ANNUAL INFORMATION FORM

For the Year Ended December 31, 2007

March 28, 2008

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GLOSSARY OF TERMS

In this Annual Information Form, the capitalized terms set forth below have the following meanings:

"**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;

"**Annual Information Form**" means the annual information form of Tethys dated March 28, 2008;

"**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;

"**CanArgo**" means CanArgo Energy Corporation;

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

"**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;

"**GazImpex**" means GazImpex S.A., an unaffiliated company 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, KPL, TST, TPI and SSEC;

"**IPO**" means the initial public offering of the Company of 18,181,818 Ordinary Shares at a price of $2.75 per Ordinary Share for gross proceeds of $50,000,000, which closed on June 27, 2007;

"**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;

"**McDaniel Reserve Report**" means the independent engineering evaluation of the Company's natural gas reserves prepared by McDaniel, dated March 25, 2008 and effective December 31, 2007;

"**MEI**" means the Ministry of Energy and Industry of Tajikistan;

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

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

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

"**Ordinary Shares**" means the ordinary shares of $0.10 par value in the share capital of the Company;

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

"**Protocol of Intent**" means the protocol of intent entered into among Tethys, the MEI and the State Committee for Investments and Property Management of Tajikistan on January 31, 2007;

"**PSA**" means production sharing agreement or production sharing contract;

"**Share Consolidation**" means the consolidation of the 134,674,390 issued Pre-Consolidation Ordinary Shares into 26,934,878 Ordinary Shares, on the basis of one new Ordinary Share for five existing Pre-Consolidation Ordinary Shares effected on May 8, 2007;

"**Short-Term Loan**" means the $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;

"**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;

"**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;

"**TSX**" means the Toronto Stock Exchange;

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

"**United States**" or "**U.S.**" means the United States of America;

"**US GAAP**" means U.S. 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 Annual Information Form, 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;

"**AVO**" means amplitude versus offset, a specialist seismic processing technique used in the detection of hydrocarbons;

"**bbl**" means barrels;

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

"Bcf/d" means billion cubic feet per day;

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

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

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

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

"**CDN$**" means Canadian dollars;

"**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;

“**hp**” means horsepower;

“**kW**” means kilowatt;

“**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 US 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 US 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;

"**NGL**" means natural gas liquids;

"**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**" 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 (500m to 600m) 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; and

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

Certain other technical terms used in this Annual Information Form 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 Oil and Gas 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.

In this Annual Information Form where amounts are expressed on a barrel of oil equivalent basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Unless otherwise specified, references to oil include oil and NGLs. NGLs include condensate, propane, butane and ethane.

CURRENCY AND EXCHANGE RATES

All references in this Annual Information Form to dollar amounts are to U.S. dollars unless otherwise noted.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be. The Company does not intend, and does not assume any obligation, to update or revise these forward-looking statements except as required pursuant to applicable securities laws.

In particular, this Annual Information Form and the documents incorporated by reference contain forward-looking statements pertaining to the following:

- the quantity of reserves;
- oil and natural gas production levels;
- capital expenditure programs;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the Company's ability to raise capital and to continually add to reserves through acquisitions and development; and
- treatment under government regulatory and taxation regimes.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- changes in government regulations.

These factors should not be considered exhaustive.

