

"**Cenozoic**" means a geological era from 65.5 million years ago to the present time which includes the Paleogene and the Neogene periods;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum;

"**Cretaceous**" means a geological period from 145.5 to 65.5 million years ago;

"**°C**" means degrees, Celsius;

"**Devonian**" means a geological period from 416 to 359.2 million years ago;

"**Eocene**" means a geological epoch within the Paleogene, immediately after the Paleocene;

"**ft**" means feet;

"**gross**" means:

(i) in relation to the Company's interest in production or reserves, its "company gross reserves", which represent the Company's working interest (operating or non-operating) share of gross reserves before deduction of royalties and without including any royalty interests of the Company;

(ii) in relation to wells, the total number of wells obtained by aggregating the Company's current working interest in each of its gross wells; and

(iii) in relation to the Company's interest in properties, the total area of properties in which the Company has an interest multiplied by the working interest owned by the Company;

"**Jurassic**" means a geological period from 199.6 to 145.5 million years ago;

"**km**" means kilometre;

"**km^2**" means square kilometre;

"**Kyzyloi Sandstones**" means Eocene age fine to very fine grained sandstone, sheet type and non-marine in origin, with typical gas saturated thicknesses of between 7 ft to 20 ft (2 m to 6 m) that are generally found in the interval between 1,312 ft to 1,969 ft (400 m to 600 m) below surface and have a high porosity range (26% to 35%), with a high bound-water content;

"**m**" means metres;

"**M$**" means thousands of Canadian dollars;

"**mbbl**" means thousand barrels;

"**MBOE**" means thousand barrels of oil equivalent;

"**Mcf**" means thousand cubic feet;

"**Mcf/d**" means thousand cubic feet per day;

"**Mcm**" means thousand cubic metres;

"**Mcm/d**" means thousand cubic metres per day;

"**MD**" means millidarcies;

"**Mesozoic**" means the geological era from 248 to 65 million years ago which lies between the Paleozoic and Cenozoic eras;

"**mm**" means millimetre;

"**MM$**" means millions of Canadian dollars;

"**mmbbl**" means million barrels;

"**MMBOE**" means million barrels of oil equivalent;

"**MMcf**" means million cubic feet;

"**MMcf/d**" means million cubic feet per day;

"**MMcm**" means million cubic metres;

"**MMcm/d**" means million cubic metres per day;

"**Neogene**" means a geological period from 23.03 to 0.05 million years ago which followed the Paleogene period;

"**net**" means:

(i) in relation to the Company's interest in production or reserves, its working interest (operating or non-operating) share after deduction of royalty obligations, plus the Company's royalty interests in production or reserves;

(ii) in relation to wells, the number of wells obtained by aggregating the Company's current working interest in each of its gross wells; and

(iii) in relation to the Company's interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

"**Oligocene**" means the epoch which is part of the Tertiary period in the Cenozoic era which lasted from 33.7 to 23.8 million years ago;

"**Oligocene Sandstones**" means Oligocene age sandstone with gas saturated thicknesses of up to 16 ft (5 m) that are generally found in the interval 656 ft to 1,150 ft (200 m to 350 m) below surface also described as the "Control Horizon" locally;

"**p**" means pence sterling;

"**Paleocene**" means the lower most epoch within the Paleogene, immediately after the Cretaceous period;

"**Paleogene**" means a geological period from 65.5 to 23 million years ago;

"**Paleozoic**" means a geological era from 542 to 251 million years, which includes the Devonian, Carboniferous and Permian periods;

"**Permian**" means a geological period from 299.0 to 0.8 million years ago to 251.0 to 0.4 million years ago and it is the last period of the Paleozoic era;

"**super-giant**" means the estimated ultimate recoverable reserves of 5 billion bbl of oil or 30 TCF (0.85 TCM) of natural gas;

"**syn-rift**" means rocks deposited during an extensional geological regime (i.e. where rocks are under tension) which results in the general widening and deepening of sedimentary basins and allows significant infilling of sediments from the edges of the basin;

"**Tasaran Sandstone**" means Eocene age continental to non-marine fine to very fine grained sandstone, with some significant clay content, slightly stratigraphically older than the Kyzyloi Sandstone that are generally found in the interval between 1,641 ft to 1,969 ft (500 m to 600 m) below surface;

"**TCF**" means trillion cubic feet;

"**TCM**" means trillion cubic metres;

"**Tertiary**" means the geological period from 65 to 1.8 million years ago;

"**Triassic**" means a geological period from 251 to 199.6 million years ago;

"**UGS**" means underground gas storage;

"**US$**" means U.S. dollars;

"**USGS**" means the United States Geological Survey;

"**US M$**" means thousands of United States dollars;

"**US MM$**" means millions of United States dollars; and

"**£**" means British pounds sterling.

Certain other technical terms used in this prospectus but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. See *"Statement of Reserves Data and Other Related Information*".

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CURRENCY

U.S. Dollar

The following table sets forth, for each of the periods indicated, the high and low rates of exchange of Canadian dollars into one U.S. dollar, the average of the exchange rates during each such period and the end of period rate. Such rates are shown as, or are derived from, the reciprocals of the noon buying rates in New York City for cable transfers payable in Canadian dollars, as certified for customs purposes by the Federal Reserve Bank of New York.

	Year ended December 31,		
	2006	2005	2004
High	$1.1726	$1.2703	$1.3970
Low	$1.0989	$1.1507	$1.1775
Average[(1)]	$1.1307	$1.2083	$1.2984
End of Period	$1.1652	$1.1656	$1.2034

Note:

(1) The average of the daily noon buying rates on the last business day of each month during the period.

On May 9, 2007, the noon buying rate for one U.S. dollar in Canadian dollars as certified by the Federal Reserve Bank of New York was $1.1063.

Kazakh Tenge

The following table sets forth, for the periods indicated, certain exchange rates quoted by Bloomberg (the "**Tenge Rate**"). Such rates are presented as Kazakh Tenge per US$1.00.

	Year ended December 31,		
	2006	2005	2004
High	133.8050	136.2300	139.9600
Low	116.8450	129.9200	129.7350
Average[(1)]	125.6600	133.1500	135.6600
End of Period	126.7950	133.7100	129.9600

Note:

(1) The average of the Tenge Rate on the last business day of each month in the period indicated.

On May 9, 2007, the Tenge Rate for one U.S. dollar as quoted by Bloomberg was 120.0100 Tenge.

Pounds Sterling

The following table sets forth, for each of the periods indicated, the high and low rates of exchange of Canadian dollars into one British pound sterling, the average of the exchange rates during each such period and the end of period rate, each based on the Bank of England's daily spot exchange rate.

	Year ended December 31,		
	2006	2005	2004
High	$2.2770	$2.3974	$2.5240
Low	$1.9769	$2.0041	$2.1990
Average[(1)]	$2.0972	$2.1947	$2.3826
End of Period	$2.2770	$2.0060	$2.3010

Note:

(1) The average of the daily spot exchange rates on the last business day of each month during the period.

On May 9, 2007, the Bank of England's daily spot exchange rate for one British pound sterling in Canadian dollars was $2.2082.

CONVERSION

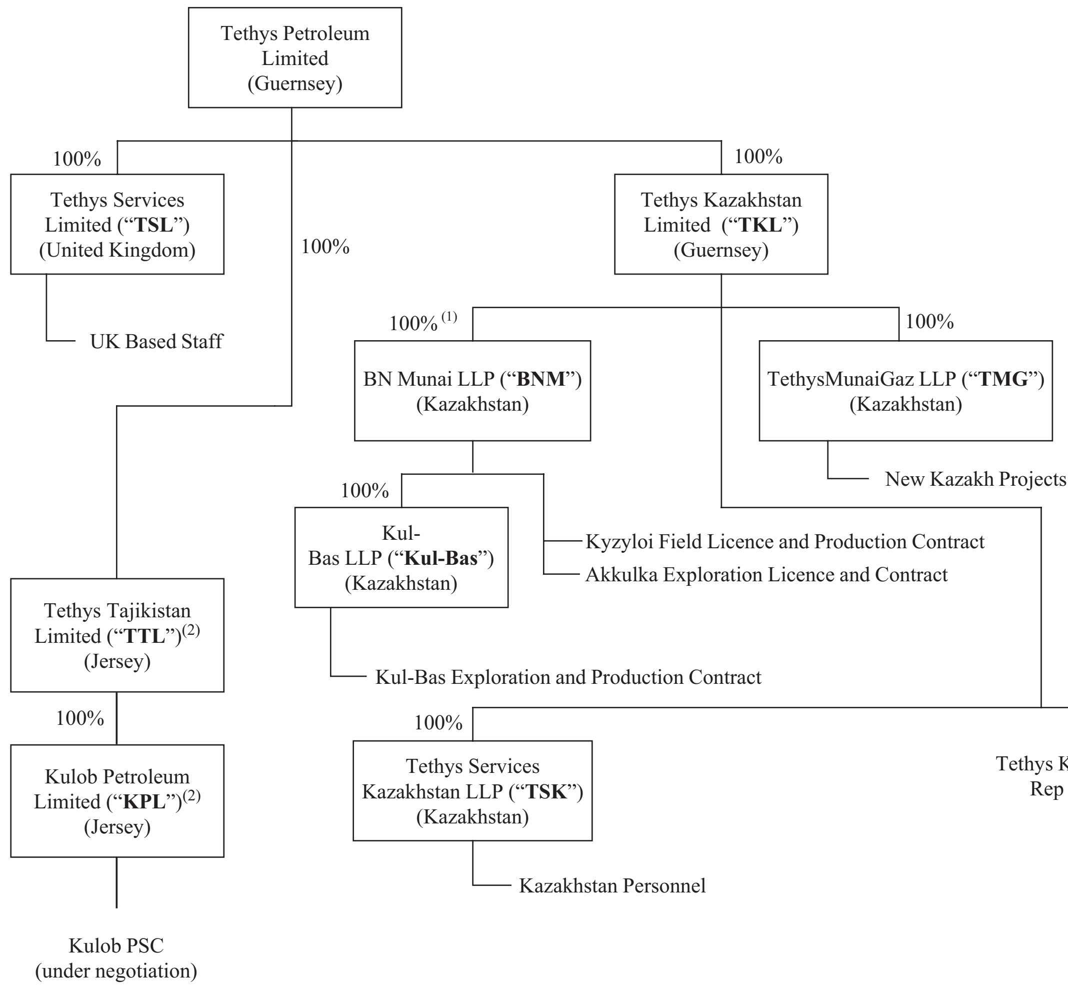
The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To Convert From	To	Multiply By
inches	mm	0.0394
ft	m	0.305
m	ft	3.281
miles	km	1.610
km	miles	0.621
acres	km^2	0.004
km^2	acres	247.1
bbl	cubic metres	0.159
cubic metres	bbl	6.290
Mcf	Mcm	0.0283
Mcm	Mcf	35.315
Bcf	Bcm	0.0283
Bcm	Bcf	35.315
TCF	TCM	0.0283
TCM	TCF	35.315

THE COMPANY

Company Structure

The Company was incorporated under the name "Tethys Petroleum Investments Limited" pursuant to the Companies Laws on August 12, 2003. By a Certificate of Change of a Company Name dated September 22, 2006, the Company changed its name to "Tethys Petroleum Limited". The corporate ownership structure of Tethys and its principal subsidiaries is as follows:



Notes:

(1) TKL acquired the 30% interest of BNM it did not previously own effective May 9, 2007. The registration of this interest in BNM to TKL with the appropriate authorities in Kazakhstan is expected to be completed by June 30, 2007.

(2) Will be incorporated prior to Closing.

The Company was a wholly-owned subsidiary of CanArgo until the first quarter of 2007. CanArgo's interest will have been diluted to 29.7% prior to the Closing as a result of: (i) a private placement of 34,674,390 Pre-Split Ordinary Shares for approximately US$17,400,000 by Tethys which closed in January 2007; (ii) the acquisition of the 30% interest in BNM which Tethys did not own for 30,000,000 Pre-Split Ordinary Shares which was completed on May 9, 2007; (iii) the anticipated conversion of US$5,000,000 principal amounts of the CanArgo Notes by the holders thereof into 10,000,000 Pre-Split Ordinary Shares previously owned by CanArgo; and (iv) the anticipated conversion of US$10,000,000 senior secured notes of CanArgo into 20,000,000 Pre-Split Ordinary Shares previously owned by CanArgo. After giving effect to the anticipated conversion of the CanArgo Notes and senior secured notes of CanArgo, CanArgo currently holds 8,000,000 Ordinary Shares. See "*Relationship with CanArgo Energy Corporation*" and "*Prior Sales*". Upon completion of the Offerings, CanArgo will indirectly hold, through the Selling Shareholder, approximately

● % of the outstanding Ordinary Shares, assuming the full amount of the Secondary Offering is subscribed for (● % if the Maximum Offering is subscribed but no Ordinary Shares are sold in the Secondary Offering).

The Company's registered office is located at P.O. Box 524, Suite 3, Borough House, Rue du Pre, St. Peter Port, Guernsey, GY1 6EL, Channel Islands. The Company currently conducts substantially all of its operations through TSK's head office which is located at B.C. "Old Square", 98 Panfilov Street, Offices 707-710, 0500 Almaty, Kazakhstan. The Company does not have a principal place of business in Canada, but it has appointed Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario M5H 3Y4 as its agent for service of process in Canada. See "*Foreign Jurisdictions*".

GENERAL DEVELOPMENT OF THE BUSINESS

Company History

Tethys Petroleum Limited

Tethys is an oil and natural gas exploration and production company registered in Guernsey which currently has operations in Kazakhstan, and more recently has signed a Protocol of Intent with the government of Tajikistan related to conducting oil and gas operations in Tajikistan. The Company is also actively pursuing other projects in Kazakhstan and in other parts of Central Asia.

Tethys was incorporated in Guernsey on August 12, 2003, specifically to hold certain interests of CanArgo in Central Asia. CanArgo is a US public oil and gas company, listed on both the American Stock Exchange (AMEX) and the Oslo Stock Exchange in Norway, with operations primarily in Georgia. CanArgo's current principal focus is on its exploration and appraisal program in Georgia, and, given the significant capital required to develop Tethys and its Kazakh assets, in 2006 CanArgo announced its decision to spin-out Tethys from CanArgo and for Tethys to raise financing separately. Tethys had intended to seek a listing on AIM by the end of October 2006. Due to market conditions, Tethys did not proceed with its listing on AIM and no longer proposes to do so.

CanArgo has invested approximately US$22,296,000 into Tethys for development of its projects principally in Kazakhstan. All such funding has now been capitalized with Tethys having no borrowings, except for the Short-Term Loan, the proceeds of which were utilized to progress activities on the Kyzyloi Field development, and will be repaid from the proceeds of the Treasury Offering. See "*Management Discussion and Analysis — Liquidity and Capital Resources*". Prior to the Closing, CanArgo will hold 29.7% of the outstanding Ordinary Shares. See *"Relationship with CanArgo Energy Corporation"*.

On January 24, 2007, Tethys closed a private placement whereby it issued 34,674,390 Pre-Split Ordinary Shares for gross proceeds of approximately US$17,400,000. These Pre-Split Ordinary Shares were issued at a price of US$0.50 per share and the funds raised were used to complete the construction of the 32 mile (51 km) 325 mm diameter pipeline that will be used in connection with the anticipated gas production from the Kyzyloi Field development, to fund the drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors. See "*Prior Sales*".

On March 13, 2007, Tethys reached an agreement with the owner of the minority interest in BNM for Tethys, through its wholly-owned subsidiary TKL, to acquire the 30% of BNM it did not already own in exchange for 30,000,000 Pre-Split Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making BNM an indirect wholly-owned subsidiary of Tethys. This acquisition was completed on May 9, 2007. The registration of the transfer of this interest in BNM to TKL with the appropriate authorities in Kazakhstan is expected to be completed by June 30, 2007. See "*Prior Sales*".

On May 10, 2007, Tethys entered into an agreement with the owner of NBC to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL in exchange for, among other things, an initial payment of US$2,500,000 (including an immediate US$100,000 deposit to be paid which will be forfeited, under certain circumstances, if the contract becomes null and void) and 7,500,000 Pre-Split Ordinary Shares (or 1,500,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making NBC an indirect wholly-owned subsidiary of Tethys. Closing of this acquisition is conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the Treasury Offering. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*" and "*Prior Sales*".

The Company obtained the approval for the Share Consolidation on May 8, 2007 when an ordinary resolution of shareholders approving such consolidation was filed with the Guernsey companies register. As a result, approximately

26,934,878 Ordinary Shares will be issued and outstanding prior to Closing and approximately ● Ordinary Shares will be issued and outstanding upon completion of the Maximum Offering.

Tethys Services Limited

Tethys' wholly-owned subsidiary, TSL, was incorporated in England on August 8, 2006, as a service company to employ UK-based staff of Tethys.

Tethys Kazakhstan Limited

Tethys' wholly-owned subsidiary, TKL was incorporated in Guernsey in September 26, 2003, to acquire and hold Tethys' interests in Kazakhstan, which are currently its interests in TMG, TSK, BNM and BNM's 100% interest in Kul-Bas. In addition, TKL has a representative office in Almaty, Kazakhstan and is seeking additional assets in Kazakhstan, either directly or with partners.

BN Munai LLP and Kul-Bas LLP

BNM is a Kazakh limited liability partnership which was registered in Almaty, Kazakhstan, in January 1998. Later in 1998, BNM was re-registered as a subsidiary of the UK company Atlantic Caspian Resources plc ("**ACR**") taking an interest and financing BNM in order to embark on an exploration program on the then named Akkulkovsky (now Akkulka) area. However due to financial problems in 2003, ACR effectively withdrew from the project. Following negotiations with the Kazakh partner, BNM was re-registered on May 6, 2004, with TKL holding a 70% and the Kazakh partner (who held a 30% carried working interest (after payout)) restructuring their interests at the same time. Since then, Tethys entered into an agreement with the Kazakh partner to acquire, and on May 9, 2007 acquired, through TKL, the 30% of BNM it did not already own in exchange for 30,000,000 Pre-Split Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation). See "*Prior Sales*".

BNM owns a 100% interest in the Kyzyloi Field Licence and Production Contract, the Akkulka Exploration Licence and Contract, and, through its wholly-owned interest in Kul-Bas, the recently acquired much larger Kul-Bas Exploration and Production Contract.

TethysMunaiGaz LLP

TMG is a Kazakh limited liability partnership which was registered in June 2005 in Almaty, Kazakhstan. TMG is wholly-owned by TKL and was established as a vehicle to be used to pursue other projects in Kazakhstan, including making applications for new contracts in government bid-rounds.

Tethys Services Kazakhstan LLP

TSK is a Kazakh limited liability partnership which was registered in March 2007 in Almaty, Kazakhstan. TSK is wholly-owned by TKL and has recently taken over as the vehicle which employs TKL's Kazakh staff and consultants who work on TKL's various projects in Kazakhstan. Currently most of this activity relates to BNM and TSK charges time and costs to BNM which in turn allocates these costs to BNM's various projects. As TKL's activities increase in Kazakhstan, it is likely that TSK will provide services to other TKL subsidiaries.

TSK is principally staffed with local Kazakh personnel and has its head office in Almaty, Kazakhstan, an operations office in Aktobe Oblast in western Kazakhstan, a field office in Bozoi near Kyzyloi and a small logistics office in Astana, the capital of Kazakhstan.

Tethys Tajikistan Limited

Tethys anticipates that TTL will be incorporated in Jersey as a wholly-owned subsidiary of Tethys prior to Closing to acquire and hold, either directly or through TTL's subsidiaries, Tethys' interests in Tajikistan including its interest in the PSC which is currently under negotiation.

Kulob Petroleum Limited

TTL anticipates that KPL will be incorporated in Jersey as a wholly-owned subsidiary of TTL prior to Closing to acquire and hold Tethys' interests in the PSC being negotiated for the Kulob area of Tajikistan.

NARRATIVE DESCRIPTION OF THE BUSINESS

Overview

Tethys' objective is to build a diversified oil and gas exploration and production company, initially focused on Kazakhstan and Tajikistan in Central Asia, with a mixture of high potential exploration plays for longer term upside and asset growth, coupled with short-term cash flow projects. Tethys hopes to generate returns for its shareholders principally through capital growth, and intends to take advantage of opportunities to acquire acreage and prospects suitable either for exploration and development by the Company, or for sale or farm-out to larger oil and gas companies at a suitable time.

Kazakhstan

In the recent past, some of the world's largest new discoveries have been made in Kazakhstan (for example, in the Kashagan field with estimated recoverable reserves of up to 18 billion bbl of oil), and the area has significant additional potential for future exploration and exploitation. Kazakhstan now hosts many international and domestic oil and gas companies, some of which are the world's largest energy companies, including Chevron Corporation, ExxonMobil Corporation, Total, Eni S.p.A. and British Gas. In addition, Kazakhstan is a signatory to the Extractive Industries Transparency Initiative promoted by the UK government. This initiative supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. BNM is also a signatory to this initiative which also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. Accordingly, management of the Company believes that Kazakhstan has developed a well-established legislative framework for the exploitation of its significant oil and natural gas potential. The Company views Kazakhstan as a hydrocarbon-rich country with significant reserves already discovered and with good potential for additional discoveries in under-explored areas.

To date, domestic gas production has been primarily associated gas from oil and condensate developments. However, new discoveries of natural gas reserves has expanded the potential for domestic use of this resource. Although Tethys believes its current acreage has significant oil potential (which is planned to be tested later this year), the initial focus of the Company is on natural gas production and in particular on the exploitation of shallow gas deposits. The Company has worked to develop a strong position in the North Ustyurt basin, an area which the Company believes has significant potential. The Company's current known Kyzyloi natural gas deposits are approximately 97% methane (with no sulphur), therefore requiring limited processing. According to a report dated 2006 by the USGS, to date, discovered hydrocarbons in this basin total nearly 2.4 billion bbl of oil, and 2.4 TCF (68 Bcm) of gas.

The Company believes that these factors, together with the Company's business contacts in Kazakhstan, have given the Company the ability to effectively underpin its initial development with what the Company believes is one of the first take-or-pay contracts concluded in Kazakhstan for a dry gas development. In parallel, the Company expects that it has the potential to benefit from current increases in natural gas prices for the new gas discoveries it has now made outside the area committed to the take-or-pay contract. Recent announcements have indicated that Central Asia natural gas prices have increased. In September 2006, Gazprom, the largest Russian company and biggest extractor of natural gas in the world, and Turkmenistan agreed to increase the price paid for natural gas from Turkmenistan by over 50%, from US\$1.84/Mcf (US\$65/Mcm) to US\$2.83/Mcf (US\$100/Mcm). Natural gas export prices from Uzbekistan have also increased in the last year. Natural gas from Kazakhstan is used domestically and also exported to Russia, some former Soviet states, and to Europe. Tethys' initial strategy is to focus on the exploitation of shallow gas deposits to develop cash flow, but with future exploration potential for oil also. Further details of the Gas Supply Contract between BNM and Gaz Impex are set out under "*Narrative Description of the Business — Marketing*".

The Company will continue to review opportunities in Kazakhstan and other Central Asian countries and will use its position to potentially acquire further assets through direct bidding in licensing rounds and/or by acquisition of currently contracted assets. The first opportunity being pursued by the Company outside Kazakhstan is the negotiation of a PSC in Tajikistan. See "*Property Descriptions — Tajikistan and Protocol of Intent*".

The Company's current focus is on the exploration for and exploitation of oil and natural gas reserves in several related sedimentary basins in Central Asia. These sedimentary basins result from tectonic movements since Paleozoic times, which have been filled by Paleozoic, Mesozoic and later sediments principally deposited in what was a large ocean between the two "super-continents" of Laurasia and Gondwanaland. This ocean was named the Tethys, and it was in this ocean that the sediments were deposited which contain the significant hydrocarbon deposits of the region. Following deposition of these sediments, the Tethys Ocean was progressively closed by the tectonic collisions which resulted in the formation of the alpine mountain chain and its eastward extension, and with localized tectonic depressions forming the basins. The Company's present projects are located in three of these basins, namely the North Ustyurt basin, an extension of the Pre-Caspian basin, the East Aral basin, an eastward extension of the North Ustyurt basin, and the Afghan-Tajik basin, an eastward extension of the larger Amu Darya basin. With the exception of the East Aral basin which lies to the south of the prolific South Turgay basin has been subject to very limited exploration, significant volumes of hydrocarbons have been discovered, and according to independent sources such as the USGS, significant volumes remain to be discovered. The Pre-Caspian and Amu Darya basins contain some super-giant fields, and the reservoirs, source rocks and tectonic structures appear similar to the areas in which the Company has current projects. The Company feels, based on its evaluation of these areas, that these areas have potential reservoir rocks at several levels, and have both oil and natural gas prone source rocks.

The Company's assets are presently located in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the southeastern edge of, and is essentially an extension of, the prolific Pre-Caspian sedimentary basin. The Company believes that the North Ustyurt basin is an area of significant hydrocarbon potential, given that the area has had only relatively limited investment in the past, and significant oil and natural gas have already been discovered in the area.

The Company has a 100% interest in BNM, a limited liability partnership registered in Kazakhstan which (through the Kyzyloi Field Licence and Production Contract) currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). The Company believes that commencement of natural gas production from the Kyzyloi Field planned for July 2007 will make Tethys the first western company to develop a dry gas field in Kazakhstan. BNM also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area, and a 100% interest in the Kul-Bas Exploration and Production Contract area. These lands are all within the Aktobe Oblast region of western Kazakhstan. Full details of the reserves attributable to these properties are set out under "*Statement of Reserves Data and Other Related Information*". Based on the McDaniel Reserve Report, the Company has proved plus probable reserves of 64.5 Bcf (1.8 Bcm) on the Kyzyloi Field and the Akkulka Block, which are expected to commence production in July 2007. Tethys is currently completing construction of a 32 mile (51 km) 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main Bukhara-Urals gas trunkline, where a compressor station is being built, with a tie-in point agreed upon with the trunkline's owner, Intergas Central Asia, part of the Kazakh state gas company KazTransGas. The Company expects that this pipeline will be completed in June 2007 with commencement of natural gas production from the Kyzyloi Field planned for July 2007.

In addition, the Company has the right to acquire the large Aral Vostochniy Block in Kazakhstan through its proposed acquisition of NBC. The Company's acquisition of NBC is conditional on the Company raising at least US$25,000,000 in gross proceeds under the Treasury Offering and is also conditional on the seller satisfying certain other conditions. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

Tajikistan

In Tajikistan, the Kulibsky (Kulob) area is subject to a Protocol of Intent. The Company does not have a licence or contract as at the date hereof but it has the right to conduct technical evaluation and negotiation in respect of oil and gas activities in the Kulibsky area of Tajikistan and it is in the process of negotiating a PSC over the area. Tajikistan is an independent republic of 7,000,000 people in Central Asia located on the fringe of the Central Asian sedimentary basin abutting the Pamir and Tien-Shan mountains. It borders Uzbekistan to the north and west, Kyrgyzstan to the north, China to the east and Afghanistan to the south. The country is primarily mountainous, with some of the world's highest mountains occurring in the Pamir chain on the edge of the Himalayas. See "*Property Descriptions — Tajikistan and Protocol of Intent*".

Land Holdings

The following table summarizes the Company's principal properties in Kazakhstan and Tajikistan:

Property	Basin	Gross Acreage (Acres)	Expiry/Option Date
Kazakhstan			
Production Contracts			
The Kyzyloi Field Licence and Production Contract	North Ustyurt	70,967	June 2014
Exploration Contracts			
The Akkulka Exploration Licence and Contract	North Ustyurt	341,121	September 2009
The Kul-Bas Exploration and Production Contract	North Ustyurt	2,688,695	November 2030
Aral Vostochniy Block	East Aral	2,797,184	November 2010(1)
Tajikistan			
Protocol of Intent			
Kulob Area	Afghan-Tajik Basin	2,223,900	N/A(2)
Total Acreage		**8,121,867**	

Notes:

(1) The term of the Aral Vostochniy Exploration Contract is currently to November 2008. It is a condition, in favour of the Company, to the Company's acquisition of NBC that the Aral Vostochniy Exploration Contract be extended to November 2010. The acquisition of NBC is also conditional on the Company raising at least US$25,000,000 in gross proceeds pursuant to the Treasury Offering. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

(2) The Company does not have a licence or contract at this time but it in the process of negotiating a PSC over the area.

See "*Property Descriptions*".

Marketing

Kyzyloi Field — Gas Supply Contract

Natural gas that will be produced by the Company from the Kyzyloi Field will be sold to Gaz Impex pursuant to the Gas Supply Contract. Estimated annual volumes of natural gas to be supplied by Tethys to Gaz Impex under the Gas Supply Contract during the first eight contract years are broken down as follows:

Contract Year	Annual Volumes in MMcf(1)	Annual Volumes in MMcm(1)
1	3,180	90
2	6,360	180
3	6,360	180
4	4,940	140
5	3,530	100
6	2,470	70
7	1,770	50
8	1,410	40

Note:

(1) The Company estimates that following the commencement of commercial production, it will sell approximately 3,180 MMcf (90 MMcm) to Gaz Impex in 2007 and 6,360 MMcf (180 MMcm) to Gaz Impex in 2008 pursuant to the Gas Supply Contract. These figures are estimates only and the amount of gas that may be sold by the Company to Gaz Impex on an annual basis under the Gas Supply Contract may vary in accordance with the terms and conditions of such contract. See the summary of the Gas Supply Contract set out below.

BNM and Gaz Impex entered into the Gas Supply Contract on January 5, 2006. Gaz Impex is one of the leading independent gas marketing companies in Kazakhstan and is currently involved with gas purchase and supply contracts both within Kazakhstan and in surrounding countries.

The Gas Supply Contract, which has a term until the earlier of June 13, 2014 and the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, is based on a take-or-pay principle and covers natural gas to be produced from the Kyzyloi Field Licence and Production Contract area and has a total volume under contract of approximately 30 Bcf (0.85 Bcm). There is no obligation on BNM under the contract to dedicate all of the natural gas produced from the licenced area to Gaz Impex. The contract commences when BNM notifies Gaz Impex of the start of delivery after which the natural gas will be supplied to Gaz Impex at a tie-in point on the Bukhara-Urals gas trunkline approximately 32 miles (51 km) from the Kyzyloi Field. The price of natural gas to be supplied at the tie-in point averages US$0.92 per Mcf (US$32 per Mcm) over the life of the Gas Supply Contract, with Gaz Impex providing bank guarantees against payment.

Under the terms of the Gas Supply Contract, BNM shall notify Gaz Impex on an annual basis of the minimum monthly contract quantity for each month in the relevant contract year. If in any contract year the actual quantity of gas accepted by Gaz Impex is less than the cumulative minimum monthly contract quantity, and in any subsequent calendar year Gaz Impex has accepted obligatory quantities, Gaz Impex has the right to take such difference at a price of US$0.28 per Mcf (US$10 per Mcm).

Marketing of Production from Other Properties

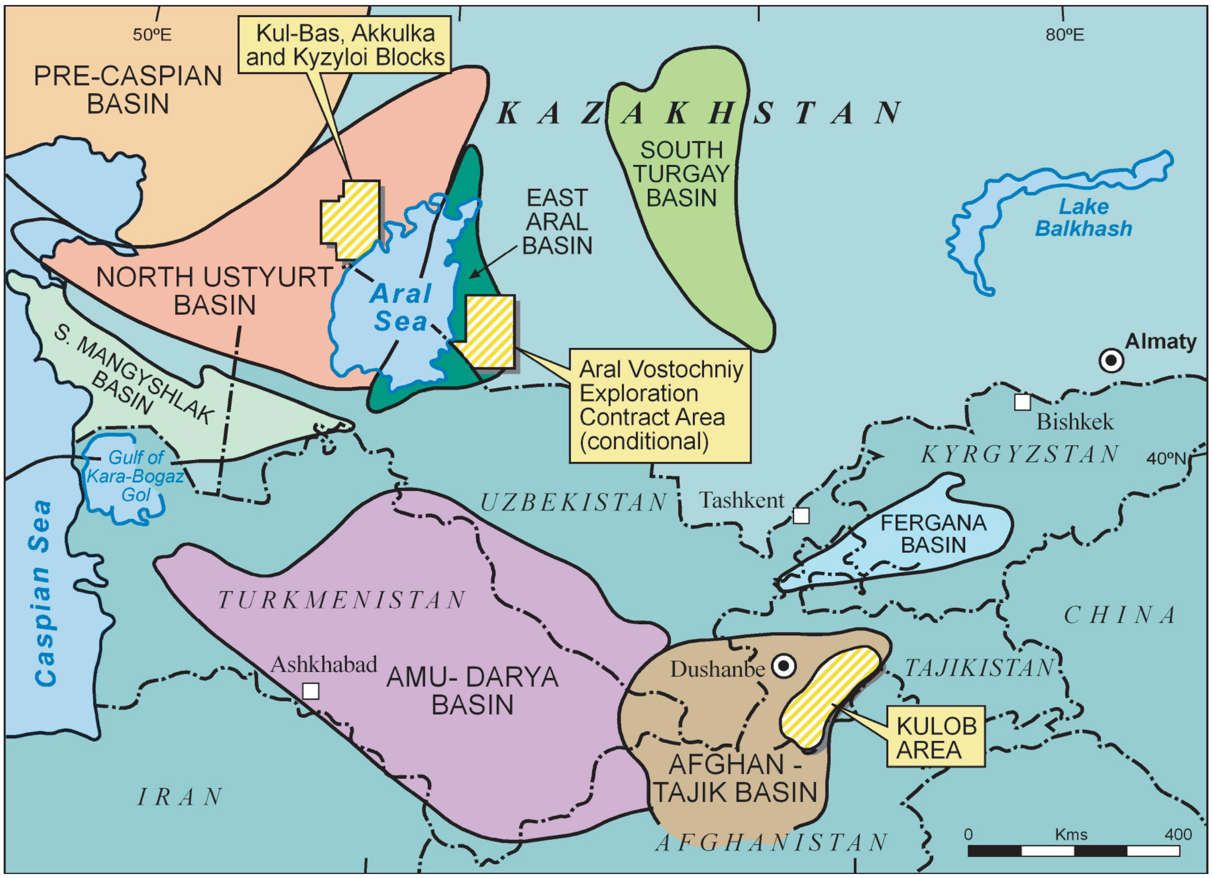
In December 2006, Gaz Impex confirmed in writing to BNM its interest in purchasing gas production from the Akkulka Block, in addition to any purchases under the Gas Supply Contract. Gaz Impex has indicated that it would be prepared to commit to a price in the range of a 15% to 25% discount to the Uzbek border price (representing the current market price for gas supplied from Uzbekistan). The terms and conditions of any such arrangement will be subject to final agreement on pricing and volumes. In addition, Tethys is currently in discussions with Gaz Impex on the possibility of further co-operation which may involve Gaz Impex and/or other entities in the Kazakh oil and gas industry participating in Tethys through an equity interest and/or as a joint participant in projects. These discussions are ongoing.

At the current early stage of exploration of the Kul-Bas Block and the Kulibsky (Kulob) region of Tajikistan, the Company has not made any specific plans with respect to the marketing of production from the Tajik fields.

PROPERTY DESCRIPTIONS

The principal properties of the Company are located within the Aktobe Oblast region of western Kazakhstan and consist of the Kyzyloi Field (under the terms of the Kyzyloi Field Licence and Production Contract), the Akkulka Block (under the terms of the Akkulka Block Exploration Licence and Contract) and the Kul-Bas Block (under the terms of the Kul-Bas Exploration and Production Contract). In addition, the Company has the right to acquire the large Aral Vostochniy Block in Kazakhstan and also has the right to conduct technical evaluation and negotiation in respect of oil and gas activities in the Kulibsky (Kulob) region of Tajikistan.

The following map shows the location of the Company's interests in each of the North Ustyurt, East Aral and Afghan-Tajik basins.



Overview

The Company's principal assets are owned by BNM, which the Company indirectly wholly owns, and are located within the Aktobe Oblast region of western Kazakhstan as follows:

1. **The Kyzyloi Field Licence and Production Contract** which covers an area of 70,967 acres (287.2 km^2), down to the base of the Paleogene sequence;

2. **The Akkulka Exploration Licence and Contract** which covers an area of 341,121 acres (1,380.5 km^2), and includes the 70,967 acres area (287.2 km^2) below the Paleogene sequence in the area of the Kyzyloi Field Licence and Production Contract referred to above; and

3. **The Kul-Bas Exploration and Production Contract** which has an effective area (for sub-Paleogene potential) of 2,688,695 acres (10,881 km^2).

The Kyzyloi, Akkulka and Kul-Bas areas are located in southwestern Kazakhstan to the west of the Aral Sea and to the north of the border with the Karalkalpak region of Uzbekistan in a geological area know as the North Ustyurt basin. The area is generally desert, with a dry continental climate, and with temperatures of up to 45^{o}C in the summer and down to minus 45^{o}C in the winter. The area is relatively flat, gently sloping towards the Aral Sea, with some salt lakes and with some local escarpments and similar features in the Kul-Bas Block. Around the Kyzyloi Field the elevation varies between 500 ft to 650 ft (153 m to 198 m) above sea level, with the only real settlement being the village of Bozoi, located approximately 36 miles (58 km) to the northeast of Kyzyloi. Bozoi is the location of the Bozoi UGS facility, one of the largest such facilities in Kazakhstan, which is estimated to have a current operating UGS capacity of approximately 106 Bcf (3 Bcm) and where gas is stored in a partly depleted gas field similar to Kyzyloi which is understood to have had initial recoverable gas reserves in excess of 500 Bcf (14 Bcm). The Bozoi UGS facility takes from and supplies gas to the Bukhara-Urals gas pipeline system. This pipeline system is one of the two current major arterial trunklines bringing gas from Central Asia into Russia and then potentially into the Russian gas export system to Europe. This gas pipeline system is approximately 1,430 miles (approximately 2,300 km) long, runs from Uzbekistan to Russia, passes through the Akkulka and Kul-Bas areas, and runs approximately 31 miles (50 km) to the southeast of the Kyzyloi Field. The system consists of two 40.2 inch (1,020 mm) diameter pipelines with a current maximum capacity of 1.730 Bcf (0.05 Bcm) of natural gas per day (632 Bcf or 17.9 Bcm per year) with a current throughput being approximately 25% of the maximum. The Bozoi UGS facility and the Bukhara–Urals pipeline system through Kazakhstan are currently owned by Intergas Central Asia, part of the Kazakh State gas company KazTransGas.

The following map shows the location of the Company's interests in the area surrounding the Aral Sea.

In addition, the Company has the right to acquire the large Aral Vostochniy Block in Kazakhstan and also has the right to conduct technical evaluation and negotiation in respect of oil and gas activities in the Kulibsky (Kulob) region of Tajikistan.

Each of these properties and contracts is described further below.

Kyzyloi Field and the Kyzyloi Field Licence and Production Contract

Kyzyloi Field — Development of Shallow Gas

Kyzyloi is a shallow gas field containing sweet (no sulphur) natural gas (∼97% methane) in sandstones of Paleogene age at depths up to approximately 2,000 ft (610 m). The field is well defined both on Soviet-era seismic data and on more recent data shot by the JNOC in 1995 to 1996, and can be clearly seen as amplitude anomalies or bright spots on this data. The field was first discovered in 1966, and several wells were drilled both to test and delineate the deposit, which is interpreted as being a simple anticlinal structure with sand pinch-out to the north and west.

