TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Balance Sheet *(unaudited)*

	Note	As at September 30, 2008	As at December 31, 2007
		(Expressed in 000's United States dollars)	
ASSETS			
Current Assets			
Cash and cash equivalents		36,989	26,692
Prepayments	**3**	1,044	351
Accounts Receivable		552	219
Value added tax recoverable		39	-
Inventory		178	-
Other current assets		575	790
Total current assets		39,377	28,052
Non Current Assets			
Prepayments	**3**	6,754	3,062
Restricted Cash	**4**	469	318
Value added tax recoverable	**5**	3,749	2,752
Capital assets	**6**	59,073	37,472
Total non-current assets		70,045	43,604
Total Assets		109,422	71,656
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		553	1,388
Current portion of long term debt	**7**	828	-
Accrued & other liabilities		1,075	891
Total current liabilities		2,456	2,279
Non Current Liabilities			
Long term debt	**7**	4,093	-
Other non-current liabilities	**8**	548	776
Asset retirement obligation	**9**	772	661
Total non current liabilities		5,413	1,437
Total Liabilities		7,869	3,716
Stockholders' equity	**11**		
Share capital		145,555	99,483
Contributed Surplus		6,619	3,527
Warrants		17,535	16,555
Accumulated deficit		(68,156)	(51,625)
Total stockholders' equity		101,553	67,940
Total Liabilities and Stockholders' Equity		109,422	71,656
Commitments and contingencies	**10**		

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statement of Operations and Comprehensive Loss *(unaudited)*

	Note	For three months to		Year to Date	
		Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
		(Expressed in 000's United States dollars except share data)		(Expressed in 000's United States dollars except share data)	
Revenues Net of Royalties					
Oil and gas sales		1,485	-	4,482	-
		1,485	-	4,482	-
Expenses					
Operating		274	-	537	-
Selling, general and administrative		3,347	2,743	9,515	6,164
Stock based compensation	12	812	679	3,092	17,018
Depreciation, depletion and amortization		2,298	20	5,716	48
		6,731	3,442	18,860	23,230
Operating Loss		(5,246)	(3,442)	(14,378)	(23,230)
Other Income/(Expense):					
Interest, net		283	451	574	(1,817)
Foreign exchange gains/(losses)		(1,254)	51	(1,392)	(92)
Finance charges	12	(250)	-	(1,230)	(238)
Other		(84)	(29)	(106)	(30)
Total Other Income/(Expense)		(1,305)	473	(2,154)	(2,177)
Loss Before Income Taxes		(6,551)	(2,969)	(16,532)	(25,407)
Income taxes		-	-	-	-
Net Loss and Comprehensive Loss for the period		(6,551)	(2,969)	(16,532)	(25,407)
Weighted average number of common shares outstanding	13	66,393,292	45,116,696	52,598,576	29,283,608
Basic and diluted loss per share		(0.10)	(0.07)	(0.31)	(0.87)

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statement of Cash Flows *(unaudited)*

	Note	For three months to		Year to date	
		Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
		(Expressed in 000's United States dollars)		(Expressed in 000's United States dollars)	
Operating activities:					
Net loss for the period		(6,551)	(2,969)	(16,532)	(25,407)
Items not affecting cash					
Stock based compensation		812	679	3,092	17,018
Accretion		19	-	52	-
Finance costs		-	-	980	238
Non-cash interest expense		-	-	-	1,917
Depreciation, depletion and amortization		2,298	20	5,716	48
Net change in non-cash working capital items					
Accounts Receivable		34	-	(333)	-
Other current assets		(521)	(100)	(2)	(1,022)
Prepayments		(369)	(328)	(693)	(80)
Accounts payable		(438)	126	(835)	209
Accrued and other liabilities		(7)	(1,912)	184	(257)
Net cash used in operating activities		(4,723)	(4,484)	(8,371)	(7,336)
Investing activities:					
Capital expenditures		(14,152)	(3,845)	(27,257)	(11,360)
Restricted cash		(26)	(2)	(151)	(14)
Value added tax recoverable		(994)	(242)	(998)	(676)
Change in oil & gas suppliers prepayments		(1,625)	326	(3,692)	(2,393)
Net cash used in investing activities		(16,797)	(3,763)	(32,098)	(14,443)
Financing activities:					
Proceeds from sale of common stock			-	50,000	67,337
Share issue costs		(178)	(12)	(3,928)	(5,068)
Proceeds (Repayment) from long term debt		(192)	-	4,922	(5,000)
Other non-current liabilities		(24)	-	(228)	(32)
Net cash provided by/(used in) financing activities		(394)	(12)	50,766	57,237
Net increase/(decrease) in cash and cash equivalents		(21,914)	(8,258)	10,297	35,458
Cash and cash equivalents, beginning of period		58,903	45,479	26,692	1,763
Cash and cash equivalents, end of period		36,989	37,221	36,989	37,221
Interest paid		152	-	309	375