CORPORATE STRUCTURE

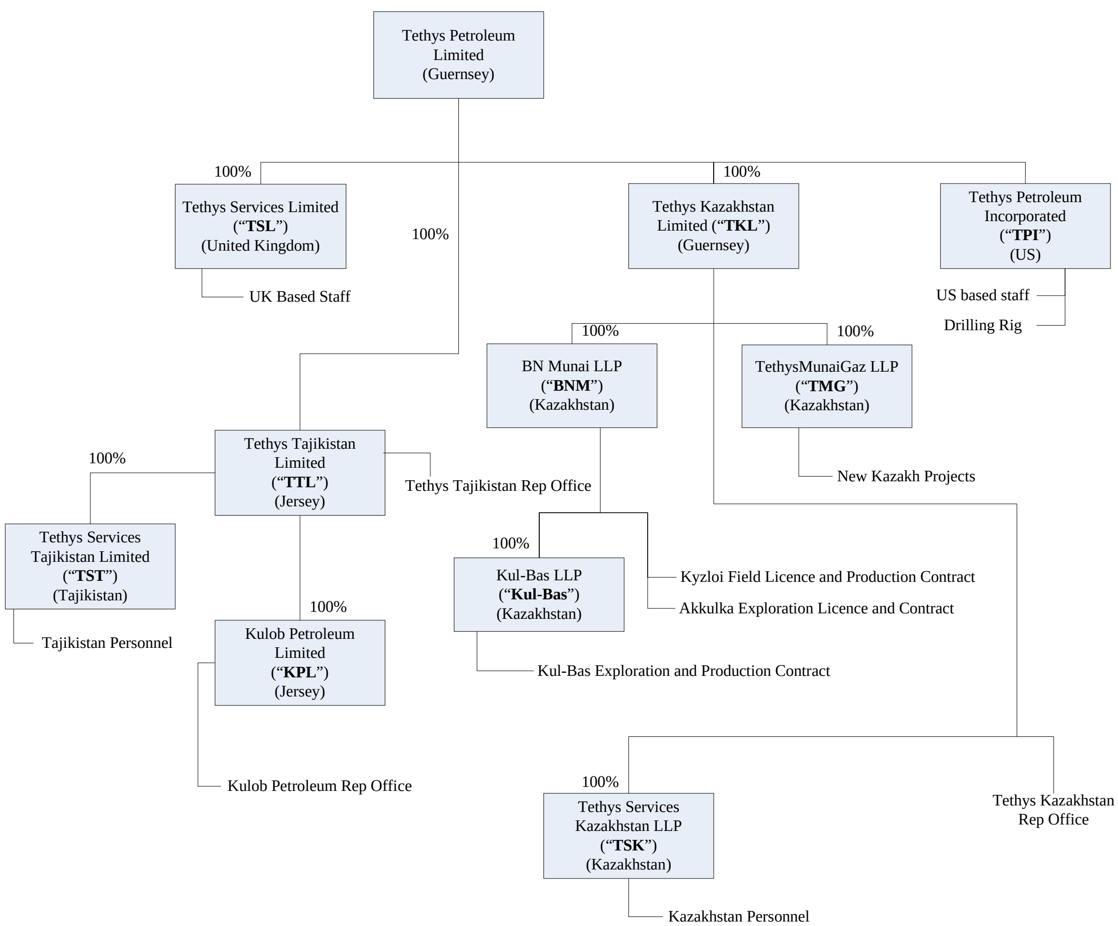
Name, Address and Incorporation

The Company was incorporated under the name "Tethys Petroleum Investments Limited" pursuant to the Companies Laws on August 12, 2003. By a special resolution passed on September 11, 2006 and an application granted by the Royal Court of Guernsey on September 22, 2006, the Company changed its name to "Tethys Petroleum Limited". On May 8, 2007, the Company obtained the approval for the Share Consolidation when a shareholders resolution approving the consolidation was filed with the Guernsey companies register.

The Company's registered office is located at P.O. Box 524, St. Peter Port, Guernsey, GY1 6EL, British Isles. The Company currently conducts the majority of its operations through TSK's head office which is located at B.C. "Old Square", 98 Panfilov Street, Offices 707-710, 050000 Almaty, Kazakhstan.

Intercorporate Relationships

The corporate ownership structure of Tethys and its principal subsidiaries is as follows:



GENERAL DEVELOPMENT OF THE BUSINESS

Company History

Incorporation to IPO

Tethys is an oil and gas exploration and production company focused on projects in Central Asia. Currently the Company has projects in Kazakhstan and Tajikistan.

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 in New York and the Oslo Stock Exchange in Norway, with operations primarily in Georgia. CanArgo's principal focus was 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.

On January 24, 2007, Tethys completed a private placement whereby it issued 34,674,390 Pre-Consolidation Ordinary Shares for gross proceeds of approximately $17,400,000. These shares were issued at a price of $0.50 per share ($2.50 post Share Consolidation) and the funds raised were used in connection with the Kyzyloi Field development, 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.

On March 13, 2007, Tethys reached an agreement with the owners 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-Consolidation 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.