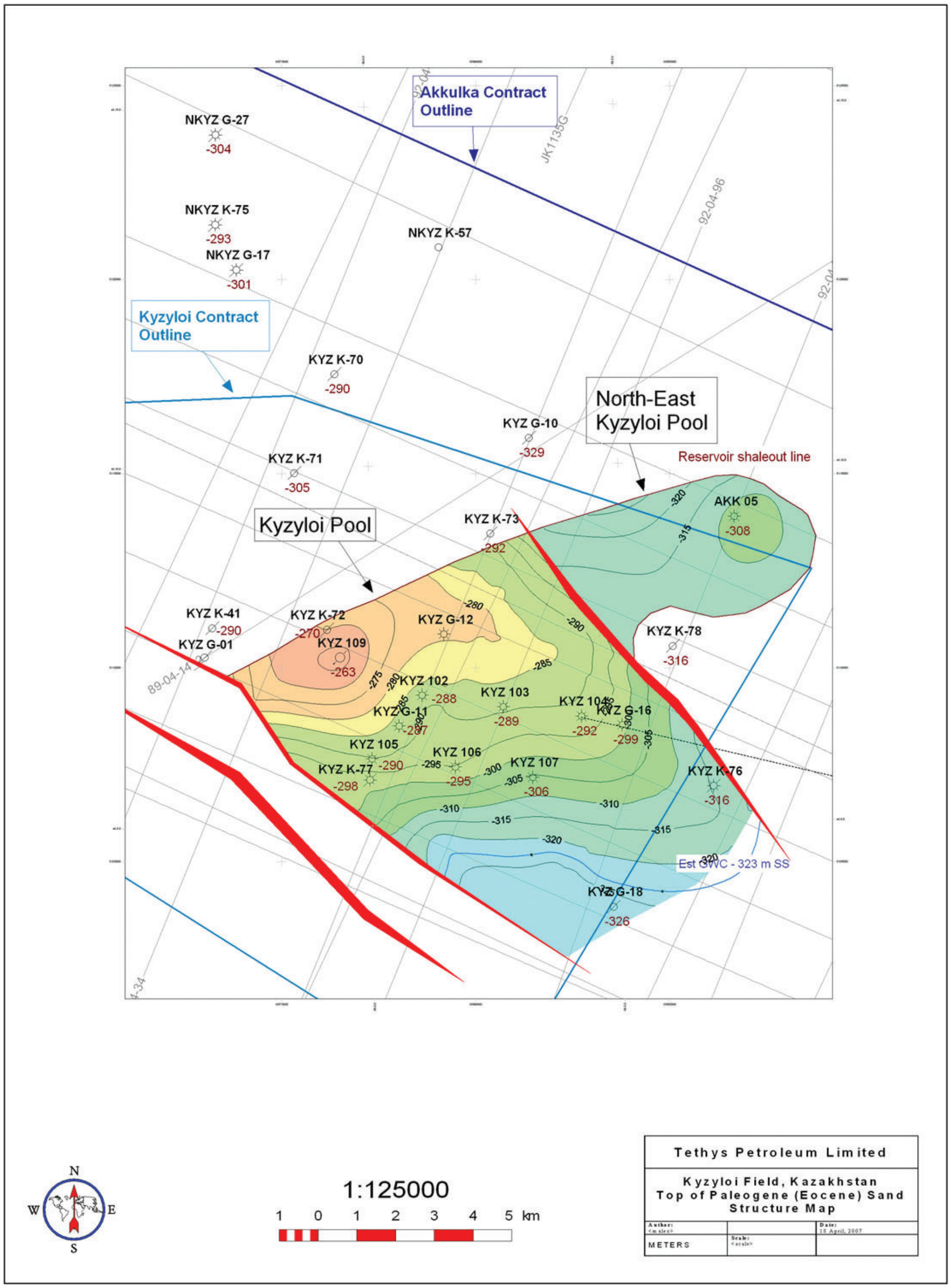
Previous drilling has left several suspended wells on the field, which were drilled but not fully tested or completed. BNM has now re-entered five wells and carried out production tests to ascertain gas produceability and firm-up reserves. One well was tested prior to BNM's involvement. Aggregate gas production from the five wells tested to date has exceeded 24 MMcf/d (680 Mcm/d). These wells, together with an additional well yet to be tested, form the basis for the initial development of the Kyzyloi Field. In addition, during the exploration drilling program carried out in 2005 by BNM, the Akkulka AKK05 exploration well encountered gas in the Kyzyloi Sandstone and the Oligocene Sandstones, and was tested from the Kyzyloi Sandstone interval at rates of up to 7.9 MMcf/d (224 Mcm/d) of dry gas. The results of this well and seismic mapping indicate that this well has proved a northeasterly extension of the Kyzyloi Field, and this area, now named North-East Kyzyloi, will be included in the initial Kyzyloi development. Given the apparent sand connectivity and permeability, with the addition of one further North-East Kyzyloi well, the Company expects, that it should be sufficient to completely drain the field.

Kyzyloi well testing results to date are as follows:

- KYZ102 well tested gas at a maximum rate of 4.53 MMcf/d (128 Mcm/d);
- KYZ104 well tested gas at a maximum rate of 3.39 MMcf/d (96 Mcm/d);
- KYZ105 well tested gas at a maximum rate of 1.14 MMcf/d (32 Mcm/d) (sub-optimal test with a leaking packer);
- KYZ106 well tested gas at a maximum rate of 8.5 MMcf/d (240 Mcm/d);
- KYZ107 well tested gas at a maximum rate of 4.59 MMcf/d (130 Mcm/d);
- KYZ103 well tested gas in 1995 at a maximum rate of 3.03 MMcf/d (85 Mcm/d); and
- KYZ109 well to be tested in 2007.

The test of the KYZ105 well was sub-optimal as a result of a leak in a seal in the well's casing. The Company anticipates to produce these wells at levels below their respective test rates.

The following map shows the structure of the Kyzyloi Field.



The McDaniel Reserve Report estimates net proved plus probable economically recoverable reserves of approximately 50.04 Bcf (1.42 Bcm) for the Kyzyloi Field, including North-East Kyzyloi.

First gas is planned for July 2007, at an initial planned gas rate of approximately 22 MMcf/d (623 Mcm/d). The initial development is expected to comprise production from seven wells on the Kyzyloi Field, plus one well on the North-East Kyzyloi Field (an extension of the Kyzyloi Field recently discovered by BNM), with the further tie-in of the central Akkulka Block (discovered by BNM in 2005) and the North Kyzyloi Field. This infrastructure has been put in place with the intention of supporting a much larger capacity production rate of up to 72 MMcf/d (2.04 Mcm/d) with the Company intending to achieve this from exploration in the surrounding area, which can be achieved with additional compression and some looping.

An active exploration program is being carried out in the surrounding Akkulka exploration area. Any of these wells that prove commercial are expected to be tied into the development. There is also additional potential to be drilled and tested from the five well exploration/appraisal drilling program being carried out by BNM before the end of 2007.

The next stage of the 2007 Kyzyloi Field development program is to tie-in the discoveries found in the Akkulka Block; specifically, the North Kyzyloi Field (the discovery made by well G-17 drilled in Soviet times) and the central Akkulka Block discovery around the AKK04 well. This well was drilled by Tethys as part of a 2005 exploration program on an identified seismic anomaly, and flowed dry gas at rates of up to 8.8 MMcf/d (249 Mcm/d).

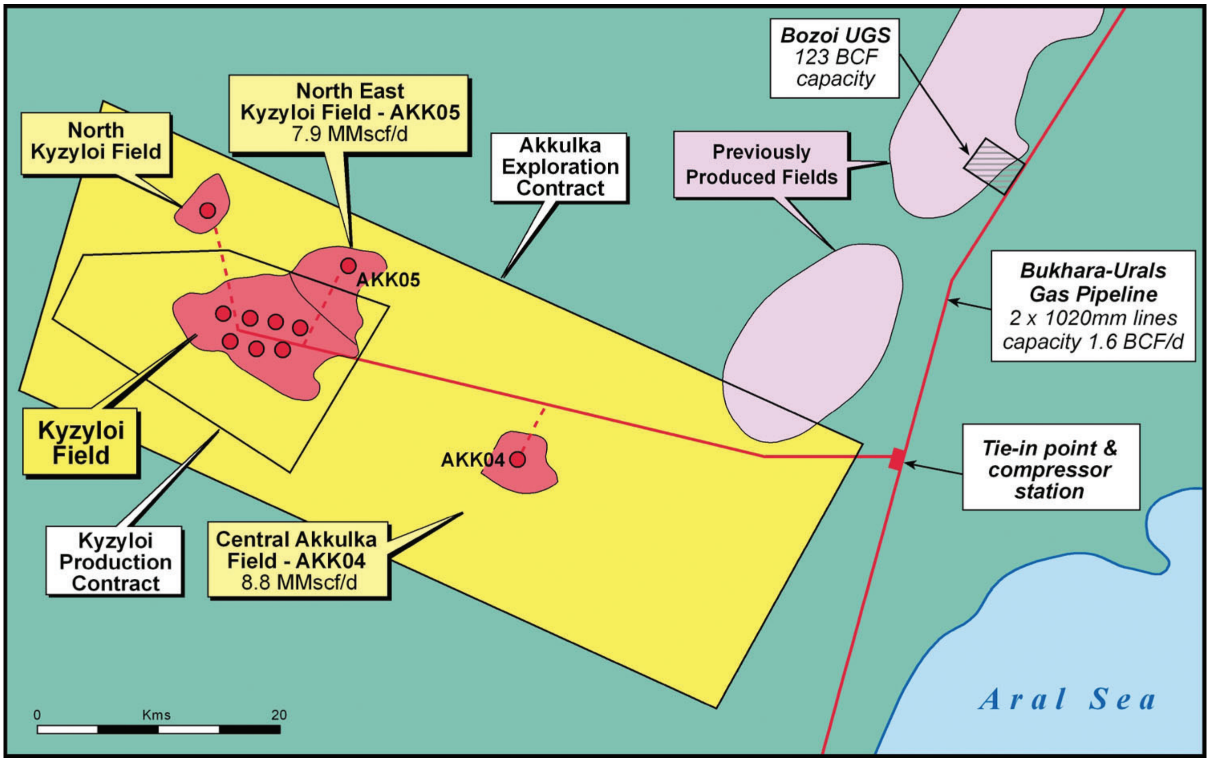
Kyzyloi Field Licence and Production Contract

The Kyzyloi Field Licence and Production Contract for production of gas on the Kyzyloi Field was initially issued by the Kazakh government to the state holding company Kazakhgas on June 12, 1997 and was transferred to BNM on May 15, 2001. The contract was entered into between the MEMR and BNM on May 5, 2005 for an initial period until June 13, 2007. In January 2005, the MEMR agreed to extend the contract until June 2014, subject to certain contractual amendments, which the Company expects will be finalized by the end of July 2007.

The Kyzyloi Field Licence and Production Contract grants BNM exploration and production rights over an area of approximately 70,967 acres (287.2 km^2) and extends down to the base of the Paleogene sequence. Pursuant to the contract, BNM must reimburse the Kazakh government for approximately US$1,200,000 in historical costs, to be paid in equal quarterly instalments until full reimbursement. In the event of production, royalties payable by BNM will range from 2% to 6% depending on the production achieved. BNM has a US$2,690,000 spending commitment due after June 2007 for the extension period. In addition, BNM is required to invest US$30,000 annually into the socio-economic development of the region in co-ordination with the local government.

Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in BNM's operations under the Kyzyloi Field Licence and Production Contract must be of Kazakh origin. BNM must also give preference to Kazakh personnel and, on an annual basis, must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in operations being conducted in connection with the contract. BNM is also required to establish a fund for reclamation of the contract area; contributions to this fund are required annually and must be in an amount equal to 1% of the total operational costs incurred during the life of the contract.

The following map shows the Company's gas development in the Kyzyloi Field and the Akkulka Block.



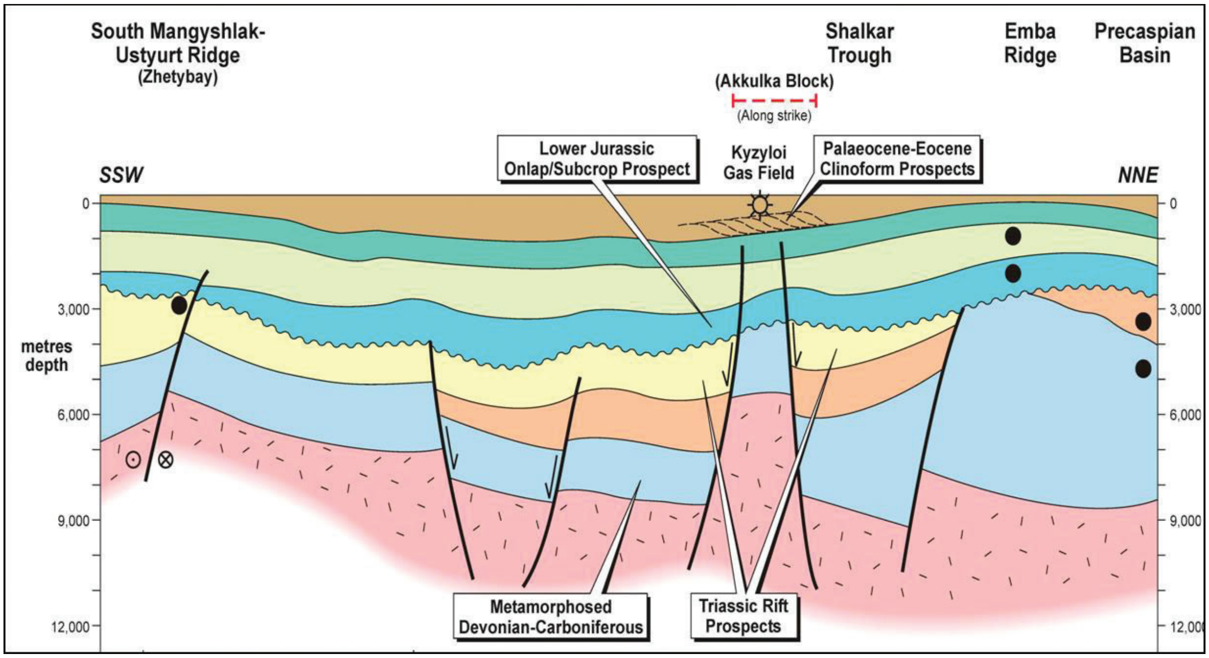
Akkulka Block and Akkulka Exploration Licence and Contract

Akkulka Block

The structure of the Akkulka Block can be analysed in terms of the major tectonic events. Very broadly, it is a large structurally positive feature, trending northwest/southeast and compartmentalized into two components, with associated flank areas to the south and north.

Apart from the rifting episode during the Triassic, all the major tectonic events caused compression, folding, uplift and (probably the most important for the generation of prospects) strike slip faulting. The major features in the block can be interpreted on the seismic data as what are known as "flower structures".

The following diagram shows the cross-section through the Akkulka Block and the Kul-Bas Block.



The Akkulka area has had a history of regional shallow gas exploration, mainly in the 1960s, with regional gravity, magnetic and seismic surveys and shallow stratigraphic wells. This work identified the Bozoi gas fields (currently the Bozoi UGS facility), the Kyzyloi Field and the North Kyzyloi Field. Some deep wells during this period located along the main Akkulka High indicated the presence of reservoir rock and potential hydrocarbons in the upper Mesozoic.

Since the end of the Soviet period, a state funded "Turlan vintage" program of seismic data was carried out over the block with an approximate grid of 2.5 mile x 2.5 mile (4 km x 4 km) and a sparser 5 mile x 5 mile (8 km × 8 km) grid of good quality later vintage (1995-1996) data acquired by JNOC of 2D lines covers the area, which were targeted primarily for the deeper horizons. From 1999 to 2001, prior to the Company's involvement in BNM, two deeper wells (G-5 and G-6) were drilled on the main Akkulka High.

Well G-5 was drilled to the north of the structure and was dry at lower Cretaceous and upper Jurassic level while reaching total depth in the middle Jurassic at 9,020 ft (2,750 m), therefore not evaluating the lower Jurassic and Triassic potential. Well G-6 did not reach the projected total depth of 11,152 ft (3,400 m) due to rig capacity problems, only reaching 10,358 ft (3,158 m), once again not testing the Triassic and deeper horizons.

Following seismic re-interpretation of both the shallow and deeper section during 2005, BNM, in early 2006, drilled five shallow gas exploration wells to depths of 2,000 ft to 2,542 ft (600 m to 775 m). Two of these wells flowed commercial quantities of dry gas, with traces of waxy oil in one of the tests. In addition, the seismic re-interpretation indicates several large Jurassic and Triassic oil leads/prospects located off the main Akkulka High.

There are three major sandstone units in the Paleogene sequence: (i) the lower Tasaran Sandstone; (ii) the Kyzyloi Sandstone, which is the main reservoir unit in the Kyzyloi Field; and (iii) the Oligocene Sandstone, the main sand unit in the Bozoi field (Bozoi UGS complex). The aerial extent of all these sands varies over the Akkulka Block. Above the Bozoi Sandstone lie a series of shallower sands, some with natural gas indications, which are collectively known as the "**Control Horizon**" and are Oligocene in age. Tethys plans to evaluate these Control Horizon sands for incremental natural gas production and also explore for natural gas in what may be a deeper "toeset" play, below the Kyzyloi Sandstone. Exploration for shallow gas within the upper Eocene and Oligocene horizons is focused on the fine-grained sandstones and siltstones which generally pinch-out in a northwesterly vector. These sandstones are located at depths between approximately 1,000 ft and 1,800 ft (305 m and 549 m) below surface and are seen as amplitude anomalies or "bright spots" on seismic. Average porosities are in the range 25-32% and permeabilities 100-762 MD in sand units typically 7 ft to 20 ft (2 m to 6 m) thick with an average of around 11 ft (3.5 m). Overall the gas is dry (~97% methane) with minor CO_2, and no sulphur, with the source being possibly biogenic but also potentially from deeper zones, some of which might be condensate/oil bearing. Traces of waxy oil were found in one of the tests (observed by the independent well testing engineer).

Recoverable net proved plus probable gas reserves within the Akkulka Exploration Licence and Contract area is estimated by the McDaniel Reserve Report to be 14.45 Bcf (0.41 Bcm) based upon drilling and testing.

The AKK05 exploration well has recently proved up the North-East Kyzyloi extension to the Kyzyloi Field, mainly within the Kyzyloi Field Licence and Production Contract area on this slightly downthrown wedge. This well flowed natural gas at a rate of 7.9 MMcf/d (224 Mcm/d).

North Kyzyloi is an anticlinal trap with an associated seismic amplitude anomaly located approximately 8 miles (13 km) to the northwest of the Kyzyloi Field. A measured natural gas flow rate of 250 Mcf/d (7 Mcm/d) was recorded from a sub-optimal test from well G-17 in the late 1960s. A step-out appraisal well of G-17 is planned in Q2 of 2007, to delineate and develop this deposit.

The central Akkulka Block is a south dipping structure currently covering an area of approximately 8.5 miles^2 (22 km^2) located approximately 12.5 miles (20 km) east of the Kyzyloi Field. It has an up-dip fault seal and apparently a down-dip gas-water-contact, the depth of which is yet to be confirmed. The accumulation was proved by the AKK04 well which flowed gas at a stabilized flow rate of 8.8 MMcf/d (249 Mcm/d). The well logs, flow rate and the calculated reservoir characteristics indicate equal reservoir properties around this wellbore than that usually exhibited in the Kyzyloi Field.

The AKK01 well was drilled to test a prospect at Oligocene Sandstone level in the northern section of the Akkulka Block and although there were indications of gas on wireline logs, the well flowed formation water. Additional prospectivity lies in the area around this well. The AKK02 and AKK03 wells were drilled to test an accumulation in the southern section of the Akkulka Block. Although wireline logs indicated gas in thin sands (albeit with high water saturations) and natural gas was observed during drilling of the AKK03 well with gas observed at surface, it did not flow at commercial rates, as was the case in AKK02 well. It is now believed that the water saturation was such that the water flowed in preference to gas, and suggests that the AKK03 well may be on the downdip edge of a small natural gas accumulation. Generally the wedge of sandstones thickens to the south and east and Tethys is currently investigating the potential for further targets in this area.

The AKK06 well, which was drilled in March 2007 as a downdip step-out to the AKK04 central Akkulka Block discovery well, encountered potential natural gas-bearing sandstones at two levels. The deeper Kyzyloi Sandstone interval showed good gas shows when the well was drilled, and although natural gas was produced to surface on test, this was not at commercial rates and the deeper zone has now been plugged and abandoned. The upper interval is currently being tested. The other well drilled to date, the AKK07 well which was drilled in April 2007, is an exploration wildcat located to the southwest of the Kyzyloi Field that has encountered two zones which may contain commercially moveable natural gas bearing sandstones. This well remains to be tested as part of an integrated testing program using testing equipment which is currently focused on commissioning of the Kyzyloi Field production wells.

Three or more exploration/appraisal wells are planned for 2007, depending on results.

Slightly deeper 2,132 ft to 2,788 ft (650 m to 850 m) potential exists in the lower Paleogene prograding sandstones dipping basinwards, although, this play has yet to be fully tested. However, anomalous bright zones are noted on seismic, with wells planned to target these zones in 2007, possibly combined with a shallower zone appraisal.

Akkulka well successes to date are as follows:

- The AKK04 well, tested dry gas at maximum rate of 8.80 MMcf/d (249 Mcm/d) discovering a new natural gas deposit (now named Central Akkulka) located some 12.5 miles (20 km) east of the Kyzyloi Field; and
- The AKK05 well (now named North-East Kyzyloi) tested dry gas at a maximum rate of 7.9 MMcf/d (224 Mcm/d) per day of dry gas. The AKK05 accumulation is located some 4 miles (6.5 km) north of the Kyzyloi Field. The well is now preserved for future tie-in to the greater Kyzyloi development.

As well as the successful AKK04 and AKK05 wells, three additional wells under the original five-well Akkulka exploration program were tested but did not flow commercial gas. The AKK01, AKK02 and AKK03 wells were testing two separate accumulations called North and South Akkulka. Gas was present at the surface on the AKK03 well but it did not test at commercial rates. The Company believes that the AKK02 and AKK03 wells were slightly off structure and the Company intends to drill another well in this area in 2008 depending on completion of the Treasury Offering.

Akkulka Exploration Licence and Contract

The Akkulka Exploration Licence and Contract was entered into between the Kazakh State Committee of Investments and BNM on September 17, 1998. The contract initially granted BNM exploration rights for a period of five years, however, as discussed below, it has been extended two times and is currently in effect with a further extension to September 17, 2009 having been agreed. The original grant of the Akkulka Exploration Licence and Contract extended over an area of approximately 41,000 acres (166.17 km^2), however, the contract was amended on September 27, 2000, resulting in an expansion to BNM's exploration area to a total of approximately 341,000 acres (1,380.53 km^2) at Paleogene level and approximately 411,916 acres (1,667 km^2) at deeper levels.

The initial commitments under the contract primarily consisted of an expenditure of US$14,400,000 over the initial five year term. Although only US$13,200,000 was spent by September 2003, BNM was successful in extending the contract for a further two years. As a result of the expenditure commitments having been satisfied for the prior years, the contract was further extended until September 17, 2007 requiring US$2,900,000 in work program obligations for geological and exploration work on the Akkulka Block for 2006 (US$1,681,000 of which had been spent by the end of 2006) and a further US$5,880,000 in work program obligations for 2007 (none of which have been spent as of March 31, 2007). Recently a further extension for evaluation of potential reserves on the Akkulka Block was agreed upon with the MEMR, effectively extending the contract until September 2009. Under the latest extension to the contract, BNM has also committed to spending an additional US$3,228,000 minimum work program.

In the event that a commercial discovery occurs, royalty rates payable will be established in a production contract for which BNM will have exclusive right to negotiate. The royalty payable is variable, however, it ranges from between 2% and 6%, depending on the size of the deposit and is set 30 days before production commences. Furthermore, on commencement of commercial production, an additional payment in the amount of US$3,500,000 will also be due to the Kazakh government for the reimbursement of historical expenses; the amount and procedure of reimbursement will be subject to the terms and conditions to be set out in the production contract.

Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in operations under this contract must be of Kazakh origin. On an annual basis, BNM must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration. BNM is also required to establish a fund for reclamation of the contract area and contribute annually to such fund; contributions must be equal to 1% of the total investment expenses incurred during exploration and shall be regarded as exploration expenses.

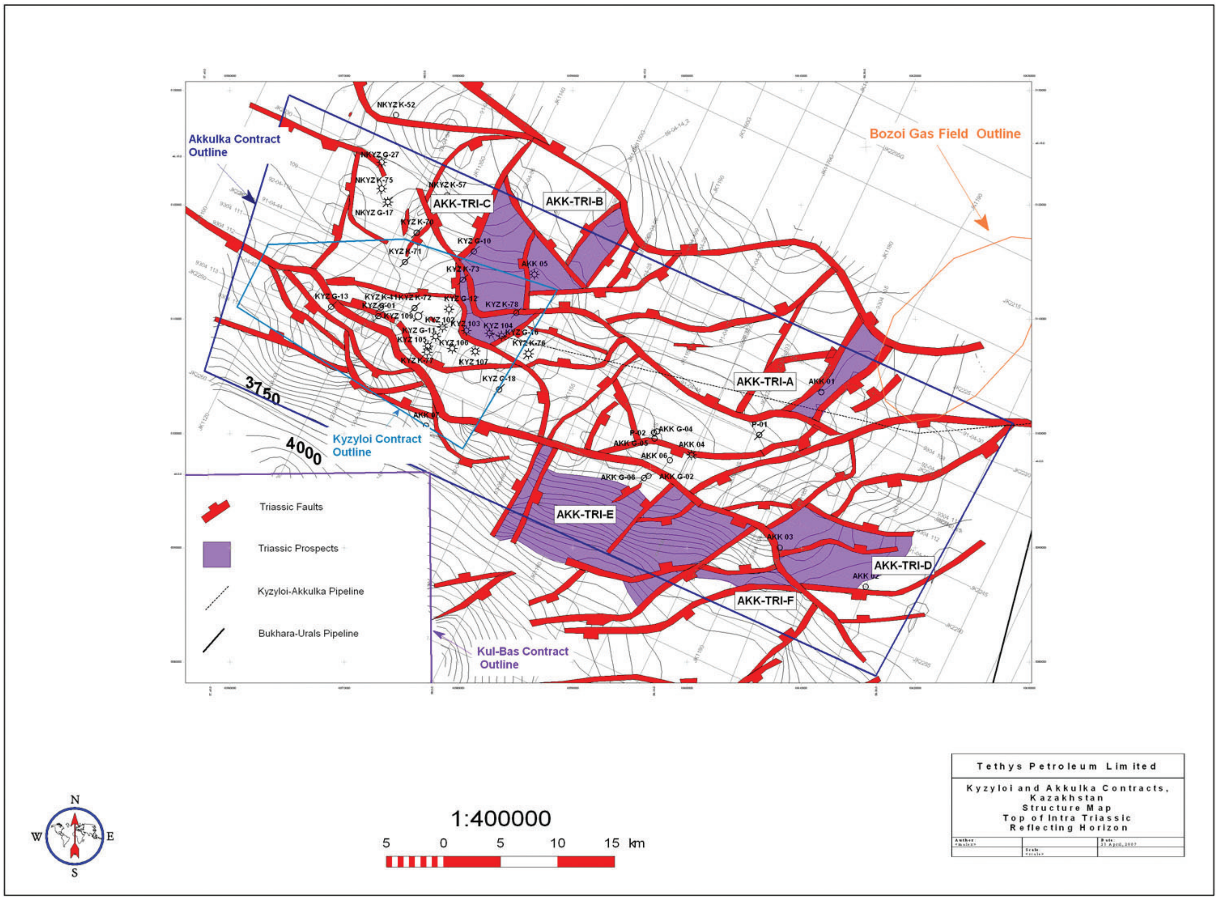
Akkulka Block — Exploration of Deeper Oil and Gas

A total of 7 Triassic-lower Jurassic prospects have been identified by the Company in the Akkulka Exploration Licence and Contract area.

During 2005, work concentrated on the re-interpretation of existing seismic to focus on the deeper potential of the contract area at lower Mesozoic levels (i.e. lower Jurassic and Triassic). These plays are located off the main structural Akkulka High which are either denuded of these sediments or were prominent during that time and facilitated onlap against it.

By analogy, with the large Triassic deposits to the south-west in the Mangyshlak hydrocarbon province and along the Zhetybay Step the target reservoir units are considered to be non-marine (i.e. fluvial and lacustrine sandstones that were deposited in a syn-rift environment). The upper Triassic-lower Jurassic sediments are within a large mega-sequence of post-rift sediments that thicken to the southwest and northeast off the Akkulka High. Most likely source rocks for both plays would be the lacustrine Triassic age sediments that produce the waxy oils of the Mangyshlak area.

The following map shows the Company's deeper oil and gas targets in the Akkulka Block.



Unrisked mean net prospective resources of 146 mmbbl of oil and 1,214 Bcf (34.2 Bcm) of gas (348 MMBOE) are estimated for these prospects in the Resource Report. The Resource Report states that one of the uncertainties with this play is the type of hydrocarbon that would be encountered and the resources reported are based on the assumption of a 50% chance of encountering oil and a 50% chance of encountering non-associated gas. As a means of understanding the effect of this assumption, if the hydrocarbon fill were 100% oil, then this would equate to 291 mmbbl plus 319 Bcf (9.0 Bcm) of solution gas, and if the hydrocarbon fill were 100% gas, then this would equate to 2,184 Bcf (61.5 Bcm) of non-associated gas.

The Triassic syn-rift leads and prospects A-F are located on "flower structures" below the lower Jurassic unconformity in a variety of orientations in the central and eastern part of the block. A deep exploration well (13,120 ft to 14,760 ft (4,000 m to 4,500 m)) is planned to target one of these prospects in the third or fourth quarter of 2007.

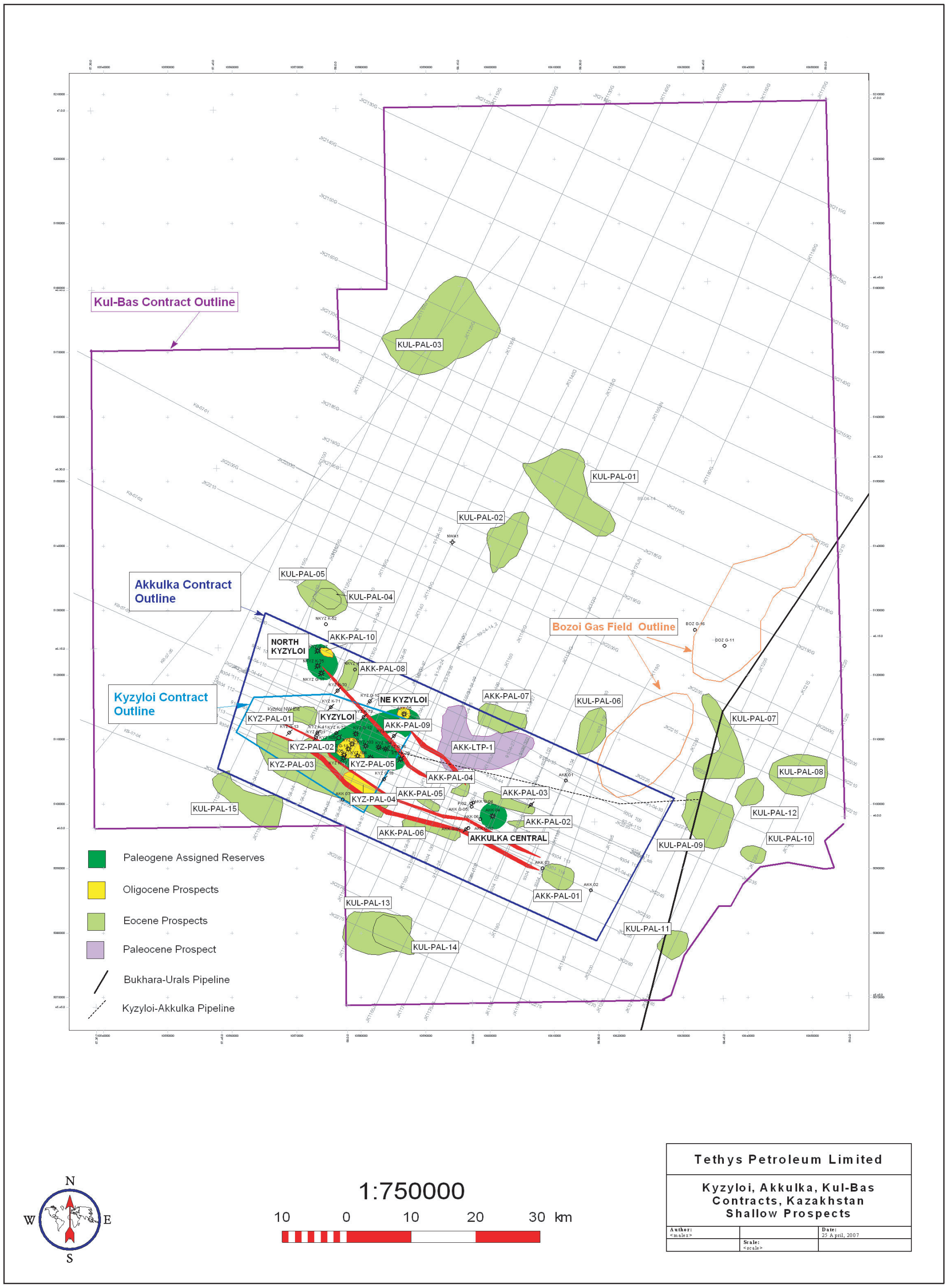
The Cretaceous and upper Jurassic over the main Akkulka High have not been considered in detail as they are considered to have been tested by the older G2 to G6 wells.

Deeper potential within the Paleozoic may exist within the block but it is possible that these sediments have been too deeply buried to preserve reservoir quality and source potential. However, a definitive conclusion cannot be reached until this has been tested by drilling a well.

Kul-Bas Block and Kul-Bas Exploration and Production Contract

Kul-Bas Block — Exploration of Shallow Gas

The following map shows the Company's shallow gas exploration prospects in the Akkulka Block and the Kul-Bas Block.



The Kul-Bas Exploration and Production Contract area surrounds the Akkulka Block and has similar geological, tectonic and structural features to the Akkulka Block.

The Company considers this large area to be under-explored, only being subject to regional magnetic, gravity and seismic surveys in the Soviet-era with limited stratigraphic wells (i.e. very shallow in the southern part surrounding

Akkulka Block). Since the end of the Soviet period, a state funded "Turlan vintage" program of seismic was carried out in the southern and eastern parts of the block with a later vintage (1995-1996) JNOC 2D program over 90% of the block, with the northern and northwestern part (approximately 25% of the territory) of the contract area having been covered in an approximate 5 mile x 5 mile (8 km x 8 km), while the southern and eastern section is covered with a 2.5 mile x 2.5 mile (4 km x 4 km) grid.

The Company has made a preliminary assessment of the 1995-1996 vintage JNOC 2D seismic. The Company considers prospective horizons to be similar to Akkulka with the possible addition of a Palaeozoic play in the northwest of the block, where sedimentary cover thins and source rock maturity and reservoir properties would in their view most likely have been preserved. A total of 15 amplitude anomalies similar to those in the Kyzyloi Field and the Akkulka Block have been mapped to date. No volumes have as yet been put on the lower Paleogene progrades and potential Carboniferous plays. An infill seismic survey is planned to commence in May 2007 and a contract has been signed with a Kazakh seismic acquisition company to conduct such surveys. This is likely to lead to drilling of the shallow gas anomalies in 2007 and 2008.

The Kul-Bas Block — Exploration of Deeper Oil and Gas

A total of 11 Triassic – lower Jurassic leads have been identified by the Company in the Kul-Bas Exploration and Production Contract area. Unrisked mean net prospective resources of 148 mmbbl of oil and 1,164 Bcf (32.8 Bcm) of gas (342 MMBOE) are estimated for these prospects in the Resource Report. The Resource Report states that one of the uncertainties with this play is the type of hydrocarbon that would be encountered, and the resources reported are based on the assumption of a 50% chance of encountering oil and a 50% chance of encountering non-associated gas. As a means of understanding the effect of this assumption, if the hydrocarbon fill were 100% oil, then this would equate to 295 mmbbl plus 232 Bcf (6.5 Bcm) of solution gas, and if the hydrocarbon fill were 100% gas, then this would equate to 2,092 Bcf (58.9 Bcm) of non-associated gas.

The Company considers the much larger Kul-Bas Block to also have significant oil and gas potential in deeper horizons ranging from the Carboniferous through to the Jurassic. Large condensate fields such as Urga (1.7 TCF/ 0.048 TCM) (Source: *"Uzbekistan-Gazpran Operations", APS Review as Market Trends, October 16, 2006*) have been discovered in the same basin just to the south in northern Uzbekistan.

The Kul-Bas Block contains numerous deeper oil and gas prospects at the lower Mesozoic levels (i.e. lower Jurassic and Triassic). Like the prospects on the Akkulka Block, by analogy, with the large Triassic deposits to the southwest in the Mangyshlak hydrocarbon province and along the Zhetybay Step, the target reservoir units are considered to be non-marine (i.e. fluvial and lacustrine sandstones that were deposited in a syn-rift environment). The upper Triassic-lower Jurassic sediments are within a large mega-sequence of post-rift sediments that thicken to the southwest and northeast off the Akkulka High. The most likely source rocks for both plays would be the lacustrine Triassic age sediments that produce the waxy oils of the Mangyshlak area. The Triassic to lower Jurassic deposits of the area consist of continental sediments deposited in local grabens off Paleozoic structural highs. The Company believes that they are likely to be up to 6,562 ft (2,000 m) thick of sediments locally, comprising mainly shales and sandstones. Trapping styles are mainly stratigraphic pinch-outs against Paleozoic highs although conventional anticlines are noted in the central part of the block. The prospects are typically around 9,843 ft to 11,484 ft (3,000 m to 3,500 m) below surface in the southern areas but are as shallow as 7,218 ft (2,200 m) in the northern part of the block.

In the area, the Carboniferous sequence may also be prospective as the Carboniferous becomes shallower as the overlying sediments thin towards the basin edge and the Emba Ridge. Further work is necessary to firm up potential Carboniferous targets, but the Company believes that the Carboniferous is one of the most important reservoirs in the region as it is the primary reservoir in the super-giant Tengiz field to the northwest and several other large fields in the Pre-Caspian basin across the Emba Ridge. The Company also believes that the regionally prolific Domanik facies source rock should still be within the oil window of maturity in the area and could charge such prospects.

A seismic program is currently being carried out both to firm-up shallow gas prospects and to highlight deeper plays in the Triassic and Carboniferous. The Company intends to drill a well at some time in the future to test the deeper oil prospects dependent on the results of the seismic and adequate financing.

Eocene

The positive correlation of bright seismic amplitudes to the presence of dry gas and effective traps has been proven in Kyzyloi and Akkulka and allows a quick analysis of the gas potential of the Kul-Bas Block to be made. Where high amplitudes are seen on the seismic data, trap presence and effectiveness should be seen as low risk.