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Changes in Stockholders' Equity *(unaudited)*

	Common Stock					
	No of Shares Issued	**Share Capital**	**Contributed Surplus**	**Warrants Reserve**	**Accumulated Deficit**	**Total Stockholders Equity**
			(Expressed in 000's United States dollars except share data)			
Total December 31, 2006	70,000,000	22,315	-	2,220	(9,846)	14,689
Shares Issued pursuant to Private Placement	34,674,390	17,337	-	-	-	17,337
	104,674,390	39,652	-	2,220	(9,846)	32,026
Share restructure 1:5	20,934,878	39,652	-	2,220	(9,846)	32,026
Issue of shares to acquire 30% of BN Munai	6,000,000	15,000	-	-	-	15,000
Initial Public Offering (IPO)	18,181,818	50,000	-	-	-	50,000
Share Warrants and Options	-	-	3,527	14,335	-	17,862
Finance Costs	-	(5,169)	-	-	-	(5,169)
Net loss in 2007	-	-	-	-	(41,779)	(41,779)
Total December 31, 2007	45,116,696	99,483	3,527	16,555	(51,625)	67,940
Share Warrants and Options	-	-	3,092	980	-	4,072
Public offering	21,276,596	50,000	-	-	-	50,000
Share issue costs	-	(3,928)	-	-	-	(3,928)
Net loss for the period to September 30, 2008	-	-	-	-	(16,531)	(16,531)
Total September 30, 2008	66,393,292	145,555	6,619	17,535	(68,156)	101,553

See accompanying notes to these financial statements
These notes are available in Sedar.

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

These interim consolidated financial statements are for the nine month period ended September 30, 2008 and should be read in connection with the 2007 annual consolidated financial statements.

As at September 30, 2008 Tethys Petroleum Limited (formerly known as Tethys Petroleum Investments Limited) was headquartered in Guernsey, British Isles and incorporated in the Cayman Islands, after moving its domicile from Guernsey, British Isles on July 17, 2008. Tethys Petroleum Limited and its consolidated subsidiaries (collectively "Tethys" or "the Company"), is an oil and gas company operating within the Republic of Kazakhstan and the Republic of Tajikistan. Tethys' 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 September 30, 2008. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. While these factors create doubt about the Company's ability to continue as a going concern, management is confident of achieving the Company's short term plans, including phase two of gas production, and optimistic about the longer term prospects for the Company.

The Company completed an Initial Public Offering of equity securities on the Toronto Stock Exchange on June 27, 2007. The Company issued additional capital on June 27, 2008 that generated sufficient funds to secure its future at least in the short term. In the event the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives.

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. These financial statements do not reflect adjustments in the carrying values of assets and liabilities reported, revenue or expenses and the balance sheet classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Foreign Operations

Tethys' future operations and earnings will depend upon the results of Tethys' operations in the Republics of Kazakhstan and Tajikistan. 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

Basis of Presentation

The unaudited interim consolidated financial statements and notes thereto are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) using accounting policies consistent with those adopted by the Company in its consolidated financial statements for the year ended December 31, 2007. All tabular amounts are in thousands of United States dollars.

In most respects the accounting policies applied conform to accounting principles generally accepted in Canada (Canadian GAAP). The differences between US GAAP and Canadian GAAP that apply to the Company are explained in Note 16.