On June 27, 2007, the Company completed the IPO of 18,181,818 Ordinary Shares at an offering price of $2.75 per share for gross proceeds of $50,000,000, pursuant to a final long form prospectus dated June 18, 2007. The Ordinary Shares commenced trading on the TSX on June 27, 2007. Following the IPO, Tethys has 45,116,696 Ordinary Shares issued and outstanding a market capitalisation of approximately $124 million (CDN$133 million). The Ordinary Shares are listed on the TSX under the symbol "TPL".

Post IPO Until the End of 2007

On August 8, 2007, the Company announced that it had completed the construction of the 35 mile (56 km) gas pipeline, and 8 miles (13 km) of additional tie-in pipeline, from the Kyzyloi Field, and pressure tested the system flowing gas down the entire length.

On August 14, 2007, the Company announced a new gas discovery at its AKK09 well in its Akkulka Exploration Contract Area in its west Aral properties in Kazakhstan. On September 6, 2007, the Company announced it had completed its initial 5-well shallow exploration program in its Akkulka Exploration Contract Area in Kazakhstan with three of the five wells drilled having flowed gas.

On September 7, 2007, the Company announced that its wholly owned subsidiary, TTL, had signed an investment and operating agreement (the "**IOA**") with Southern Oil and Gas Exploration State Unitary Enterprise ("**SOGE**") relating to oil and gas fields in Southern Tajikistan. The IOA had been agreed to and supported by the MEI.

On September 7, 2007, the Company announced that it would not be moving forward with plans to acquire the Aral Vostochniy exploration area in Kazakhstan. Tethys had been informed by the seller that it was unlikely that required changes to the minimum work program would be agreed with the appropriate Kazakh authorities in the foreseeable future and this together with other issues meant that it was not in a position to meet its obligations under the conditional agreement. As such it was agreed to terminate the agreement by mutual consent. None of the purchase price had been paid, and the Ordinary Shares which had been issued into escrow with respect to this transaction were consequently forfeited.

On September 20, 2007, the Company announced the appointment of Rosemary Johnson-Sabine as Vice President, Exploration.

On October 16, 2007, the Company announced a further exploration gas discovery in the Akkulka Exploration Contract Area with the successful testing of the AKK11 well which was then successfully appraised by the AKK12 well announced on November 30, 2007.

On December 19, 2007, the Company announced that commercial gas production from the Kyzyloi Field in Kazakhstan had commenced. The initial production is being sold under the long-term take-or-pay contract signed with the gas trading company GazImpex in January 2006 (the "**Gas Supply Contract**"). This contract relates to 30 Bcf (850 MMcm) of gas from the initial Kyzyloi development only, and was transferred in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP ("**PCK**"), who will utilize the gas in the domestic Kazakh market. The contract price is $1.02 per Mcf ($36.16 per Mcm) including value added tax ("**VAT**"). The Company has the ability to offset VAT levied on the sale of gas from the Kyzyloi project against VAT costs on the Kyzyloi project.

On December 24, 2007, the Company announced that it had signed agreement to take a partner in its current projects in Tajikistan. Under the agreement, Tethys, through its wholly owned subsidiary TTL, and a private investment company Sangam Limited ("**Sangam**") will form a joint company named "Seven Stars Energy Corporation" ("**SSEC**") owned and funded 51% by TTL and 49% by Sangam. SSEC will be the vehicle through which TTL will negotiate and conclude the planned PSA for the Kulob Area and TTL will assign its rights to the IOA to SSEC. The agreement will become effective subject to certain conditions precedent being met, with completion expected in Q2 2008.

DESCRIPTION OF THE BUSINESS

Overview and Stated Business Objectives

The Company is engaged, through its subsidiaries, 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 south-eastern 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 Tajikistan, the Company's projects are located in the south of the country, in a geologic basin known as the Afghan-Tajik Basin which is the easterly extension of the Amu-Darya Basin which is productive in Uzbekistan and Turkmenistan.

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.

Overview of Properties

In Kazakhstan, the Company owns its current interests through a wholly owned Kazakh limited liability partnership named 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 (which has proven gas reserves), 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 net proved plus probable reserves of 69.8 Bcf (1.98 Bcm) of natural gas in the Kyzyloi Field and the Akkulka Block as at December 31, 2007. The Kyzyloi Field commenced production on December 19, 2007. See "*Statement of Reserves Data and Other Oil and Gas Information*". Tethys completed construction of a 35 mile (56 km) 325 mm (12.8 inch) diameter export pipeline from the Kyzyloi Field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station has been constructed and with gas flowing into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.