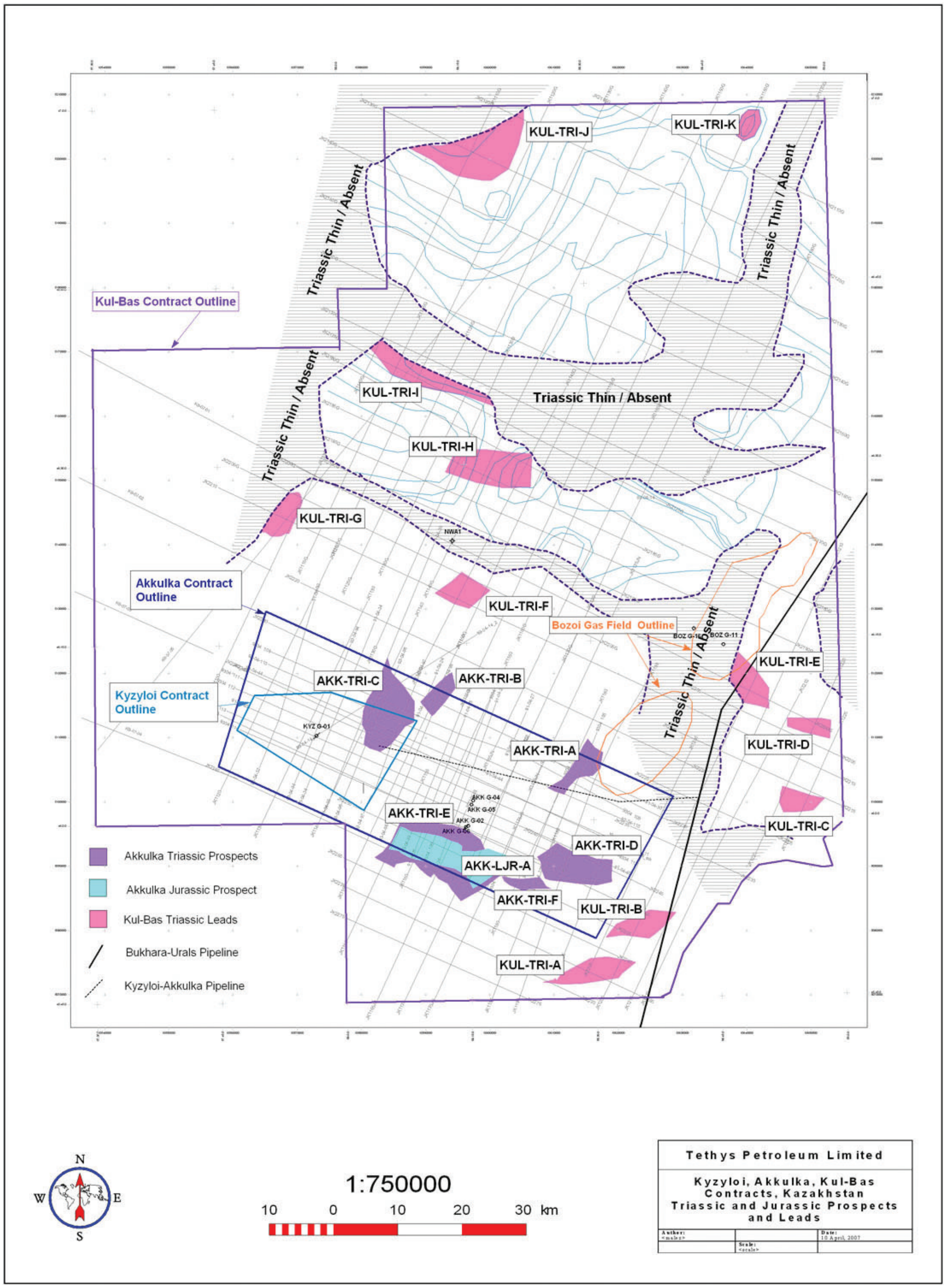
This play carries low to very low risk in the southern part of the block, and higher (although still low by global standards), risk in the northern part of the block. Fifteen prospects have been identified on the seismic data by Tethys. Prospective horizons are similar to those mapped in the Akkulka Block.

This play has been the primary focus of the region to date, targeting Eocene and Oligocene age sandstones in traps that generally pinch out (mud out) laterally. The gas is likely to be dry, possibly biogenic, in origin. To date a total of 15 amplitude anomaly or "bright spots" varying in extent from 3.1 miles^2 (KB10) to 61.3 miles^2 (KB03) (8 km^2 to 159 km^2) in area (compared to 39.9 miles^2 (103 km^2) for the Kyzyloi and North-East Kyzyloi Fields maximum gas extent) and between 656 to 2,132 ft (200 to 650m) below surface have been identified in two clusters: a northern cluster where sandstones are likely to be thinner and/or fine grained; and a south and southeast cluster where the sands are more likely to be thicker as they are closer to the depo-centre. Prospective resources on these bright spots have been calculated using analogous reservoir parameters to Kyzyloi 1,312 ft to 2,132 ft (400 m to 650 m), and Bozoi 656 ft to 1,312 ft (200 m to 400 m) reservoirs. Some of the anomalies in the southeastern section are located very close to the Kyzyloi development infrastructure and the compressor station at the cut-in point at 562 miles (910 km) on the Bukhara-Urals pipeline. Therefore, additional wells could be potentially tied into this quickly and inexpensively.

Stratigraphic features in the lower Paleogene (prograding systems) may offer reservoir and trapping potential in a wide range of trap types present in the Mesozoic rift system, and even possibly in the Palaeozoic. However, this potential can only be quantified by detailed geophysical and geological work.

In 2007, the commitment program for the Kul-Bas Exploration and Production Contract involves the acquisition, processing and interpretation of additional seismic data. This will be focused on the western part of the area and a seismic crew has been mobilized and will commence shooting shortly. In addition, the Company plans to drill ten shallow gas prospects already mapped in 2007 and 2008.

The following map shows the Company's deeper oil and gas exploration prospects in the Kul-Bas Block.



Kul-Bas Exploration and Production Contract

The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005. This contract, which is for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six year exploration period and a 19 year production period, grants Kul-Bas with exploration and production rights over approximately 2,688,695 acres (10,881 km^2) surrounding the Akkulka Block. Pursuant to the Kul-Bas Exploration and Production Contract, 20% of the area is to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period, except with respect to areas in which a commercial discovery is made as this contract grants Kul-Bas an exclusive right to proceed to the production period where it has made a commercial discovery.

The work program on this area amounts to a total of US$7,700,000 over the initial six year exploration period, with a US$160,000 commitment in 2006, a US$940,000 commitment for 2007 and a US$3,000,000 commitment for 2008. To March 31, 2007, US$550,000 has been spent on work commitments under the contract. The royalty payable can range from 4% to 6% depending on the size of the deposit and will be set 30 days before production commences. Pursuant to the contract, Kul-Bas must also reimburse the Kazakh government for approximately US$3,200,000 in historical costs, to be paid within ten years following commencement of production, by way of equal quarterly instalments. In addition, during the initial six year exploration period, Kul-Bas is required to invest US$10,000 annually into the socio-economic development of the region in co-ordination with the local government.

Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in Kul-Bas' operations under this contract must be of Kazakh origin, and Kazakh specialists must comprise not less than 95% of the total number of Kul-Bas employees. On an annual basis, Kul-Bas must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration and not less than 0.1% of the operational costs during production. Kul-Bas is also required to establish a fund for reclamation of the contract area; contributions to this fund are required annually and must be equal to 1% of the total investment expenses incurred during exploration and 0.1% of the total amount of operational costs during production.

Aral Vostochniy and Aral Vostochniy Exploration Contract

Aral Vostochniy Block

The Aral Vostochniy Block covers an area of approximately 2,800,000 acres (11,316 km^2) located to the east of the Aral Sea which the Company believes has the potential for natural gas and possibly oil deposits. Exploration in the block has been relatively limited, but the block lies on the edge of the East Aral basin, the eastward extension of the North Ustyurt basin, in a similar structural position to Tethys' current acreage, and towards the South Turgay basin, site of large fields owned by PetroKazakhstan Limited.

The Aral Vostochniy Block lies in the East Aral basin, a sedimentary downwarp which extends southwards into Uzbekistan, where it is separated from the Amu Darya basin by the Central Ustyurt fault zone and the Karakum High. To the north and west, the East Aral basin is separated by the Aral-Kyzlkum High and the Zherlepessky fault zone (southerly extension of the Ural mountain chain) from the North Ustyurt depression, of which it is essentially an easterly extension. The eastern edge of the East Aral basin passes through the eastern part of the Aral Vostochniy Block, which lies to the southwest of the South Turgay basin.

Little exploration activity was carried out on the East Aral basin until the 1970s, presumably because of the harsh environmental conditions there. In the early 1970s, however, limited drilling took place with parametric and exploration wells being drilled in the East Aral basin and surrounding areas, based on limited geophysical data, these included the Koskazakh well 1-P which is reported to have flowed gas to the surface from the Jurassic and the wireline logs and also apparently showing a gas effect. Following the significant discoveries made in the South Turgay basin to the northeast (for example, the Kumkol fields now owned by PetroKazakhstan Limited), in the 1990s Turlangeophysika carried out 2D seismic surveys in 1992 to 1994 and in 1994 to 1996, and based upon this seismic and the limited well data some 13 prospective structures have been mapped. Further work is required to firm up additional drilling locations, initially including re-interpretation and probably re-processing of the existing seismic data, geological studies, and potentially additional seismic data acquisition.

The basement in the East Aral basin is essentially composed of Carboniferous porphyrites which may be fractured in places, but essentially represent an economic basement. Above these lies a sedimentary sequence which thickens westwards into the centre of the Aral Sea where it is mapped as being some 3.7 miles (6 km) thick against the Aral-Kyzlkum High. Over most of the Aral Vostochniy Block, the sedimentary section is some 0.93 miles (1.5 km) to 1.24 miles (2 km) thick, with the edge of the East Aral basin occurring in the east of the block against the lower Syr-Darya elevation.

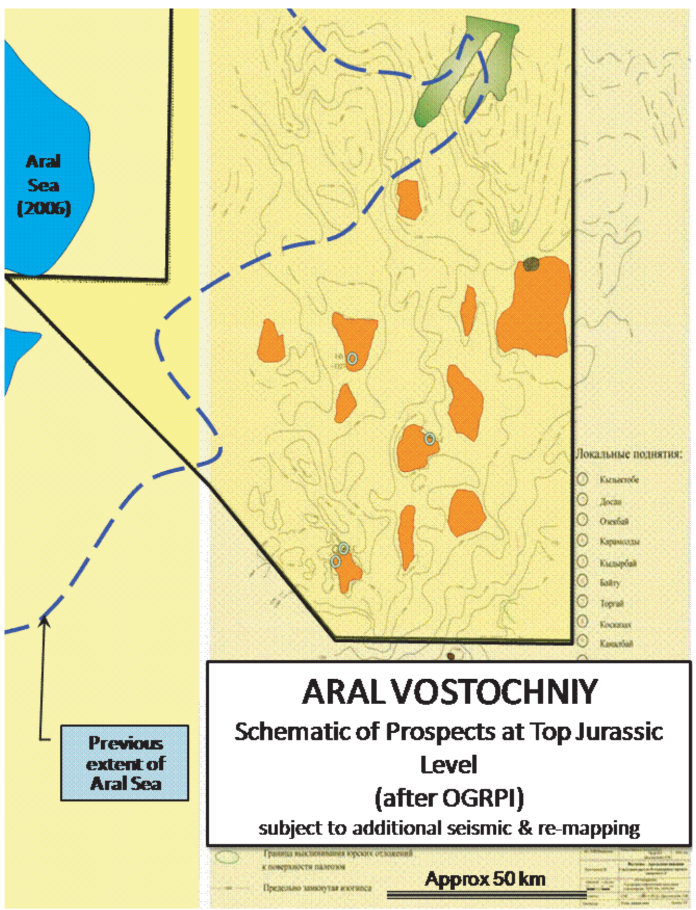
Over most of the Aral Vostochniy Block, the Permian, Triassic and early Jurassic and lowermost part of the middle Jurassic are interpreted as being absent, with a major unconformity on the Carboniferous. However, the Company expects that in the western part of the basin towards the centre of the Aral Sea, the early Jurassic and lower part of the middle Jurassic are present. These are potential source rocks, both for oil (early Jurassic lacustrine shales) and for natural gas (middle Jurassic (Bathonian) coals and deltaic deposits), and should be mature in this area. However, over most of the Aral Vostochniy Block, upper middle Jurassic siltstones and sandstones unconformably overlie the Carboniferous. These are themselves overlain conformably by late Jurassic claystones, topped by sandstones and siltstones. The Cretaceous consists of more sands, silts and clays, while the overlying Paleogene section comprises carbonates overlain by thin siltstones, and overlain by Neogene and Quaternary clays.

The Jurassic/Cretaceous section is regarded as the most prospective, particularly the Jurassic sandstones. The Paleogene carbonates do have potential, but in places are directly overlain by Quaternary deposits which limit seal. Some potential may also exist in the fractured Carboniferous porphyrites.

Up to 13 structures have been mapped on the Aral Vostochniy Block, these being simple dip-closed anticlinal structures mapped at top Jurassic level. As mentioned above, some limited drilling has taken place which shows the Jurassic/Cretaceous to have potential reservoir quality rocks, and confirms the Carboniferous porphyrites to be at depths of up to 6,562 ft (2,000 m) in the south of the Aral Vostochniy Block. Natural gas indications have been obtained, with up to 48% hydrocarbon gases in solution, and with the percentage increasing westwards.

In a report prepared in April 2006 by the MEMR, JSC Oil and Gas Research and Project Institute ("**OGRPI**"), it was noted that the Aral Vostochniy Block was essentially an exploration area with the potential primarily for natural gas. The report estimated that the area may contain approximately 1,483 Bcf (42 Bcm) of recoverable natural gas and up to 81 mmbbl of recoverable oil, principally in oil-rims in identified shallow structures. The OGRPI estimates are not classified as reserves or resources as set out in the COGE Handbook. Management of Tethys anticipates that exploration costs for the Aral Vostochniy Block will be relatively low as the wells are expected to be shallow (up to 6,562 ft or 2,000 m) and that any additional seismic acquisition costs will be relatively modest. See "*Risk Factors*".

The following is a map of the prospects located in the Aral Vostochniy Block.



Aral Vostochniy Exploration Contract

On May 10, 2007 Tethys entered into an agreement with the owner of NBC to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL. See "*Property Descriptions — Acquisition of NBC and Rights to the Aral Vostochniy Block*" below. The Aral Vostochniy Exploration

Contract was entered into between the MEMR and NBC on November 18, 2004. The grant of the Aral Vostochniy Exploration Contract extends over an area of approximately 2,800,000 acres (11,316 km^2).

Pursuant to the Aral Vostochniy Exploration Contract, NBC must pay a commercial discovery bonus in the amount equal to 0.05% of the cost of recoverable reserves, royalty and rental payments for any exported crude oil and an excess profit tax under certain circumstances. In addition, NBC must also reimburse the Kazakh government for approximately US$325,940 in historical costs, to be paid within ten years following commencement of production, by way of equal quarterly installments. Under the contract, NBC is also required to make payments of US$300,000 annually, over a four year period, for the socio-economic development of the region and to contribute to the capital city, Astana.

Acquisition of NBC and Rights to the Aral Vostochniy Block

Tethys, through TKL, signed an agreement with the owner of NBC to acquire NBC from the owner, thereby making NBC an indirect wholly-owned subsidiary of Tethys, for the following consideration:

(i) an initial payment of US$2,500,000 (including an immediate US$100,000 deposit to be paid which will be forfeited, under certain circumstances, if the contract becomes null and void) and 7,500,000 Pre-Split Ordinary Shares (or 1,500,000 Ordinary Shares after giving effect to the Share Consolidation);

(ii) a commercial discovery bonus in the form of a further payment of US$1,000,000 payable upon the first commercial discovery declared recoverable by NBC in a declaration of commercial discovery which is approved by the SCR and an additional US$1,000,000 payable for each Bcm (35.315 Bcf) or part thereof of C1 gas reserves declared recoverable by NBC in a declaration of commercial discovery which is approved by the SCR; and

(iii) a further commercial discovery bonus in the form of a payment of US$1,000,000 payable upon subsequent commercial discoveries for each Bcm (35.315 Bcf) or part thereof of C1 gas reserves declared recoverable by NBC in a declaration of commercial discovery which is approved by the SCR.

In the event that the SCR subsequently revises the C1 gas reserves upwards during the "evaluation period" there would then be an adjusting payment that would be made on the same terms. The "trigger date" for any of these subsequent payments would either be the date a commercial discovery is declared by NBC or the date any upward adjustment in recoverable C1 gas reserves is made by the SCR, as applicable. Similar arrangements would apply to any long term test production.

In the event that oil or other commercial gas is discovered and C1 reserves are attributed by NBC, then these reserves would be converted into gas equivalent based on a fiscal equivalence against the market or contract price for natural gas at the nearby city of Qyzylorda, Kazakhstan. At the Company's discretion, the Company may make the bonus payments in Ordinary Shares with a premium of 10%.

The vendor's obligation to complete this acquisition is conditional upon the Company raising at least US$25,000,000 in gross proceeds pursuant to the Treasury Offering and the Ordinary Shares being listed on a specified stock exchange. If this condition is not satisfied by August 31, 2007, the agreement relating to the acquisition of NBC will immediately become null and void and no party thereto shall have any liability or further obligation to the other party.

Following the satisfaction of the Company's financing condition precedent described above, NBC has undertaken to obtain the consent to this transaction from the appropriate Kazakh government authorities and to do the following:

(i) extend the exploration period under the Aral Vostochniy Exploration Contract until November 2010;

(ii) modify and obtain approval from the appropriate body of the MEMR of a modified minimum work program under the Aral Vostochniy Exploration Contract;

(iii) obtain a waiver from the MEMR of any pre-emption rights the Kazakh state may have in respect of the Aral Vostochniy Exploration Contract; and

(iv) have all waivers and documentation in place so that TKL can be registered as the sole owner of NBC.

NBC will have a period of four months from the date Tethys raises at least US$25,000,000 in gross proceeds pursuant to the Treasury Offering to satisfy the conditions precedent for which it is responsible, failing which the agreement relating to the Company's acquisition of NBC will immediately become null and void and no party thereto shall have any liability or further obligation to the other party.

Tajikistan and Protocol of Intent

Tajikistan

Oil was first discovered in Tajikistan in 1909 but exploration and development of oil and gas was limited throughout the Soviet period, with the centralized economy, and in the latter years as a result of a lack of available investment and the Soviet invasion of neighbouring Afghanistan. At that time Tajikistan was essentially a rural economy with cotton being the main crop, and with localized heavy industry such as aluminium production and coal mining in the north. In the 1970s, oil production reached approximately 9,000 bopd and gas production reached over 50 MMcf/d (1.77 MMcm/d) (Source: *Neftpredya, Min. Energy 2006*), but by 1990 (the last year of the former Soviet Union) oil production had fallen to approximately 3,000 bopd, while gas production had fallen to approximately 10.5 MMcf/d (0.30 MMcm/d) (Source: *Tajikistan 2002 State of the Environment Report*). By 1996, further lack of investment and a civil war which broke out in Tajikistan in 1992 that followed the collapse of the Soviet Union resulted in oil production falling to approximately 600 bopd and gas production falling to approximately 4 MMcf/d (0.11 MMcm/d) (Source: *World Energy Council Report (2005)*). The oil and gas industry has suffered from extreme under-investment in Tajikistan and basic modern oilfield equipment is lacking, with drilling rigs and other equipment being of 1960s-1970s vintage. In addition, there are effectively no exploration activities currently being undertaken in Tajikistan.

Oil and gas is primarily found in two parts of Tajikistan, the northern Fergana basin (part of the same basin which extends into Uzbekistan and Krygyzstan) and the southern Afghan-Tajik basin, an eastward extension of the prolific Amu Darya basin. The Fergana basin was most heavily explored in Soviet times and has produced the majority of Tajikistan's oil. Although several oil and gas fields were discovered in the southeast segment of the Afghan-Tajik basin during the 1960s and 1970s, many were not fully developed and the Company believes this region is under-explored.

The Afghan-Tajik basin is the eastward extension of the prolific Amu Darya basin of Turkmenistan and Uzbekistan. These basins are separated by the southwestern extension of the Gissar spur and formed a single sedimentary basin until Neogene times when the collision of the Indian plate with the Eurasian plate during the formation of the Pamir mountains caused separation of the basins and large scale, north-south trending folding in the Afghan-Tajik basin. As such, the basins basically share the same pre-Neogene stratigraphy in which most of the hydrocarbons are found in the area.

The Amu Darya basin is primarily natural gas prone, and contains some super-giant natural gas and condensate fields such as the Dauletabad field in Turkmenistan (reported to have had initial estimated recoverable natural gas reserves of approximately 60 TCF (1.7 TCM)), and the Gazli field in Uzbekistan (reported to have initial estimated recoverable natural gas reserves of approximately 25 TCF (0.7 TCM)) (Source: *USGS Bulletin 2210-H*). Further to the east in the Afghan-Tajik basin, both oil and gas discoveries have been made, although it is difficult to obtain reliable data for some of the fields. There is less data available in the Afghan-Tajik basin, but the trends from some of the large (particularly Jurassic carbonate) fields in the Amu Darya basin do appear to extend eastwards into the Afghan-Tajik extension. The USGS estimates in a report dated 2006 that the Afghan portion of the Afghan-Tajik basin alone contains (at a mean level) some 1.9 billion bbl of undiscovered crude oil and natural gas liquids and 8.1 TCF (0.23 TCM) of undiscovered gas. No independent assessment has been carried out on the Tajik portion of the basin, although the USGS suggests that this may be more oil-prone and have mapped several structures in the southern part of Tajikistan. The USGS estimates are not classified as reserves or resources as set out in the COGE Handbook. EIA figures indicate that Tajikistan has the potential for up to 200 Bcf (5.7 Bcm) of natural gas reserves and up to 3.3 billion bbl of oil (Source: *The Mineral Industry of Tajikistan, Richard Levine (USGS 1999) quoting the EIA, September 1999*). Current official figures from the Tajik Ministry of Economic Development based on currently identified structures estimate crude oil and condensate reserves of some 1.15 billion bbl and over 30 TCF (0.85 TCM) of natural gas. Tethys believes that there is an opportunity for both oil and natural gas development potential in the "virgin" exploration territory of the Aghan-Tajik basin. Neither the reserve information nor USGS information relating to the Amu Darya basin and Afghan-Tajik basin has been verified by the Company or the Agents.

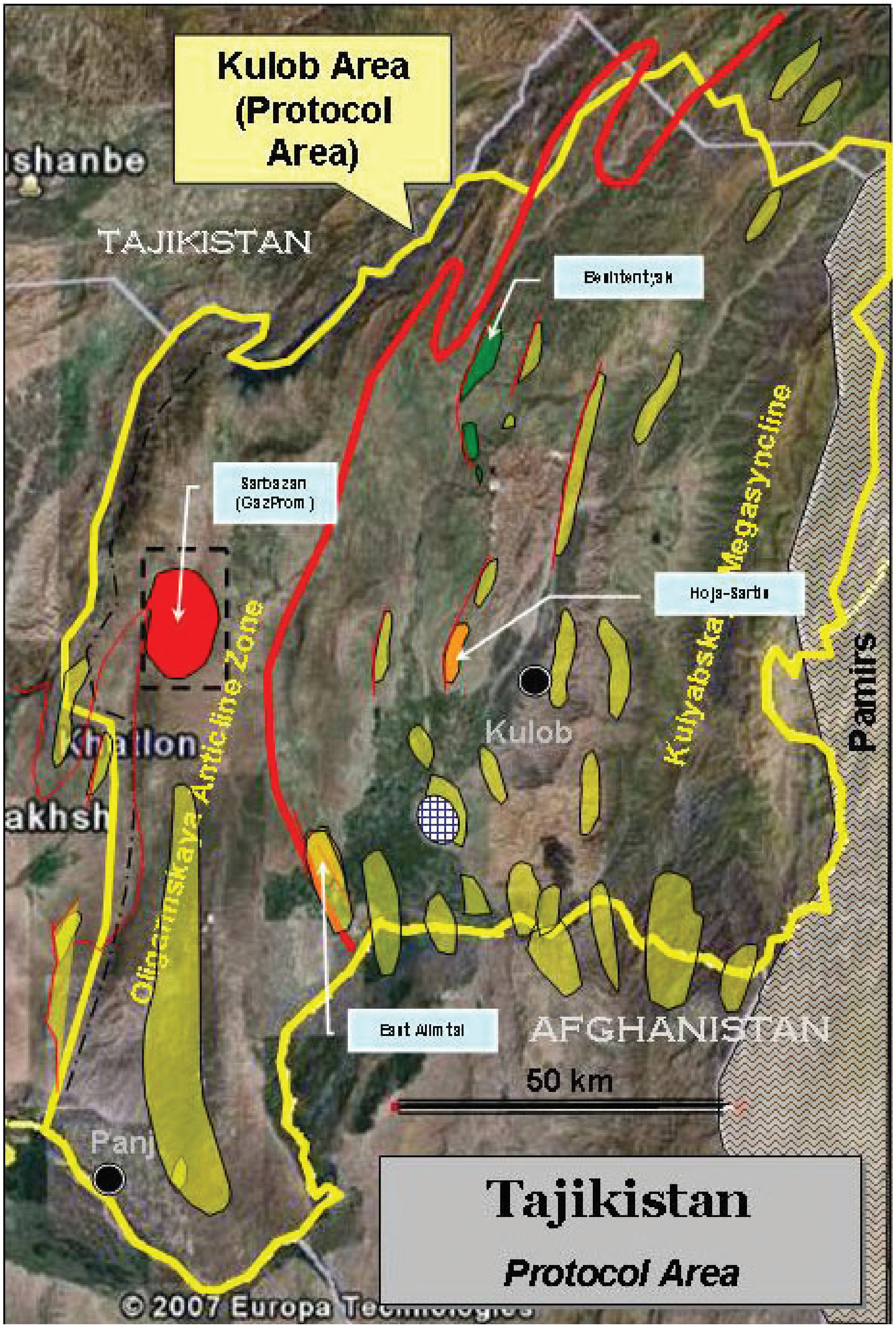
The basement consists of Paleozoic rocks overlain by Permian and Triassic marine carbonates and clastics grading up into redbeds filling basement grabens. Above these lies the principal hydrocarbon bearing sedimentary section from the Jurassic to the Paleogene. This can be divided into four sections, namely: (i) early Jurassic continental and paralic clastic rocks, including coals and deltaic sediments which form the primary gas source in the basin; (ii) middle and late Jurassic carbonates and evaporites, which include both shelf and reefal facies, deposited in the Tethys Ocean and overlain by a salt and anhydrite; (iii) early Cretaceous redbeds and continental sediments; and (iv) late Cretaceous to Paleogene marine carbonates and clastic rocks. The latter section is well developed in the Tajik part of the basin, where the Paleocene-Bukhara formation limestones form an important oil and gas reservoir, with the overlying lower Eocene basinal marine mudstones being the primary oil-prone source rock. Following deposition, subsequent large scale north-south folding, dragging along major east-west strike-slip and structuring caused by large scale movements of the upper Jurassic salt have created numerous traps and structures in both areas.

Protocol of Intent

In January 2007, the Company signed a Protocol of Intent with the government of Tajikistan related to conducting oil and gas operations in Tajikistan. The Protocol of Intent gives Tethys the exclusive right to carry out technical evaluations and negotiations with the aim of entering into a contractual arrangement to carry out oil and gas exploration activities in the Kulibsky (Kulob) region of southern Tajikistan, to consider involvement in the Alimtai prospect in that region, and for co-operation in increasing production on currently operating fields in Tajikistan. The Kulibsky region covers an area of over 2,200,000 acres (9,000 km^2) in the Afghan-Tajik basin of southern Tajikistan. There are several oil and gas fields already discovered, some of which are in limited operation, but the area has suffered from lack of investment in the oil and gas industry since the break-up of the former Soviet Union. The area contains several identified structures, based both on active salt movements and compression against the nearby Pamir mountains with, the Company believes, significant potential, and with several reservoir and source rocks being present. A phase of data collection, interpretation and negotiation is underway, with the aim of concluding a PSC by the fall of 2007. The Company is pursuing negotiations with the Tajik government with respect to a draft PSC. The Production Sharing Law is expected to provide the legal framework for the Company's planned PSC. The proposed work program involves regional geological studies, gravity surveys to highlight salt domes and regional seismic data acquisition. The existing seismic data is limited, old and of dubious quality. In parallel with this, a rehabilitation program is planned on some of the existing fields, potentially involving workovers, pump optimisation, reservoir pressure support and perhaps horizontal drilling. Small amounts of oil are currently produced from the Bukhara formation reservoir in the Beshtentyak field, this being a 30° to 35° API low sulphur crude with approximately 6% paraffin. The reservoir pressure has been permitted to fall on this field with no pressure maintenance and with little, if any, reservoir management. A separate reservoir produces mainly gas. Overall, Tethys believes all fields in the area should benefit significantly from the application of even simple western techniques and technologies. Tethys expects to have a PSC in place by the fall of 2007, allowing field rehabilitation work to commence and seismic data to be acquired to firm up several attractive leads.

The initial regional geological review carried out by Tethys suggests the potential for large structures in the Kulob area, possibly containing both oil and natural gas. Reservoir rocks are present, as are mature source rocks. The area has significant structuring, both tectonic and through halokinesis, and potentially attractive prospects should occur in both the sub-salt and post-salt section. The Company believes that the area is under-explored and that it has a very real potential for significant oil and gas deposits, although some of these structures are expected to be at substantial depths.

The following is a map of the Kulibsky (Kulob) area of Tajikistan and the location of the area that is covered by the Protocol of Intent.



Tajik specialists have worked up a prospect at East Alimtai in the south of the area, and a Soviet-era Ural-Mash rig is already erected on the site. Accordingly, the Company plans to firm up this prospect (which has several target zones) for possible drilling in 2008. Another similar prospect has been identified by Tajik geologists under the Hodja Mumin salt piercement. The Company's specialists are experienced in modifying Soviet-era drilling equipment (resulting in increased drilling efficiency), having done this several times in Georgia. As such, the Company anticipates that a modified local rig could be used to drill this well.

PROPOSED WORK PROGRAM

The Company has dedicated US$12,700,000 to its work program for the years 2007, 2008 and 2009. The amount committed to the work program will increase to US$18,300,000 if the Minimum Offering is achieved and US$49,600,000 if the Maximum Offering is achieved. To date the Company has secured three drilling rigs under long term contracts. These rigs are primarily under contract in connection with the drilling of the shallow gas prospects on the Akkulka Block. The Company anticipates that an additional tender will be carried out for the Kul-Bas Block work program. The Company also intends to actively pursue contracting a rig to enable it to undertake its drilling program on the Akkulka Block for deeper oil prospects.

On the development side, the Company plans to drill an infill well on North-East Kyzyloi in the last quarter of 2007. A further development well is expected to be drilled to the northeast of the Company's AKK04 well in late 2008 and an infill well is planned to be drilled to the south of the North-East Kyzyloi structure. On the exploration side, the Company plans to drill the AKK08 well next with operations commencing in May 2007 followed by the west-central Akkulka Block well (AKK09) which the Company also plans to commence drilling in May 2007. A further shallow exploration well is planned to be drilled by the Company later in 2007. The Company's exploration plan will continue with the drilling of ten shallow gas exploration wells on the Kul-Bas Block, with five wells planned to be drilled in 2007 and another five wells planned to be drilled in the first half of 2008. The Company expects to drill those exploration wells which are closest to the Bukhara-Urals pipeline and the nearby compressor station first. The Company also plans to begin drilling a deep exploration well on the Akkulka Block sometime in the third or fourth quarter of 2007, depending on financing and the results of the deep well tender which is planned to commence in the near future.

Due to the nature of the oil and gas industry, work programs are regularly reviewed with respect to the success of expenditures and other opportunities that become available. The Company's actual work program will vary depending upon a number of factors, including drilling success, availability of drilling equipment and assessment of newly acquired seismic data over the Company's exploration blocks. Accordingly, while the proposed work program described above reflects the Company's current expectation, the actual work program carried out by the Company may in fact differ from that set forth above. See *"Use of Proceeds"* and *"Risk Factors"*.

Kazakhstan Work Program

Kyzyloi Field — Gas Development

Construction on the 32 mile (51 km) 325 mm diameter pipeline, associated 114 mm diameter infield lines and compressor plant is ongoing, with the majority of the welding having been completed and pipe-laying progressing on schedule. Construction is expected to be completed by June 2007. Once completed, the pipeline will be tied-in to the main Bukhara-Urals pipeline carrying gas from Central Asia through Kazakhstan and into the Russian export system.

The existing production wells on the Kyzyloi Field, which have all been tested, are currently being prepared and first gas production is expected in late July 2007.

Akkulka Block

The 2006/2007 Akkulka Block exploration program is targeting new gas deposits and appraising existing discoveries in order to increase production rates and to tie-in to the Kyzyloi Field development. Five wells were planned to be drilled under the 2006/2007 program, of which two have been drilled as of the date hereof.

In 2006, the AKK06 well was drilled as an appraisal well of the AKK04 discovery that has flowed 8.8 MMcf/d (249 Mcm/d). In 2007, the AKK07 well was drilled to the southwest of the Kyzyloi Field to target a new deposit in that area.

A further three shallow exploration wells are currently planned to be drilled on the Akkulka Exploration Licence and Contract area, however, this number may increase depending on drilling results and on the results of the AKK06 and AKK07 wells, which have been drilled but have yet to be fully tested.

The three additional wells scheduled to be drilled are the AKK08, AKK09 and AKK10 wells.

The AKK08 well is targeting an area close to the North Kyzyloi Field discovery well G-17 and will be drilled as a step-out to this discovery.

The AKK09 well is targeting an upthrown sand play at Kyzyloi Sandstone level located between the central Akkulka AKK04 discovery well and the Kyzyloi Field.

The AKK10 well is targeting a slightly deeper play at 2,132 ft to 2,788 ft (650 m to 850 m) close to the AKK01 well location, where potential exists in the lower Paleogene prograding sandstones dipping basinwards in the "toeset" of the prograding shoreline. This play has yet to be fully tested, however, anomalous bright zones are noted on seismic.

Other wells may be drilled in the area depending on the results from the aforementioned wells and other mapping. These other wells will be part of the 2007/2008 drilling program.

Kul-Bas Block

A number of identified shallow seismic anomalies similar to those in the Akkulka Block have been mapped in the Kul-Bas Block. These include both Kyzyloi and Oligocene targets, and "toeset" plays similar to that being targeted by the AKK10 well.

A total of 15 amplitude anomalies similar to those in the Kyzyloi Field and the Akkulka Block have been mapped on the Kul-Bas Block as at the date hereof by the Company.

This 2007/2008 drilling program in the Kul-Bas Block is dependent on raising money in the Treasury Offering. Five wells will be drilled if the Minimum Offering is achieved and a further five wells will be drilled dependent on raising additional funds to the Minimum Offering. The ten most prospective targets are planned to be drilled in 2007/2008 with an initial focus on wells in close proximity to the pipeline and infrastructure where tie-ins are relatively easy.

The Company expects that the cost for drilling the ten wells, which includes completions and testing will be approximately US$7,500,000.

The Company considers the deeper prospective horizons to be similar to those in the Akkulka Block, with the possible addition of a Carboniferous play in the northwest of the block, where sedimentary cover thins, source rock maturity and reservoir properties would most likely have been preserved. More work will be carried out to evaluate these deeper prospects.

Akkulka Block — Oil and Gas Exploration

The Company intends to use certain funds that may be raised pursuant to the Maximum Offering to drill a deep exploration well targeting a potentially significant Triassic oil and gas prospect. The Company expects that the total cost for this well will be approximately US$11,000,000.

The Company plans to commence drilling the first deep exploration well on the Akkulka Block in the third or fourth quarter of 2007, with expected total depth and testing being completed in Q1 2008. The predicted source rock is Triassic syn-rift lacustrine mudstones (similar to that which produces the waxy crude oils in the Mangyshlak area to the west), with lacustrine or continental sandstones being the reservoir. This well may also encounter the edge of a potentially large but riskier Jurassic onlap play.

Infrastructure Construction

Further tie-in pipelines and associated infrastructure is planned to be added in 2007 and 2008 as new discoveries are brought on line. Additional compression will be required for the second stage of development which is anticipated to be ordered in 2007.

The Company plans to allocate approximately US$1,000,000 to this infrastructure construction from the proceeds that may be raised pursuant to the Maximum Offering.

Tajikistan Work Program

Development

Further assessment is required before the Company commits to any development program in Tajikistan. However, initial development work will focus on rehabilitation on existing oilfields through workovers and installation of western equipment on existing wells.

The Company plans to allocate approximately US$1,500,000 from the proceeds that may be raised pursuant to the Maximum Offering for well rehabilitation in Tajikistan.

Seismic Acquisition

A regional seismic survey is planned over the Kulob region in western Tajikistan to firm up drilling prospects for 2008. The Company estimates that the cost for this seismic acquisition will be approximately US$1,500,000. The survey will be conditional on the Company raising the Minimum Offering.

Drilling

Several leads are already mapped in the Kulob area by Tajik geologists. One of these leads is the East Alimtai prospect which has been prepared for drilling. A more detailed assessment of the East Alimtai prospect will be carried out with the intention of spudding a well on this or a nearby prospect in early 2008. This is dependent on raising the Minimum Offering. The Company estimates that a deep well using a converted Ural-Mash rig would cost approximately US$11,000,000.

See "*Use of Proceeds*".

STATEMENT OF RESERVES DATA AND OTHER RELATED INFORMATION

Disclosure of Reserves Data

The Company engaged McDaniel to evaluate the Company's natural gas reserves as at March 31, 2007, and in connection therewith, McDaniel prepared the McDaniel Reserve Report evaluating the Company's natural gas reserves as at March 31, 2007.

The reserves data set forth below is based upon evaluations by McDaniel with an effective date of March 31, 2007. The reserves data summarizes the natural gas reserves of the Company and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which the Company believes is important to the readers of this information. McDaniel was engaged by the Company to provide evaluations of proved, probable, and possible reserves.

All of the Company's reserves are located in Kazakhstan.

In preparing the McDaniel Reserve Report, basic information was obtained from Tethys, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the McDaniel Reserve Report are based was obtained from public records, other operators and from McDaniel non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by McDaniel as represented.

Estimated future net revenue based on the McDaniel Reserve Report is presented in U.S. dollars. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs (other than Kazakhstan-related general and administrative costs) and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company's properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual natural gas reserves may be greater than or less than the estimates provided herein.

The Report on Reserves Data by McDaniel in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 appear on pages C-1 and C-2 of this prospectus, respectively.

Summary of Oil and Gas Reserves
As of March 31, 2007
Constant Prices and Costs

Reserves Category	Reserves Natural Gas Gross (MMcf)	Reserves Natural Gas Net (MMcf)
PROVED		
Developed Producing	—	—
Developed Non-Producing	26,526	25,995
Undeveloped	12,701	12,447
TOTAL PROVED	39,227	38,442
PROBABLE	26,577	26,046
TOTAL PROVED PLUS PROBABLE	65,804	64,488
POSSIBLE	21,735	21,300
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	87,539	85,788

Constant Prices and Costs
Net Present Value of Future Net Revenue
As of March 31, 2007

Reserves Category	Before Income Taxes Discounted at (%/year)				After Income Taxes Discounted at (%/year)			
	0	5	10	15	0	5	10	15
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
PROVED								
Developed Producing	—	—	—	—	—	—	—	—
Developed Non-Producing	13,257	11,824	10,672	9,730	12,997	11,622	10,512	9,602
Undeveloped	12,833	10,207	8,227	6,709	9,669	7,678	6,175	5,023
TOTAL PROVED	26,089	22,032	18,899	16,439	22,666	19,299	16,687	14,625
PROBABLE	40,502	30,803	23,873	18,804	24,919	18,770	14,421	11,265
TOTAL PROVED PLUS PROBABLE	66,591	52,835	42,772	35,243	47,585	38,069	31,107	25,889
POSSIBLE	40,031	26,414	17,873	12,353	19,124	12,355	8,175	5,512
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	106,622	79,249	60,645	47,596	66,708	50,424	39,283	31,402

Total Future Net Revenue
(Undiscounted)
As of March 31, 2007
Constant Prices and Costs

Reserves Category	Revenue	Royalties	Operating Costs	Development Costs	Abandonment and Reclamation Costs	Future Net Revenue before Income Taxes	Taxes	Future Net after Revenue Income Taxes
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
TOTAL PROVED	45,823	916	10,358	8,109	350	26,089	3,424	22,666
TOTAL PROVED PLUS PROBABLE	105,525	2,111	19,814	16,384	625	66,591	19,007	47,585
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	154,513	3,090	25,492	18,584	725	106,622	39,914	66,708

Future Net Revenue
By Production Group
As of March 31, 2007
Constant Prices and Costs

Reserves Category	Production Group	Future Net Revenue before Income Taxes (discounted at 10%/year)
		(US M$)
TOTAL PROVED	Natural Gas	18,899
TOTAL PROVED PLUS PROBABLE	Natural Gas	42,772
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	Natural Gas	60,645

Summary of Oil and Gas Reserves
As of March 31, 2007
Forecast Prices and Costs

Reserves Category	Reserves Natural Gas Gross (MMcf)	Net (MMcf)
PROVED		
Developed Producing	—	—
Developed Non-Producing	26,526	25,995
Undeveloped	12,701	12,447
TOTAL PROVED	39,227	38,442
PROBABLE	26,577	26,046
TOTAL PROVED PLUS PROBABLE	65,804	64,488
POSSIBLE	21,735	21,300
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	87,539	85,788

Forecast Prices and Costs
Net Present Value of Future Net Revenue
As of March 31, 2007

Reserves Category	Before Income Taxes Discounted at (%/year) 0	5	10	15	After Income Taxes Discounted at (%/year) 0	5	10	15
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
PROVED								
Developed Producing	—	—	—	—	—	—	—	—
Developed Non-Producing	12,731	11,405	10,332	9,450	12,622	11,321	10,266	9,398
Undeveloped	14,359	11,353	9,099	7,380	10,868	8,582	6,867	5,559
TOTAL PROVED	27,090	22,759	19,431	16,830	23,490	19,903	17,134	14,958
PROBABLE	45,399	34,425	26,612	20,917	27,402	20,587	15,781	12,304
TOTAL PROVED PLUS PROBABLE	72,490	57,183	46,043	37,747	50,892	40,490	32,914	27,261
POSSIBLE	47,421	31,199	21,064	14,538	21,226	13,662	9,014	6,064
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	119,911	88,382	67,107	52,285	72,118	54,153	41,928	33,326

Total Future Net Revenue
(Undiscounted)
As of March 31, 2007
Forecast Prices and Costs

Reserves Category	Revenue	Royalties	Operating Costs	Development Costs	Abandonment and Reclamation Costs	Future Net Revenue before Income Taxes	Taxes	Future Net Revenue after Income Taxes
	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)	(US M$)
TOTAL PROVED	47,819	956	11,104	8,314	350	27,090	3,600	23,490
TOTAL PROVED PLUS PROBABLE	114,493	2,290	22,174	16,915	625	72,490	21,598	50,892
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	172,512	3,450	29,188	19,238	725	119,911	47,792	72,118

Future Net Revenue
By Production Group
As of March 31, 2007
Forecast Prices and Costs

Reserves Category	Production Group	Future Net Revenue before Income Taxes (discounted at 10%/year)
		(US M$)
TOTAL PROVED	Natural Gas	19,431
TOTAL PROVED PLUS PROBABLE	Natural Gas	46,043
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	Natural Gas	67,107

Notes:

(1) Columns may not add due to rounding.