Recently Adopted Pronouncements

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements."* This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning subsequent to November 15, 2007. The Company adopted this Statement in the first three quarters of 2008 and it did not have a material impact on its financial position or results of operations.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*," which permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. The Company adopted this statement in the first three quarters of 2008 and it did not have a material impact on its financial position or results of operations.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), —Business Combinations (—SFAS No. 141R), which replaces FASB Statement No. 141. SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 141R requires the acquiring Company to measure almost all assets acquired and liabilities assumed in the acquisition at fair value as of the acquisition date. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2009 for the Company) and should be applied prospectively with the exception of income taxes which should be applied retrospectively for all business combinations. Early adoption is prohibited. The Company is in the process of evaluating the impacts, if any, of adopting this pronouncement.

In March 2008, the FASB issued SFAS No. 161, —Disclosures about Derivative Instruments and Hedging Activities, (—SFAS No. 161), an amendment to SFAS No. 133, —Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and

cash flows. This Statement will be effective for the Company's interim and annual consolidated financial statements beginning in fiscal year 2010. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is in the process of evaluating the impacts, if any, of adopting this pronouncement.

NOTE 3 – PREPAYMENTS

Prepayments consisted of the following:

	September 30, 2008	December 31, 2007
Contractors	6,754	3,062
Other	1,044	351
Balance	7,798	3,413

Prepaid contractors relate to suppliers who were paid in advance for materials and services relating to both the Akkulka and the Kul-Bas contracts. For the Akkulka contract this included the drilling of a new well, workovers of existing wells together with initial and stage payments on compressors, pipes and associated construction work that will constitute phase 2 of the Company's gas production. For Kul-Bas the prepayment related primarily to the drilling of a new well. Other prepayments primarily relate to prepaid insurance and other operating expense items.

NOTE 4 – RESTRICTED CASH

Restricted cash at September 30, 2008 consisted of bank deposits that have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations.

NOTE 5 – VALUE ADDED TAX RECOVERABLE

Non-current VAT recoverable represents VAT on capital expenditures in Kazakhstan that is allowed as an offset against VAT on revenues.

NOTE 6 - CAPITAL ASSETS

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at September 30, 2008:

	Cost	Accumulated DD&A	Net Capital Assets
Oil and Gas Properties			
Proved properties	48,398	(18,536)	29,862
Unproved properties	11,180	-	11,180
	59,578	(18,536)	41,042
Plant and Equipment			
Oil & Gas Equipment	16,286	-	16,286
Vehicles	1,347	(110)	1,237
Office equipment, furniture, fixtures and other	604	(96)	508
	18,237	(206)	18,031
Balance	77,815	(18,742)	59,073

Capital assets, net of accumulated DD&A and impairment, include the following at December 31, 2007:

	Cost	Accumulated DD&A	Net Capital Assets
Oil and Gas Properties			
Proved properties	39,727	(12,975)	26,752
Unproved properties	7,749	-	7,749
	47,476	(12,975)	34,501
Plant and Equipment			
Oil & Gas Equipment	2,057	-	2,057
Vehicles	579	(19)	560
Office equipment, furniture, fixtures and other	386	(32)	354
	3,022	(51)	2,971
Balance	50,498	(13,026)	37,472

Proved properties consist of both the Kyzyloi and Akkulka contracts. Following the commencement of gas production from the Kyzyloi gas field on December 19, 2007 the Kyzyloi costs, included in the proved properties, have been depleted on a unit of production basis.

Unproved property additions relate to activity being carried out in properties where there are no proved reserves as at September 30, 2008 this consisted of the Kul Bas Exploration and Production Contract and the Tajikistan Production Sharing Contract.

In the period to September 30, 2008, US$357,800 was capitalized from G&A while in the year ended December 31, 2007 the amount was US$316,200.

Oil & gas equipment primarily relates to the construction in progress of drilling rigs and as such this was not subject to depreciation.

In addition to the depletion charge on proved properties of US$175,000 in the December 31, 2007 financial statements, an impairment adjustment of US$12,800,000 was required under the US GAAP ceiling test which was calculated on proved reserves only at the constant prices. The prices used in valuing the reserves were US$0.90 per Mcf for the existing Kyzyloi gas sales contract and US$3.38 per Mcf for future gas sales, both prices being net of VAT.