In Tajikistan, the Company has concluded the IOA covering certain oil and gas fields in southern Tajikistan and has negotiated protocols with the government of Tajikistan which gives the Company the exclusive rights for a period to negotiate a PSA for the large Kulob 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.

Overview of 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 (100%)			
The Kyzyloi Field Licence and Production Contract......	North Ustyurt	70,967	June 2014
Exploration Contracts (100%)			
The Akkulka Exploration Licence and Contract............	North Ustyurt	341,121	September 2009
The Kul-Bas Exploration and Production Contract	North Ustyurt	2,139,391(1)	November 2030
Tajikistan			
Protocol of Intent (will be 51%)			
Kulob Area	Afghan-Tajik Basin	2,223,900	N/A(2)
Total Acreage		**4,775,379**	

Notes:

(1) Following the first contractual relinquishment due in November 2007 but not yet confirmed by the Kazakh authorities.

(2) The Company does not have a licence or contract for the whole of this area at this time but it is in the process of negotiating a PSA over the area. The Company's Investment Operating Agreement covering incremental production on certain fields in the area expires on September 5, 2014. The Company has agreed to assign these interests in Tajikistan to its 51% subsidiary SSEC.

Each of these properties and contracts is described further below.

Kazakhstan

Kazakhstan is an independent republic and is the largest country in Central Asia with an area of some 2.7 million km^2 and with a population of some 15 million people. In the opinion of management, Kazakhstan has abundant hydrocarbon resources with some of the world's most significant oil and gas fields, and with 2006 production being 1.4 million bpd of oil and 2.3 Bcf/d (65 MMcm/d) of natural gas[1].

In Kazakhstan, Tethys' producing field (Kyzyloi) and two exploration blocks (Akkulka and Kul-Bas) are to the west of the Aral Sea in a geological area known as the North Ustyurt Basin. These lands are all within the Aktobe Oblast region of western Kazakhstan.

[1] BP Statistical Review of World Energy 2007.

Kyzyloi Field and the Kyzyloi Field Licence and Production Contract

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 12, 2007. However in January 2005, the MEMR agreed to extend the contract until June 2014, subject to certain contractual amendments, which the Company finalized in 2007.

The Kyzyloi Field License 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 $1,200,000 in historical costs, to be paid in equal quarterly instalments from the commencement of production until full reimbursement. In addition BNM pays a royalty of 2% of production. All work commitments under the contract have been met.

Kyzyloi Field

Kyzyloi is a shallow gas field containing sweet (no sulphur) natural gas, almost entirely methane, reservoired 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 previous drilling had left several suspended wells on the field, which were drilled but not fully tested or completed. Aggregate gas production from the eight wells tested to date on the field has exceeded 70 MMcf/d (1,840 Mcm/d). These wells form the basis for the initial development of the Kyzyloi Field. The Company is working over several additional old exploration wells on the field with the G12 and G16 having already been successfully worked over and these wells (together with the KYZ109 well which is not yet on production) provide additional flow potential for the field development.

Kyzyloi is Tethys' first producing field, currently producing gas at a sales gas rate of approximately 20.5 MMcf/d (580 Mcm/d). The field is, the Company believes, the first non-State dedicated dry gas developments in Kazakhstan. Kyzyloi is located approximately 37.4 miles (60 km) from the village of Bozoi. According to the McDaniel Reserve Report, effective December 31, 2007, total Remaining Reserves in the Kyzyloi Field (Proved plus Probable plus Possible) net to the Company's interest are 56.1 Bcf (1.59 Bcm) with Proved plus Probable Reserves being 47.2 Bcf (1.34 Bcm) and Proved Reserves being 32.2 Bcf (0.91 Bcm). Gas is currently being produced from six wells (KYZ 102,103,104,105,106 and 107) which flow gas into Tethys' 35 mile (56 km) pipeline which carries the gas to a compressor station which was built by Tethys and which consists of three separate reciprocating compressors with a total power of 1,569 hp (1,170 kW) and which pump gas into the main Bukhara-Urals gas trunkline. This is the sales point for the gas, and Tethys' control and measurement system is fully integrated with that of the trunkline which is owned and operated by the Kazakh State company Intergas Central Asia.