(2) **"Reserves"** are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to degree of certainty associated with the estimates.

(3) "**Proved**" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. At least 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves is the targeted level of certainty.

(4) "**Probable**" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

(5) "**Possible**" reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

(6) "**Developed**" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

(7) "**Developed Producing**" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

(8) "**Developed Non-Producing**" reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

(9) "**Undeveloped**" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g. when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

Summary of Pricing Assumptions
As of March 31, 2007
Constant Prices and Costs

Year	Brent Crude Oil Price US$/bbl	Existing Gas Sales Contract Natural Gas Price US$/Mcf	Additional Gas Sales Contract Natural Gas Price US$/Mcf
2007 (9 mos)	68.40	0.79	2.25
2008	68.40	0.79	2.25
2009	68.40	0.79	2.25
2010	68.40	0.90	2.25
2011	68.40	0.94	2.25
2012	68.40	0.94	2.25
2013	68.40	1.01	2.25
2014	68.40	1.01	2.25
2015	68.40	1.08	2.25
2016	68.40	1.08	2.25
2017	68.40	1.16	2.25
2018	68.40	1.16	2.25
2019	68.40	1.23	2.25
2020	68.40	1.23	2.25
2021	68.40	1.30	2.25
2022	68.40	1.30	2.25
2023	68.40	1.37	2.25
2024	68.40	1.37	2.25
2025	68.40	1.44	2.25
2026	68.40	1.44	2.25

Summary of Pricing and Inflation Rate Assumptions
As of March 31, 2007
Forecast Prices and Costs

Year Forecast	Oil: Brent Crude Oil Price (US$/bbl)	Natural Gas: Existing Gas Sales Contract Gas Price (US$/Mcf)	Natural Gas: Additional Gas Sales Contract Gas Price (US$/Mcf)	Inflation Rate %/year
2007 (9 mos)	62.50	0.79	2.25	2.0
2008	61.20	0.79	2.30	2.0
2009	59.80	0.79	2.34	2.0
2010	58.40	0.90	2.39	2.0
2011	56.80	0.94	2.44	2.0
2012	58.00	0.94	2.49	2.0
2013	59.10	1.01	2.54	2.0
2014	60.30	1.01	2.59	2.0
2015	61.50	1.08	2.64	2.0
2016	62.70	1.08	2.69	2.0
2017	64.00	1.16	2.75	2.0
2018	65.30	1.16	2.80	2.0
2019	66.60	1.23	2.86	2.0
2020	67.90	1.23	2.92	2.0
2021	69.30	1.30	2.97	2.0
2022	70.69	1.30	3.03	2.0
2023	72.10	1.37	3.09	2.0
2024	73.54	1.37	3.16	2.0
2025	75.01	1.44	3.22	2.0
2026	76.51	1.44	3.28	2.0
Thereafter	2.0%	2.0%	2.0%	2.0

Additional Information Relating to Reserves Data

Undeveloped Reserves

Based on the forecast prices and costs evaluation carried out by McDaniel and reflected in the McDaniel Reserve Report, there are 12,447 MMcf (352 Mcm) of proved undeveloped reserves of natural gas (net) and 26,046 MMcf (738 Mcm) of probable reserves of natural gas attributable to the Company as of March 31, 2007. Undeveloped reserves are those reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

The Company is currently in the process of finalizing its plans with regard to developing its proved undeveloped and probable undeveloped reserves. Within the next two years, the Company anticipates drilling three to five wells to develop these reserves and also anticipates adding additional compression to the facilities. There can be no assurance that the Company will complete its plans to drill these wells, or that the drilling of these wells will result in the development of these reserves. See "*Proposed Work Program*".

Significant Factors or Uncertainties

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represents estimates only. In general, estimates of economically recoverable gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as test rate production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material.

Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for gas, curtailments or increases in consumption by gas purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs. BNM has a contractual obligation to sell approximately 30 Bcf (0.85 Bcm) of gas at prices substantially below those that could be realized but for this contractual obligation. See "*Narrative Description of the Business — Marketing*".

Future Development Costs

The following table sets forth the estimated future development costs based upon the McDaniel Reserve Report.

(US$000s)	Total Proved Estimated Using Constant Prices and Costs	Total Proved Estimated Using Forecast Prices and Costs	Total Proved Plus Probable Estimated Using Forecast Prices and Costs	Total Proved Plus Probable Plus Possible Estimated Using Forecast Prices and Costs
2007	600	600	1,300	1,300
2008	1,750	1,785	4,335	4,335
2009	3,025	3,147	6,190	6,763
2010	100	106	1,963	3,714
2011	100	108	216	216
Total for all years undiscounted	5,875	6,084	14,681	17,004
Total for all years discounted at 10% per year	4,953	5,116	12,239	14,013

Note:

(1) Table may not add due to rounding.

Future development costs are expected to be funded by internally generated cash flow from production and/or through equity financing or debt issuance. Additionally, this would be supplemented by proceeds of the Treasury Offering.

Other Oil and Gas Information

Oil and Gas Properties and Wells

The Company's assets are presently located in three contiguous blocks in an area of Kazakhstan to the west of the Aral Sea, in a geological area known as the North Ustyurt basin, which lies on the southeastern edge of the prolific Pre-Caspian sedimentary basin. As a result of its interest in BNM, Tethys currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). BNM also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area, and a 100% interest in the Kul-Bas Exploration and Production Contract area. All of the Company's properties are onshore.

The Kyzyloi Field was first discovered in 1966 with additional seismic being shot in 1996. It was not previously developed due to the then low gas price. An increase in the gas price has now made it possible to extract the gas commercially.

Under the Akkulka Exploration Licence and Contract, the Company has until September 2007 to file and establish any commercial discoveries which will then be incorporated into a production contract.

The Company is currently constructing a 32 mile (51 km) 325 mm diameter pipeline from its Kyzyloi Field to tie-in to the Bukhara-Urals pipeline, which is a gas trunkline transporting gas from Central Asia into Russia and on into Europe.

The following table sets forth the number of wells in which the Company held a working interest as at March 31, 2007:

	Natural Gas			
	Producing		Non-Producing(1)	
	Gross	Net	Gross	Net
Kyzyloi Field	0	0	7	7
Akkulka Block	0	0	1	1
Total	0	0	8	8

Note:

(1) "**Non-Producing**" wells means wells which are not producing but which are considered capable of production.

See *"Narrative Description of the Business"* and "*Property Descriptions"*.

Properties with No Attributed Reserves

The undeveloped land holdings of the Company consist of the Kul-Bas Exploration and Production Contract area in Kazakhstan which totals approximately 2,688,695 acres (10,881 km^2) (gross and net) in area. The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005 and is valid for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six year exploration period and a 19 year production period. 20% of the contract area is to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period, except with respect to areas in which a commercial discovery is made as this contract grants Kul-Bas an exclusive right to proceed to the production period where it has made a commercial discovery. The work program on this area amounts to a total of approximately US$7,700,000 over the initial six year exploration period, with a US$160,000 commitment in 2006 (US$550,000 of which has been spent as of March 31, 2007), a US$940,000 commitment for 2007 and a US$3,000,000 commitment for 2008.

The royalty payable can range from 4% to 6% depending on the size of the deposit and will be set 30 days before production commences. Pursuant to the contract, Kul-Bas must also reimburse the Kazakh government for approximately US$3,200,000 in equal portions on a quarterly basis over the first ten years of any commercial production. In addition, 1% of the total investment incurred during exploration and 0.1% of the total amount of operational costs during production are payable by Tethys for the training of Kazakh specialists, and US$10,000 per year for socio-economic development programs. See "*Property Descriptions — Kul-Bas Block and Kul-Bas Exploration and Production Contract*".

Forward Contracts

BNM is a party to a gas sales agreement. BNM and Gaz Impex entered into the Gas Supply Contract on January 5, 2006. Gaz Impex is one of the leading independent gas marketing companies in Kazakhstan and is currently involved in gas purchase and supply contracts both within Kazakhstan and in surrounding countries. See "*Narrative Description of the Business — Marketing*".

See "*Management's Discussion and Analysis — Liquidity and Capital Resources*", "*Management's Discussion and Analysis — Financial Instruments and Other Instruments*" and note 16 "*Commitments and Contingencies*" to Tethys' consolidated financial statements included in this prospectus and "*Narrative Description of the Business*" for further description of the forward contracts and future commitments of the Company.

The nature of the Company's natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Abandonment and Reclamation Costs

The Company may become responsible for costs associated with abandoning and reclaiming wells, processing facilities and pipelines which it may use for production of hydrocarbons. Abandonment and reclamation of such facilities and the costs associated therewith is often referred to as "decommissioning". The Company pays money into an abandonment fund and the costs of decommissioning are expected to be paid from these proceeds. Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long-lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The Company plans to make contributions of 1% of its total annual revenue after the payment of applicable royalties into a liquidation fund. This amount of contributions is deemed to be sufficient by the Company to cover any decommissioning.

The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment and site restoration on oil and gas properties. The Company uses an estimate of US$25,000 per well for each well and an accretion cost is added each year.

Accretion expense is calculated by multiplying the balance of the recorded liability by the Company's credit-adjusted discount rate each year, and is simply the amortization of the present value discount associated with the asset retirement obligation's initial recording. For the year ended December 31, 2006, the balance was US$416,000 and the accretion was US$35,000 for a total of US$451,000.

Tax Horizon

The tax system which applies to the project is based on a combination of royalty, corporate income tax and excess profit tax. Capital equipment and wells are depreciated at various rates, and corporate income tax is applied at the rate of 30% on the taxable income. For contracts/licences issued before January 1, 2004, excess profit tax was calculated based on the rolling internal rate of return ("**IRR**") of the project. If the IRR was less than 20%, no excess profit tax was payable and a sliding scale then applied with increasing rates of excess profit tax up to 30% if the project IRR was greater than 30%. Excess profit tax was then charged at the appropriate rate on the after tax income. The tax code was changed on January 1, 2004 with respect to calculation of excess profit tax. Since then, excess profit tax is calculated using as the tax base the net income of a subsurface user in excess of 20% of tax deductions. The tax base can be adjusted for the expenditures actually incurred for education of Kazakh workers and/or for increase of fixed assets, but not exceeding 10% of the taxable amount. The tax rates are established on a sliding scale ranging from 10% to 60%, using the after tax profit as the tax base, and depend on the net income and deductions of a subsurface user. All taxes, including excess profit tax are paid separately with respect to each subsurface use contract which are "grandfathered" dependent on when the contract (or licence) was issued.

BNM is subject to corporate income tax and excess profit tax in Kazakhstan. The Company expects that no corporate income tax will due be in 2007, however, this corporate income tax will become due on any net income at a rate of 30%. An excess profit tax may also become due in the future and can range from an additional 0% to 30%.

Costs Incurred

The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2006:

	(US$000s)
Exploration drilling and completions	3,157
Development drilling and completions	8,683
Total capital expenditures	11,840

Exploration and Development Activities

No development wells were completed during the Company's 2006 financial year.

The following table summarizes the gross and net exploration wells in which the Company participated during the year ended December 31, 2006. This well is located in Kazakhstan.

	Exploration		Total	
	Gross	Net	Gross	Net
Exploration gas wells	1.0	1.0	1.0	1.0
Success rate	100%	100%	100%	100%

See "*Narrative Description of the Business*", "*Property Descriptions*" and "*Proposed Work Program*" for a discussion of the Company's development and exploration plans.

Production Estimates

The following table sets forth the volume of production estimated by the McDaniel Reserve Report for the year ending December 31, 2007:

	Natural Gas (MMcf)
Total Proved	4,045
Total Proved plus Probable	4,045

The following table sets forth the volume of production estimated by the McDaniel Reserve Report for the Kyzyloi Field, being a field that accounts for 20% or more of the estimated production disclosed under the above table, for the year ending December 31, 2007:

	Natural Gas (MMcf)
Total Proved	4,045
Total Proved plus Probable	4,045

Environment

The Company's social responsibility strategies include environmental compliance and the promotion of fundamental relationships with local communities in the areas in which the Company operates and the provincial and national authorities of such areas.

The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and pursuant to best industry practices. At present, the Company believes that it meets all applicable environmental standards and regulations, in all material respects, and has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations.

Community Relations

Local employment is promoted by identifying, providing and supporting job opportunities within the Company's operating areas. This has been well received by the local communities and has contributed to maintaining a positive relationship in and around the Company's areas of operation.

The Company contributes part of its annual expenditure to education and training programs in the regions in which it operates.

PROSPECTIVE RESOURCES

The Company engaged the services of McDaniel to evaluate the prospective resources of 49 oil and gas prospects in the areas that are subject to the Contracts. McDaniel's evaluation is as at March 31, 2007 and is contained in the Resource Report. Prospective resources are those quantities of natural gas and oil that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. As a result of the lack of sufficient exploration drilling, the prospective resources estimated and included in the Resource Report cannot be classified as reserves pursuant to NI 51-101.

The Resource Report includes an evaluation of both prospects and leads, with the distinction between these subcategories of prospects being the current stage of technical evaluation. The different stages of technical evaluation relate to the amount of geologic, geophysical, engineering and petrophysical data, as well as the quality of available data. A prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. For a prospect, sufficient data and analyses exist to identify and quantify the technical uncertainties, determine reasonable ranges of geologic chance factors, engineering and petrophysical parameters, and estimate prospective resources. A lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be considered a prospect. A lead may or may not be elevated to prospect status depending on the results of additional technical work.

The Company's prospective resources in these areas that are subject to the Contracts have been evaluated by McDaniel. A summary of the prospective crude oil and natural gas resources for each of the Contract areas, which contains estimates set forth in the Resource Report, is set out below and, based on the mean unrisked gross figures, total 294 MMbbl of oil plus 2,704 Bcf (76.6 Bcm) of natural gas, or 744 MMBOE. In addition, the following estimates can be derived from the Resource Report (all based on mean unrisked gross figures). The original gas initially in place ("**OGIIP**") in the shallow horizon prospects (i.e. Paleocene, Eocene and Oligocene) is 470 Bcf (13.3 Bcm) and the prospective resources are calculated as 326 Bcf (9.23 Bcm). In the deeper Triassic-lower Jurassic prospects, the Resource Report states that one of the uncertainties with this play is the type of hydrocarbon that would be encountered and the resources reported are based on the assumption of a 50% chance of encountering oil and a 50% chance of encountering non-associated gas. It can be calculated from the information presented in the Resource Report that the stock tank oil initially in place ("**STOIIP**") on this basis would be 1,468 MMbbl and the OGIIP would be 4,879 Bcf (138.1 Bcm), giving unrisked mean resources of 294 MMbbl of oil and 2,378 Bcf (67.4 Bcm) of gas (690 MMBOE).

The key conclusions of the Resource Report were as follows:

- There are a large number of prospects in several horizons that have been identified in the Contract areas.
- A large number of these prospects are relatively shallow and would be relatively inexpensive to drill.
- Although a large percent of the prospective resources are interpreted to be natural gas, BNM has established natural gas gathering and transmission infrastructure in the area that will allow successful prospects to be put on production within a relatively short period of time.
- Most of the prospective resources are assigned to deep prospects that will be much more expensive to drill than the shallow prospects and have higher risk but they have the potential for much larger resources per discovery.

A summary of the prospective crude oil and natural gas resources for each of the Contract areas is presented below:

	Prospective Resources at March 31, 2007(1)(2)(3)				
	Low Estimate(4)(5)	Best Estimate(4)(6)	High Estimate(4)(7)	Unrisked Mean(8)	Risked Mean(8)
Kyzyloi Field Licence and Production Contract					
Crude Oil Resources, mbbl	—	—	—	—	—
Natural Gas Resources, MMcf	5,098	22,078	99,349	40,179	6,444
BOE Resources, mbbl	850	3,680	16,558	6,697	1,074
Akkulka Exploration Licence and Contract					
Crude Oil Resources, mbbl	33,390	103,873	324,488	145,858	11,938
Natural Gas Resources, MMcf	289,781	919,646	2,997,953	1,334,993	112,056
BOE Resources, mbbl	81,687	257,148	824,147	368,357	30,614
Kul-Bas Exploration and Production Contract					
Crude Oil Resources, mbbl	30,078	99,892	339,035	147,701	12,766
Natural Gas Resources, MMcf	252,588	865,650	3,089,534	1,328,468	131,341
BOE Resources, mbbl	72,176	244,167	853,957	369,112	34,656
Total Company					
Crude Oil Resources, mbbl	63,468	203,765	663,523	293,559	24,704
Natural Gas Resources, MMcf	547,468	1,807,375	6,186,835	2,703,640	249,841
BOE Resources, mbbl	154,712	504,994	1,694,662	744,165	66,344

Notes:

(1) Based on an arithmetic aggregation of the individual prospects.

(2) Each prospect has its own estimated probability of geological success.

(3) There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be economically viable or technically feasible to produce any portion of the resources.

(4) Low, best and high estimates follow the COGE Handbook Section 5 resources definitions and guidelines for prospective resources. The resource range presented above is "unrisked" meaning that it is valid in the event of successfully finding hydrocarbons in each and every prospect. In this case, the possible range of recoverable resources would likely lie in the range between the low estimate and the high estimate.

(5) The low estimate reported is the P90 quantity derived from probabilistic analysis. This means that there is at least a 90% probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the low estimate. This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation.

(6) The best estimate is based upon the expected value, based upon the outcome of a probabilities analysis. This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term is a measure of central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean).

(7) The high estimate is the P10 quantity. This means that there is at least a 10% probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the high estimate. This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation.

(8) "**Unrisked Mean**" resources are calculated by taking the mean of each resource value within the range of probabilistic analysis. "**Risked Mean**" resources are calculated based on the probability of geological success applied to the Unrisked Mean resource estimates.

There can be no assurance that the prospects identified in the Resource Report will be developed or will result in successful discoveries and the timing of drilling of these prospects is uncertain.

There are numerous uncertainties inherent in estimated resources, including many factors beyond the Company's control, and no assurance can be given that the indicated level of resources or recovery of natural gas and crude oil will be realized. In general, estimates of recoverable natural gas and crude oil resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effect of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable natural gas and crude oil, the classification of such resources based on risk of recover, prepared by different engineers or by the same engineers at different times, may vary substantially.

INDUSTRY CONDITIONS

Kazakh Market

According to the EIA, Kazakhstan has the largest recoverable crude oil reserves in the Caspian Sea region (which includes Azerbaijan and Turkmenistan) and its production accounts for almost two-thirds of the approximately 2,000,000 bopd currently being produced in the region. Kazakhstan's growing petroleum industry accounts for 30% of the country's GDP and over half of its export revenues. Kazakhstan, with its export options, could become a major energy producer and exporter over the next decade. Oil production averaged approximately 1.29 million bopd in 2005 and is expected to significantly grow in the coming years, according to the EIA. The Kashagan field, the largest oilfield outside of the Middle East and the fifth largest in the world (in terms of reserves), is located off the northern shore of the Caspian Sea, near the city of Atyrau. Although the field is still being appraised, in June 2002, the consortium operating the field, the Agip Kazakhstan North Caspian Operating Company — Agip KCO (formerly known as OKIOC), estimated the field's recoverable reserves at 7 billion to 9 billion bbl of oil, with further potential recoverable reserves totalling 9 billion to 13 billion bbl of oil with the use of secondary recovery techniques (for example, gas injection) . The Kazakh government has targeted an increase to production levels of 3.5 million bopd by 2015. According to KazMuniaGas, Kazakhstan's state oil and gas company, total investment levels in offshore areas of the Caspian Sea are expected to rise from US$3.8 billion for 2003 to 2005 to US$16.8 billion for 2011 to 2015.

Kazakhstan has sizeable proven natural gas reserves estimated between 65 TCF to 100 TCF (1.84 TCM to 2.83 TCM) according to the EIA. Most of country's natural gas reserves are located in the western portion of the country. Development of internal gas distribution lines connecting the northern and southern areas of the country will help with the development of these natural gas reserves. Natural gas production in Kazakhstan has increased significantly since 1999. In August 1999, the Kazakh government passed a law requiring subsoil users (such as oil companies) to include natural gas utilization projects in their development plans. As a result, according to the EIA, natural gas production has been on a steady increase since 1999, and by 2000 it eclipsed its pre-independence production levels. According to the EIA, the MEMR has a 15-year strategy whereby the country plans to increase natural gas production to 1.7 TCF (0.048 TCM) by 2010 (4,658 Bcf per day or 132 Bcm per day) (approximately half for internal consumption and half for export).

Management of the Company considers the overall investment climate in Kazakhstan to be very positive. In the recent past, some of the world's largest new discoveries have been made in Kazakhstan (for example, in the Kashagan field with estimated recoverable reserves of up to 18 billion bbl of oil), and the area has significant additional potential for future exploration and exploitation. Kazakhstan now hosts many international and domestic oil and gas companies, some of which are among the world's largest energy companies, including Chevron Corporation, ExxonMobil Corporation, Total, Eni S.p.A. and British Gas. In addition, Kazakhstan is a signatory to the Extractive Industries Transparency Initiative promoted by the UK government. This initiative supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. BNM is also a signatory to this initiative which also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. Accordingly, management of the Company believes that Kazakhstan has developed a well-established legislative framework for the exploitation of its significant oil and natural gas potential.

If a commercial discovery is made, then reserves are determined and a production contract is negotiated. The owner of an exploration contract has the exclusive right to negotiate for a production contract within the exploration area. This includes negotiating, among other things, the level of government royalty to be applied (which can range from 2% to 6% depending on the size of the deposit), the minimum work program for development, a schedule for the payment of back-costs and social payments. A typical production contract will be for a period of 10 to 25 years with extensions, if mutually agreed by the contractor and the competent authority, provided all obligations under the production contract have been met.

The tax system which applies to the project is based on a combination of royalty, corporate income tax and excess profit tax. Capital equipment and wells are depreciated at various rates, and corporate income tax is applied at the rate of 30% on the taxable income. For contracts/licences issued before January 1, 2004, excess profit tax was calculated based on the rolling IRR of the project. If the IRR was less than 20%, no excess profit tax was payable and a sliding scale then applied with increasing rates of excess profit tax up to 30% if the project IRR was greater than 30%. Excess profit tax was then charged at the appropriate rate on the after tax income. The tax code was changed on January 1, 2004 with respect to calculation of excess profit tax. Since then, excess profit tax is calculated using as the tax base the net income of a subsurface user in excess of 20% of tax deductions. The tax base can be adjusted for the expenditures actually incurred for education of Kazakh workers and/or for increase of fixed assets, but not exceeding 10% of the taxable amount. The tax rates are established on a sliding scale ranging from 10% to 60%, using the after tax profit as the tax base, and depend on the net income and deductions of a subsurface user. All taxes, including excess profit tax, are paid separately with respect to each subsurface use contract which are "grandfathered" dependent on when the contract (or licence) was issued.

See "*Risk Factors*".

Tajik Market

The legislative framework for oil and gas exploration and development projects is not yet well developed in Tajikistan. To date, oil and gas concessions have been owned and operated primarily by the government under a legislative regime similar to the Soviet regime whereby a licence would be issued and the operator would be responsible for payment of profit taxes and local taxes. Apart from the recently adopted Production Sharing Law, the Tajik legislation which regulates the oil and gas sectors includes the *Law on Mineral Resources (1994)*, the *Law on Energy (2000)* and the *Government Decree on Concluding Contracts for Use of Bowels (2001)*. In addition, the *Law on Foreign Investments (1992)* gives foreign investors significant privileges including value added tax exemptions and profit tax holidays and reductions. In addition, foreign companies can establish wholly-owned enterprises in Tajikistan, foreign currency is freely convertible and the tax and customs codes have been simplified as of 2005 by taking into consideration international legislation.

The newly adopted Production Sharing Law establishes the framework for production sharing in mineral extraction, with the investor providing the capital for the venture and with the product being split between the investor and the government of Tajikistan. Pursuant to the Production Sharing Law, the maximum level of cost recovery shall not exceed 70% of production, however, the law appears to give significant flexibility to the negotiation of commercial terms between an investor and the government of Tajikistan in any PSC. For instance, an investor has the right to export their production, and to utilise government owned infrastructure. Furthermore, the Production Sharing Law also provides for contract stability and for protection of investor rights. Although this law is an important step in the right direction with regard to oil and gas legislation, it is new, relatively untested and leaves much to be negotiated in the PSC itself. As a result, it will be important to have the PSC agreed to and approved by all necessary government bodies in order to ensure the smooth operation of the PSC within the available legislative framework.

There is currently little foreign investment in the Tajik oil and gas sector, however, the current and more stable political situation together with the recently adopted Production Sharing Law may open up the market. In early 2007, the Russian gas company Gazprom was granted a licence to explore and develop the Sargazon gas field (estimated recoverable 1.06 TCF (0.03 TCM) and the Rengan gas field (estimated recoverable 1.24 TCF (0.035 TCM) in southern Tajikistan (Source: *Alexander's Oil and Gas Connections, January 1, 2007*). Tethys believes it is one of the first western companies to progress an oil and gas exploration and production project in the country.

As current oil production in Tajikistan is small, the infrastructure is under-developed. Current oil production in the south is refined at small local topping plants, while in the north, there is access to the refineries in the Ferghana valley which are reported to have a capacity of some 175,000 bopd. Rail routes exist from the Kulob area through both Dushanbe and Qurghonteppa into the Uzbek rail network, and extend into the overall Central Asian rail complex. Oil discovered in the Kulob area would likely be transported initially by rail to either the Ferghana refineries or the recently refurbished refinery (built in the 1990s) located at Bukhara in Uzbekistan. The refinery at Bukhara has a capacity of 50,000 bopd, and is currently being expanded to a capacity of 100,000 bopd, and can refine both oil and condensate.

With regard to natural gas, the infrastructure is somewhat better developed. Tajikistan is connected to the Central Asia gas grid and currently receives the majority of its gas through this grid. Prior to independence, Tajikistan consumed approximately 200 MMcf/d (5.66 MMcm/d) of gas. However, with the economic decline which occurred during and after a civil war that followed the break-up of the Soviet Union, the current consumption is presently much lower at approximately 116 MMcf/d (3.29 MMcm/d) (Source: *Alexander's Oil and Gas Connections, January 1, 2007*). Industry is the major user and with access to domestically produced gas, the Company expects consumption to increase. Major users include the Tadaz aluminium plant, the Azot fertilizer plant and the Tojikcement cement production factory. Current prices for natural gas (most of which is currently imported from Uzbekistan) range from approximately US$3.65 to US$3.85 per Mcf (US$129 to US$136 per Mcm) (Source: *Tajik Ministry of Economy Development and Trade, January 12, 2007*). In the event of a large gas discovery, possible export options would include export through the Central Asian system into Uzbekistan and continuing either through one of the major trans-regional pipeline systems such as Bukhara-Urals or Central Asia centre and into the Russian-European export system. Alternatively, gas could be routed through the Tashkent-Bishkek-Almaty system into Kazakhstan and potentially onwards into the Chinese market. The Company expects that following either option through Kazakhstan would potentially further develop Tethys' niche in the rapidly growing Kazakhstan natural gas market and would open further opportunities for the development of its business. An additional alternative route for exporting a substantial amount of gas may be the planned Trans-Afghan pipeline which, if completed, will take Central Asian gas to Pakistan and India (Source: *Heritage Foundation, 2006*).

See "*Risk Factors*"

Trends

Kazakhstan has significant oil and natural gas reserves with proven hydrocarbon reserves estimated at between 9 billion and 40 billion bbl of oil and 65 TCF to 100 TCF (1.84 TCM to 2.83 TCM) of natural gas according to the EIA. By 2020, the government aims for Kazakhstan to become one of the top ten oil and gas exporters in the world. In the recent past, some of the world's largest new discoveries have been made in Kazakhstan. Kazakhstan's well-developed oil and gas legislative framework has attracted many of the world's largest energy companies and may continue to attract international attention into the future.

In Tajikistan, the oil and gas industry is highly undeveloped. However, the newly adopted Production Sharing Law establishing the framework for production sharing in mineral extraction coupled with a more stable political situation may open up the market and induce investment into exploration and production.

Taxes, Royalties and Contracts

The oil and gas legislative framework in Kazakhstan is well developed with established procedures. Kazakhstan has two types of subsurface users' tax, the production sharing tax and the excess profit tax. The production sharing tax applies only to offshore projects and consists of bonus payments (signature and commercial discovery), sharing of the production, a "top up" tax to ensure the state's take is no less than the statutory minimum, environmental fees and other fees, taxes and payments. The excess profit tax consists of bonus payments (signature and commercial discovery), royalties rates that range from 2% to 6% depending on production levels, rent tax on exports and range from 0% to 33%, excise tax, land tax, property tax, environmental fees and other fees, taxes and payments. In addition to the two tax structures above, Kazakhstan also taxes users with corporate income tax. See "*Risk Factors — Risk Factors Related to the Republic of Kazakhstan — Taxation Risks and Issues*".

In Tajikistan, the legislative framework for oil and gas exploration and development projects is not yet well developed. To date, oil and gas concessions have been owned and operated primarily by the government under a legislative regime similar to the Soviet regime whereby a licence would be issued and the operator would be responsible for payment of profit taxes and local taxes. Apart from the recently adopted Production Sharing Law, the Tajik legislation which regulates the oil and gas sectors includes the *Law on Mineral Resources (1994)*, the *Law on Energy (2000)* and the *Government Decree on Concluding Contracts for Use of Bowels (2001)*. In addition, the *Law on Foreign Investments (1992)* gives foreign investors significant privileges including value added tax exemptions and profit tax holidays and reductions. The Company plans its activities in Tajikistan to be carried out under a PSC and as such the taxation framework would be agreed as part of these negotiations. The recently adopted Law on Production Sharing should provide the basis for this.

Environmental Regulation

In Kazakhstan, the Company abides by the *Law on Environmental Protection Kazakh SSR (1991)*. This is the main environmental protection law in Kazakhstan and it, among other things, establishes state ownership of natural resources, including land, mineral resources and water, and sets out a legislated environmental assessment process for proposed development projects.

In Tajikistan, the Company is not aware of any specific environmental legislation governing oil and gas exploration activities, however, if and when such legislation is implemented, the Company expects that it is likely to follow Soviet norms with the Tajik Ministry of the Environment being responsible for the environmental assessment of operations and with the contractor being obliged to carry out regular environmental monitoring. The State Committee on Environmental Protection was established in 1989, which was reorganized in 1994 into the Ministry for Nature Protection of the Republic of Tajikistan. The environmental laws of Tajikistan with respect to subsurface users has yet to be written in relation to the proposed Production Sharing laws. The Company intends to strictly comply with such laws once they are implemented.

RELATIONSHIP WITH CANARGO ENERGY CORPORATION

CanArgo is a U.S. public oil and gas company, listed on the American Stock Exchange (AMEX) and the Oslo Stock Exchange in Norway, with operations primarily in Georgia. CanArgo's current principal focus is on its exploration and appraisal program in Georgia, and, given the significant capital required to develop the Tethys and its Kazakh assets, in 2006 the board of CanArgo made a decision to spin-out Tethys from CanArgo and to raise financing separately.

The Company was a wholly-owned subsidiary of CanArgo until the first quarter of 2007. CanArgo's interest will have been diluted to 29.7% prior to the Closing as a result of: (i) a private placement of 34,674,390 Pre-Split Ordinary Shares for approximately US$17,400,000 by Tethys which closed in January 2007; (ii) the acquisition of the 30% interest in BNM which Tethys did not own for 30,000,000 Pre-Split Ordinary Shares which was completed on May 9, 2007; (iii) the anticipated conversion of US$5,000,000 principal amount of the CanArgo Notes by the holders thereof into 10,000,000 Pre-Split Ordinary Shares previously owned by CanArgo; and (iv) the anticipated conversion of US$10,000,000 senior secured notes of CanArgo into 20,000,000 Pre-Split Ordinary Shares previously owned by CanArgo. CanArgo has invested approximately US$22,296,000 into Tethys for development of its projects principally in Kazakhstan. All such funding was capitalized in 2006 and the Company currently has no borrowings outstanding, except for the Short-Term Loan which was utilised to progress activities on the Kyzyloi Field development, and will be repaid from the proceeds of the Treasury Offering.

Although the US$8,000,000 principal amount of the CanArgo Notes outstanding are, under their initial terms, convertible into common shares of CanArgo or Ordinary Shares owned by CanArgo (at the election of the holder), the holders of such notes have waived (subject to the execution of final documentation) their conversion right into Ordinary Shares owned by CanArgo.

Tethys was managed by CanArgo under a technical services and loan agreement dated September 16, 2003 (as amended on June 7, 2006) and until July 26, 2006, the Board of Directors consisted of only Dr. David Robson (also Chairman and Chief Executive Officer of CanArgo), Liz Landles (also Executive Vice President and Corporate Secretary of CanArgo) and Vincent McDonnell (also President and Chief Operating Officer of CanArgo). Such technical services and loan agreement will be terminated prior to the completion of the Treasury Offering.

Tethys and CanArgo have entered into arrangements to separate responsibilities of key management and to govern their relationship with respect to activities in their respective focus areas. An entirely separate technical, financial and administrative team has been established by Tethys in Kazakhstan, where the majority of the Tethys' staff is located. The financial, commercial and administrative team outside of Kazakhstan has also been split, with a separate Chief Financial Officer and Executive Vice President, Corporate Development and Chief Commercial Officer and with a separate Finance Manager to be appointed, as well as a separate head office.

Effective on or prior to the completion of the Treasury Offering, CanArgo and Tethys propose to make the following changes to their respective executive management groups:

- Vincent McDonnell (a current director of each of Tethys and CanArgo), will take up the position of Chief Executive Officer of CanArgo, replacing Dr. David Robson in this position, and will resign as a director of Tethys;
- Dr. David Robson will remain as Chairman of CanArgo, but in a non-executive role, while serving as the President, Chief Executive Officer and Chairman of the Board of Directors of Tethys; and

- Liz Landles will devote the majority of her time to her role as a director, Executive Vice President and Corporate Secretary of Tethys, while remaining Executive Vice President and Corporate Secretary of CanArgo.

See "*Directors and Executive Officers*" for a description of the Company's management.

As Tethys now operates independently of CanArgo, Tethys and CanArgo have entered into arrangements to separate responsibilities of key management and to address any conflicts of interest which may arise in respect of members of the Board of Directors and senior managers of Tethys who are also members of the board and/or senior managers of CanArgo. The AMI Agreement grants for a period of two years from the date of listing on an exchange, a priority right of access to projects in Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan to Tethys, and similar rights for CanArgo in Armenia, Azerbaijan, Belarus, Georgia, Turkey and Ukraine, while agreeing to work jointly (if desired), on projects in the remainder of the former Soviet Union and parts of the Middle East.

SELECTED FINANCIAL INFORMATION OF TETHYS

The following table sets out selected financial information for the Company as at December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006. This financial information has been derived from the audited consolidated financial statements of the Company appearing elsewhere in this prospectus. These results should also be read in conjunction with the disclosure under the heading "*Management's Discussion and Analysis*". The Company's financial statements are prepared in accordance with US GAAP. There are no material differences between US GAAP and Canadian GAAP as it relates to the presentation of the Company's financial statements.

	Year ended December 31,		
	2006	2005	2004
	(US$000s)		
Operating Revenue	—	—	—
Operating Expenses	—	—	—
Net Income (Loss)	(6,943)	(2,065)	(612)
Capital Expenditures	10,390	1,315	24
Net Income (Loss) per share (basic and diluted)(1)	(0.49)	(20.82)	(6.12)

	As at December 31,	
	2006	2005
	(US$000s)	
Balance Sheet Data:		
Total Assets	19,587	5,686
Cash and Working Capital (Deficiency)	434	(4,430)

Note:

(1) Prior to giving effect to the Share Consolidation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following information should be read in conjunction with the remainder of this prospectus, including the Company's audited consolidated financial statements and related notes appearing elsewhere in this prospectus and the selected financial information of the Company appearing under the heading "*Selected Financial Information of Tethys*". The financial statements presented and discussed herein are those of the Company. Before completion of the Offerings, CanArgo will legally and beneficially own 29.7% of the outstanding Ordinary Shares.

Certain information contained in this management's discussion and analysis of the Company and its financial condition constitute forward-looking statements. These statements relate to future events or to the future financial performance of the Company and involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. See "*Special Note Regarding Forward-Looking Statements*" and "*Risk Factors*".

Results of Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

	Year ended December 31,		
	2006	2005	% Change
		(US$000s)	
Financials			
Net profit (loss)	(6,943)	(2,065)	336
Capital expenditures	10,390	1,315	790
Total assets	19,587	5,686	344
Cash and working capital surplus (deficiency)	434	(4,430)	110

2006 and 2005 Highlights

- No revenue had been realized as of December 31, 2006.
- Capital expenditures totalled US$10,390,000 in 2006 compared to US$1,315,000 in 2005. In addition, at the December 31, 2006 year end, the Company had made prepayments of US$3,800,000 on further capital expenditures.
- The Company was due to list its ordinary shares on AIM in the second half of 2006 but this was aborted due to market conditions.

Net Profit (Loss)

Net loss of US$6,943,000 was recorded in 2006, an increase from US$2,065,000 in 2005. The increase in the loss generated in 2006 can be attributed to:

- Further expenditures on staff and facilities in pursuing the goal of gas production.
- The costs of borrowing funds to purchase capital equipment and to develop the business of the Company.
- The costs of an aborted listing of the Company's ordinary shares on AIM.

Capital Expenditures

Capital expenditures totalled US$10,390,000 in 2006 compared to US$1,315,000 in 2005.

In 2006, there were two principal areas of capital expenditure:

- The first was focused on the purchase and construction of the 32 mile (51 km) 325 mm diameter pipeline from the Kyzyloi Field to tie-in to the Bukhara-Urals pipeline, the associated 114 mm infield lines and compressor plant required to initiate gas production. Approximately US$4,700,000 had been spent on this project up to year end 2006 and it was anticipated that a further US$8,100,000 would be incurred in the first quarter of 2007 taking the total spending to US$12,800,000. Construction is ongoing with an estimated completion date of June 2007 and first production from the Kyzyloi Field to commence soon thereafter.
- The second area was on the Akkulka Block, where initially five exploration wells (AKK01, AKK02, AKK03, AKK04 & AKK05) were drilled for a total cost of US$3,600,000. An additional exploration well (AKK06), the drilling of which commenced in 2006, was completed in 2007 for a cost of US$200,000 (net of penalties). Two further wells, AKK07 and AKK08 were drilled in the first quarter of 2007 for a total cost of US$1,100,000.