NOTE 7 – LONG TERM DEBT

	September 30, 2008	December 31, 2007
Long term debt	4,921	-
Current portion of long term debt	(828)	-
Balance	4,093	-

On March 19, 2008 the Company announced that it had completed a financing arrangement for funds of US$5,300,000 to assist with the purchase of a drilling rig by means of a 3-year loan with monthly payments of interest and capital and a final balloon payment. The interest payable on the borrowed funds was 12% per annum. In addition 795,000 warrants to

purchase Tethys shares were also issued to the lenders with a term of 3 years and an exercise price of CAD$3.25. Fair value of these warrants of US$980,394 was recognized as a finance charge the first quarter 2008. Lenders have security over the shares of Tethys Petroleum Inc. which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. To September 30, 2008 Tethys has incurred US$5,949,850 of costs with respect to this rig and a further US$4,528,000 on drill strings, blow out preventors and other ancillary equipment.

The loan is to be repaid with monthly payments of interest and capital over a 36 month period and a final balloon payment at the end of this period. The balance of US$4,093,000 represents the principal amounttotal payments due beyond September 2009.

Principal due within each of the next three years:

To September 30,	2009	828
	2010	933
	2011	3,160
		4,921

NOTE 8 – NON CURRENT LIABILITIES

Other non current liabilities relates to the accrual of Historic Costs due to the Government of Kazakhstan on the Kyzyloi contract in Kazakhstan. The total amount outstanding at September 30, 2008 was US$951,342 and this is to be paid in quarterly instalments between October 2008 and March 2014. The net present value of the US$951,342 using an interest rate of 10% is US$705,000 of which US$157,000 is current, leaving a balance of US$548,000.

NOTE 9 – ASSET RETIREMENT OBLIGATION

The asset retirement obligation is comprised of the following:

	September 30, 2008	December 31, 2007
Balance at beginning of the period	661	451
New obligations incurred	59	175
Accretion of expense	52	35
Balance at end of the period	772	661

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Kazakhstan

For full details of the contract commitments in Kazakhstan please refer to the Notes to the 2007 annual consolidated financial statements.

Tajikistan

On June 13, 2008 the Company announced that its subsidiary Kulob Petroleum Limited ("KPL") had signed a Production Sharing Contract ("PSC") with the government of the Republic of Tajikistan. Under the PSC, KPL will recover 100% of its costs from up to 70% of total production (the maximum allowed under the newly approved production sharing

legislation of Tajikistan) and the remaining production (termed "Profit Oil and Gas") will be shared 70% to KPL and 30% to the Government whose share includes all taxes, levies and duties. The terms are fixed over the life of the PSC which is a minimum of twenty-five years.

Pursuant to the PSC, Tethys through its subsidiary KPL has agreed to fund a work program which has been designed to provide data for a focused exploration of the Contract Area and which will be carried out in two stages (the "**Work Program**"). During the first phase of the Work Program ("**Phase I**"), planned activities will include geological studies, reprocessing of existing seismic and other geophysical data, acquisition of seismic and other geophysical data and the commencement of initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The total minimum cost of Phase I is estimated to be approximately US$3,000,000. After completion of Phase I, KPL would make a determination as to whether it will proceed with the second phase of the Work Program ("**Phase II**") or terminate the PSC. Phase II, which is to be completed within 18 months of the completion of Phase I, is expected to involve the commencement of the drilling of an exploration well to determine the oil and gas potential of the Bukhara formation and to perform additional rehabilitation activities if economically justified. The total minimum cost of the activities planned in Phase II is estimated to be approximately US$5,000,000.

Drilling Rig Telesto

On October 16, 2007 Tethys placed an order for a new 2,000 horsepower (1,470 kN) ZJ70/4500L drilling rig from a Chinese supplier. The rig has a nominal drilling depth of 23,000 feet (7,000 metres). Transportation of the rig to Akkulka commenced in June 2008 for use on the Akkulka deep exploration program, which is anticipated to commence in October 2008. It is planned that the rig will be operated by Tethys' current Kazakh drilling contractor under a management agreement. The rig would also be suitable for drilling on the potentially large prospects Tethys has identified in the Kulob area of Tajikistan that would be within the scope of the recently signed PSC. The cost of the rig is US$6,263,000. The Company paid the rig deposit of US$1,878,900 in October 2007 and a stage payment of the same amount in January 2008. The third installment of US$2,192,050 was paid in May 2008. The final payment will be made after assembly and trial operating.