The initial production is being sold under the Gas Supply Contract. This contract relates to 30 Bcf (0.850 Bcm) of gas from the initial Kyzyloi development only, and has been assigned to PCK, who will utilise the gas in the domestic Kazakh market. The contract price is $1.02 per Mcf ($36.16 per Mcm) including VAT. Tethys has the ability to offset VAT levied on the sale of gas from the Kyzyloi project against VAT costs incurred by Tethys on the Kyzyloi project.

Akkulka Block and Akkulka Exploration Licence and Contract

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 it has been extended and is currently in effect until September 17, 2009. 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 subsequently amended to cover an area of approximately 341,000 acres (1,380.53 km^2) at Paleogene level (excluding the Kyzyloi Field Production Contract Area) and approximately 411,916 acres (1,667 km^2) at deeper levels.

The initial commitments under the contract primarily consisted of an expenditure of $14,400,000 over the initial five-year term. Although only $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 with all of these commitments having been met. In February 2007, 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 committed to spending an additional $1,850,000 for the period of September 18, 2007 to September 17, 2009. 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 $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

The Akkulka Block has the potential for oil and gas deposits at several different horizons, with gas already having been discovered in shallow Paleogene sandstones similar to those of the Kyzyloi Field. During BNM's shallow gas exploration drilling program which commenced in 2005, gas has been discovered and a number of new commercial accumulations identified. The results of this program to date are summarised below:

WELL	*AREA*	*FLOW RATE*	*COMMENTS*
AKK01	North-East Akkulka Structure (formerly known as North Akkulka)	Nil	*Gas shows – non-commercial*
AKK02	South Akkulka	Nil	*Gas shows – non-commercial*
AKK03	South Akkulka	Nil	*Gas shows – non-commercial*
AKK04	North-East Central Akkulka	8.8 MMcf/d gas	*North-East Central Akkulka discovery well*
AKK05	North-Akkulka	7.9 MMcf/d gas	*North Akkulka discovery well*
AKK06	North-East Central Akkulka	Water – dry hole	*North-East Central Akkulka appraisal*
AKK07	South-West Kyzyloi	Nil	*Gas shows - Kyzyloi extension*
AKK08	North-West Akkulka (formerly known as North Kyzyloi)	2.6 MMcf/d gas	*North West Akkulka exploration/appraisal*
AKK09	South-West Central Akkulka	6.7 MMcf/d gas	*South-West Central Akkulka discovery well*
AKK10	North-West Akkulka	0.6 MMcf/d gas	*North-West Akkulka appraisal*
AKK11	South-West Central Akkulka	7.9 MMcf/d gas	*South-West Central Akkulka discovery*
AKK12	South-West Central Akkulka	5.3 MMcf/d gas + 180 bpd water	*South-West Central Akkulka appraisal*
AKK13	North-West Central Akkulka	4.0 MMcf/d (restricted choke)	*North-West Central Akkulka discovery well*

According to the McDaniel Reserve Report, effective December 31, 2007, total Remaining Reserves in the Akkulka Block (Proved plus Probable plus Possible) net to the Company’s interest are 34.3 Bcf (0.97 Bcm) with Proved plus Probable Reserves being 22.7 Bcf (0.64 Bcm) and Proved Reserves being 10.1 Bcf (0.29 Bcm). It is planned to commence the development of these reserves by expansion of the Kyzyloi gas development program with these reserves being tied into the existing Kyzyloi export infrastructure and additional compression installed to significantly increase overall gas production.