During the 2005/2006 period, approximately US$2,000,000 was spent on testing and working over the wells in the Kyzyloi Field in anticipation of gas production.

Activity in the first half of 2007 will focus on bringing production on-line at the earliest opportunity with a target of gas beginning to flow in June 2007. Further capital expenditure in 2007/2008 will focus on drilling additional wells on the Kul-Bas Exploration and Production Contract area with 10 wells planned to be drilled at an approximate aggregate cost of US$7,500,000. The Company also plans to drill a deep exploration well on the Akkulka Block targeting an oil prospect at an estimated cost of US$11,000,000.

Revenue

On January 5, 2006, the Company's subsidiary BNM entered into the Gas Supply Contract with Gaz Impex relating to gas sales from the Kyzyloi Field. The Gas Supply Contract, which has a term until the earlier of June 13, 2014 and the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, is based on a take-or-pay principle and covers all gas produced from the Kyzyloi Field Licence and Production Contract area. Gas will be supplied to Gaz Impex at a tie-in point on the Bukhara-Urals gas trunkline approximately 32 miles (51 km) east of the Kyzyloi Field. The price of gas to be supplied at the tie-in point averages US$0.91 per Mcf (US$32 per Mcm) over the life of the contract, with Gaz Impex providing bank guarantees. First revenue will be realized after the construction and commissioning of the pipeline referred to in the "*Capital Expenditure*" section in this management's discussion and analysis and is expected to begin in the second half of 2007.

No revenue had been realized as at December 31, 2006.

Gas Production

An aggregate of 40 Mcf/d (1.18 Mcm/d) has been tested on the Kyzyloi Field and the Akkulka Block. The Company intends to achieve an initial production rate of 22 MMcf/d (623 Mcm/d).

Royalties

Royalties range from 2% to 6% under each of the Kyzyloi Field Licence and Production Contract and the Akkulka Exploration Licence and Contract and from 4% to 6% under the Kul-Bas Exploration and Production Contract depending on the production achieved. Payment of royalties is due to start one month after sales commence.

General and Administrative Expenses

General and administrative expenses in Kazakhstan increased 50% in 2006 to US$1,200,000 from US$800,000 in 2005, primarily caused by increases in local staffing costs and an increase in activity related to construction of the pipeline and drilling additional exploration wells. Elsewhere, the cost of borrowing increased from US$400,000 in 2005 to US$2,100,000 in 2006 while other general costs increased from US$900,000 in 2005 to US$3,900,000 in 2006 primarily as a result of a build-up in management resources and US$2,000,000 spent on the aborted listing of the Company's ordinary shares on AIM.

Loan Interest

On October 23, 2006, the Company capitalized an inter-company loan in the amount of US$22,296,000 from CanArgo into 69,000,000 Pre-Split Ordinary Shares that were issued to CanArgo Limited pursuant to such capitalization. Interest was previously accruing on the balance due to CanArgo at a rate of 10% per annum.

On September 7, 2006, Tethys completed the Short-Term Loan financing to fund its development activities in Kazakhstan. This loan will be repayable on a successful initial public offering of the ordinary shares of Tethys or in August 2008. Interest accrued at 10% per annum in 2006 and increased to 15% per annum beginning on January 1, 2007.

Depletion, Depreciation and Accretion

The charge for 2006 was US$32,000 compared to US$6,000 in 2005. The increase was due to the increased activity of the Company in 2006 and the increase in the Company's capital assets that were subject to depreciation.

Taxes

With losses being generated in both 2006 and 2005, there was no tax due in either year.

Year ended December 31, 2005 compared to year ended December 31, 2004

	Year ended December 31,		
	2005	2004	% Change
Financials (US$000s)			
Net profit (loss)	(2,065)	(612)	337
Capital expenditures	1,315	24	5,479
Total assets	5,686	454	1,252
Cash and working capital surplus (deficiency)	(4,430)	(1,081)	410

2005 and 2004 Highlights

On May 5, 2005, Tethys acquired through its then 70% subsidiary BNM, 100% of the charter capital of Kul-Bas, a limited liability partnership registered in Kazakhstan, for consideration of US$100,000. Kul-Bas had won the right to negotiate an exploration contract for the Kul-Bas Block, an unexplored area of approximately 2,750,000 acres (11,133 km^2) surrounding the Akkulka Block. In November 2005, Kul-Bas signed the Kul-Bas Exploration and Production Contract with the MEMR for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six year exploration period and a 19 year production period. The purchase price of Kul-Bas reflected the fair value of the unevaluated property and was allocated to unevaluated oil and gas properties.

On May 6, 2004, Tethys completed the acquisition, through its wholly-owned subsidiary TKL, of 70% ownership rights in BNM, a Kazakh registered limited liability partnership which has 100% rights to the Kyzyloi Field.

Net Profit (Loss)

Net loss of US$2,065,000 was recorded in 2005, an increase from US$600,000 in 2004. This increase reflected the costs associated with building up the Company in order for it to pursue its objectives in Kazakhstan.

Capital Expenditures

Capital expenditures totalled US$1,315,000 in 2005 compared to US$24,000 in 2005. The primary area of expenditure in 2005 was in the drilling of the initial shallow wells as part of the Akkulka Block exploration program.

Revenue

No revenue had been realized as at December 31, 2005.

Gas Production

There was no production in 2005 or 2004.

Royalties

Royalties range from 2% to 6% under each of the Kyzyloi Field Licence and Production Contract and the Akkulka Exploration Licence and Contract and 4% to 6% under the Kul-Bas Exploration and Production Contract depending on production achieved. Payment of royalties will start one month after sales commence.

General and Administrative Expenses

General and administrative expenses increased to US$1,700,000 in 2005 from US$400,000 in 2004, primarily caused by a general increase in local staffing costs and an increase in activity related to developing the business of the Company.

Depletion, Depreciation and Accretion

The charge for 2005 was US$6,000 compared to nil in 2004, as no assets were subject to depreciation in 2004.

Impairment Expense

There was no impairment expense in either 2005 or 2004.

Taxes

With losses being generated in both 2005 and 2004 there was no tax due in either year.

Liquidity and Capital Resources

As at December 31, 2006, the Company had loan debt of US$5,000,000 and a working capital surplus, including cash, of US$4,600,000. In January 2007, the Company closed a private placement of its ordinary shares for gross proceeds of approximately US$17,400,000.

Short-Term Loan

On September 7, 2006, the Company completed the Short-Term Loan financing to fund its development activities in Kazakhstan. The funds from the Short-Term Loan were used primarily for the purchase of pipeline, compressors and related equipment and services for the Kyzyloi Field development. This financing took the form of the issue of US$5,000,000 senior secured notes in Tethys, redeemable on August 31, 2008. These notes are repayable immediately after listing on an exchange, and bear interest at the rate of 10% per annum for the period up to the date of listing of the Company's ordinary shares on an exchange.

Under the terms of the Short-Term Loan, the noteholders are entitled to receive additional consideration for the advance of the loan in the form of warrants to subscribe for ordinary shares in the Company at the closing of the Treasury Offering or 90 days following the date of the first commercial sale of hydrocarbons by the Company. The two lenders have opted to receive warrants on closing of the Treasury Offering. These warrants are exercisable in whole or in part until September 2011 and will entitle the holder to subscribe for 6,730,769 Pre-Split Ordinary Shares at a price of US$0.50 per share.

Loans from Related Parties

Prior to October 23, 2006, other than the Short-Term Loan, all funding had been provided in the form of a loan by CanArgo. On October 23, 2006, the Company removed this debt by capitalizing the total inter-company loan of US$22,296,000 into 69,000,000 Pre-Split Ordinary Shares that were issued to CanArgo Limited pursuant to such capitalization. The result of these arrangements was that as at December 31, 2006, the Company had the Short-Term Loan debt and a working capital surplus of US$434,000.

Private Placement

On January 24, 2007, Tethys closed a private placement whereby it issued 34,674,390 Pre-Split Ordinary Shares for gross proceeds of approximately US$17,400,000. These Pre-Split Ordinary Shares were issued at a price of US$0.50 per share or US$2.50 per share after giving effect to the Share Consolidation and the funds raised were used to complete the construction of the 32 mile (51 km) 325 mm diameter pipeline that will be used in connection with the anticipated gas production from the Kyzyloi Field development, to fund the drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors.

BNM

On March 13, 2007, Tethys reached an agreement with the owner of the minority interest in BNM whereby Tethys, through its wholly-owned subsidiary TKL, acquired the 30% of BNM it does not already own in exchange for 30,000,000 Pre-Split Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making BNM an indirect wholly-owned subsidiary of Tethys. This acquisition was completed on May 9, 2007. The registration of the transfer of this interest in BNM to TKL with the appropriate authorities in Kazakhstan is expected to be completed by June 30, 2007.

Aral Vostochniy

On May 10, 2007, Tethys entered into an agreement with the owner of NBC to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL in exchange for, among other things, an initial payment of US$2,500,000 (including an immediate US$100,000 deposit to be paid which will be forfeited, under certain circumstances, if the contract becomes null and void) and 7,500,000 Pre-Split Ordinary Shares (or 1,500,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making NBC an indirect wholly-owned subsidiary of Tethys. Closing of this acquisition is conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the Treasury Offering. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

The following is a summary of the estimated costs required to fulfil the Company's remaining project commitments as at December 31, 2006:

Type of Obligation (US$000s)	Total	<1 year	1-3 years
Pipeline to connect Kyzyloi Field wells to Bukhara-Urals pipeline	4,784	4,784	—
Commissioning and testing Kyzyloi Field wells	600	500	100
Drilling and tie-in of new Kyzyloi Field well	613	613	—
Completion of drilling three Akkulka Block wells	1,256	1,256	—
Total	7,253	7,153	100

Risks and Uncertainties

Tethys is exposed to a variety of risks, including but not limited to competitive, operational, political, environmental and financial. See "*Risk Factors*".

Sensitivities

The price of gas sales from gas produced from the Kyzyloi Field under the Gas Supply Contract is fixed in US dollars and there is no sensitivity to currency movements or market movements in the gas price.

The price of gas sales from gas produced from the Akkulka Block has yet to be agreed and there is therefore sensitivity to movements in the market price of gas. While there would be no impact in 2007, a movement of US$10 per Mcm in the price of gas would have a US$950,000 impact on the Company's net revenue in 2008.

Transactions with Related Parties

The Company was a wholly-owned subsidiary of CanArgo until the first quarter of 2007. See "*Relationship with CanArgo Energy Corporation*". Tethys' activities during 2004, 2005 and up to September 7, 2006, when the Short-Term Loan was completed, had been entirely funded by CanArgo pursuant to an inter-company loan facility. Funding continued via this loan facility until October 23, 2006, when the Company capitalized the total inter-company loan from CanArgo of US$22,296,000 into 69,000,000 Pre-Split Ordinary Shares that were issued to CanArgo Limited pursuant to such capitalization.

CanArgo has provided ongoing services to Tethys via a management services agreement between CanArgo, Tethys and Vazon. Vazon is a corporation organized under the laws of Guernsey, of which Dr. David Robson, President and Chief Executive Officer of Tethys, is the sole owner and Managing Director. In addition, a management services agreement exists between CanArgo and Vazon whereby the services of Dr. Robson, Ms. Landles (Executive Vice President and Corporate Secretary of Tethys) and other Vazon employees, are provided to CanArgo. A portion of these services from Vazon plus other services provided by CanArgo was then charged by CanArgo to the Company at a rate of US$100,000 per month. This management services agreement will be terminated prior to completion of the Treasury Offering.

Transactions with affiliates or other related parties, including management of affiliates, are to be undertaken on the same basis as third party arm's-length transactions. Transactions with affiliates are reviewed and voted on solely by non-interested directors.

Financial Instruments and Other Instruments

BNM is a party to a gas sales agreement. BNM and Gaz Impex entered into the Gas Supply Contract on January 5, 2006. Gaz Impex is one of the leading independent gas marketing companies in Kazakhstan and is currently involved in gas purchase and supply contracts both within Kazakhstan and in surrounding countries. See *"Narrative Description of the Business — Marketing"*.

See *"Management's Discussion and Analysis — Liquidity and Capital Resources"* and note 16 *"Commitments and Contingencies"* to Tethys' consolidated financial statements included in this prospectus for further description of the forward contracts and future commitments of the Company.

The nature of the Company's natural gas operations exposes the Company to risks associated with fluctuations in commodity prices and foreign currency exchange rates. To date, the Company has not utilized derivative instruments to manage these risks.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with US GAAP, which require management to make judgments, estimates and assumptions which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in note 2 to its audited consolidated financial statements for the year ended December 31, 2006. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Oil & Gas Properties — Full Cost Accounting

The Company follows the full cost method of accounting as described in note 2 to its audited consolidated financial statements for the year ended December 31, 2006. Alternatively, the Company could follow the successful efforts method of accounting whereby all costs related to non-productive wells are expensed in the period in which they are incurred.

Under the full cost method of accounting, capitalized costs are subject to a country-by-country cost centre impairment test. Under the successful efforts method of accounting, the costs are aggregated on a property-by-property basis and the carrying value of each property is subject to an impairment test. These policies may result in a different carrying value for capital assets and a different net income. The Company has elected to follow the full cost method and it is the method most commonly followed.

Under full cost accounting, a limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. Impairment exists when the carrying value of developed properties of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. Costs relating to undeveloped properties are subject to individual impairment assessments until it can be determined whether or not proved reserves exist. If impairment is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to income.

Reserve Estimates

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates can impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Potential lenders may also use reserve estimates to assess the allowable borrowing base under a secured credit facility. Changes to the reserve estimates can result in borrowing base increases or decreases, which could impact the Company's financial position.

Asset Retirement Obligations

The Company recognizes liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in tangible long-lived assets and the estimated timing of the costs to be incurred in future periods. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Actual payments to settle the obligations may differ from estimated amounts.

CAPITALIZATION

The following table sets forth the Company's capitalization as December 31, 2006 and as at March 31, 2007, prior to and after giving effect to the Offerings. The table must be read with the financial statements and accompanying notes, which appear in this prospectus.

Description of the Security	Authorized	As at December 31, 2006[(2)]	As at March 31, 2007 before giving effect to the Offerings[(2)(3)(4)]	As at March 31, 2007 after giving effect to the Minimum Offering[(2)(3)(4)]	As at March 31, 2007 after giving effect to the Maximum Offering[(2)(3)(4)]
			(US$, except share amount)		
Stockholders' Equity					
Ordinary Shares (basic)[(1)]	500,000,000	14,689,000 (14,000,000 shares)	47,089,000[(6)] (26,934,878 shares)	● (● shares)	● (● shares)
Short-Term Loan[(5)]	5,000,000	3,084,000	3,084,000	●	●
Total		17,773,000	50,173,000	●	●

Notes:

(1) Comprised of the aggregate of: (i) the par value of Ordinary Shares issued; and (ii) the capital in excess of the par value of Ordinary Shares issued, less the accumulated deficit. Does not include Ordinary Shares issuable upon exercise of the warrants or options set out under "*Options and Warrants to Purchase Securities*".

(2) After giving effect to the Share Consolidation.

(3) After giving effect to the Share Consolidation and after giving effect to the issuance of 6,000,000 Ordinary Shares (30,000,000 Pre-Split Ordinary Shares) on May 9, 2007 in respect of the Company's acquisition of the interest in BNM it did not previously own. See "*General Development of the Business — Company History*".

(4) Without giving effect to the proposed issuance of 1,500,000 Ordinary Shares as consideration in connection with the acquisition of NBC (Aral Vostochniy Block). See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

(5) After recording a discount in respect of warrants in connection with the Short-Term Loan. See "*Management's Discussion and Analysis — Liquidity and Capital Resources*" and note 12 to the audited consolidated financial statements of the Company.

(6) The accumulated deficit included in stockholders' equity as at March 31, 2007 is based on the amount reported as at December 31, 2006.

USE OF PROCEEDS

The Company expects to receive approximately $ ● of net proceeds from the Minimum Offering and approximately $ ● of net proceeds from the Maximum Offering, after deducting the Agents' Commission in respect of the Treasury Offering and the Company's share of the estimated expenses of the Offerings. The proposed use of the net proceeds of the Treasury Offering by the Company is anticipated to be as follows:

	Minimum Offering[(1)]	Maximum Offering[(1)]
Kazakhstan		
Kul-Bas Block/Akkulka Block — shallow drilling and infrastructure (5 to 10 wells)	US$ ●	US$ ●
Akkulka Block — Triassic/Jurassic exploration well	—	US$ ●
Acquisition opportunities for properties with proven oil production	US$ ●	US$ ●
Purchase of NBC and initial work on the Aral Vostochniy Block	US$ ●	US$ ●
Tajikistan		
Seismic surveys and data processing and interpretation	US$ ●	US$ ●
Well rehabilitation	US$ ●	US$ ●
Alimtai exploration well	—	US$ ●
Repayment of Short-Term Loan	US$ ●	US$ ●
Working Capital and General Corporate Purposes	—	US$ ●
Total	**US$ ●**	**US$ ●**

Due to the nature of the oil and gas industry, budgets are regularly reviewed with respect to the success of the expenditures and other opportunities which become available to the Company. The amounts and timing of the expenditures will vary depending on a number of factors, including drilling success, availability of drilling equipment, assessment of newly acquired seismic data over the Company's exploration blocks and unexpected expenses. Accordingly, while it is currently intended by management of the Company that the net proceeds of the Treasury Offering will be expended as set forth above, actual expenditures may in fact differ from these amounts and allocations. Although the Company has not agreed to any further acquisitions other than the purchase of NBC (Aral Vostochniy Block), the Company proposes to review and consider acquisition opportunities of properties with proven oil/condensate or natural gas reserves. Accordingly, the Company has allocated US$6,000,000 to fund any such acquisition opportunities. If such opportunities do not arise in 2007 or 2008, any funds so allocated will be used for working capital and general corporate purposes.

The estimated net proceeds to the Selling Shareholder from the Secondary Offering, after deducting the Agents' Commission in respect of the Secondary Offering and the Selling Shareholder's share of the estimated expenses of the Secondary Offering, will be $ ● , assuming all of the Offered Shares under the Secondary Offering are subscribed for. The Ordinary Shares offered by the Selling Shareholder pursuant to the Secondary Offering will only be sold if the maximum number of Ordinary Shares offered by the Company pursuant to the Treasury Offering has been sold. The Company will not receive any proceeds from the sale of Offered Shares under the Secondary Offering.

DESCRIPTION OF SHARE CAPITAL

Ordinary Shares

The authorized capital of the Company consists of 500,000,000 US$0.10 par value ordinary shares of which 26,934,878 ordinary shares will be issued and outstanding prior to completion of the Treasury Offering. The holders of Ordinary Shares are entitled to receive such dividends as the Company's directors may from time to time declare. In the event of the winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of Ordinary Shares are entitled to the surplus assets of the Company and generally will be entitled to enjoy all of the rights attaching to shares of the Company. At a general meeting, holders of ordinary shares of the Company are entitled on a show of hands to one vote and on a poll to one vote for every share held.

The rights of shareholders of the Company are governed by the Company's Memorandum and Articles of Association. See "*Memorandum and Articles of Association*".

MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company's charter consists of the Memorandum of Association and Articles of Association which have been registered in accordance with the Companies Laws.

A copy of the Company's Memorandum of Association and Articles of Association (the "**Memorandum and Articles**"), may be obtained from the Company's Corporate Secretary and will also be available at www.sedar.com.

Following is an overview of the Memorandum and Articles.

Objects

The Memorandum and Articles provides that the Company's principal objects include the following:

(i) to carry on business as a general commercial company;

(ii) on its own behalf and on behalf of any other person, to negotiate and enter into any agreements or arrangements with any person for the grant or transfer to the Company or to any other person of any leases, concessions, options, rights, licences, permits or other authorisations for effecting the exploration, development, acquisition or working of petroleum or solid, liquid or gaseous hydrocarbons or other mineral rights or deposits in any part of the world;

(iii) to prospect, examine, explore, survey and develop the petroleum or solid, liquid or gaseous hydrocarbons or other mineral rights and deposits of any territories, estates, or properties in any part of the world; and

(iv) to carry on the business of exploring for, acquiring, developing, producing, transporting, refining, storing, distributing, marketing and dealing in petroleum or solid, liquid or gaseous hydrocarbons or other minerals or their products or by-products.

The objects also include provisions in addition to the principal objects noted above.

Share Capital

Power to attach rights

Subject to the rights attached to existing shares or any class of shares, new shares in the Company may be issued with, or have attached to them, such preferred, deferred or other rights or restrictions whether as to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution of the shareholders decide, or, if no such resolution is passed or so far as any pertinent resolution does not make specific provision, as the Board of Directors may decide.

Power to provide financial assistance

The Company and any of its subsidiary companies may give financial assistance, directly or indirectly for the purposes of or in connection with the acquisition of shares in the Company or in connection with reducing or discharging any liability incurred in connection with the purchase of shares in the Company.

Variation of rights

The attributes of the Ordinary Shares may only be varied with the approval of a special resolution of the holders of the shares of that class (excluding any share of that class that is held as a treasury share).

Consolidation, sub-division and cancellation

The Company may by ordinary resolution consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares or sub-divide all or any of its shares into shares of a smaller amount than its existing shares, or may cancel shares which at the date of the passing of the resolution have not been taken or convert all or any of its fully paid shares denominated in a particular currency into fully paid shares of a different currency. The Company may reduce its capital by special resolution.

Subject to the Companies Laws, the Board of Directors may, if authorized by an ordinary resolution, offer those holders of a particular class of shares in respect of any dividend the right to elect to receive shares by way of scrip dividend instead of cash.

Increase of share capital

The Company may by ordinary resolution increase the share capital of the Company by such sum and/or such number of shares to be divided into shares of such amount as the resolution shall prescribe.

Pre-emptive rights

The Memorandum and Articles contain no mandatory provisions as to rights of pre-emption on the transfer, issue or allotment of shares. Subject to the provisions of the Memorandum and Articles, the Board of Directors has general and unconditional authority without requiring prior approval of the shareholders: (i) to allot (with or without conferring rights of renunciation), grant options over, offer or otherwise deal with or dispose of the unissued shares of the Company or rights to subscribe for or convert any security into shares; or (ii) to sell, transfer or cancel any Treasury Shares (as defined in the Memorandum and Articles) held by the Company, in accordance with the Companies Laws, in any such case to such persons at such times and on such terms as the Board of Directors may decide except that no share shall be issued at a discount.

Compulsory transfer of shares

The Board of Directors has the discretion to compel a shareholder to divest itself of its Ordinary Shares if such Ordinary Shares are or may be owned or held directly or beneficially by any person in breach of any law or requirement of any country or by virtue of which such person is not qualified to own those Ordinary Shares and, in the sole and conclusive determination of the Board of Directors, such ownership or holding or continued ownership or holding of those Ordinary Shares (whether on its own or in conjunction with any other circumstance appearing to the Board of Directors to be relevant) would in the reasonable opinion of the Board of Directors, cause a pecuniary or tax disadvantage to the Company or any other holder of shares or other securities of the Company which it or they might not otherwise have suffered or incurred.

In those circumstances, the Board of Directors may serve written notice (hereinafter called a "**Transfer Notice**") upon the person (or any one of such persons where shares are registered in joint names) appearing in the register as the holder (the "**Vendor**") of any of the Ordinary Shares concerned (the "**Relevant Shares**") requiring the Vendor within 21 days (or such extended time as in all the circumstances the Board of Directors consider reasonable) to transfer (and/or procure the disposal of interests in) the Relevant Shares to another person who, in the sole and conclusive determination of the Board of Directors, would not fall within a class of persons noted above (an "**Eligible Transferee**"). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Shares, the rights and privileges attaching to the Relevant Shares will be suspended and not capable of exercise.

If within 21 days after the giving of a Transfer Notice (or such extended time as in all the circumstances the Board of Directors considers reasonable) the Transfer Notice has not been complied with to the satisfaction of the Board of Directors, the Company may sell the Relevant Shares on behalf of the holder thereof by instructing a participating organization on a stock exchange to sell them at the best price reasonably obtainable at the time of sale to any one or more Eligible Transferees.

The Board of Directors will not be required to give any reasons for any decision, determination or declaration taken or made in accordance with these provisions. The exercise of the powers conferred by the provisions referred to above shall not be questioned or invalidated in any case on the grounds that there was insufficient evidence of direct or beneficial ownership or holding of shares by any person or that the true direct or beneficial owner or holder of any shares was otherwise than as appeared to the Board of Directors at the relevant date provided that the said powers have been exercised in good faith.

Meetings of Shareholders

Annual general meetings shall be held at least once in each calendar year (provided that not more than 15 months shall elapse between one annual general meeting and the next) and shall be held in Guernsey or otherwise as determined by the Board of Directors, but not in the United Kingdom. Annual general meetings shall be convened by the Board of Directors at such time and place as it thinks fit.

The Board of Directors may convene an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings shall be held in Guernsey or as otherwise determined by the Board of Directors, but not in the United Kingdom. Holders representing not less than one-tenth of the issued share capital of the Company (excluding any treasury shares) may requisition in writing the convening of an extraordinary general meeting.

The quorum for a general meeting is two shareholders present in person or by proxy and entitled to vote.

Voting Rights

Subject to any special rights or restrictions as to voting attached to any class of shares, at a general meeting every shareholder present in person has on a show of hands one vote and every shareholder present in person or by proxy has on a poll one vote for every share of which he is the holder.

An "ordinary resolution" of the shareholders requires approval by a majority of the votes cast at a meeting of shareholders of the Company. An "extraordinary resolution" of the shareholders requires approval by two-thirds of the votes cast at a meeting of shareholders of the Company. A "special resolution" of the shareholders requires approval by three-quarters of the votes cast at a meeting of shareholder of the Company.

Directors

Appointment

The Memorandum and Articles do not limit the number of directors which may be appointed by the Board of Directors or by the shareholders of the Company. Directors may be appointed by an ordinary resolution of the shareholders of the Company or by the Board of Directors. Any director appointed by the Board of Directors will hold office only until the next annual general meeting and will then be eligible for re-election. He is not required, and is not taken into account in determining the number of directors who are, to retire by rotation at the meeting. Unless otherwise determined by the Board of Directors, the number of directors shall not be less than two. At no time shall a majority of directors be resident in the United Kingdom.

No person other than a director retiring may be appointed or reappointed a director at a general meeting unless he is recommended by the Board of Directors, or not less than seven nor more than 42 days before the date fixed for the meeting, there has been left at the registered office of the Company notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting of his intention to propose that person for appointment or reappointment together with notice in writing signed by that person of his willingness to be appointed or reappointed.

Alternate Director

Any director may appoint another director or another person approved by the Board of Directors as his alternate director to attend and vote in his place at any meeting at which he is not present or to undertake and perform such duties and functions as he could personally.

Retirement by Rotation

The Memorandum and Articles provide that directors are generally appointed for a three year period. The Company proposes to seek approval for an amendment to the Memorandum and Articles to provide that the term of a director's appointment will conclude at the annual general meeting of shareholders following the director's appointment. Each director, if qualified, will then be eligible for re-election.

Removal of Directors

The shareholders of the Company may by ordinary resolution remove a director before the expiry of his period of office. Without prejudice to the provisions for retirement contained in the Memorandum and Articles, the office of a director is vacated if: (i) he resigns by notice sent to or deposited at the registered office or tendered at a Board of Directors meeting; (ii) where he has been appointed for a fixed term, if the term has expired; (iii) he ceases to be a director by virtue of the laws of Guernsey, is removed pursuant to the Memorandum and Articles or becomes prohibited by law from being a director; (iv) he becomes bankrupt, insolvent, suspends payment or compounds with his creditors generally; (v) he is or has been suffering from mental ill health; (vi) both he and his alternate director (if any) are absent, without the permission of the Board of Directors, from Board of Directors' meetings for six consecutive months and the Board of Directors resolves that his office should be vacated; (vii) he is removed from office by notice addressed to him at his last-known address and signed by all his co-directors; or (viii) he becomes resident in the United Kingdom and, as a result thereof, a majority of the directors are resident in the United Kingdom.

Distribution of Assets Other than Out of Cash

On a voluntary winding-up the liquidator may on obtaining any sanction of a special resolution, divide among the shareholders in kind the whole or any part of the assets of the Company.

Indemnity

Without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a director, alternate director or secretary of the Company and their respective heirs and executors shall be fully indemnified out of the assets and profits of the Company from and against all actions expenses and liabilities which they or their respective heirs or executors may incur by reason of any contract entered into or any act or in about the execution of their respective offices or trusts except such (if any) as they may incur by or through their own wilful act, neglect or default respectively and none of them shall be answerable for the acts, receipt, neglects or defaults of the others of them or for joining in any receipt for the sake of conformity or for any bankers or other person.

Minority Shareholder Buy-Out

If, in relation to an offer to acquire all the shares or all the shares of any class or classes in the Company (other than shares which at the date of the offer are already held by the offeror), being an offer on terms which are the same in relation to all the shares to which the offer relates or, where those shares include shares of different classes, in relation to all the shares of each class (a "**Takeover Offer**") the offeror has acquired or contracted to acquire not less than nine-tenths in value of the shares of any class to which the Takeover Offer relates he may give notice to the holder of any shares that class which the offeror has not acquired or contracted to acquire that he desires to acquire those shares and shall thereafter be entitled and bound to acquire these shares on the terms of the Takeover Offer.

Proposed Amendments

The Company proposes to amend the Memorandum and Articles prior to the initial Closing of the Treasury Offering. The purpose of the principal amendments will be to:

- provide that the Company may only enter into a sale, lease or exchange of all or substantially all of the assets of the Company, other than in the ordinary course of business, with the approval of its shareholder by extraordinary resolution;

- provide that the Company may only increase its share capital, reduce or increase its authorized capital; and create new classes of shares, with the approval of its shareholders by extraordinary resolution;
- provide that the Company may only issue shares if they are fully paid in money, property or past services. For the purposes of the amendment to the Memorandum and Articles, the term "property" will not include a promissory note or promise to pay that is made by a person to whom a share is issued, or a person who does not deal at arm's length, within the meaning of that expression in the Tax Act, with a person to whom a share is issued;
- provide that the ability of the Company to provide financial assistance will be conditional on the shares being fully paid in money, property or past services; and
- provide that the term of any director's appointment will conclude at the annual and general meeting of shareholders following the director's appointment, subject to the re-election at such meeting.

Shareholder Rights under Guernsey Law and under the Company's Memorandum and Articles

Rights of holders of ordinary shares of the Company are prescribed by the Memorandum and Articles which are governed by the Companies Laws. Such rights are not identical to those afforded to shareholders under the *Canada Business Corporations Act* (the "**CBCA**"). Significant differences between rights of holders of ordinary shares of the Company granted under the Memorandum and Articles and the Companies Laws and those afforded under the CBCA include the following:

Amendment of Articles

Under the CBCA, a special resolution representing a two-thirds majority is required to amend articles of incorporation in respect of matters such as changing the name of the company; changing the jurisdiction of its registered office; removing restrictions on the business in which the company may engage; adding, changing or removing restrictions on the issue, transfer or ownership of shares; entering into an amalgamation with another company; or, entering into a liquidation or dissolution of the company. Under the Memorandum and Articles and the Companies Laws a special resolution representing a three-quarters majority is required to approve such matters.

Appraisal Rights of Dissenting Shareholders

Under the CBCA, a shareholder may require a corporation to purchase his or her shares where the shareholder has voted against certain resolutions, including any of the following: authorization of the sale, lease or exchange of all or substantially all of its property; to amend its articles to add, change or remove provisions restricting or constraining the transfer of shares of any class or to add, change or remove any restriction on the business it may carry on; to amalgamate with another corporation other than with a wholly-owned subsidiary or a common subsidiary of the same wholly-owning parent corporation; or, to transfer the corporation and continue it in another jurisdiction. Also, where an application is made relating to plans of arrangement, the shareholder may apply to the court to dissent and thus trigger the appraisal rights. There is a further right to dissent by the holder of any class or series of shares entitled to vote on certain proposals to amend the articles (unless the articles otherwise provide in the case of certain amendments) in any of the events which require a class vote.

Under the Companies Laws, dissenting shareholders do not have an automatic appraisal right, but do have rights to seek judicial redress where shareholders can prove they have been unfairly prejudiced (the "**Unfairly Prejudicial Action**"). In that case, shareholders of the Company are entitled under the Companies Laws to apply to a court for an order that the affairs of the Company are being conducted in an unfairly prejudicial manner to the shareholder or other shareholders or that an actual or proposed act or omission by the Company would be unfairly prejudicial. The court is empowered to make any order it sees fit to provide relief in the matter. This may include, among other things, an order for the Company to alter its Memorandum and Articles, to do or refrain from doing such things which are the subject of the complaint, or to require the Company to purchase the shares of the aggrieved shareholder.

Right to Make a Court Application Regarding Certain Matters

The CBCA provides shareholders a right to make application to the court in respect of a number of matters, including, but not limited to, the following: to restrain holding a shareholders' meeting where a shareholder's proposal was not included in the management proxy circular; to require that a shareholders' meeting be called, held and conducted in such manner as the court directs where it is impracticable to do so under the by-laws or the CBCA; where a proxy circular contains an untrue statement of a material fact or omits to state a material fact; for the court to appoint an auditor and fix remuneration; that a voluntary liquidation and dissolution be continued under the supervision of the court as provided in the CBCA; for an order dissolving a corporation if it has (i) conducted business outside of its powers specified in the articles, (ii) failed to hold an annual meeting for two consecutive years, or (iii) failed to make annual financial statements available to its shareholders; for an order directing an investigation of the corporation and any of its affiliates; for leave to bring a derivative action; for relief from any action that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of a securityholder, creditor, director or officer; or, for discontinuance or settlement and application for interim costs.

There is no equivalent provision afforded in the Memorandum and Articles, however under the Companies Laws, shareholders may seek similar relief under an Unfairly Prejudicial Action. In addition, the Companies Laws provides a right to any shareholder to make an application to the court for an order restraining the doing of an act which would be beyond the Company's capacity as prescribed by the Memorandum and Articles, or which is beyond the powers of the directors of the Company.

Furthermore, under general company law in Guernsey, a shareholder may also make an application to court where the directors of the Company act otherwise than in accordance with their fiduciary duties.

Par Value

Shares issued by a corporation governed by the CBCA do not have a "par value". The Ordinary Shares will have a par value of US$0.10 per Ordinary Share (after giving effect to the Share Consolidation).

The par value of a share is the minimum amount for which Ordinary Shares may be authorized for sale as fully paid shares. Under the Memorandum and Articles, the Ordinary Shares may not be issued other than as fully paid. The par value of the Ordinary Shares is not reflective of the Offering Price, fair market value or market price of the Ordinary Shares.

PERSONNEL

As at the date hereof, Tethys and TKL have, collectively, 36 employees in Kazakhstan and 1 employee in Tbilisi, Georgia. As at December 31, 2006, 2005 and 2004, respectively, the Company had 38, 22 and 4 employees. The services of a number of executive officers will be provided under the terms of the Umbrella Management Services Agreement. See "*Compensation of Directors and Officers — Employment and Management Agreements*".

From time to time, the Company utilizes consultants to act in various capacities over the short or longer terms. As at the date hereof, TKL has one consultant.

DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers

The following table provides the names and municipalities of residence of the Company's executive officers as well as their positions with the Company and principal occupations for the previous five years. All executive officers are required to sign confidentiality agreements with the Company. See "*Compensation of Directors and Officers — Employment and Management Agreements*".

Name and Municipality of Residence	Position Held	Principal Occupation in the Past Five Years
JULIAN HAMMOND . . . . London, UK	Executive Vice President, Corporate Development and Chief Commercial Officer	Executive Vice President, Corporate Development and Chief Commercial Officer of Tethys; Vice President, Investor Relations and Business Development Manager of CanArgo.
LIZ LANDLES . . . . St. Peter Port, Guernsey, Channel Islands	Executive Vice President, Corporate Secretary[1] and Director	Executive Vice President and Corporate Secretary of Tethys; Executive Vice President and Corporate Secretary of CanArgo.
GEORGE MIRTSKHULAVA . . . . Almaty, Kazakhstan	Vice President, Commercial and Head of Kazakhstan Business Unit	Vice President, Commercial and Head of Kazakhstan Business Unit of Tethys; First Deputy Director of BNM and General Director of TSK.

Name and Municipality of Residence	Position Held	Principal Occupation in the Past Five Years
BERNARD MURPHY . . . . Hertfordshire, UK	Chief Financial Officer and Finance Director	Chief Financial Officer and Finance Director of Tethys; prior thereto, Mr. Murphy was a company director within the Abacus Accountancy Network since 2004; prior thereto, he held a number of senior financial positions for several organizations.
DR. DAVID ROBSON . . . . St. Peter Port, Guernsey, Channel Islands	President, Chief Executive Officer and Chairman	President, Chief Executive Officer and Chairman of Tethys; Chairman and Chief Executive Officer of CanArgo.
GRAHAM WALL . . . . Tbilisi, Georgia	Vice President, Technical	Vice President, Technical of Tethys; Deputy Director, Technical for BNM, Deputy Director, Technical for TSK and Exploration Manager of CanArgo.

Note:

(1) Ms. Landles' appointment as Corporate Secretary of Tethys will be effective upon receipt of applicable approvals from the Guernsey Financial Services Commission.

Biographies of Executive Officers

Julian Hammond is the Company's Executive Vice President, Corporate Development and Chief Commercial Officer. Mr. Hammond was appointed as Executive Vice President, Corporate Development on July 26, 2006 and Chief Commercial Officer on May 10, 2007. Mr. Hammond is responsible for corporate development of the business of the Company, including business development advice on strategy and negotiation of acquisitions and divestments as well as management of equity, debt and trade finance for the Company's ongoing activities. Mr. Hammond commenced working for CanArgo from April 1998 in various positions, including the position of Business Development Manager where he managed CanArgo's downstream refining and retail business in Georgia, the position of Commercial Manager and the position of Vice President, Investor Relations. Mr. Hammond will resign from his positions with CanArgo effective upon the completion of the Treasury Offering. Prior to working for CanArgo, Mr. Hammond worked for Credit Suisse First Boston in London, Crossfield House Investments in Calgary and Montgomery Securities in San Francisco. Mr. Hammond holds a BA degree in Economics from University of Colorado.

Liz Landles is the Executive Vice President and Corporate Secretary of the Company. Ms. Landles has been an officer and Corporate Secretary of CanArgo since August 2002, having served as Assistant Corporate Secretary since December 2000. Ms. Landles became Executive Vice President of CanArgo in November 2005. Having been employed with CanArgo since October 1997, principally in an administrative role and as a director of several CanArgo subsidiaries, she was appointed a Director of Tethys upon its incorporation in August 2003. Ms. Landles holds an Advanced Diploma of Business Administration from The Institute of Business Administration and is a Fellow of The Institute of Business Administration. Ms. Landles' appointment as Corporate Secretary of Tethys will be effective upon receipt of applicable approvals from the Guernsey Financial Services Commission.

George Mirtskhulava is the Company's Vice President, Commercial and Head of Kazakhstan Business Unit. In addition to being the Vice President, Commercial and Head of Kazakhstan Business Unit of the Company, Mr. Mirtskhulava is also currently the First Deputy Director for BNM and is responsible for running BNM in Kazakhstan as well as in Central Asia. Mr. Mirtskhulava's responsibilities with BNM also include pursuing new business ventures in Kazakhstan, obtaining relevant licence approvals, negotiating with future possible gas buyers, preparing commercial reports and liaising with local government authorities and business partners. In August 2004, Mr. Mirtskhulava was appointed as Deputy Director in commerce and finance of BNM. Mr. Mirtskhulava is also the General Director of TSK. He worked for CanArgo in various positions from December 2000 until August 2005, including as a commercial analyst, a financial analyst and a senior economist. Mr. Mirtskhulava has previously worked for the European Bank of Reconstruction and Development for the project implementation unit in the energy sector from 1999 to 2000.