Drilling Rig Tykhe

On July 25, 2008 Tethys placed an order for a new ZJ30 truck mounted rig.

The cost of the rig is US$5,350,000. The Company paid the rig deposit of US$1,605,000 in July 2008 and a stage payment of the same amount in September 2008. The third installment of US$1,872,500 will be due upon delivery. The final payment will be made after assembly and trial operating.

NOTE 11 – STOCKHOLDERS' EQUITY

On June 27, 2008 Tethys successfully completed a public offering, having placed 21,276,596 shares at a price of US$2.35 (CAD$2.39), raising US$50,000,000 (gross). The ordinary shares are listed on the Toronto Stock Exchange.

At the Annual General Meeting on April 24, 2008 the authorized share capital of the Company was increased by an additional 200,000,000 ordinary shares and 50,000,000 preference shares. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008. Significant terms related to preference shares are summarized below:

1. may be issued in one or more series;
2. are entitled to any dividends in priority to the ordinary shares;
3. confer upon the holders thereof rights in a winding-up in priority to the ordinary shares;
4. and may have such other rights, privileges and conditions (including voting rights) as the Board may determine prior to the first allotment of any series of preference shares, provided that if a series of preference shares has no or limited voting rights it shall be designated as such by the Board.

NOTE 12 – STOCK BASED COMPENSATION

The Company has adopted a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, or any subsidiary or Vazon Energy Limited (collectively "Service Providers"). 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 reserved for issuance under the plan equals 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 ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an optionee ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of ordinary shares on the principal stock exchange where the ordinary shares are listed as of the date of the option grant. 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 of 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 Company has approved the grant to its executive officers of warrants (the "Performance Warrants") to acquire 6,767,504 ordinary shares. The Performance Warrants will be exercisable at US$4.125 through the period ending December 25, 2009 in respect of 1,353,501 ordinary shares, US$5.50 through the period ending June 25, 2011 in respect of 2,255,835 ordinary shares, and US$6.875 through the period ending December 25, 2012 in respect of 3,158,168 ordinary shares.

Activity for nine months ended September 30, 2008

Stock options – The following table summarizes the stock option activity under the 2007 Long Term Stock Incentive Plan for the nine months ended September 30, 2008:

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Term (in years)
Outstanding at December 31, 2007	4,497,000	$2.76		
Granted	2,274,000	2.51		
Forfeited	(96,000)	2.75		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at September 30, 2008	6,675,000	$2.67	$0	6.09
Exercisable at September 30, 2008	3,672,000	$2.70	$0	5.95

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's stock price on September 30, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders had exercised their options on September 30, 2008. This amount changes based on the fair market value of the Company's stock.

For options granted during the nine months ended September 30, 2008, the weighted average fair value on the date of grant, estimated using the Black-Scholes option pricing model was US$1.5493 per option, using the following weighted average assumptions: dividend yield of 0%; expected option term of 4.0 years; a risk free interest rate of 3.32%; and an expected volatility of 73.5%.

For the three months ended September 30, 2008, there was US$812,000 of pre-tax compensation expense for options granted under the 2007 Long Term Stock Incentive Plan. As of September 30, 2008, there was US$3,700,000 of total unrecognized compensation expense related to unvested stock options granted under the plan. The Company expects to recognize the expense over a weighted-average period of 1.28 years.

Warrants - The following table summarizes the warrant activity, including Performance Warrants, for the nine months ended September 30, 2008:

	Number of Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value (thousands)	Weighted Average Remaining Term (in years)
Outstanding at December 31, 2007	8,857,504	$5.07		
Granted	795,000	3.25		
Forfeited	0	N/A		
Exercised	0	N/A		
Expired	0	N/A		
Outstanding at September 30, 2008	9,652,504	$4.92	$0	4.28
Exercisable at September 30, 2008	9,652,504	$4.92	$0	4.28

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's stock price on September 30, 2008 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders if all warrant holders had exercised their warrants on September 30, 2008. This amount changes based on the fair market value of the Company's stock.

During the nine months ended September 30, 2008, there were 795,000 warrants issued in connection with loan financing. These warrants were non-compensatory. As of September 30, 2008, there was no unrecognized compensation expense related to unvested warrants.

NOTE 13 - NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted per share information is calculated, including the dilutive effect of stock options which are determined using the treasury stock method. The treasury stock method assumes that the proceeds that would be obtained upon exercise of "in the money" options would be used to purchase common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

NOTE 14- RELATED PARTY TRANSACTIONS

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson, Ms. Landles (Corporate Secretary and Executive Vice President) and other Vazon employees are provided to the Company. A monthly fee is paid for the services of Dr. Robson, a separate monthly fee for other Vazon employees and an invoice for all other services and costs is to be issued to Tethys at the end of each month. The total cost charged to Tethys for services from Vazon in the nine months to September 30, 2008 was US$763,235.

Upon completion of the loan referred to in Note 7, in March 2008 Kraken Financial Group, which has one common director with the company, was entitled to receive 6% commission of the funds it was responsible for introducing, to be taken in the form 81,447 shares. Kraken Financial Group also acted as broker for Tethys in the placement of various insurance policies, including Directors & Officers, for which the combined annual premiums were US$112,000.

Oilfield Production Consultants (OPC) Ltd, which has one common director with the company, has charged Tethys a monthly retainer fee for engineering expertise and also provided services relating to the optimization of the existing

compressors and those to be installed as part of Phase 2 gas production from Akkulka. Total fees in the nine months to September 30th, 2008 were $239,141.

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 15 – CANADIAN ACCOUNTING PRINCIPLES AND REPORTING

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the USA (US GAAP) which in most respects conform to accounting principles generally accepted in Canada (Canadian GAAP). The differences between US GAAP and Canadian GAAP that apply to the Company are explained in this note.

Reconciliation between US GAAP and Canadian GAAP

Under US GAAP regulations, only proved reserves are included in the ceiling test and consequently the Company had to record an impairment in its 2007 accounts of US$12,800,000. Under Canadian GAAP where probable reserves can also be included in the ceiling test this impairment would not have been necessary.

RECONCILIATION OF NET EARNINGS BETWEEN US GAAP AND CANADIAN GAAP

	For 3 months to		For 9 months to	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
Net Loss and Comprehensive Loss after Tax for the period under US GAAP	(6,551)	(2,969)	(16,532)	(25,407)
Additional DD&A on Proved Properties	(518)	-	(1,592)	-
Net Loss and Comprehensive Loss after Tax for the period under Canadian GAAP	(7,069)	(2,969)	(18,124)	(25,407)
Basic and diluted loss per share under Canadian GAAP	(0.11)	(0.07)	(0.34)	(0.87)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT – CANADIAN GAAP

	For 3 months to		For 9 months to	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
Operating Revenue	1,485	-	4,482	-
Expenses				
Operating expenses	274	-	537	-

Selling, general & admin expense	3,347	2,743	9,515	6,164
Stock based compensation	812	679	3,092	17,018
Depreciation, depletion & amortization	2,816	20	7,308	48
Other	1,305	(473)	2,154	2,177
Loss before income tax for the period under Canadian GAAP	(7,069)	(2,969)	(18,124)	(25,407)
Income Tax	-	-	-	-
Net Loss and Comprehensive Loss after tax for the period under Canadian GAAP	(7,069)	(2,969)	(18,124)	(25,407)
Deficit – Beginning of the period	(49,880)	(32,284)	(38,825)	(9,846)
Deficit – End of period	(56,949)	(35,253)	(56,949)	(35,253)

CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2008	**December 31, 2007**
Assets		
Current Assets	39,377	28,052
Non Current Assets	10,972	6,132
Plant & Equipment	77,815	50,498
Depreciation, depletion & amortization	(7,535)	(226)
Total Assets	120,629	84,456
Liabilities and Stockholders' Equity		
Current Liabilities	2,456	2,279
Non Current Liabilities	5,413	1,437
Total stockholders' equity	112,760	80,740
Total liabilities and stockholders' equity	120,629	84,456

RECENTLY ADOPTED STANDARDS – CANADIAN GAAP

"Inventories", Section 3031. This new standard replaces the previous standard in Section 3030 and establishes standards for the measurement and disclosure of inventories. The adoption of this standard has had no material effect on the Company's consolidated financial statements.