Mr. Mirtskhulava holds an LLM in Petroleum and Law Policy from the University of Dundee, a Degree in Law from Saint Ilia Tbilisi National University, Tbilisi, Georgia and has a Bachelor of Business Administration and General Management, a joint degree from the European School of Management, Tblisi, Georgia and Preston University, Wyoming, USA.

Bernard Murphy is the Company's Chief Financial Officer and Finance Director. Mr. Murphy is a Fellow of the Institute of Chartered Management Accountants. Prior to joining the Company, he was working with the Abacus Accountancy Network, an organization made up of senior accountants located throughout the UK that focused on providing financial consulting and accounting services to small and medium sized businesses. Mr. Murphy has 30 years of experience as a management accountant having previously worked for Courtaulds, British Oxygen Corporation, Balfour Beatty and for HSBC Actuaries and Consultants Limited as Finance Director and in insurance industry, with HSBC and Royal & Sun Alliance. Prior to Mr. Murphy's finance career, he obtained a B.Sc. (Hons.) degree in civil engineering from Glasgow University.

Dr. David Robson is the Company's President, Chief Executive Officer and Chairman of the Board of Directors. Dr. Robson is currently Chairman and Chief Executive Officer of CanArgo and has been acting in that capacity since 1997. Dr. Robson's career has been primarily in operating oil and gas companies. He was Chief Executive Officer and one of the founders of the London Stock Exchange-listed company JKX Oil & Gas plc and prior to this he was employed in technical (exploration, operations, petroleum engineering) and commercial positions with Britoil plc, Hamilton Oil (now BHP Petroleum) and Mobil. Dr. Robson trained as a geologist, obtaining a First Class B.Sc. (Hons.) degree in Geology and a Ph.D. in Geochemistry. He also holds an MBA from the University of Strathclyde. Dr. Robson has worked on oil and gas projects in the former Soviet Union since 1990, establishing the first non-state gas development project in Ukraine, the first non-state drilling in the Ukrainian Black Sea and the first non-state exploration and development wells in Georgia. He is a Fellow of the Geological Society, a member of the Society of Petroleum Engineers, he holds the Order of Honour for services to the Georgian hydrocarbon extraction industry and was formerly the energy sector representative on the UK government East European Trade Council. Dr. Robson has spoken at many international forums on energy related topics in the former Soviet Union and at the "Paris Club" of donor nations.

Graham Wall is the Company's Vice President, Technical. Mr. Wall was appointed as Deputy Director, Technical for BNM in 2005 and his appointment as Vice President, Technical for Tethys was confirmed in July 2006. Mr. Wall is also the Deputy Director, Technical for TSK. He is responsible for the Company's exploration and production activities, including drilling and testing, prospect evaluation, seismic acquisition and interpretation definition of the Group's reserve base and forward technical plans. Mr. Wall has worked for CanArgo since 2000, initially as senior geologist responsible for CanArgo's exploration and development program in Georgia. Mr. Wall was promoted to head of regional exploration and reserve determination for CanArgo in 2005 and exploration manager of CanArgo in January 2006. From September 1995 to December 1999, he was a mineral exploration geologist working in gold projects in Australia. He was a mineral exploration geologist of ACA Howe International Ltd., of the UK, working in Burkina Faso, Greece, Ghana, Russia (Siberia), UK and Georgia. Mr. Wall holds a B.Sc. (Hons.) degree in exploration and mining geology from the University of Wales, College of Cardiff, Cardiff, UK. He is a Fellow of the Geological Society and a member of the Petroleum Exploration Society of Great Britain. Mr. Wall has presented technical papers on central Georgian hydrocarbon systems and the development of fractured reservoirs.

Directors

The following table provides the names and municipalities of residence of the Company's directors as well as their offices held with the Company, the date they were first appointed to the Board of Directors and their principal occupation for the previous five years.

Name and Municipality of Residence	Current Positions and Offices Held	Director Since	Principal Occupation in the Past Five Years
RUSS HAMMOND[(2)] . . . . London, UK (Age: 65)	Director	July 26, 2006	Corporate Director.
LIZ LANDLES . . . . St. Peter Port, Guernsey Channel Islands (Age: 46)	Executive Vice President, Corporate Secretary[(3)] and Director	August 12, 2003	Executive Vice President and Corporate Secretary of Tethys; Executive Vice-President and Corporate Secretary of CanArgo.
RT. HON. PETER LILLEY M.P.[(1)(2)] . . . . London, UK (Age: 63)	Director and Vice Chairman	July 26, 2006	Member of UK Parliament, House of Commons.
VINCENT MCDONNELL . . . . Surrey, UK (Age: 48)	Director	August 12, 2003	President, Chief Operating Officer and Chief Commercial Officer of CanArgo.
BERNARD MURPHY . . . . Hertfordshire, UK (Age: 53)	Chief Financial Officer and Finance Director	August 16, 2006	Chief Financial Officer and Finance Director of Tethys; prior thereto, Mr. Murphy was a company director within the Abacus Accountancy Network since 2004; prior thereto, he held a number of senior financial positions for several organizations.
PAUL MURPHY[(1)] . . . . Jumeirah Islands, Dubai (Age: 44)	Director	July 26, 2006	Managing Director of Kraken Financial Group Limited.
DR. DAVID ROBSON . . . . St. Peter Port, Guernsey Channel Islands (Age: 49)	President, Chief Executive Officer and Chairman	August 12, 2003	President, Chief Executive Officer and Chairman of Tethys; Chairman and Chief Executive Officer of CanArgo.
COLIN SMITH[(1)] . . . . St. Peter Port, Guernsey Channel Islands (Age: 37)	Director	August 16, 2006	Director of BDO Novus Limited.

Notes:

(1) Member of Audit Committee.

(2) Member of the Compensation and Nomination Committee.

(3) Ms. Landles' appointment as Corporate Secretary of Tethys will be effective upon receipt of applicable approvals from the Guernsey Financial Services Commission.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholders meeting called for the election of directors (if appointed by the Board of Directors), the third anniversary of the confirmation of their election by the shareholders, their retirement in accordance with the

Memorandum and Articles or on such other date as they may be removed according to the Companies Laws. The Company proposes to seek approval for an amendment to its Memorandum and Articles such that the appointment of a director would expire at the annual general meeting following each director's appointment. Each director, if qualified, will be eligible for re-election at that meeting. See " *Memorandum and Articles of Association*".

Each director will devote the amount of time as is required to fulfill his or her obligations to the Company.

Biographies of Directors

For a biography of each of Dr. David Robson, Mr. Bernard Murphy and Ms. Liz Landles see "*Directors and Executive Officers — Biographies of Executive Officers*".

Russ Hammond

Mr. Hammond has served as a non-executive director of CanArgo since 1997. Previously, Mr. Hammond was Managing Director of Greenwell Montagu Securities. Mr. Hammond has been non-executive chairman of Terrenex Acquisition Corporation, an oil and gas and joint venture company, since 1992 and a non-executive director of Questerre Energy Corporation, an oil and gas exploration and production company, since 2000. Mr. Hammond holds the Order of Honour for services to the Georgian hydrocarbon extraction industry. Mr. Hammond was educated at St. Catherine's College, Cambridge, where he obtained a Bachelors' degree in Economics.

Rt. Hon. Peter Lilley M.P.

Mr. Lilley was a director of Greenwell Montagu Securities (1986-1987) where he headed the oil investment department and which he joined in 1972. Mr. Lilley is a non-executive director of J.P. Morgan Claverhouse Investment Trust plc, Melchior Japan Investment Trust plc and of IDOX plc and a Member of the Advisory Board, School of Management, University of Southampton. He is currently the Member of Parliament for Hitchin & Harpenden. Mr. Lilley was Economic Secretary and then Financial Secretary to the Treasury (1987-1990). Mr. Lilley joined Margaret Thatcher's Cabinet as Secretary of State for Trade and Industry (1990-1992) and was Secretary of State for Social Security (1992-1997). He then served as Shadow Chancellor and Deputy Chairman of the UK Conservative Party responsible for overseeing renewal of policy until 1999. Mr. Lilley was an election observer for the 2005 Kazakhstan presidential elections. Mr. Lilley was educated at Clare College, Cambridge, where he obtained a Bachelor's degree in natural science and economics.

Vincent McDonnell

Mr. McDonnell, a resident of the United Kingdom, was elected a director of CanArgo on May 2, 2003 and a director of Tethys on September 12, 2003. He served CanArgo as its Chief Financial Officer from September 23, 2002 to May 6, 2005. Mr. McDonnell has held the position of Chief Operating Officer of CanArgo since May 6, 2005 and was appointed President of CanArgo on August 1, 2006. Prior thereto, he had also served CanArgo as Chief Commercial Officer and Commercial Manager. Prior to joining CanArgo, Mr. McDonnell was an independent oil and gas consultant from May 1999 until October 2000. From 1994 until April 1999, Mr. McDonnell served as Commercial Manager of JKX Oil & Gas plc. Prior to 1994, he worked in various business, commercial and technical roles with a number of companies, including Exxon Mobil and Britoil plc. He obtained a B.Sc. (Hons.) degree in Geology and a M.Sc. degree in Geophysics from the University College, Galway and an MBA from the University of Kingston, London.

Paul Murphy

Mr. Murphy is currently Managing Director of Kraken Financial Group Limited, a Guernsey-based investment and insurance provider. Prior to joining Kraken Financial, Mr. Murphy was a director of MeesPierson Reads, one of the largest financial institutions in Guernsey, having previously worked in London for Touche Ross and Grant Thornton's international tax practice. Mr. Murphy is a Chartered Tax Adviser with over 15 years experience. Paul Murphy is the brother of Bernard Murphy, the Company's Chief Financial Officer. Mr. Murphy obtained a B.Sc. degree in civil engineering from the University of Strathclyde.

Colin Smith

Mr. Smith is a Chartered Accountant and is currently the director of BDO Novus Limited, one of the largest independent firms of chartered accountants and business advisers in Guernsey and a member of BDO International, the sixth largest accounting and consulting organisation in the world. Mr. Smith received a Bachelor of Accountancy degree from the University of Glasgow and qualified with the Institute of Chartered Accountants in Scotland. He serves on the Technical Committee of the Guernsey Society of Chartered and Certified Accountants.

Committees of the Board of Directors

The Company has an Audit Committee and a Compensation and Nomination Committee.

Audit Committee

The Audit Committee is comprised of Messrs. Smith (Chairman), Lilley and Murphy. Messrs. Smith and Lilley are independent within the meaning of Multilateral Instrument 52-110 *Audit Committees* ("**MI 52-110**") of the Canadian Securities Administrators, however, Mr. Murphy is not independent within the meaning of MI 52-110 since he is the brother of Bernard Murphy, the Company's Chief Financial Officer. The Board of Directors proposes to replace Mr. Murphy as a member of the Audit Committee within the next 12 months. The Board of Directors had determined that Mr. Murphy's relationship with the Company's Chief Financial Officer is not reasonably expected to interfere with the exercise of his independent judgment. All members of the Audit Committee are financially literate (as defined in MI 52-110). The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial disclosure information such as financial statements, management's discussion and analysis, annual information forms and prospectuses. The Audit Committee also pre-approves all non-audit services to be conducted by the external auditors and ensures that management has effective internal control systems, investigates any recommendations for improvement of internal controls and meets at least annually with the Company's external auditors without management present and at least quarterly with management present. The Company does not have internal auditors and given the size of the Company, the Company considers this to be practical and appropriate. The Audit Committee convenes no less than four times each year and as circumstances otherwise warrant.

Compensation and Nomination Committee

The Compensation and Nomination Committee is comprised of Messrs. Lilley (Chairman) and Hammond. The Company's Compensation and Nomination Committee reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in the light of those corporate goals and objectives and determines or makes recommendations to the Board of Directors with respect to the Chief Executive Officer's compensation level based on this evaluation. This committee also considers and, if deemed appropriate, approves the Chief Executive Officer's recommendations for compensation for directors and executive officers of the Company and incentive compensation plans of the Company. This includes the review of the Company's executive compensation and other human resource philosophies and policies, the review and administration of the Company's bonuses, stock options and share purchase plan and the preparation and submission of a report for inclusion in annual continuous disclosure documents, as required. The Compensation and Nomination Committee is comprised of non-management members of the Board of Directors and is required to convene at least two times each year. Mr. Hammond is not considered independent within the meaning of MI 52-110 as he is the father of the Company's Executive Vice President, Corporate Development and Chief Commercial Officer. The Board of Directors has determined that Mr. Hammond's relationship with the Company's Executive Vice President, Corporate Development and Chief Commercial Officer is not reasonably expected to interfere with the exercise of Mr. Hammond's independent judgment.

Share Ownership by Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company beneficially owned, as a group, or exercised control or direction over, directly or indirectly, no Pre-Split Ordinary Shares (and no Ordinary Shares after giving effect to the Share Consolidation), without giving effect to the exercise of any of the options and warrants described under "*Options and Warrants to Purchase Securities*".

Corporate Cease Trade Orders or Bankruptcies

Except as disclosed below, none of the Company's directors, officers or other members of the Company's management, nor CanArgo or any other shareholder holding a sufficient number of ordinary shares of the Company to affect materially the control of the Company, have, within ten years prior to the date of this prospectus, been directors, officers or promoters of any other companies that, while such person was acting in that capacity:

(i) were the subject of a cease trade order or similar order or an order that denied the other Company access to any statutory exemptions for a period of more than 30 consecutive days; or

(ii) were declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

Mr. Peter Lilley was a director of E-Loft UK Ltd. ("**E-Loft**"), a private company engaged in the business of providing information and portal management services for universities, from September 11, 1999 to March 7, 2001. On July 10, 2001, E-Loft entered into a voluntary liquidation agreement with its creditors.

Penalties or Sanctions

None of the Company's directors, officers, nor CanArgo or any other shareholder holding a sufficient number of ordinary shares of the Company to affect materially the control of the Company have: (i) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

None of the Company's directors, officers, nor CanArgo or any other shareholder holding a sufficient number of ordinary shares of the Company to affect materially the control of the Company, or a personal holding company of any such persons, have, within ten years prior to the date of this prospectus, become bankrupt, made a proposal under any bankruptcy or insolvency legislation, been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

Conflicts of Interest

Certain officers and directors of Tethys are also officers and/or directors of other companies engaged in the oil and gas business generally, including CanArgo. As a result, situations may arise where the interests of such directors and officers, as they relate to the Company, conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable laws of Guernsey, which require that the directors act honestly, in good faith and with a view to the best interests of Tethys. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the Companies Laws. The articles of association of the Company provide that in the event that a director has an interest in a proposed transaction or agreement, the director shall disclose in good faith the material facts of his or her interest in such proposed transaction and his or her interest in or relationship to any other party to the transaction or agreement. Such director is not entitled to vote in respect of matters in which he has a material interest or relate to his appointment as the holder of an office or place of profit with the Company.

COMPENSATION OF DIRECTORS AND OFFICERS

Summary of Executive Compensation

The following table sets forth all annual and long-term compensation paid in respect of Dr. David Robson and Bernard Murphy, each of whom, as at the three most recently completed financial years ended December 31, 2006, 2005 and 2004, meet the requirements to be classified as "Named Executive Officers" of the Company as such term is defined in Form 51-102F6 *Statement of Executive Compensation* to National Instrument 51-102 *Continuous Disclosure Obligations*.

None of the Company's executive officers, other than Bernard Murphy, received any compensation from the Company in any of 2006, 2005 or 2004. During each of those years, the services of four executive officers of the Company (Dr. David Robson, Ms. Liz Landles, Julian Hammond and Graham Wall) were provided by CanArgo to the Company in accordance with the terms of a management services and loan agreement pursuant to which the Company paid CanArgo US$1,200,000 for 2006 and US$300,000 for each of 2005 and 2004 in respect of service provided to the Company by the executive officers. In addition, George Mirtskhulava was covered by these arrangements in 2004 and 2005. The portion of the aggregate compensation received by these executive officers (excluding Dr. David Robson) from CanArgo during 2006 which may be reasonably allocated to the portion of their time spent on the affairs of the Company, would not exceed $150,000 and accordingly such executive officers are not considered "Named Executive Officers" for any part of 2006, 2005 and 2004. The management services agreement between CanArgo and the Company will be terminated concurrently with the completion of the Offerings.

Name and Principal Positions	Year	Annual Compensation: Salary US($)	Annual Compensation: Bonus US($)	Annual Compensation: Other Annual Compensation US($)(3)	Long-Term Compensation: Awards: Securities Under Options/SARs Granted (#)	Long-Term Compensation: Awards: Shares or Units Subject to Resale Restrictions US($)	Long-Term Compensation: Payouts: LTIP Payouts US($)	All Other Compensation US($)
Dr. David Robson(1)	2006	220,286	—	19,826	(4)	—	—	—
President, Chief Executive	2005	109,668	—	9,870	(4)	—	—	—
Officer and Chairman	2004	33,723	—	3,035	(4)	—	—	—
Bernard Murphy(2)	2006	68,477	—	—	—	—	—	—
Vice President, Finance and	2005	—	—	—	—	—	—	—
Chief Financial Officer	2004	—	—	—	—	—	—	—

Notes:

(1) The compensation earned by Dr. Robson in 2006, 2005 and 2004 was paid by CanArgo. The amounts referred to in the table represents the United States dollar equivalent of the portion of amount paid by CanArgo which may reasonably be attributed to services rendered by Dr. Robson to the Company (on the basis of an allocation of 50%, 30% and 10% of Dr. Robson's professional time as having been dedicated to the Company's affairs during 2006, 2005 and 2004, respectively).

(2) Bernard Murphy was appointed an officer of the Company on September 1, 2006 and was not employed by, and did not provide services to, the Company or CanArgo prior to that date.

(3) The amounts shown in this column reflect for each Named Executive Officer:

(i) the Company's contribution equal to 9% of their annual personal pension requirements;

(ii) permanent health insurance (including family healthcare insurance) premiums;

(iii) life assurance premiums;

(iv) critical illness premiums; and/or

(v) income protection premiums.

(4) In connection with his services as Chief Executive Officer of CanArgo, Dr. Robson was granted options by CanArgo to purchase an aggregate of 300,000 and 1,500,000 common shares of CanArgo in 2005 and 2004, respectively, at an exercise price representing 10% above the market price of the common shares of CanArgo at the date of grant. No such options were granted to Dr. Robson in 2006.

Employment and Management Agreements

The Company and Vazon will enter into a management services agreement prior to Closing (the "**CEO Services Agreement**") providing for, among other services, the services of Dr. David Robson as President and Chief Executive Officer of the Company. Dr. Robson is the owner and Managing Director of Vazon. The CEO Services Agreement requires that the Company pay Vazon a monthly fee of £16,250 for these services, plus a further 9% of this sum as a contribution to Dr. Robson's personal pension requirements. No further cash compensation is provided to Dr. Robson by the Company. The Company will also be required to reimburse Vazon for expenses incurred by Vazon's employees in connection with the services provided to the Company. The CEO Services Agreement may be terminated on six months' notice from either party and the Company is not required to make any payment upon termination, other than the payment of amounts due to the effective date of termination.

The Company and Vazon will enter into a management services agreement prior to Closing (the "**Umbrella Management Services Agreement**") providing for, among other services, the services of Vazon and the services of Ms. Liz Landles as Executive Vice President, Graham Wall as Vice President, Technical and George Mirtskhulava as Vice President, Commercial and Head of Kazakhstan Business Unit. The Umbrella Management Services Agreement requires that the Company pay Vazon a monthly fee of £87,442 (including contributions towards personal pension requirements), plus any required local or similar taxes, for their services. In addition, the Umbrella Management Services Agreement provides for the provision of other services including office accommodation, corporate, administrative, financial, treasury, accounting, information technology and human resources. The Company will also be required to reimburse Vazon for expenses incurred by Vazon's employees in connection with the services provided to the Company. The Umbrella Management Services Agreement may be terminated on six months' notice from either party. The Company is not required to make any payment upon termination, other than the payment of amounts due to the effective date of termination.

Chief Financial Officer

Bernard Murphy and the Company's wholly-owned subsidiary TSL are parties to a consultancy contract dated August 31, 2006 (the "**Consultancy Contract**") pursuant to which Mr. Murphy is employed as Chief Financial Officer and Finance Director of the Company. The Consultancy Contract does not have an express term and may be terminated by the Company as well as by Mr. Murphy with three months' notice. The annual compensation payable to Mr. Murphy is £110,000, plus £9,900 annually in respect of personal pension requirements. The Company has also agreed to pay for certain premiums for health and life insurance. Mr. Murphy is eligible to participate in the Company's stock incentive plan and any bonus plan the Company may adopt. Prior to the completion of the Treasury Offering, Mr. Murphy and the Company propose to enter into an employment contract confirming Mr. Murphy's employment as Chief Financial Officer and Finance Director of the Company on terms identical to the terms of his Consultancy Contract in respect of compensation and termination.

Executive Vice President, Corporate Development and Chief Commercial Officer

Julian Hammond and the Company propose to enter into an employment contract prior to the completion of the Treasury Offering (the "**Employment Contract**") which will confirm Mr. Hammond's employment as Executive Vice President, Corporate Development and Chief Commercial Officer of the Company. The Employment Contract will not have an express term and will be able to be terminated by the Company as well as Mr. Hammond with six months' notice. The annual compensation payable to Mr. Hammond is £110,000, plus £9,900 annually in respect of personal pension requirements. The Company has also agreed to pay for certain premiums for health and life insurance. Mr. Hammond is eligible to participate in the Company's stock incentive plan and any bonus plan the Company may adopt.

Summary of Directors' Compensation

The Company's directors who are not also executive officers are entitled to receive an annual retainer of £35,000 and receive additional annual fees ranging from £1,000 to £2,000 for serving as a member of, and holding the position of chairman of, a committee of the Board of Directors. Mr. Lilley receives an extra £5,000 a year as a result of being the Vice Chairman of the Company.

The appointment of each director who is not also an executive officer (a "**non-executive director**") will be confirmed under the terms of an appointment letter. Such appointment letter will provide that non-executive directors will be indemnified by the Company from and against all actions, expenses and liabilities incurred in the execution of his or her functions, subject to such limitations which may apply at law.

Directors' and Officers' Liability Insurance

The Company will maintain a policy of insurance for its directors and officers with an effective date on or before the date of the final prospectus relating to the Offerings. The aggregate annual limit of liability applicable to all insured directors and officers under the proposed policy is currently US$10,000,000. Under the policy, the Company would pay a deductible to be determined. The Memorandum and Articles also provide for the indemnification of the Company's directors and officers from and against liabilities and costs in respect of any action or suit against them in connection with the execution of their duties as officers, except where such liabilities or costs arise through their wilful act, neglect or default.

Key Man Insurance

The Company does not carry key man insurance on any of the Company's executives to date.

Stock Incentive Plan

The Company proposes to adopt a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" (the "**Plan**") pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, or any subsidiary or Vazon (collectively, "**Service Providers**"). See "*Compensation of Directors and Officers — Employment and Management Agreements*". The purpose of the Plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by Service Providers who, in the judgment of the Board of Directors, will be largely responsible for its future growth and success.

The maximum number of Ordinary Shares to be reserved for issuance under the Plan will equal 10% of the outstanding Ordinary Shares after giving effect to the Treasury Offering. The Plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding 10 years. Subject to any resolution passed by the Compensation and Nomination Committee, options will generally terminate three months after an optionee ceases to be a Service Provider. The number of options which will have been granted prior to the completion of the Treasury Offering is expected to equal 9.2% of the outstanding Ordinary Shares (after giving effect to the Treasury Offering), including 6.0% of the outstanding Ordinary Shares in respect of options to be granted to officers and 1.2% in respect of options to be granted to non-executive directors. The options outstanding at the date of completion of the Treasury Offering will be exercisable at the Offering Price.

The exercise price of options granted under the Plan may not be less than the closing price of the Ordinary Shares on the principal stock exchange where the Ordinary Shares are listed. Subject to any resolution of the Compensation and Nomination Committee, the options will cease to be exercisable three months after an optionee ceases to be a director, officer, employee or consultant of the Company or Vazon, subject to earlier termination in the event of termination for cause. The Plan contains amendment provisions which allow amendments to the Plan by the Board of Directors, without shareholder approval, for amendments of a "housekeeping" nature, changes to vesting or termination provisions, and discontinuance of the Plan. The Plan also provides that outstanding options will vest immediately on the occurrence of a "change in control" (as defined in the Plan). Options granted under the Plan are only assignable to certain related entities of an optionee or otherwise with the consent of the Company.

The Plan does not contain any restriction on the number of Ordinary Shares which may be reserved for issuance in respect of options granted to insiders under the Plan or pursuant to any other share compensation arrangement. Accordingly, amendments to the Plan and other compensation arrangements of the Company which require approval of shareholders will require approval of disinterested shareholders for as long as the number of Ordinary Shares reserved for issuance under options or other share compensation arrangements exceeds 10% of the outstanding Ordinary Shares and the Plan or share compensation arrangements do not limit the participation of insiders to 10% of outstanding Ordinary Shares.

Performance Warrants

The Company has approved the grant to its executive officers of warrants (the "**Performance Warrants**") to acquire that number of Ordinary Shares representing 15% of the outstanding Ordinary Shares after giving effect to the Treasury Offering. The Performance Warrants will be exercisable at $ ● (representing 150% of the Offering Price) after two years in respect of 3% of the outstanding Ordinary Shares after giving effect to the Treasury Offering, $ ● (representing 200% of the Offering Price) after three-and-a-half years in respect of 5% of the outstanding Ordinary Shares (after giving effect to the Treasury Offering) and $ ● (representing 250% of the Offering Price) after five years in respect of 7% of the outstanding Ordinary Shares (after giving effect to the Treasury Offering). The Performance Warrants will expire six months from the date after which they first become exercisable.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or executive officer of the Company, nor any of their associates or affiliates, nor any employee of the Company is or has been indebted to the Company since the beginning of the most recently completed financial year of the Company, nor is, or at any time since the beginning of the most recently completed financial year of the Company has, any indebtedness of any such person been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

As at the date hereof, 8,000,000 of the 26,934,878 issued and outstanding Ordinary Shares (after giving effect to the Share Consolidation and after giving effect to the anticipated conversion of the CanArgo Notes and senior secured notes of CanArgo referred to under "*Relationship with CanArgo Energy Corporation*") are held, beneficially and of record, by the Selling Shareholder, a wholly-owned subsidiary of CanArgo. Prior to the Closing, CanArgo will hold 29.7% of the issued and outstanding Ordinary Shares. Upon completion of the Offerings, it is expected that CanArgo will hold, through the Selling Shareholder, approximately ● % of the issued and outstanding Ordinary Shares (● % on a fully-diluted basis) in the case of the Minimum Offering, approximately ● % of the issued and outstanding Ordinary Shares (● % on a fully-diluted basis) in the case of the Maximum Offering, assuming that no Offered Shares are issued in the Secondary Offering, and ● % of the issued and outstanding Ordinary Shares (● % on a fully-diluted basis) assuming that the full amount of the Offered Shares under the Secondary Offering is subscribed for. See "*Plan of Distribution*".

The Selling Shareholder was incorporated under the Companies Laws and is a direct wholly-owned subsidiary of CanArgo. The Selling Shareholder's registered office is located at P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, Channel Islands.

CanArgo was incorporated under The General Corporation Law (Delaware). CanArgo's principal office and head office is located at P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, Channel Islands, and its registered office is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA. CanArgo is an oil and natural gas exploration and production company with operations in Georgia and Kazakhstan. See "*Promoter*".

PLAN OF DISTRIBUTION

This prospectus qualifies the distribution of a minimum of ● Offered Shares and a maximum of ● Offered Shares pursuant to the Treasury Offering and up to ● Offered Shares pursuant to the Secondary Offering, in each case at the Offering Price of $ ● per Offered Share for gross proceeds to the Company of $ ● under the Minimum Offering and $ ● under the Maximum Offering, and gross proceeds to the Selling Shareholder of up to $ ● under the Secondary Offering. The Ordinary Shares offered by the Selling Shareholder pursuant to the Secondary Offering will only be sold if the maximum number of Ordinary Shares offered by the Company pursuant to the Treasury Offering has been sold. In this regard, the Company, CanArgo, the Selling Shareholder and the Agents entered into the Agency Agreement wherein the Agents agreed to obtain subscriptions for the Offered Shares on a "best efforts" basis. The Agents conditionally offer the Offered Shares, at the Offering Price if, as and when issued, sold and delivered by the Company subject to the conditions described in the Agency Agreement. The Agents have no obligation to purchase any of the Offered Shares.

A cash commission equal to 6% of the aggregate gross proceeds of the Offerings ($ ● per Offered Share), for an aggregate cash commission of up to $ ● will be paid to the Agents. The cash commission will be paid by the Company and the Selling Shareholder on a *pro rata* basis based on the number of Offered Shares sold under the respective Offerings.

As further consideration for the Agents' services in connection with the Treasury Offering, the Company has also agreed to grant to the Agents the Agents' Compensation Options, equal to 4.125% of the total number of Ordinary Shares sold in the Treasury Offering, each of which entitles certain of the Agents to acquire one Ordinary Share, subject to adjustment in certain circumstances, at an exercise price of $ ● per Ordinary Share, being ● % of the Offering Price, for a period of 18 months from the closing of the Treasury Offering. This prospectus also qualifies the distribution of the Agents' Compensation Options. The Agents' Compensation Options will be allocated among certain of the Agents based on their respective sales of Ordinary Shares under the Treasury Offering. The Agents, however, will not receive a commission with respect to any sales of Offered Shares to officers and directors of the Company, CanArgo or the Selling Shareholder.

The Offering Price was determined based upon arm's length negotiations among the Company, CanArgo and the Agents and is in Canadian dollars.

Provided the Minimum Offering has been achieved, it is expected that the initial Closing of the Offerings will take place on or about ● , 2007, or such later date as the Company, the Selling Shareholder and the Agents may agree, but in any event no later than ● , 2007.

Notwithstanding the above, the Offerings will be discontinued in the event that a Closing in respect of the Minimum Offering has not occurred on or prior to the date which is 90 days from the issuance of a receipt for this prospectus, unless the subscribers who have subscribed within such period consent to the continuation of the Offerings.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Custodian, pending Closing of the Minimum Offering, pursuant to the provisions of the Agency Agreement. If the Minimum Offering has not been subscribed for prior to the 90 day period, the Custodian shall promptly return the proceeds of subscriptions to the subscribers without interest or deduction, unless such subscribers have otherwise instructed the Custodian.

Should the initial Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Maximum Offering and the Secondary Offering being fully subscribed and ● , 2007.

Pursuant to policy statements of the Ontario Securities Commission, the Agents may not, throughout the period of distribution, bid for or purchase Ordinary Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Ordinary Shares. The Company has been advised that in connection with the Offerings and pursuant to the first mentioned exception, the Agents may over-allot or effect transactions which stabilize or maintain the price of the Ordinary Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced may be discontinued at any time.

The Offered Shares have not been and will not be registered under the 1933 Act, and, subject to certain exceptions, may not be offered or sold in the United States, and, subject to certain exceptions, may not be offered, sold or otherwise disposed of, directly or indirectly, within the United States or its territories or possessions except in transactions exempt from registration under the 1933 Act and under the securities laws of any applicable state.

The Company, the Selling Shareholder and CanArgo have agreed to indemnify the Agents and their affiliates, directors, officers, employees, partners, agents and shareholders (the "**Indemnified Parties**") against certain claims with which the Indemnified Parties may become involved in any capacity in so far as the claims relate to performance of the professional services of the Agents pursuant to the Agency Agreement.

The Offered Shares held by Canadian shareholders will be settled through the system operated by CDS & Co., the registration name for The Canadian Depository for Securities Limited.

MARKET FOR SECURITIES

There is currently no market through which the Ordinary Shares may be sold and purchasers may not be able to resell Offered Shares purchased under this prospectus.

PRIOR SALES

The Company has not issued any Ordinary Shares in the 12-month period prior to the date of this prospectus except for: (i) 34,674,390 Pre-Split Ordinary Shares for aggregate gross proceeds of approximately US$17,400,000 that were issued pursuant to a private placement which closed on January 24, 2007; and (ii) 6,000,000 Ordinary Shares that were issued in connection with Tethys' acquisition of the 30% interest in BNM it did not previously own which was completed on May 9, 2007. In addition, at least 1,500,000 Ordinary Shares are issuable in connection with Tethys' acquisition of NBC. The Company has also issued or agreed to issue options and warrants to acquire Ordinary Shares. Further particulars of these prior and potential sales are set out below.

Private Placement

On January 24, 2007, Tethys closed a private placement whereby it issued 34,674,390 Pre-Split Ordinary Shares (or 6,934,878 Ordinary Shares after giving effect to the Share Consolidation) at a price of US$0.50 per share for gross proceeds of approximately US$17,400,000. These Pre-Split Ordinary Shares were issued at a price of US$0.50 per share and the funds raised were used to complete the construction of the 32 mile (51 km) 325 mm diameter pipeline that will be used in connection with the anticipated gas production from the Kyzyloi Field development, to fund the drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors.

BNM Buyout

On March 13, 2007, Tethys reached an agreement with the owner of the minority interest in BNM whereby Tethys, through its wholly-owned subsidiary TKL, acquired the 30% of BNM it does not already own in exchange for 30,000,000 Pre-Split Ordinary Shares (or 6,000,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making BNM an indirect wholly-owned subsidiary of Tethys. This acquisition was completed on May 9, 2007. The registration of the transfer of this interest in BNM to TKL with the appropriate authorities in Kazakhstan is expected to be completed by June 30, 2007. The ordinary shares issued by Tethys as consideration for this acquisition will be issued to the previous owner of the minority interest in BNM or its nominees.

Aral Vostochniy

On May 10, 2007, Tethys entered into an agreement with the owner of NBC to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL in exchange for, among other things, an initial payment of US$2,500,000 (including an immediate US$100,000 deposit to be paid which will be forfeited, under certain circumstances, if the contract becomes null and void) and 7,500,000 Pre-Split Ordinary Shares (or 1,500,000 Ordinary Shares after giving effect to the Share Consolidation), thereby making NBC an indirect wholly-owned subsidiary of Tethys. Closing of this acquisition is conditional upon, among other things, Tethys raising gross proceeds of at least US$25,000,000 pursuant to the Treasury Offering. See "*Property Descriptions — Aral Vostochniy and Aral Vostochniy Exploration Contract*".

2017 Warrants

On February 14, 2007, the Company agreed to issue certain warrants (the "**2017 Warrants**") to purchase an aggregate of 10,450,000 Pre-Split Ordinary Shares (or 2,090,000 Ordinary Shares after giving effect to the Share Consolidation). The 2017 Warrants relate to the January 24, 2007 private placement of Pre-Split Ordinary Shares and the recipients include, among others, a number of members of management of Tethys and CanArgo. The 2017 Warrants are exercisable at a price of US$0.50 per share (prior to giving effect to the Share Consolidation) and have a term of ten years.

Short-Term Loan Warrants

Under the terms of the Short-Term Loan, the noteholders are entitled to receive additional consideration for the advance of the loan in the form of warrants to subscribe for ordinary shares in the Company at the closing of the Treasury Offering or 90 days following the date of the first commercial sale of hydrocarbons by the Company. The two lenders have opted to receive warrants on closing of the Treasury Offering. These warrants are exercisable in whole or in part until September 2011 and will entitle the holders to subscribe for 6,730,769 Pre-Split Ordinary Shares (or 1,346,154 Ordinary Shares after giving effect to the Share Consolidation) at a price of US$0.50 per share.

Stock Options and Performance Warrants

The Company has also agreed to issue stock options under the Plan and Performance Warrants prior to completion of the Treasury Offering. See "*Compensation of Directors and Officers*" and "*Options and Warrants to Purchase Securities*".

OPTIONS AND WARRANTS TO PURCHASE SECURITIES

As at the closing date of the Treasury Offering, there will be outstanding stock options to purchase ● Ordinary Shares and ● warrants to purchase Ordinary Shares as follows:

Group (Number)	Number of Ordinary Shares	Exercise Price per Ordinary Share	Expiry Date	Aggregate Market Value as at ●, 2007 of Underlying Ordinary Shares[1]
Executive Officers (6)	● options	$ ●	●	Nil
	● Performance Warrants[2]	$ ●	(2)	Nil
	470,000 2017 Warrants[5]	US$2.50	February 2017	Nil
Non-Executive Directors (5)	● options	$ ●		Nil
	400,000 2017 Warrants[5]	US$2.50	February 2017	Nil
Employees and Consultants[3] (16)	● options	$ ●		Nil
	60,000 2017 Warrants[5]	US$2.50	February 2017	Nil
Persistency Capital LLC	4,139,423 warrants[4]	US$2.50	September 2011	Nil
Ingalls & Snyder Value Partners LP	2,591,346 warrants[4]	US$2.50	September 2011	Nil
Alpha Resources International Limited[6]	770,000 2017 Warrants[5]	US$2.50	February 2017	Nil
Provincial Securities Limited[7]	290,000 2017 Warrants[5]	US$2.50	February 2017	Nil
Agents[8]	● Agents' Compensation Options	●	(8)	Nil

Notes:

(1) There is no public market for the Ordinary Shares.

(2) See "*Compensation of Directors and Officers — Performance Warrants*" for a description of these warrants.

(3) Including one consultant of CanArgo.

(4) See "*Prior Sales — Short-Term Loan Warrants*" for a description of these warrants.

(5) See "*Prior Sales — 2017 Warrants*" for a description of these warrants.

(6) These 2017 Warrants are owned by an entity of which one of the executive officers is an advisor.

(7) These 2017 Warrants are owned by an entity of which one of the non-executive directors is an advisor.

(8) See "*Plan of Distribution*" for a description of the Agents' Compensation Options.

ELIGIBILITY FOR INVESTMENT

In the opinion of Borden Ladner Gervais LLP, counsel for the Company, and Blake, Cassels & Graydon LLP, counsel for the Agents, the Ordinary Shares, if issued on the date hereof, would be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans provided that the Ordinary Shares were listed on a designated/prescribed stock exchange.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Borden Ladner Gervais LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Agents, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations applicable to a purchaser of Offered Shares pursuant to the Offerings. This summary is applicable only to a purchaser who, at all relevant times, is resident in Canada, deals at arm's length and is not affiliated with the Company, and who will acquire and hold such Offered Shares as capital property (a "**Holder**") and in respect of whom the Company is not a foreign affiliate, all within the meaning of the Tax Act. Any Offered Shares will generally be considered to be capital property to a Holder unless the Holder holds such securities in the course of carrying on a business or has acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a Holder that is a "financial institution" for purposes of the mark-to-market provisions of the Tax Act.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act (the "**Tax Proposals**") which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that such Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Offered Shares. The following description of income tax matters is of a general nature only and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular Holder. It does not address the tax considerations relevant to a Holder that borrows in order to acquire Offered Shares. **Holders are urged to consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.**

Foreign Investment Entity Status

Bill C-33, s.18 introduced by the Minister of Finance (Canada) into Parliament in late 2006 will amend the Tax Act (if enacted in its current form) in relation to the income tax treatment of investments by Canadian residents in non-resident entities that constitute "foreign investment entities" (each, a "**FIE**") applicable for taxation years commencing after 2006 (the "**FIE Tax Proposals**"). In general terms, the FIE Tax Proposals, as currently drafted, would apply to require a Holder that holds a "participating interest" (that is not an "exempt interest") in a non-resident entity that is a FIE at the entity's taxation year-end to take into account in computing the Holder's income for the Holder's taxation year that includes such taxation year-end: (i) an amount based on a prescribed rate of return on the "designated cost" of such participating interest held by the Holder at the end of each month ending in the Holder's taxation year at which time the participating interest is held by the Holder; (ii) in certain limited circumstances, any gains or losses accrued on such participating interest for the year; or (iii) in certain limited circumstances, the Holder's proportionate share of the FIE's income (or loss) for the year calculated using Canadian tax rules. For the purposes of the FIE Tax Proposals, the Offered Shares will constitute participating interests in the Company.