"Capital Disclosures", Section 1535. This new standard requires the Company to disclose its objectives, policies and processes for managing capital.

"Financial Instruments – Presentation", Section 3863 and "Financial Instruments – Disclosures", Section 3862, which replaced Section 3861.

RECENT ACCOUNTING PRONOUNCEMENTS – CANADIAN GAAP

In January 2006, the Accounting Standards Board ("AcSB") adopted a strategic plan for accounting standards in Canada. In February 2008 the AcSB confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP effective January 1, 2011. The Company is assessing the potential impacts of this transition and developing a plan accordingly.

In February 2008 the CICA issued Section 3064, "Goodwill and Intangible Assets" which will replace Section 3062 and be effective January 1, 2009. This new standard revises the criteria for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is currently assessing the impact of these new recommendations.

Capital Disclosures

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure in the future, adjustments may be made to the amount of distributions (if any) to shareholders and the amount of capital returned to shareholders, in addition to the amount of new units issued. Financing decisions are set based on the timing and extent of expected operating and capital cash outlays. Factors considered when determining whether to take on new debt or to issue equity include the amount of cash sought, the availability of these sources and their terms and to overall balance creation of value for shareholders with the management of risk associated with debt.

The Company's capital structure is comprised of shareholders' equity and a loan from a number of accredited private investors (including the current portion) and is monitored by using a non-GAAP financial metric of Net Debt to Capitalization. Net Debt is calculated as the sum of the loan (including the current portion) less cash and cash equivalents. There was no Net Debt at September 30, 2008 as the cash and cash equivalents significantly exceeded the loan. The Company had no loans at December 2007.

Financial Instruments and Risk Management

Financial Risks

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks, credit risks and liquidity risks. The nature of these risks has not changed significantly from the prior period ended December 31, 2007.

Market Risk

Market risk is the risk that changes in market prices such as interest rates and commodity prices will affect the Company's operating income or the value of its financial instruments.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. The loan from private investors is a fixed rate facility and so has no exposure to changes in market interest rates.

Commodity Price Risk

Commodity price risk is the risk that fluctuations in oil or natural gas prices could materially adversely affect the Company's financial condition. The commodity prices affect the levels of drilling activity, particularly with respect to natural gas. The current contract for existing sales with Kazakhstani Petrochemical Company Kemikal LLP is a fixed price contract and so there is no current exposure to Price Risk.

Foreign Currency Exchange

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.

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 but is attempting to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan. As at September 30, 2008 had the United States dollar changed by 1% against the Kazakhstan Tenge, with all other variables held constant, the Company's foreign exchange gain or loss would have been affected by $131,301.

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. Moreover, the Company's ordinary shares trade in Canadian dollars on the TSX.

Credit Risk
Credit risk is the risk that the counterparty to a financial instrument fails to meet its contractual obligations, resulting in a financial loss to the Company. This relates primarily to the Company's trade accounts receivable.

The Company has only recently commenced production and revenue generation and currently has only one customer, which is unlikely to change in the immediate future. While this customer is considered credit worthy the level of debt will be carefully monitored and appropriate action taken if the debt exceeds sixty days.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Company seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change.

The only liabilities the Company had at September 30, 2008 that exceeded one year are the loan of US$4,921,000 payable over three years and other non-current liabilities on the Kyzyloi contract of US$951,342 payable in quarterly instalments up to March 2014.

Fair Value of Financial Assets and Liabilities

The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable, accrued liabilities and the loan from accredited private investors are designated as other liabilities and are recorded at cost. The fair value of accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these instruments. The fair value of obligations under the loan approximate their carrying values as the interest rates applicable to these instruments reflect current market rates. Financing costs relating to all financial instruments are expensed as incurred.

NOTE – 16 COMPARATIVES

Certain prior periods' amounts have been reclassified to conform to the current period's presentation.