The Company will not be a FIE at the end of a taxation year provided that, at that time, the "carrying value" of all of the Company's "investment property" is not greater than one-half of the "carrying value" of all of its property or, throughout the taxation year, its principal undertaking was the carrying on of a business other than an investment business as determined for purposes of the FIE Tax Proposals. The Company is of the view, and has advised counsel, that if the Company had a taxation year-end on the closing date of the Offerings, the Company would not be a FIE on that date on the basis that on the closing date of the Offerings the carrying value of its investment property would not be greater than one-half of the carrying value of all of its property. However, the determination of whether or not the Company is a FIE must be made on an annual basis at the end of each taxation year of the Company and no assurance can be given that the Company will not be a FIE at the end of any of its taxation years.

Foreign Property Information Reporting

A Holder that is a "specified Canadian entity" for a taxation year or a fiscal period and whose total cost amount of "specified foreign property", including the Offered Shares, at any time in the year or fiscal period exceeds $100,000 (as such terms are defined in the Tax Act) will be required to file Form T-1135 for the year or period disclosing prescribed information. Subject to certain exceptions, a Holder will generally be a specified Canadian entity. Holders should consult their own tax advisors regarding these rules.

Disposition of Offered Shares

A Holder who disposes of or is deemed to have disposed of an Offered Share will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of the Offered Share exceed (or are exceeded by) the aggregate of the adjusted cost base of such Offered Share and any reasonable expenses associated with the disposition.

Generally, one-half of any capital gain (a "**taxable capital gain**") realized must be included in the Holder's income and one-half of any capital loss (an "**allowable capital loss**") offsets taxable capital gains realized by the Holder in the same taxation year, and any excess is generally deductible against net taxable capital gains in any of the three prior years or in any subsequent year in the circumstances and to the extent provided in the Tax Act.

Capital gains realized by an individual and certain trusts may result in the individual or trust paying alternative minimum tax under the Tax Act.

A Holder that is a Canadian controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6⅔% refundable tax in respect of its aggregate investment income, which includes an amount in respect of taxable capital gains.

Taxation of Dividends Received by Holders of Offered Shares

Dividends received or deemed to be received on the Offered Shares by a Holder who is an individual will be included in computing the Holder's income, but will not be eligible for the gross-up and dividend tax credit treatment normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations.

Dividends received or deemed to be received on the Offered Shares by a Holder that is a corporation generally will be included in computing the Holder's income, but will not be entitled to the inter-corporate dividend deduction in computing taxable income which generally applies to dividends received from taxable Canadian corporations.

A Holder that is a Canadian controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6⅔% refundable tax in respect of its aggregate investment income, which includes an amount in respect of dividends on the Offered Shares.

GUERNSEY TAXATION CONSIDERATIONS FOR SHAREHOLDERS NOT RESIDENT IN GUERNSEY

The summary below addresses Guernsey taxation considerations relevant to shareholders of the Company who are not resident of Guernsey and is based on current law and practice in Guernsey and is subject to changes therein.

Taxation of Shareholders

Guernsey does not levy capital gains tax (with the exception of a dwellings profit tax) and, therefore, shareholders of the Company will not be subject to any tax in Guernsey on capital gains. Payments made by the Company to non-Guernsey resident shareholders, whether made during the life of the Company or by distribution on the liquidation of the Company, will not be subject to Guernsey tax.

RISK FACTORS

An investment in Ordinary Shares is speculative and involves a high degree of risk that should be considered by potential investors. An investment in the Offered Shares is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investments. An investor should carefully consider the following risk factors in addition to the other information contained in this prospectus before purchasing Ordinary Shares. The risks and uncertainties below are not the only ones the Company is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus. In addition, there are additional risks and uncertainties of which the Company is not presently aware or that the Company currently considers immaterial but which may also impair the Company's business operations and cause the price of the Ordinary Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly. In that event, the trading price of the Ordinary Shares could decline, and an investor may lose all or part of his or her investment.

Risks Related to the Company and its Business

Competition

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. Tethys' competitive position depends on its geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. Tethys competes with a substantial number of other companies having larger technical staff and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil and gas reserves, but also carry on refining operations and market refined products. Tethys also competes with major and independent oil and gas companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. Tethys also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and has been in particularly short supply recently due to the increase in the market price of oil and gas. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil and gas may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for Tethys.

Marketability of Production

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of Tethys. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. 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. See "*Industry Conditions*". Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

Commodity Price Fluctuations

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in natural gas prices could result in a reduction of Tethys' net production revenue and overall value and could result in ceiling test write downs. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of Tethys' reserves. Tethys might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Tethys' net production revenue causing a reduction in its acquisition and development activities. A substantial material decline in prices from historical average prices could reduce the Company's ability to borrow funds.

Nature of the Oil and Gas Business

An investment in Tethys should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in Kazakhstan. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand the Company's asset base of oil and natural gas reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to replenish the Company's reserves, the Company's future exploration, development and acquisition activities will result in additional proved reserves or that the Company will be able to drill productive wells at acceptable costs.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Hedging Activities

The Company's subsidiary, BNM, has entered into the Gas Supply Contract and from time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similar risks will apply to any hedging agreements the Company may enter into to set exchange rates or fix interest rates on its debt.

Financial Resources

The Company's cash flow from operations may not be sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards and lead to increased borrowing costs, reducing the Company's income. Depending on future exploration and development plans, the Company may require additional financing, which may not be available or, if available, may not be available on favourable terms. Failure to obtain such financing on a timely basis could cause the Company to forfeit or forego various opportunities that would otherwise be beneficial to the Company and its shareholders.

International Operations

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Company's international operations. The Company's operations may also be adversely affected by applicable laws and policies of Kazakhstan, Tajikistan or other countries in which it operates in the future, the effect of which could have a negative impact on the Company.

Foreign Currency and Fiscal Matters

The Company's operations and expenditures are to some extent paid in foreign currencies. As a result, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material drop in the value of any such foreign currency could result in a material adverse effect on the Kazakhstan cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan to foreign entities. There can be no assurance, however, that restrictions on repatriation of capital or distributions of earnings from Kazakhstan will not be imposed in the future. Amendments to current taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on Tethys. Tethys also has a subsidiary that is incorporated in a different tax jurisdiction.

To the extent revenues and expenditures denominated in or strongly linked to the U.S. dollar are not equivalent, the Company is exposed to exchange rate risk. The Company is exposed to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. In addition, a portion of expenditures in Kazakhstan are denominated in Tenge, which are difficult to hedge. The Company is not currently using exchange rate derivatives to manage exchange rate risks. In addition, the Company's results will be reported in U.S. dollars and foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings.

Political and Regulatory

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. Environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. The Company is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company and TKL are subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

Tethys is conducting exploration and development activities in Kazakhstan, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, Tethys believes that the government of Kazakhstan supports the exploration and development of its oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Kazakhstan will not result in the government adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations. Similar risks apply to the Company's proposed activities in Tajikistan and in other countries in which the Company may operate in the future.

Legal Systems

The Company is incorporated in Guernsey. TKL, which represents substantially all of the Company's assets, is incorporated in Guernsey and carries on all of its material operations in Kazakhstan. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for shareholders of the Company. Shareholders of the Company will not have rights identical to those available to shareholders of a corporation incorporated under the federal laws of Canada. For example, the Companies Laws does not contemplate "appraisal rights" in the event of certain fundamental changes. Moreover, in certain circumstances, the Company may require a shareholder to divest itself of its Ordinary Shares if the ownership or holding of such Ordinary Shares would be in breach of laws or a legal requirement of any country or if such shareholder is not qualified to hold the Ordinary Shares and if such ownership or holding would in the reasonable opinion of the Board of Directors cause a pecuniary or tax disadvantage to the Company or any other shareholder. See "*Description of Share Capital*" and "*Memorandum and Articles of Association*".

Exploration and development activities outside Canada may require protracted negotiations with host governments, national oil and gas companies and third parties. Foreign government regulations may favour or require the awarding of drilling contracts to local contracts or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil and gas ministries and national oil and gas companies, to the jurisdiction of the Canada.

Kazakhstan may have a less developed legal system than jurisdictions with more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Production Variances from Reported Reserves

The Company's reserve evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Company. The reserves information set forth in this prospectus represent estimates only. The reserves from the Company's properties have been independently evaluated by McDaniel in the McDaniel Reserve Report. The McDaniel Reserve Report includes a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

The Company is subject to risks related to its operations in Kazakhstan, including those related to the development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. The Company may be adversely affected by changes in governmental policies or social instability or other political or economic developments in Kazakhstan that are outside the Company's control including among other things, expropriation, risks of war and terrorism, foreign exchange and repatriation restrictions, changing political conditions and monetary fluctuations and changing governmental policies including taxation policies.

Conclusion of Agreements in Tajikistan

The Company's current contractual position in Tajikistan is based solely on a Protocol of Intent giving the Company the exclusive rights to negotiate for a PSC or similar binding contract giving the Company rights to carry out oil and gas exploration and production activities in certain areas of Tajikistan. Although negotiations are proceeding satisfactorily, there can be no guarantee that the Company will be able to negotiate suitable contracts or agreements with acceptable commercial terms, and if so proceed with its planned activities in Tajikistan.

"Resource" vs. "Reserves"

Throughout this document, Tethys has attempted to provide an appreciation of the potential that Tethys' asset base offers. In doing so, Tethys often uses terms such as "gas-in-place" or "resource(s)". These terms refer to the estimated original resource size of a particular prospect and it should be distinguished from reserves. Reserves are the amount of hydrocarbons that are estimated to be economically recoverable from a particular resource base from a given date forward. Ultimate recoverable reserves can range widely depending on resource characteristics, available technologies and economic and contractual parameters.

Availability of Equipment and Access Restrictions

Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development, and sales activities and could have a material adverse effect on the Company's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition and results of operations. To the extent Tethys is not the operator of its oil and gas properties, Tethys will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Operating Hazards

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although Tethys maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Tethys could incur significant costs that could have a material adverse effect upon its financial condition. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Environmental

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. 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.

Reliance on Third Party Operators and Key Personnel

To the extent that the Company is not the operator of its properties, as the Company will be dependent upon other guarantors or third parties' operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

Recurring Losses and Going Concern

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit as at December 31, 2006. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability to: (i) secure additional financing; (ii) commence production of commercial oil and natural gas; and (iii) cost control of operating and capital expenditures. These factors create doubt about the Company's ability to continue as a going concern should the Treasury Offering not be completed.

For the fiscal years ended December 31, 2004, 2005 and 2006, the Company recorded net losses of US$612,000, US$2,065,000 and US$6,943,000 respectively, and has an accumulated deficit of US$9,647,000 as at December 31, 2006. Since the Company intends to invest in developing its business, further losses and negative cashflows may be incurred. While management of the Company has confidence in the future potential of the Tethys Group, there is no assurance that the Tethys Group will become or remain profitable in the future. In addition, the Tethys Group's results may fluctuate as a result of a number of factors, many of which are beyond its control. No impairment of oil and gas properties was recorded in 2006, 2005 or 2004. No assurance can be given that the Tethys Group will not experience operating losses or additional write-downs in the future. See note 1 to the audited consolidated financial statements of the Company contained elsewhere in this prospectus for a discussion on the nature of the Company's operations and going concern.

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Production Delays

The first gas production from the Kyzyloi Field is expected in late July 2007. The start of production requires the completion of the tie-in of the Company's pipeline, which in turn requires the successful tie-in of the Company's pipeline to the Bukhara – Urals trunkline, which is owned by the state company Intergas Central Asia. Although this tie-in has been agreed to, there may be a risk that, for operational reasons on the trunkline, the tie-in cannot be completed as scheduled. First gas production also requires approval from a state commission with respect to the final commissioning of the line in order to meet Kazakh environmental and safety standards. There is a possibility in delays in obtaining that commission's approval for commissioning. Any such delays could reduce the Company's revenues and income below those anticipated in the Company's business plan.

Property Interests

The interest of the Company's subsidiaries in the Kyzyloi Field, Akkulka Block and Kul-Bas Block, and the interest proposed to be acquired in the Aral Vostochniy Block, are represented by contracts and licenses with Kazakhstan governmental agencies (the "**Kazakh Contracts**") which grant the holder the exploration and production rights over a defined area. Ownership of the land covered by the Kazakh Contracts remains with the relevant governmental agencies. The Kazakh Contracts to which the Company's subsidiaries are a party, and pursuant to which a licence(s) is granted to the Company's subsidiaries, are subject to certain conditions, including minimum expenditure and reimbursement requirements, and requirements to minimum contributions to socio-economic development funds. In addition, the Kazakh Contracts are subject to periodic renewal. While the Company expects that the Kazakh Contracts will be renewed in the ordinary course throughout the life of the relevant area, there is a risk that the Kazakh Contracts may not be renewed on a timely basis or may not be renewed on terms satisfactory to the Company. There is also a risk that prior renewals or extensions of the Kazakh Contracts may be challenged by third parties as a result of delayed renewals or extensions. Moreover, as any transfer of the Kazakh Contracts requires governmental consent, the ability of the Company to transfer the Kazakh Contracts in the future or use the Kazakh Contracts as a security for future borrowing may be restricted. There is also a risk that governmental agencies may seek compensation for foregone revenue resulting from prior delays in execution of certain of the Kazakh Contracts, including the Kyzyloi Field Licence and Production Contract.

Disclosure Controls and Procedures; Internal Control Over Financial Reporting

The Company will be required to design disclosure controls and procedures to ensure that information required to be disclosed under applicable securities legislation is recorded, processed, summarized and reported within prescribed time periods. As the Company has not previously been subject to statutory disclosure requirements, the disclosure controls and procedures which the Company will adopt will not have been tested and may require changes to ensure their effectiveness. The Company will also need to design new systems for its internal control over financial reporting. The Company will need to implement certain controls over information technology to ensure that the design of its internal control over financial reporting is effective. There is a risk that these new controls, once implemented, may not provide reasonable assurance regarding the reliability of its financial reporting. Development and implementation of these disclosure controls and internal controls over financial reporting (and compliance with securities laws generally) will add to the Company's general and administrative expenses above levels recorded historically.

Conflicts of Interest

Upon completion of the Offerings, CanArgo will hold, through its ownership of the Selling Shareholder, ● % of the outstanding Ordinary Shares. Three of the seven directors of the Company are currently also directors of CanArgo. In addition, CanArgo and the Company have a common Chief Executive Officer. However, effective upon Closing, Vincent McDonnell (a current director of each of Tethys and CanArgo), will replace Dr. David Robson as the Chief Executive Officer of Can Argo. Following Closing, Dr. David Robson will remain as Chairman of CanArgo, but in a non-executive role, while serving as the President, Chief Executive Officer and Chairman of the Board of Directors. The interests of CanArgo may not always be aligned with the interest of public shareholders of the Company.

In addition, certain of the directors of the Company may have associations with other oil and gas companies or with other industry participants with whom the Company does business. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest which they may have in any project or opportunity to the Company. However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Company.

Relationship with CanArgo and the Selling Shareholder

Through the AMI Agreement, the Company will continue to have a close relationship with CanArgo and its affiliates. To the extent that the applicable counterparties to these agreements are not able to fulfill their obligations under these agreements, this could have an adverse effect on the Company's operations and results.

Risk Factors Related to the Republic of Kazakhstan

Political, Economic, Legal and Fiscal Instability

Kazakhstan is a former constituent republic of the Soviet Union. At the time of its independence in 1991, it became a member of the CIS. Because Kazakhstan has a relatively short history of political stability as an independent nation, there is significant potential for social, political, economic, legal and fiscal instability. These risks include, among other things:

- local currency devaluation;
- civil disturbances;
- exchange controls or availability of hard currency;
- changes in crude oil, export and transportation regulations;
- changes with respect to taxes, royalty rates, import and export tariffs, and withholding taxes on distributions to foreign investors;
- changes in antimonopoly legislation;
- nationalisation or expropriation of property; and
- interruption or blockage of oil exports.

The occurrence of any of these factors could have a material adverse affect on the Company's business, financial condition and results of operations.

Further, Kazakhstan also depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper, ferro-alloys, iron ore, alumina, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, the Kyrgyz Republic and Belarus, joined by Tajikistan in 1999, signed a customs union which, among other things, provides for the removal of trade tariffs between these nations, and Kazakhstan has taken other steps to promote regional economic integration. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to those routes be materially impaired, this could adversely impact the economy of Kazakhstan.

Like other countries in Central Asia, Kazakhstan could be affected by military action taken in the region, including in Afghanistan and in Iraq, and the effect such military action may have on the world economy and political stability of other countries. In particular, countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil, oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Economic Conditions in Kazakhstan

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has experienced significant change as it emerged from a single-party political system and a centrally-controlled command economy to a market-oriented model. The transition was marked in the earlier years by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a program of economic reform designed to establish a free market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than many other countries of the CIS. However, as with any transition economy, there can be no assurance that such reforms and other reforms described elsewhere in this prospectus will continue or that such reforms will achieve all or any of their intended aims.

In addition, instability in other countries, such as Russia, has affected in the past, and may materially affect in the future, economic conditions in Kazakhstan. The Company's results of operations are significantly dependent on the Kazakh economy. Although the government of Kazakhstan has adopted policies aimed to mitigate any such negative effect, low commodity prices and weak demand in its export markets and economic instability elsewhere in the world may adversely affect Kazakhstan's economy. Adverse economic conditions in Kazakhstan could have a material adverse affect on the Company's business, financial condition and results of operations.

Changes in the Political and Legal Environment in Kazakhstan

Kazakhstan's foreign investment, petroleum, subsoil use, licensing, corporate, tax, customs, currency, banking and antimonopoly laws and legislation are still developing and uncertain. From time to time, including the present, draft laws on these subjects are prepared by government ministries and some have been submitted to Parliament for approval. Legislation in respect of some or all of these areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even the Company's best efforts to comply with applicable law may not always result in compliance. Non-compliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in Kazakh laws and their interpretation and application could have a material adverse affect on the Company's business and results of operations.

The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Kazakh government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. The government of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Kazakh government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Company's business and prospects.

The Company's exploration and production licences, hydrocarbon contract and other agreements may be susceptible to revision or cancellation, and legal redress may be uncertain, delayed or unavailable. In addition, it is often difficult to determine from governmental records whether statutory and corporate actions have been properly completed by the parties or applicable regulatory agencies. Ensuring the Company's ongoing rights to licences and its hydrocarbon contracts will require a careful monitoring of performance of the terms of the licences and hydrocarbon contracts, and monitoring the evolution under Kazakh laws and licencing practices.

Foreign Exchange Fluctuations

To the extent that the Company or its subsidiaries or affiliates hold Tenge positions, there is a risk from foreign exchange fluctuations. Between its introduction in 1993 and 2002, the Tenge depreciated significantly against the U.S. dollar, in two cases over a short period of time. The Company cannot assure prospective investors that the Tenge will not experience further depreciation against the U.S. dollar. The Company also cannot assure prospective investors that Tenge will continue to be freely exchangeable into U.S. dollars or that the Company will be able to exchange sufficient amounts of Tenge into U.S. dollars to pay interest to meet its other foreign currency obligations. Although some of its expenses and revenues are in Tenge, the Company's financial statements are reported in U.S. dollars, consistent with the practice in the oil and gas industry. If the exchange rate of the Tenge fluctuates substantially or the rate of inflation materially increases in Kazakhstan in the future, the Company's financial statements may not be indicative of its future performance and may not accurately reflect the U.S. dollar value of its assets or current operations.

Taxation Risks and Issues

The taxation system in Kazakhstan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Kazakhstan are significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies, therefore, regulations are often unclear or nonexistent. Accordingly, few precedents with regard to issues have been established.

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax and other risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

All legal entities carrying on activities in Kazakhstan must be registered with the local tax committee. Taxes in Kazakhstan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as required contributions to various funds, duties and fees for licences. In addition, the Company has, through its various operations, been making and expects to continue to make, contributions to various social funds.

Additional payments, such as signing bonuses, commercial discovery bonuses, royalties and excess profit taxes, are required from oil and gas companies and other subsoil users. A signing bonus is a one-time payment for the rights to explore and/or develop and produce resources. A commercial discovery bonus is a one-time payment for each commercial discovery and is payable once a discovery of commercial value is made in a contract territory as well as for any increase in reserves. Excess profit tax is payable pursuant to all subsurface use contracts executed before January 1, 2004, applying sliding scale rates with increasing rates of excess profit tax of up to 30% if the project IRR is greater than 30%. For subsurface use contracts executed after January 1, 2004, excess profit tax is calculated using as the tax base the net income of a subsurface user in excess of 20% of tax deductions. The rates of excess profit tax are established on a sliding scale ranging from 10% to 60%, using the after tax profit as the tax base, and depends on the net income and deductions of a subsurface user.

On January 1, 2004, the Kazakh government adopted changes to the tax regime covering subsoil users. Such changes include: (i) there being no tax stability for contracts, other than production sharing agreements signed after January 1, 2004; (ii) changes to the current procedures for establishing royalties (including those for oil and gas producers); (iii) changes to the current procedures for determining the value of extracted hydrocarbons; (iv) the establishment of a new rent tax for exported crude oil; (v) increased excess profit taxes; and (vi) changes to the tax regime for production sharing agreements. The above changes will generally only impact subsoil users that have entered into hydrocarbon contracts after January 1, 2004, including any new hydrocarbon contracts entered into by the Company.

The uncertainty of application and the evolution of tax laws creates a risk of additional payment of tax by the Company, especially for contracts entered into after January 1, 2004, which could have a material adverse affect on the Company's business, financial condition and results of operations.

Risk Factors Related to the Republic of Tajikistan

Political Instability

Tajikistan has, since its independence from the former Soviet Union, suffered a destructive civil war which not only caused significant damage to the infrastructure and industry of the country, but also led to regional and ethnic rivalries. Although the situation has stabilized since 1997, there is still the potential for instability, particularly with respect to these regional rivalries, and the potential for the emergence of radical Islamist groups. Tajikistan is the poorest country in Central Asia, and this poverty may lead to further civil unrest and potential disruption to the Company's business. Tajikistan's proximity to Afghanistan may lead to further instability dependent on the situation in that country. Certain areas of the country are still military exclusion zones, especially towards the Afghanistan border, and in some areas there may be uncleared landmines, a product of both the civil war and the troubles in Afghanistan.

Legal and Regulatory Framework

The legal and regulatory framework for oil and gas is undeveloped in Tajikistan, and given this, even in the event that the Company is successful in executing a PSC, given that there are no precedents for this, it is possible that the terms of such a PSC may be challenged, additional taxes may be imposed, or may be found to conflict with other Tajik laws and regulations. There may also be problems with repatriation of currency from Tajikistan, and in the use of the banking system.

Lack of Infrastructure

Tajikistan depends on neighbouring countries to access world markets, and this could lead to problems bringing in equipment and services to the country, as well as exporting products. There are currently no modern oil refineries in Tajikistan, and as such any crude oil will require export, either to regional refineries or to world markets. There are no guarantees that this export will be allowed by the surrounding countries, and/or additional taxes or levies imposed, or prices offered being substantially less than world market prices. Similarly the gas infrastructure is poorly developed and maintained in Tajikistan, and although pipelines exist, and it would be the Company's intention to enshrine access to such pipelines and infrastructure in any PSC, it is possible that such infrastructure would not be available to the Company on commercially attractive terms, or may be unsuitable. Similarly export of gas to world markets would require access to pipelines and infrastructure in neighbouring countries and such access may not be given, or not be given on commercially attractive terms.

Risks related to the Offerings

Absence of a Liquid, Public Market

Prior to the completion of the Offerings, there has been no public market for the Ordinary Shares and there can be no assurance that a liquid, public market will develop for the Ordinary Shares. The price at which the Offered Shares are being offered hereunder is determined through negotiations between the Company, CanArgo and the Agents. Among the factors to be considered in determining the price are the Company's future prospects and the prospects of the industry in general, sales, the Company's financial and operating information in recent periods, if any, and the market prices of securities and certain financial and other operating information of companies engaged in activities similar to those engaged in by the Company. The Offering Price may not be indicative of the market price for the Ordinary Shares after the Offerings, which price may decline below the Offering Price. See "*Plan of Distribution*".

Share Price Volatility

A number of factors could influence the volatility in the trading price of the Ordinary Shares, including changes in the economy or in the financial markets, industry related developments, and the impact of changes in the Company's daily operations. Each of these factors could lead to increased volatility in the market price of the Ordinary Shares. In addition, variations in earnings estimates by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the Ordinary Shares.

Discretion in the Use of Proceeds

The Company's management will have broad discretion concerning the use of the proceeds of the Treasury Offering as well as the timing of their expenditure. As a result, purchasers of Ordinary Shares will be relying on the judgment of management for the application of the proceeds of the Treasury Offering. The Company's management may use the net proceeds of the Treasury Offering in ways that purchasers of Ordinary Shares may not consider desirable. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the results of the Company's operations may suffer.

Dividends

The Company has not declared or paid any cash dividends on the Ordinary Shares to date. The payment of dividends in the future will be dependent on the Company's earnings and financial condition and on such other factors as the Board of Directors considers appropriate. Unless and until the Company pays dividends, shareholders may not receive a return on their Ordinary Shares.

Dilution

The Offering Price of the Ordinary Shares significantly exceeds the net tangible book value per share of the Ordinary Shares. Accordingly, purchasers of Offered Shares will experience immediate and substantial dilution of their investment.

Investors may be subject to further dilution if the Company sells additional Ordinary Shares or issues additional Ordinary Shares in connection with future acquisitions. In addition, Ordinary Shares issued upon the exercise of outstanding stock options will lead to further dilution for purchasers in the Offerings.

Future Sales by the Selling Shareholder

The Selling Shareholder, as well as the other existing holders of Ordinary Shares, will be entitled to sell any Ordinary Shares it continues to own subsequent to the completion of the Offerings provided a trading market has developed for the Ordinary Shares. See "*Principal Shareholders and Selling Shareholder*" and "*Plan of Distribution*". If following the Offerings a significant number of Ordinary Shares are sold or are expected to be sold by the Selling Shareholder or another significant shareholder of the Company in the public market, the market price of the Ordinary Shares could be depressed and the Company's ability to raise capital by issuing additional equity securities could be hampered.

Enforcement of Judgments Against the Company, the Selling Shareholder and CanArgo

The Company, the Selling Shareholder and CanArgo are incorporated outside Canada and all of the Company's operations and related assets are located outside Canada. Although each of the Company, the Selling Shareholder and CanArgo have appointed Borden Ladner Gervais LLP as agent for service of process, it may not be possible for investors to collect from the Company, the Selling Shareholder or CanArgo judgments obtained in Canadian courts predicated on the civil liability provisions of securities legislation.

DIVIDEND POLICY

The Company has not declared or paid any dividends on the Pre-Split Ordinary Shares to date. The payment of dividends in the future will be dependent on the Company's earnings, financial condition and such other factors as the Board of Directors considers appropriate. The Company currently does not anticipate paying any dividends in the foreseeable future due to the stage of development of the Company.

LEGAL PROCEEDINGS

Neither the Company nor TKL is a party to, nor are any of the Company's or TKL's assets subject to, any material legal proceedings nor to the Company's or TKL's knowledge are any such proceedings contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this prospectus and note 20 to the audited consolidated financial statements forming part of this prospectus, there are no material interests, direct or indirect, of directors, executive officers, any shareholders who beneficially own, directly or indirectly, more than 10% of the Company's outstanding ordinary shares, or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or would materially affect the Company.

PROMOTER

CanArgo may be considered to be the promoter of the Company in that it took the initiative in founding and organizing the Company. Prior to the Closing, CanArgo will hold 29.7% of the outstanding Ordinary Shares, and the following table represents CanArgo's expected shareholdings in the Company after giving effect to the Offerings and the Share Consolidation:

Promoter	Number and Percentage of Ordinary Shares held after Completion of the Minimum Offering	Number and Percentage of Ordinary Shares held after Completion of the Maximum Offering
CanArgo[(1)]	● (● %)[(2)]	● (● %)[(2)]

Notes:

(1) These shares are held through the Selling Shareholder, a wholly-owned subsidiary of CanArgo.

(2) Assumes the Secondary Offering is subscribed in full. If the Maximum Offering is sold but no shares are sold in the Secondary Offering, CanArgo will indirectly hold ● Ordinary Shares representing ● % of the outstanding Ordinary Shares.

See "*Management's Discussion and Analysis — Liquidity and Capital Resources*" and "*Management's Discussion and Analysis — Transactions with Related Parties*", "*Use of Proceeds*", "*Capitalization*", "*Principal Shareholders and Selling Shareholder*" and "*Risk Factors*".

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts the Company has entered into in the last two years which can reasonably be regarded as presently material are the following:

1. the Agency Agreement as more particularly described under "*Plan of Distribution*";
2. the AMI Agreement as more particularly described under "*Relationship with CanArgo Energy Corporation*";
3. the acquisition agreement pertaining to the acquisition of NBC (Aral Vostochniy Block) as more particularly described in "*Property Descriptions — Aral Vostochniy* and *Aral Vostochniy Exploration Contract*";
4. the CEO Services Agreement as more particularly described under "*Compensation of Directors and Officers*"; and
5. the Umbrella Management Services Agreement as more particularly described under "*Compensation of Directors and Officers*".

Copies of the foregoing agreements will be available for inspection at the Company's offices in Guernsey and at the offices of Borden Ladner Gervais LLP in Calgary at Suite 1000, Canterra Tower, 400 — 3rd Avenue S.W., Calgary, Alberta, T2P 4H2 while the securities qualified by this prospectus are in distribution and for a period of 30 days thereafter at any time during normal business hours. The Agency Agreement will also be available for review under the Company's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. In Ontario, a copy of the foregoing may be viewed at the offices of Borden Ladner Gervais LLP in Toronto at Scotia Plaza, 40 King Street West, Toronto, Ontario, M4H 3Y4.

EXPERTS

Certain legal matters in connection with the Offerings are being reviewed, on behalf of the Company and CanArgo, by Borden Ladner Gervais LLP, and on behalf of the Agents, by Blake, Cassels & Graydon LLP. As at the date hereof, the partners and associates of Borden Ladner Gervais LLP, as a group and the partners and associates of Blake, Cassels & Graydon LLP, as a group, beneficially own, directly or indirectly, none of the outstanding Ordinary Shares prior to the completion of the Offerings. Such persons hold less than 1% of the outstanding ordinary shares of CanArgo.

Information relating to reserves in this prospectus was calculated by McDaniel as independent qualified reserves evaluator. The principals of McDaniel, individually or as a group, neither own nor expect to receive any of the securities of Tethys, the Selling Shareholder or CanArgo, directly or indirectly.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Company's audited consolidated financial statements included in this prospectus have been audited by PricewaterhouseCoopers LLP London, UK who were appointed auditors of the Company in 2006. On May 9, 2007, the Company appointed PricewaterhouseCoopers LLP, Calgary, Alberta as the Company's auditors at its offices located at Suite 3100, 111 – 5th Avenue S.W., Calgary, Alberta, T2P 5L3.

The transfer agent and registrar for the Ordinary Shares is Equity Transfer & Trust Company at its principal offices in Toronto, Ontario and Calgary, Alberta.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to any applicable provisions of the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the prospectus of Tethys Petroleum Limited (the "**Company**") dated ● , 2007, qualifying the distribution of ● ordinary shares of the Company, up to ● ordinary shares of the Company held by CanArgo Limited and agents' compensation options. We have complied with U.S. generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned prospectus of our report to the directors of the Company on the consolidated balance sheets of the Company as at December 31, 2006, 2005 and 2004 and the consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. Our report is dated May 10, 2007.

London, England
● , 2007

●
Chartered Accountants

INDEX TO FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Board of Directors and Stockholders of
Tethys Petroleum Limited

May 10, 2007

Dear Sirs

In our opinion, the accompanying balance sheets and the related statements of operations, stockholders' deficit, and cash flows present fairly, in all material aspects, the financial position of Tethys Petroleum Limited at December 31, 2006, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable a basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's limited capital resources, negative cash flows and recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also addressed in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Chartered Accountants

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Balance Sheets

	Note	December 31, 2006	December 31, 2005	December 31, 2004
		(Expressed in 000's United States dollars)		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,763	438	57
Other current assets		2	2	—
Total current assets		1,765	440	57
NON CURRENT ASSETS				
Prepayments	**4**	4,183	3,346	6
Restricted cash	**5**	205	—	—
Other accounts receivables	**6**	1,086	—	—
Prepaid financing fees	**7**	30	—	—
Capital assets	**8**	12,318	1,900	391
Total Assets		19,587	5,686	454
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)				
Accounts payable	**9**	878	468	188
Loans payable to Related Parties	**10**	—	7,743	956
Accrued liabilities	**11**	453	5	—
Total current liabilities		1,331	8,216	1,144
Long term debt	**12**	3,084	—	—
Other non current liabilities	**13**	32	—	—
Provision for future site restoration	**14**	451	354	131
Total Liabilities		4,898	8,570	1,275
Stockholders' equity/(deficit):				
Common stock (par value £0.01, authorized — 500,000,000 million shares at 31 December 2006 and 1,000,000 shares at 31 December 2005 and 2004. Shares issued and outstanding — 70,000,000, 100,000 and 90,000 at 31 December, 2006, 2005 and 2004 respectively)	**17**	1,307	19	17
Capital in excess of par value		23,228	—	—
Accumulated deficit		(9,846)	(2,903)	(838)
Total stockholders' equity/(deficit)		14,689	(2,884)	(821)
Total Liabilities and Stockholders' Deficit		19,587	5,686	454

The accompanying notes on pages F-7 to F-17 are an integral part of the consolidated financial information

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Operations

	Note	For Year Ended December 31, 2006	2005	2004
		(Expressed in 000's United States dollars)		
Operating Revenues				
Oil and gas sales		—	—	—
		—	—	—
Operating Expenses:				
Selling, general and administrative		5,124	1,655	501
Depreciation, depletion and amortization		32	6	—
		5,156	1,661	501
Operating Loss		(5,156)	(1,661)	(501)
Other Income (Expense):				
Interest, net		(1,701)	(362)	(52)
Foreign exchange gains (losses)		72	(62)	(31)
Other		(158)	20	(28)
Total Other Expense		(1,787)	(404)	(111)
Loss Before Income Taxes		(6,943)	(2,065)	(612)
Income taxes	**18**	—	—	—
Net Loss		(6,943)	(2,065)	(612)
Weighted average number of common shares outstanding — Basic and Diluted		**14,043,835**	**99,151**	**249**
Basic (Net Loss) Per Common	**19**	(0.49)	(20.82)	(2,457.83)

The accompanying notes on pages F-7 to F-17 are an integral part of the consolidated financial information

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock				
	Number of Shares Issued	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
	(Expressed in 000's United States dollars)				
Total, December 31, 2003	2	—	—	(226)	(226)
Shares Issued pursuant to issue dated December 31, 2004	89,998	17	—	—	17
Net Loss	—	—	—	(612)	(612)
Total, December 31, 2004	90,000	17	—	(838)	(821)
Shares Issued pursuant to issue dated February 16, 2005	10,000	2	—	—	2
Net Loss	—	—	—	(2,065)	(2,065)
Total, December 31, 2005	100,000	19	—	(2,903)	(2,884)
Stock split pursuant to capital reorganisation dated October, 23 2006	900,000	—	—	—	—
Shares Issued pursuant to capitalization of parent inter-company loan dated October, 23 2006	69,000,000	1,288	21,008	—	22,296
Discount recorded for Issue of warrants to purchase 5 million shares pursuant to a loan agreement (see note 12)	—	—	2,220	—	2,220
Net Loss	—	—	—	(6,943)	(6,943)
Total, December 31, 2006	70,000,000	1,307	23,228	(9,846)	14,689

The accompanying notes on pages F-7 to F-17 are an integral part of the consolidated financial information

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Cash Flows

	Note	For Year Ended December 31, 2006	2005	2004
		(Expressed in 000's United States dollars)		
Operating activities:				
Net loss		(6,943)	(2,065)	(612)
Adjustments to reconcile net loss from operations to net cash generated by operating activities:				
Non-cash interest expense		1,809	362	51
Non-cash reduction in selling, general and administrative expenses	**15a**	—	727	374
Depreciation, depletion and amortization		32	6	—
Other accounts receivable		(1,084)	—	—
Prepayments	**15b**	(71)	(154)	7
Accounts payable		410	280	(47)
Accrued liabilities		448	5	—
Net cash used by operating activities		(5,399)	(839)	(227)
Investing activities:				
Capital expenditures	**15c**	(10,390)	(1,315)	(24)
Restricted cash		(205)	—	—
Change in oil and gas supplier prepayments	**15b**	(766)	(3,186)	2
Net cash used in investing activities		(11,361)	(4,501)	(22)
Financing activities:				
Deferred loan costs		(30)	—	—
Proceeds from loans	**15d**	18,115	5,721	292
Net cash provided by financing activities		18,085	5,721	292
Net increase in cash and cash equivalents		1,325	381	43
Cash and cash equivalents, beginning of period		438	57	14
Cash and cash equivalents, end of period		1,763	438	57

The accompanying notes on pages F-7 to F-17 are an integral part of the consolidated financial information

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 — NATURE OF OPERATIONS AND GOING CONCERN

Tethys Petroleum Limited (formerly known as Tethys Petroleum Investments Limited), incorporated and headquartered in Guernsey, British Isles, and its consolidated subsidiaries (collectively "Tethys"), is an integrated oil and gas company operating within the Republic of Kazakhstan. Subsequent to year-end, the Company established a position in Republic of Tajikistan which is currently being evaluated by the Company. Tethys's principal activity is the acquisition of interests in and development of crude oil and natural gas fields.

Significant Business Risks and Basis of Presentation

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2006. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability to: (1) secure additional financing; (2) commence production of commercial oil and gas; and (3) cost control of operating and capital expenditures. These factors create doubt about the Company's ability to continue as a going concern.

The financial statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realisation of assets and the settlement of liabilities and commitments in the normal course of business.

In the event the Company is unable to generate significant revenues and cash flows from operations, the Company's present source of financing is its shareholders. The Company has undertaken actions to complete an Initial Public Offering of equity securities. While the Company believes that the additional sale of equity securities will be successful and will result in additional capital becoming available to the Company, there can be no assurance that such financing will occur. The inability of the Company to obtain such financing either from the public sale of additional equity securities through public markets or existing shareholders could have a material adverse impact on the future financial position, operating results and cash flows of the Company.

Foreign Operations

Tethys' future operations and earnings will depend upon the results of Tethys' operations in the Republic of Kazakhstan. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, specifically those in Kazakhstan, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements and notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America. All amounts are in thousands of U.S. dollars.

Consolidation

The consolidated financial information includes the accounts of Tethys and its majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Use of Estimates in the Preparation of Financial Information

The preparation of financial information in conformity with generally accepted accounting principles in the United States of America requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management believes that it is reasonably possible that the following material estimates affecting the financial information could significantly change in the coming year: (1) estimates of proved oil and gas reserves, (2) estimates as to the expected future cash flow from proved oil and gas properties, (3) estimates of future dismantlement and restoration costs, (4) estimates of useful life of assets and, (5) estimates of the valuation allowance against deferred taxes.

Cash and Cash Equivalents

Cash and cash equivalents, which include all liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents, short-term receivables, short-term payables, restricted cash and long term loans to related parties approximate their fair value due to the short maturity of the instruments. For 2006, the carrying amount of $3,084,000 in long term debt reflects discounts for the value of the detachable warrants net of amortisation of $2,200,000. The face value of the long-term debt as at December 31, 2006 was $5,000,000. Please refer to note 12 "Long-Term Debt" for a more detailed discussion of the accounting treatment.

Concentration of Credit Risk

Although Tethys' cash and temporary investments are exposed to potential credit loss, Tethys does not believe such risk to be significant. Even though a substantial amount of funds were in accounts at financial institutions which were not covered under bank guarantees, management does not believe that maintaining balances in excess of bank guarantees resulted in a significant risk to us.

As an independent oil and gas producer, Tethys' revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and gas, which are dependent upon numerous factors beyond Tethys' control, such as economic, political and regulatory developments and competition from other sources of energy. The energy markets have historically been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and gas prices could have a material adverse effect on Tethys' financial position, results of operations, cash flows and Tethys' access to capital and on the quantities of oil and gas reserves that may be economically produced.

On January 9, 2005, Tethys' Kazakhstan subsidiary, BN Munai LLP ("BNM") executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from BNM's Kyzyloi Field in Kazakhstan. The gas supply contract, which has a term until June 2014, is based on a take-or-pay principle and covers all gas produced from the Kyzyloi Field Production License and Contract area. Gas will be supplied to Gaz Impex at a tie in point on the Bukhara-Urals gas trunkline some 31 miles (52 kms) east of the Kyzyloi Field. The price of gas to be supplied at the tie in point averages $0.91 per thousand cubic feet ($32 per thousand cubic metres) over the life of the contract, with Gaz Impex providing bank guarantees.

Capital Assets

Capital assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization ("DD&A") unless the carrying amount is viewed as not recoverable in which case the carrying value of the assets is reduced to the estimated recoverable amount. See "Impairment of Long-Lived Assets" below. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss thereon is reflected in operations. Unproved properties are not deemed to be impaired until the right to drill on those properties is lost and planned development has ceased.

Oil And Gas Properties — Tethys accounts for oil and gas properties and interests under the full cost method. Under the full cost method, all acquisition, exploration and development costs, including certain directly related employee costs incurred for the purpose of finding oil and gas are capitalized and accumulated in pools on a country-by-country basis. Capitalized costs include the cost of drilling and equipping productive wells, including the estimated costs of dismantling and abandoning these assets, dry hole costs, lease acquisition costs, seismic and other geological and geophysical costs, delay rentals and costs related to such activities. Employee costs associated with production and other operating activities and general corporate activities are expensed in the period incurred.

Where proved reserves are established, capitalized costs are limited on a country-by-country basis (the ceiling test). The ceiling test is calculated as the sum of the present value of future net cash flows related to estimated production of proved reserves, using end-of-the-current-period prices, discounted at 10%, and takes into account expected future costs to develop proved reserves, and operating expenses and income taxes. Under the ceiling test, if the capitalized cost of the full cost pool exceeds the ceiling limitation, the excess is charged as an impairment expense.

Unit-of-production depreciation is applied to capitalized cost of the full cost pool. Unit-of-production rates are based on the amount of proved developed reserves of oil, gas and other minerals that are estimated to be recoverable from existing facilities using current operating methods.

Tethys utilizes a single cost centre for each country where Tethys has operations for amortization purposes. Any conveyances of properties are treated as adjustments to the cost of oil and gas properties with no gain or loss recognized unless the operations are suspended in the entire cost centre or the conveyance is significant in nature.

The costs of investments in unproved properties and portions of costs associated with major development projects are excluded from the DD&A calculation until the project is evaluated.

Unproved property costs include leasehold costs, seismic costs and other costs incurred during the exploration phase. In areas where proved reserves are established, significant unproved properties are evaluated periodically, but not less than annually, for impairment. If a reduction in value has occurred, these property costs are considered impaired and are transferred to the related full cost pool. Unproved properties whose acquisition costs are not individually significant are aggregated, and the portion of such costs estimated to be ultimately non-productive, based on experience, is amortized to the full cost pool over an average holding period.

Where the existence of proved reserves has not yet been determined, leasehold costs, seismic costs and other costs incurred during the exploration phase remain capitalized in unproved property cost centres until proved reserves have been established or until exploration activities cease or impairment and reduction in value occurs. If exploration activities result in the establishment of a proved reserve base, amounts in the unproved property cost centre are reclassified as proved properties and become subject to DD&A and the application of the ceiling test. If exploration efforts in a country are unsuccessful in establishing proved reserves, it may be determined that the value of exploratory costs incurred there have been permanently diminished in part or in whole. Therefore, based on the impairment evaluation and future exploration plans, the unproved property cost centres related to the area of interest could be impaired, and accumulated costs charged against earnings.

Plant and Equipment — Depreciation of plant and equipment is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment to three to fifteen years for oil and gas related equipment.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment using the guidance of Statement of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

Revenue Recognition

Tethys recognizes revenues when hydrocarbons have been produced and delivered and payment is reasonably assured.

Foreign Currency Translation

The U.S. dollar is the functional currency for Tethys and its subsidiaries' operations. All monetary assets and liabilities denominated in foreign currency are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and the resulting unrealized translation gains or losses are reflected in operations. Non-monetary assets are translated at historical exchange rates. Revenue and expense items (excluding depreciation and amortization which are translated at the same rates as the related assets) are translated at the average rate of exchange for the year.

Income Taxes

The Company accounts for income taxes under the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on property, plant and equipment, and tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Tax rates enacted by the balance sheet date are used to determine deferred income tax. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefit, or that future deductibility is uncertain.

Dismantlement, Restoration and Environmental Costs

Tethys recognizes liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The asset retirement cost is depreciated along with the property and equipment in the full cost pool. The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Capitalized long lived assets are depleted as a component of the full cost pool using the units of production method.

Education Fund policy

In compliance with Kazakhstan law, the Company is required under certain contracts to provide not less than 1% of the total amount of exploration expenses for professional training of the Kazakhstan personnel participating in the work under the contracts. If the funds allocated for training exceed the real need of resources for training the balance of the amount is used to finance priority tasks of secondary education.

Recently Issued Pronouncements

In July 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," which seeks to reduce the diversity in practice associated with the accounting and reporting for uncertainty in income tax positions. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company will adopt the new requirements in its fiscal first quarter of 2007. The Company does not expect the adoption of this statement in fiscal year 2007 to have a material impact on the Company's financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") 157, "Fair Value Measurements" ("SFAS 157") , which provides guidance on measuring the fair value of assets and liabilities. SFAS 157 will apply to other accounting pronouncements that require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard will also require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently determining the effect, if any, the adoption of SFAS 157 will have on its financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). The intent of SAB 108 is to reduce diversity in practice for the method companies use to quantify financial statement misstatements, including the effect of prior year uncorrected errors. SAB 108 establishes an approach that requires quantification of financial statement errors using both an income statement and a cumulative balance sheet approach. SAB 108 is effective for fiscal years beginning after November 15, 2006, and the Company will adopt the new requirements in fiscal 2008. The adoption of SAB 108 is not currently expected to have a significant impact on the Company's consolidated financial statements.

Reconciliation between US GAAP and Canadian GAAP

There are no material differences between US GAAP and Canadian GAAP as it relates to Tethys Petroleum Limited.

NOTE 3 — BUSINESS COMBINATIONS

Kul-Bas LLP

On May 5, 2005, Tethys acquired through its then 70% subsidiary, BNM, 100% of the charter capital of Kul-Bas LLP, a limited liability partnership registered in Kazakhstan, for consideration of $100,000. Kul-Bas LLP had won the right to negotiate the Greater Akkulka Exploration and Production Contract covering an unexplored area of 2,688,695 acres (10,881 km^2) surrounding the Akkulka area. In November, 2005 Kul-Bas LLP signed the Exploration and Production Contract with the Kazakh authorities, this contract being for a period of 25 years, with an initial six year exploration period. The purchase price of the Kul-Bas LLP reflected the fair value of the unevaluated property and was allocated to unevaluated oil and gas properties.

NOTE 4 — PREPAYMENTS

Prepayments consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Contractors	3,852	3,186	—
Other	331	160	6
Balance at December 31	4,183	3,346	6

Prepaid contractors relate to suppliers who were prepaid for materials and services related to our Kazakhstan pipeline construction activities.

NOTE 5 — RESTRICTED CASH

Investments consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Restricted — cash on deposit	205	—	—
Balance at December 31	205	—	—

Restricted cash at December 31, 2006 consisted of bank deposits with maturity dates of April 27, 2008 and December 28, 2008. These deposits have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations.

NOTE 6 — OTHER ACCOUNTS RECEIVABLES

Other receivables primarily relate to Value Added Tax recoverable at December 31:

	2006	2005	2004
	$000	$000	$000
VAT on Capital Expenditure	1,084	—	—
Balance at December 31	1,084	—	—

VAT recoverable represents VAT on capital expenditures in Kazakhstan that are allowed as an offset against VAT on revenues once production commences.

NOTE 7 — PREPAID FINANCING FEES

Prepaid Financing fees consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Commission and Professional fees	30	—	—
Balance at December 31	30	—	—

Prepaid financing fees as at December 31, 2006 are corporate finance fees incurred in respect of the $5,000,000 issue of Senior Secured Notes by CanArgo's wholly owned subsidiary Tethys, with a group of investors, discussed in Note 12 and which are to be amortized as interest expense over the term of the loans. Professional fees of $14,105 were amortized on a straight-line basis in 2006 in connection with the Notes.

NOTE 8 — CAPITAL ASSETS

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at December 31, 2006:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
	$000	$000	$000
Oil and Gas Properties			
Proved properties	8,683	—	8,683
Unproved properties	3,157	—	3,157
	11,840	—	11,840
Plant and Equipment			
Oil & Gas Equipment	179	—	179
Office furniture, fixtures and Equipment and other	337	(38)	299
	516	(38)	478
	12,356	(38)	12,318

Capital assets, net of accumulated DD&A, include the following at December 31, 2005:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
	$000	$000	$000
Oil and Gas Properties			
Proved properties	1,429	—	1,429
Unproved properties	346	—	346
	1,775	—	1,775
Plant and Equipment			
Oil & Gas Equipment	—	—	—
Office furniture, fixtures and Equipment and other	131	(6)	125
	131	(6)	125
	1,906	(6)	1,900

Capital assets, net of accumulated DD&A include the following at December 31, 2004:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
	$000	$000	$000
Oil and Gas Properties			
Proved properties	—	—	—
Unproved properties	388	—	388
	388	—	388
Plant and Equipment			
Oil & Gas Equipment	—	—	—
Office furniture, fixtures and Equipment and other	3	—	3
	3	—	3
	391	—	391

Tethys had expense of $32,745, $5,648 and $473 in respect of depletion, depreciation and amortization for the years ended December 31 2006, 2005 and 2004 respectively.

In 2006, 2005 and 2004, Tethys did not need to write-down oil and gas properties due to the ceiling test.

Unproved property additions relate to activity relating to unevaluated properties in the period. Unevaluated properties consist of both the Akkulka Licence and Contract, and the Greater Akkulka Exploration and Production Contract. Activity in the Akkulka Licence and Contract included a five well exploration program during 2005 and early 2006.

Oil and gas property costs not being amortised at December 31, 2006 by year that the costs were incurred are as follows:

Year Ended December 31:	Exploration	Acquisition	Total Capital
	$000	$000	$000
2006	2,811	—	2,811
2005	—	221	221
2004	125	—	125
	2,936	221	3,157

At December 31, 2006, unevaluated costs reflect activity on both the Akkulka Licence and Contract, and the Greater Akkulka Exploration and Production Contract.

Unevaluated costs comprise $220,944 at December 31, 2005 for Kul-Bas LLP of which $100,000 related to the acquisition cost. Kul-Bas LLP owns an Exploration contract, which is for a period of 25 years, with an initial six year exploration period, covering an unexplored area of approximately 2,688,695 acres (10,881 km^2) surrounding the Akkulka area.

NOTE 9 — ACCOUNTS PAYABLE

Accounts payable consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Trade payables	792	300	188
Education fund obligations	80	81	—
Other	6	87	—
Balance at December 31	878	468	188

NOTE 10 — LOANS PAYABLE TO RELATED PARTIES

Loans payable as at December 31, 2005 and 2004 reflect amounts that were due to CanArgo Energy Corporation, Tethys' ultimate holding company (see note 20). There was no stipulated payment term date attached to the loan although it was repayable on demand along with interest payable which was charged at a fixed rate of 10% per annum. Funding of Tethys continued via this loan facility until October 23, 2006 when the Company capitalized the total inter-company loan, including accrued interest, from CanArgo Energy Corporation of $ 22,296,000 into 69,000,000 Ordinary Shares that were issued to CanArgo Limited pursuant to such capitalization.

NOTE 11 — ACCRUED LIABILITIES

Accrued Liabilities consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Professional fees	369	—	—
Non cash loan interest	35	—	—
Other	49	5	—
Balance at December 31	453	5	—

NOTE 12 — LONG TERM DEBT

Long Term Debt at December 31 consisted of the following:

	2006	2005	2004
	$000	$000	$000
Tethys Senior Secured Notes	5,000	—	—
Unamortized debt discount	(1,916)	—	—
Balance at December 31	3,084	—	—

The maturities of long-term borrowings at December 31, 2006, was as follows:

	2007	2008	2009	2010	2011
Repayments due	$—	$5,000,000	$—	$—	$—

In order to ensure timely procurement of long lead items for our drilling programs in Kazakhstan and for working capital purposes, the Company entered into a loan agreement. This loan was outstanding as at December 31, 2006 and is described below.

Senior secured notes in Tethys: On September 7, 2006 the Company announced that Tethys had completed a $5 million interim loan financing (the "Tethys Bridge") to fund Tethys' development activities in Kazakhstan ahead of Tethys' planned spin-off and admission to the AIM market in London later that year. The funds are to be used by Tethys primarily for the purchase of pipeline, compressors and related equipment and services for the Kyzyloi field development. The financing took the form of the issue of $5 million senior secured notes in Tethys redeemable on August 31, 2008 (the "Tethys Notes") pursuant to a note and warrant or royalty purchase agreement dated September 5, 2006 (the "Tethys NPA"). Pursuant to the Tethys NPA, Tethys has the ability to pre-pay the Tethys Notes and the Tethys Notes fall to be automatically pre-paid in full following a change of control of Tethys which includes the admission of Tethys to AIM. Tethys has granted security over its bank account with HSBC Bank plc and its shareholding in its wholly owned subsidiary, Tethys Kazakhstan Limited, as a condition of the Tethys NPA with such security to be released on repayment of the funds. The Tethys Notes bear interest at the rate of 10% per annum for the period from the date of issue until December 31, 2006 and 15% per annum from January 1 2007 until they are repaid in full. The Tethys NPA contains certain affirmative and negative covenants on Tethys which apply provided at least $500,000 in aggregate of the Tethys Notes is outstanding. The affirmative and negative covenants require Tethys among other things to maintain its corporate existence, to maintain insurance coverage on such terms and in such amounts as is customary in the case of entities in the same or similar businesses and which are similarly situated, to keep current with respect to payment of all due and payable taxes, to not permit Tethys to engage in transactions with affiliates unless they are in the ordinary course of business and on arm's length terms, to not enter into mergers or consolidations while an default or event of default is continuing or to allow liens on any pledged or secured assets under the NPA except specified permitted liens. In addition, while the covenants still apply Tethys must seek the permission of the noteholders to incur additional external third-part indebtedness in excess of $2,500,000 except permitted indebtedness as specified in the Tethys NPA.

Pursuant to the provisions of Emerging Issue Task Force 86-15: "Increasing-Rate Debt", the Company recognizes interest expense using the effective interest rate method, which results in the use of a constant interest rate for the life of the Tethys Notes. The effective interest rate is approximately 14.2%

per annum. The difference between the interest computed using the actual interest rate in effect (10% per annum to December 31, 2006 and 15% from January 1, 2007) and the effective interest rate (14.2% per annum) totalled $66,715 as of December 31, 2006 of which $35,000 has been included in accrued liabilities and $31,715 has been accrued as a non-current liability.

Under the terms of the Tethys NPA, the holders of the Tethys Notes are entitled to receive additional consideration for the advance of the loan in the form of either (1) at closing of the fundraising, warrants to subscribe for ordinary shares in the capital of Tethys (the "Tethys Warrants") or (2) 90 days following first commercial sale of hydrocarbons, in which case Tethys may chose between granting the noteholder Tethys Warrants or entering into a royalty agreement with the noteholder. The Tethys Warrants shall be issued pursuant to the terms of an instrument by way of deed poll entered into by Tethys on September 5, 2006. The Tethys Warrants are exercisable in whole or in part at any time up to the expiry of 60 months from the date of the Tethys NPA. As of September 30, 2006, the number of ordinary shares in the capital of Tethys into which the Tethys Warrants are exercisable and the exercise price of the Tethys Warrants are based on an assumed valuation of Tethys, however, in the event of an AIM listing prior to July 31, 2007 the number of shares and exercise price change to become based on the listing price and valuation of the AIM listing. One of the noteholders elected to receive their Tethys Warrants at the closing of the fundraising. The other noteholder shall receive their additional consideration 90 days from first commercial sale of hydrocarbons by Tethys.

The Tethys NPA, Tethys Notes, Tethys Warrants and the Warrant Instrument are governed by English law.

The Company evaluated the additional consideration for advancing its loan to Tethys 90 days after first commercial sale of hydrocarbons by Tethys for potential derivative treatment and determined it did not meet the criteria for bifurcation under SFAS No 133 "Accounting for Derivative Instruments and Hedging Activities" during the quarter.

The Company has recorded a discount to the Tethys Notes in the amount of approximately $2,220,000 based on the relative fair value of the Tethys Warrants.

The Company used the following assumptions to determine the fair value of the Tethys Warrants:

	Additional Loan
Stock price on date of grant	$ 0.74
Risk free rate of interest	4.73%
Expected life of warrant — months	60
Dividend rate	—
Historical volatility	110.5%

The discount is being amortized to interest expense over the life of the Tethys Warrants using an effective interest rate of 18.7%. As of December 31, 2006 the Company had amortized $303,673 of debt discount as interest expense. The total effective interest rate for the Tethys Note is 32.9%.

NOTE 13 — OTHER NON-CURRENT LIABILITIES

Other Non-current liabilities at December 31 consisted of the following:

	2006	2005	2004
	$000	$000	$000
Loan interest	32	—	—
Balance at December 31	32	—	—

NOTE 14 — PROVISION FOR FUTURE SITE RESTORATION

Dismantlement, Restoration and Environmental Costs

Tethys recognizes liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The asset retirement cost is depreciated along with the property and equipment in the full cost pool. The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Capitalized costs are depleted as a component of the full cost pool using the units of production method.

There was no impact on Tethys' cash flows as a result of adopting SFAS No. 143. The asset retirement obligation, which is included on the consolidated balance sheet in provision for future site restoration, comprised the following:

	2006	2005	2004
	$000	$000	$000
Beginning balance, 1 January	354	131	—
New obligations incurred	62	200	125
Accretion of expense	35	23	6
Balance at December 31	451	354	131

NOTE 15 — NON-CASH MOVEMENTS

15a — Non-cash reduction in selling, general and administrative expenses

Non-cash reduction in selling, general and administrative expenses consisted of the following at December 31:

	2006	2005	2004
	$000	$000	$000
Management Charges	—	300	300
Other Expenses	—	427	74
Balance at December 31	—	727	374

In 2005 and 2004, non-cash management charges represent charges by Tethys's parent company, CanArgo Energy Corporation, to Tethys at a rate of $25,000 per month whereby CanArgo Energy Corporation provides its services to Tethys via a management services agreement.

Non-cash other Expenses represent charges by CanArgo Energy Corporation to Tethys for all other salary costs and expenses related to Tethys activity incurred directly by CanArgo Energy Corporation

15b — Changes in Prepayments

The following provides the reconciliation between the Balance Sheet movements in Prepayments to the Changes in prepayments reported on the Consolidated Statements of Cash Flows:

	2006	2005	2004
	$000	$000	$000
Balance Sheet movement in prepayments	837	3,340	(9)
Less Non Cash prepayment movements:			
Changes in oil and gas supplier prepayments	(766)	(3,186)	2
Changes in prepayments	71	154	(7)

15c — Changes in Capital Expenditures

The following provides the reconciliation between the Balance Sheet movements in Capital Assets to the Changes in Capital Expenditures reported on the Consolidated Statements of Cash Flows:

	2006	2005	2004
	$000	$000	$000
Balance Sheet movement in Capital Assets, net	10,418	1,509	149
Less Non Cash Capital Asset movements:			
Changes in provision for Site Restoration	(60)	(200)	(125)
Changes in Accumulated Depreciation	32	6	—
Capital Expenditures	10,390	1,315	24

15d — Proceeds from Loans

The following provides the reconciliation between the Balance Sheet movements in Loans payable to the Proceeds from loans reported on the Consolidated Statement of Cash Flows:

	2006	2005	2004
	$000	$000	$000
Balance Sheet movement in Loans payable	(4,659)	6,787	694
Less Non Cash Loans payable movements:			
Changes in interest	(1,438)	(339)	(45)
Changes in selling, general and administrative expenses	—	(727)	(374)
Changes unamortized debt discount	1,916	—	—
Changes in other amounts due	22,296	—	17
Proceeds from Loans	18,115	5,721	292

Interest incurred on loaned amounts from Tethys's parent company and has been added to the overall loan payable.

NOTE 16 — COMMITMENTS AND CONTINGENCIES

The Company has contingent obligations and may incur additional obligations, absolute and contingent, with respect to the acquisition and development of oil and gas properties and ventures in which the Company has interests that require or may require us to expend funds and to issue shares of our Common Stock.

As at December 31, 2006, the Company has commitments of $4,063,000 in respect of the construction of the pipeline tie-in for the Kyzyloi field development in Kazakhstan.

Under the terms of Kyzyloi Field Licence and Production Contract, in order to maintain its interest in the contract, BNM has obligations to spend a total of $1,960,000 before June 2007. In addition, historic costs totalling $1,211,000 are payable in equal portions of $43,244 on a quarterly basis to the Kazakhstan government from the third year of production.

Exploration Under the terms of the Akkulka Licence and Contract, in order to maintain its interest in the contract, BNM has obligations to spend $3,550,000 in 2007 prior to the expiry of the contract in September 2007. In addition, historic costs of $1,028,000 are payable to the Kazakhstan government once commercial production has commenced. The timing of these payments is still to be agreed.

Under the terms of the Greater Akkulka Exploration and Production Contract, in order to maintain its interest in the contract, BNM has obligations to spend a total of $8,304,000 over the five years to 2011 as follows: 2007 $1,072,000; 2008 $3,303,000; 2009 $528,000; 2010 $3,270,000 and 2011 $131,000. In addition, historic costs of $3,227,000 are payable to the Kazakh government in equal portions on a quarterly basis over the first 10 years of any commercial production.

BNM has executed a natural gas supply contract with Gaz Impex relating to gas sales from the Kyzyloi Field.

NOTE 17 — SHAREHOLDERS' EQUITY

The total number of shares of Ordinary Shares (par value £0.01) authorized was 500,000,000 as of December 31, 2006 and (par value £0.10) 1,000,000 at December 31, 2005 and 2004. Shares issued and outstanding was 70,000,000, 100,000 and 90,000 at December 31, 2006, 2005 and 2004 respectively.

During the years ended December 31, 2006, 2005 and 2004, the following transactions regarding Tethys' Ordinary Shares were consummated pursuant to authorization by Tethys' Board of Directors.

Year Ended December 31, 2006

- On October 23, 2006 each of the ordinary shares in the capital of the Company (whether issued or not) sub-divided into 10 ordinary shares of £0.01 each in the Capital of the Company. The authorized share capital was then increased to £5,000,000 divided into 500,000,000 ordinary shares of £0.01 par value.
- On October 23, 2006 the Company capitalized an inter-company loan in the amount of $22,296,000 from its parent, CanArgo Energy Corporation, into 69,000,000 ordinary shares that were issued to CanArgo Limited pursuant to such capitalization. 69,000,000 were issued at £0.01 par value per share. The par value was recorded at £690,000 and converted to $1,288,275 at a rate of 1.8671.

Year Ended December 31, 2005

- In February 2005, 10,000 Ordinary Shares were issued at £0.10 par value per share. The par value was recorded at £1,000 and converted to $1,752 at a rate of 1.7518.

Year Ended December 31, 2004

- In December 2004, 89,998 Ordinary Shares were issued at £0.10 par value per share. The par value was recorded at £8,998 and converted to $17,383 at a rate of 1.9319.

The par value of shares are denominated in sterling which has been converted to US dollars at the rate on the date of grant. The rates used from sterling were of 1.9319, 1.7518 and 1.8671 on December 31, 2004, February 16, 2005 and October 23, 2006, respectively.

No dividend has been declared or paid during the full year periods ended December 31, 2006, 2005 or 2004. Further there have been no declarations or payments subsequent to the year ended December 31, 2006.

NOTE 18 — INCOME TAXES

Tethys and its domestic subsidiary have been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to 1997 and hence are liable for a payment of a Guernsey exemption fee at a fixed rate of $1,000 (£600) per annum.

Tethys's foreign subsidiaries are all based in the Republic of Kazakhstan where the statutory rate of income tax is 30% for all periods presented.

No provision for income taxes have been provided in the consolidated financial information as Tethys's combined foreign subsidiaries recorded losses for all periods presented. Tethys's foreign subsidiaries had aggregate net operating losses carried forwards of $1,881,000, $1,807,000 and $510,000 as at December 31, 2006, 2005 and 2004 respectively. Tethys's foreign net operating losses carried forwards expire from 2009 to 2013. Tethys's available net operating losses carried forwards may be used to offset future taxable income, if any, prior to their expiration. A deferred tax asset of $1,881,000, $1,807,000, and $510,000 existed as at December 31, 2006, 2005 and 2004. Due to uncertainty in the realizability of these tax assets the Company has recorded a full valuation allowance of $1,881,000, $1,807,000 and $510,000 as at December 31, 2006, 2005 and 2004, respectively.

The net operating losses carried forwards of $1,881,000, $1,807,000 and $510,000 as at December 31, 2006, 2005 and 2004 expire as follows:

	2006	2005	2004
	$000	$000	$000
2007	—	—	—
2008	—	—	—
2009	307	307	307
2010	159	159	159
2011 and after	1,415	1,341	44
Net operating losses carried forwards	1,881	1,807	510

NOTE 19 — NET LOSS PER COMMON SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by weighted average number of common shares outstanding.

NOTE 20 — RELATED PARTY TRANSACTIONS

Tethys's activity during 2006, 2005 and 2004 was entirely funded by CanArgo Energy Corporation, its ultimate holding company.

During 2006, in accordance with a covenant contained in the Senior Subordinated guaranteed loan notes held by Tethys's parent, Tethys reimbursed its parent for payments made on behalf of Tethys's and in respect of management fees and overhead the sum of $1,150,000.

CanArgo Energy Corporation provides all its services, which generally consists of office space, telephones, utilities and other administrative type costs, to Tethys via a management services agreement between Energy Corporation, Tethys and Vazon Energy Limited. Vazon Energy Limited is a corporation organized under the laws of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. In addition, a management services agreement exists between CanArgo Energy Corporation and Vazon Energy whereby the services of Dr. Robson, Mrs. Landles (Corporate Secretary and Executive Vice President) and other Vazon Energy employees, are provided to CanArgo Energy Corporation. During 2005, a portion of these services from Vazon Energy was charged by CanArgo Energy Corporation to Tethys at a rate of $25,000 per month. Charges of $300,000 were recorded in administrative expenses by Tethys and unpaid for the periods ended December 31, 2005 and 2004. The unpaid charges were recorded in the loan payable to CanArgo Energy Corporation at December 31 2005 and 2004.

Mr. Russell Hammond, a non-executive director of Tethys and CanArgo Energy Corporation is also an Investment Advisor to Provincial Securities Limited. Provincial Securities Limited had an interest in Tethys Petroleum Limited which was sold in June 2005 to CanArgo Energy Corporation by a share exchange for shares in CanArgo Energy Corporation. Provincial Securities Limited received 5,500,000 shares of CanArgo Energy Corporation common stock in relation to the transaction. Mr Hammond did not receive any compensation in connection with these transactions and disclaims any beneficial ownership of Provincial Securities Limited or any of the Company's common stock owned by Provincial Securities Limited.

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions. Transactions with affiliates are reviewed and voted on solely by non-interested directors.

NOTE 21 — SUBSEQUENT EVENTS

On January 24, 2007, Tethys closed a private placement whereby it issued 34,674,390 Common Shares for gross proceeds of approximately $17.4 million. Those Common Shares were issued at a price of $0.50 per share and the funds raised were to be used to complete the construction of the 51 km pipeline that will be used in connection with the anticipated gas production from the Kyzyloi Field development, to fund the drilling of additional exploration wells and for general working capital purposes. The subscribers to this private placement consisted of a small group of sophisticated investors.

In February 2007 the Company announced that Tethys had completed a private placement with a limited group of private investors raising gross proceeds of approximately $17.4 million, by issuing in total approximately 34.7 million new ordinary shares in Tethys, these representing approximately 33% of the issued and outstanding share capital of Tethys. Under the terms of the Shareholders Agreement entered into with the new private investors, Tethys is subject to certain positive and negative covenants which require the consent of the holders of not less than 75% of the ordinary shares in issue in Tethys from time to time (the "Shareholder Majority"). The Agreement also outlines certain provisions in relation to the conduct of the Tethys business and provided that the intention of Tethys, CanArgo Limited and the Investors is to use their reasonable endeavors to work towards a listing of Tethys as soon as practicable, subject to (i) the financial and commercial circumstances of Tethys, and the pre-money valuation of Tethys prior to the listing being acceptable to the Shareholder Majority; and (ii) the terms and amounts (if any) raised by Tethys on such listing being acceptable to the board of Tethys.

In March 2007, the Company announced that it had engaged Jennings Capital Inc. of Calgary, Alberta ("JCI") engaging JCI to act as lead agent with respect to a planned initial public offering ("IPO"). In addition McDaniel and Associates Consultants Limited have been engaged to carry out an independent evaluation of Tethys' projects in connection with the proposed listing. The full details of the planned IPO have yet to be finalised.

The Company engaged McDaniel and Associates Consultants Ltd. to evaluate the Company's natural gas reserves as at March 31, 2007, and in connection therewith, McDaniel prepared the McDaniel Reserve Report evaluating the Company's natural gas reserves as at March 31, 2007.

Agreement has now also been reached whereby, subject to any required Kazakh regulatory approvals Tethys, through its wholly owned subsidiary Tethys Kazakhstan Limited ("TKL") will acquire the 30% of BNM it does not own in return for 30 million shares in Tethys, and making BNM a wholly owned subsidiary of TKL. TKL's interest in BNM is currently the principal asset of Tethys. Following this share swap there will be approximately 134.7 million shares in Tethys of which CanArgo will own 70 million (52%).

In February 2007 we also announced that Tethys has signed a Protocol of Intent (the "Protocol") with the Ministry of Energy of the Republic of Tajikistan and the State Committee for Investments and Property Management of the Republic of Tajikistan giving Tethys the exclusive right to carry out technical evaluations and negotiations with the aim of entering into a contractual arrangement: to carry out oil and gas exploration activities in the Kulibsky region of Southern Tajikistan; to consider involvement in the Alimtai prospect in that region; and to consider co-operation in increasing production on currently operating fields in Tajikistan. A phase of data collection, interpretation and negotiation is planned over the next six months, with the aim of concluding basic agreements during this period.

NOTE 22 — EXPLORATION AND PRODUCTION DISCLOSURES

Results of operations for oil and gas producing activities

There were no oil and gas producing activities during 2006, 2005 and 2004.

Costs incurred for oil and gas property acquisition, exploration and development activities

Costs incurred for oil and gas property acquisition, exploration and development activities for 2006, 2005 and 2004 are as follows:

Year Ended December 31,	2006	2005	2004
	$000	$000	$000
Property Acquisition			
Unproved(2)	2,811	227	146
Proved	—	—	—
Exploration	—	—	—
Development	7,254	1,160	—
Total costs incurred	10,065	1,387	146

(1) On September 30, 2003, Tethys completed the acquisition, through its then associated company TKL (now a wholly owned subsidiary), of 70% ownership rights in BN Munai LLP, a Kazakh registered limited liability partnership which has 100% rights to the Kyzyloi Field.

(2) These amounts represent costs incurred by Tethys and excluded from the amortization base until proved reserves are established or impairment is determined.

Aggregate Capitalized Costs

Capitalized costs relating to Oil and Gas Activities is as follows:

December 31:	2006	2005	2004
	$000	$000	$000
Proven	8,683	1,429	—
Unproven	3,157	346	388
Total capitalized Costs	11,840	1,775	388
Accumulated DD&A	—	—	—
Net capitalized costs	11,840	1,775	388

Costs Not Being Amortised

Oil and gas property costs not being amortized at December 31 2006, by year that the costs were incurred are as follows:

Year Ended December 31:	Exploration	Acquisition	Total Capital
	$000	$000	$000
2006	2,811	—	2,811
2005	—	221	221
2004	125	—	125
	2,936	221	3,157

Unevaluated costs include $220,944 for Kul Bas LLP. Kul-Bas LLP owns an exploration contract, which is for a period of 25 years, with an initial six year exploration period, covering an unexplored area of approximately 2,688,695 acres (10,881 km^2) surrounding the Akkulka area.

SUPPLEMENTAL OIL AND GAS DISCLOSURE (Unaudited)

ESTIMATED NET QUANTITIES OF OIL AND GAS RESERVES

Users of this information should be aware that the process of estimating quantities of "proved" and "proved developed" natural gas and crude oil reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures.

Proved reserves are estimated quantities of natural gas, crude oil and condensate that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs with existing equipment under existing economic and operating conditions.

Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and under existing economic and operating conditions.

No major discovery or other favourable or adverse event subsequent to December 31, 2004 is believed to have caused a material change in the estimates of proved or proved developed reserves as of that date.

Oil and gas reserves

The following tables set forth Tethys' net proved oil and gas reserves, including the changes therein, and net proved developed reserves at December 31, 2006 as estimated by an independent petroleum engineering firm:

Net Proved Developed and Undeveloped Reserves — Gas (In Million Cubic Feet):

	2006	2005	2004
January 1	—	—	—
Purchase of properties	32,694	29,699	—
Revisions of previous estimates	(2,354)	—	—
Extension, discoveries, other additions		2,995	—
Production	—	—	—
Disposition of properties	—	—	—
December 31	30,340	32,694	—
Net Proved Developed Oil Reserves — December 31, 2006	—		

Net proved gas reserves consisted of the following at December 31:

	2006[1]		2005	
	Gas Reserves Gross (MMCF)	PSC Entitlement Volumes (MMCF)[2]	Gas Reserves Gross (MMCF)	PSC Entitlement Volumes (MMCF)[2]
Proved Developed Producing	—	—	—	—
Proved Undeveloped	30,340	30,340	32,694	32,694
Total Proven	30,340	30,340	32,694	32,694

(1) No reserves were assessed before 2005 as the Company was in the process of assessing the geological data that it had acquired.

(2) On 15 September 2003, Tethys completed the acquisition, through its then associated company TKL (now a wholly owned subsidiary), of 70% ownership rights in BN Munai LLP, a Kazakh registered limited liability partnership which has 100% rights to the Kyzyloi Field. Under a loan agreement with BN Munai LLP, TKL will take 100% of the net cash flow of the Kyzyloi development until its loan is repaid.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

The following information has been developed utilizing procedures prescribed by SFAS No. 69 *Disclosure about Oil and Gas Producing Activities* ("SFAS 69") and based on crude oil reserve and production volumes estimated by the Company's engineering staff. It may be useful for certain comparative purposes, but should not be solely relied upon in evaluating the Company or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of the Company.

Tethys believes that the following factors should be taken into account in reviewing the following information: (1) future costs and selling prices will probably differ from those required to be used in these calculations; (2) actual rates of production achieved in future years may vary significantly from the rate of production assumed in the calculations; (3) selection of a 10% discount rate is arbitrary and may not be reasonable as a measure of the relative risk inherent in realizing future net oil and gas revenues; and (4) future net revenues may be subject to different rates of income taxation.

Under the Standardized Measure, future cash inflows were estimated by applying period-end oil prices adjusted for fixed and determinable escalations to the estimated future production of period-end proven reserves. Future cash inflows were reduced by estimated future development, abandonment and production costs based on period-end costs in order to arrive at net cash flow before tax. Future income tax expenses has been computed by applying period-end statutory tax rates to aggregate future pre-tax net cash flows, reduced by the tax basis of the properties involved and tax carryforwards. Use of a 10% discount rate is required by SFAS No. 69.

Management does not rely solely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable as well as proven reserves and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.

Standardized measure of discounted future net cash flows relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is as follows:

	December 31		
	2006	**2005**	**2004**
	$000	$000	$000
Future cash inflows	25,382	27,180	—
Less related future:			
Production costs	(2,580)	(3,060)	—
Development and abandonment costs	(5,888)	(11,000)	—
Future net cash flows before income taxes	16,914	13,120	—
Future income taxes	(4,392)	(7,220)	—
Future net cash flows[1]	12,522	5,900	—
10% annual discount for estimating timing of cash flows	(3,162)	(2,733)	—
Standardized measure of discounted future net cash flows	9,360	3,167	—

(1) On September 30, 2003, Tethys completed the acquisition, through its then associated company TKL (now a wholly owned subsidiary), of 70% ownership rights in BN Munai LLP, a Kazakh registered limited liability partnership which has 100% rights to the Kyzyloi Field.

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved oil and gas reserves for is as follows:

	December 31		
	2006	2005	2004
	$000	$000	$000
Beginning of year	3,167	—	—
Purchase (sale) of reserves in place	—	2,644	—
Revisions of previous estimates	(1,383)	523	—
Development costs incurred during the period	2,604	—	—
Additions to proved reserves resulting from Extensions, discoveries and improved Recovery	—	—	—
Accretion of discount	317	—	—
Sales of oil and gas, net of production costs	—	—	—
Net change in sales prices, net of Production costs	—	—	—
Changes in production rates (timing) and other	4,655	—	—
Net increase (decrease)	6,193	3,167	—
End of year	9,360	3,167	—

FORM 51-101F2

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the board of directors of Tethys Petroleum Limited (the "**Company**"):

1. We have evaluated the Company's reserves data as at March 31, 2007. The reserves data consists of the following:

   (a) proved, proved-plus-probable, and proved-plus-probable-plus-possible natural gas reserves estimated as at March 31, 2007 using forecast prices and costs and the related estimated future net revenue; and

   (b) proved, proved-plus-probable, and proved-plus-probable-plus-possible natural gas reserves estimated as at March 31, 2007 using constant prices and costs and the related estimated future net revenue.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) in thousands of United States dollars (US$ M) attributed to proved-plus-probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10% included in the reserves data of the Company evaluated by us, as at March 31, 2007, and identifies the respective portions thereof that we have evaluated and reported to the Company's management:

Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (before Income Taxes, discounted at 10%)			
		Audited	Evaluated	Reviewed	Total
		(US$ M)	(US$ M)	(US$ M)	(US$ M)
April 24, 2007	Kazakhstan	—	46,043	—	46,043

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update our report for events and circumstances occurring after the preparation date.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

McDANIEL & ASSOCIATES CONSULTANTS LTD.

(Signed) "*B.H. Emslie*"

B.H. Emslie, P.Eng.
Senior Vice President

Calgary, Alberta
Date: April 24, 2007

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Tethys Petroleum Limited (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

(a) proved, proved-plus-probable, and proved-plus-probable-plus-possible natural gas reserves estimated as at March 31, 2007 using forecast prices and costs and the related estimated future net revenue; and

(b) proved, proved-plus-probable, and proved-plus-probable-plus-possible natural gas reserves estimated as at March 31, 2007 using constant prices and costs and the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The board of directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved:

(a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;

(b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

DATED this 10th day of May, 2007.

(Signed) "*Dr. David Robson*"	(Signed) "*Russ Hammond*"
Dr. David Robson	Russ Hammond
President & Chief Executive Officer	Director
(Signed) "*Bernard Murphy*"	(Signed) "*Liz Landles*"
Bernard Murphy	Liz Landles
Chief Financial Officer	Director

CERTIFICATES OF THE COMPANY AND THE PROMOTER

Dated: May 10, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

TETHYS PETROLEUM LIMITED

(Signed) "*Dr. David Robson*"
Chief Executive Officer

(Signed) "*Bernard Murphy*"
Chief Financial Officer

On behalf of the Board of Directors:

(Signed) "*Russ Hammond*"
Director

(Signed) "*Liz Landles*"
Director

On behalf of the Promoter:

CANARGO ENERGY CORPORATION, as promoter

(Signed) "*Vincent McDonnell*"
President

CERTIFICATE OF THE AGENTS

Dated: May 10, 2007

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of the *Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part 6 of the *Securities Act* (New Brunswick), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder.

JENNINGS CAPITAL INC.

(Signed) *"David McGorman"*
Senior Managing Director

TRISTONE CAPITAL INC.

(Signed) *"R. Bradley Hurtubise"*
Managing Director

HAYWOOD SECURITIES INC.

(Signed) *"William A. Kanters"*
Vice President

TETHYS

Petroleum

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