A number of additional shallow gas prospects and leads have been identified based on existing data and on the surface seismic data acquired by the Company recently. The McDaniel Prospective Resources Report dated April 2007, which has not been updated, gave mean unrisked prospective resources of 121.5 Bcf (3.49 Bcm) or 12.84 Bcf (0.363 Bcm) risked, for identified shallow gas prospects in the Akkulka Block. Since April 2007, two prospects, AKK-PAL-05 and AKK-PAL-06, were drilled and tested by wells AKK09-12 and AKK13, respectively; pre-drill resource estimates were 1.184 Bcf (0.03 Bcm) and 3.8 Bcf (0.1 Bcm) on a mean unrisked and 0.29 Bcf (0.08 Bcm) and 0.616 Bcf (0.017 Bcm) on a mean risked basis, respectively. The combined total gross-to-company Proved plus Probable Reserves at December 31, 2007 for the two upgraded prospects is 4.34 Bcf (0.125 Bcm) comprising NW Central Akkulka (formerly known as AKK-PAL-05) SW Central Akkulka (formerly referred to as AKK-PAL-06). These revisions overall leave remaining shallow gas prospective resources within the Akkulka Block of 115.6 Bcf (3.27 Bcm) unrisked and 11.9 Bcf (0.336 Bcm) on a risked gross-to-company basis.

Advanced processing techniques are being applied to the seismic and well data together with information from other sources such as vertical seismic profiles. Prospects and leads are primarily at Kyzyloi sand level but more recently have been identified at the slightly deeper level of the Tasaran sand.

Akkulka Block — Exploration of Deeper Oil and Gas

A total of 7 Triassic-lower Jurassic prospects were identified by the Company in the Akkulka Exploration Licence and Contract area. Middle and lower Jurassic to Triassic syn-rift leads and prospects are often located on inverted structures in a variety of orientations in the central and eastern part of the block. From 2005 to 2007, 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 early 2008, the new and improved 2007 2D seismic dataset was ready for interpretation across the whole Kul-Bas area thus putting the previous deeper regional well tests into perspective.

The nearest deep producing fields are some 60 miles (96 km) to the south in Uzbekistan. Here the Barsa Kelmes depression is proven to contain Triassic and even possibly Jurassic and Carboniferous gas condensate source rocks. The lower Jurassic section and upper Triassic section, which was not penetrated by wells on the Akkulka high because of erosion or non-deposition, regionally contains a number of potential reservoir levels. The section becomes less marine and then fluvial-deltaic with better sands towards the base and flanking the highs like Akkulka. Analogies are seen in the Mangyshlak and Ustyurt basins and in the Uzbek fields such as Kuanysh and Urga. The marine Upper Jurassic section here acts as the seal. A robust structure has been identified for the first deep well on the Akkulka block planned for the first half 2008. The robust structure, founded on an old inverted high to the south east of the proven shallow gas fields Kyzyloi and Akkulka, is less faulted than the main high under these fields. The well is planned to drill to 14,760 ft (4,500 m) and the exploration target can be regarded as substantially larger than the shallow targets but with commensurate higher risks.

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

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 an original 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 combined exploration and production contracts (which mainly only contain a work program for exploration and not production) for 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 first relinquishment of 549,303 acres (2,223 km^2) was made in November 2007; i.e. the block is now effectively 2,139,391 acres (8,658 km^2), but is still awaiting final MEMR confirmation.

The work program on this area amounts to a total of approximately $7,839,000 over the initial six-year exploration period. As at December 31, 2007, $2,132,500 has been spent on work commitments under the contract, this being approximately 50% more than required during the period largely due to acquiring additional seismic data. The royalty payable under the contract 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 $3,280,000 in historical costs, to be paid within ten years following commencement of production, by way of equal quarterly instalments.

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.

Kul-Bas Block — Exploration of Shallow Gas

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, being subject to regional magnetic, gravity and seismic surveys in the Soviet-era, with limited stratigraphic wells, mainly very shallow, in the southern part surrounding the 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 north western 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) grid, and the southern and eastern section covered with a 2.5 mile x 2.5 mile (4 km x 4 km) grid.

The Company made a preliminary assessment of the 1995-1996 vintage JNOC 2D seismic. The Company considers the shallow prospective horizons to be similar to Akkulka. 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. A contract was signed with a Kazakh seismic acquisition company KazGeoco who conducted a total of five hundred and thirty-five (535) line kilometers of 2D seismic from June to September 2007. This new improved dataset was then processed and interpreted with a view to drilling three of the shallow gas anomalies in 2008 beginning in quarter two. The improved data quality is also being fully used in a new AVO inversion study ("possible direct hydrocarbon indicator study") tying the gas wells of Akkulka and Kyzyloi to new shallow exploration leads in Kul-Bas with the aim of minimizing exploration risk pre drill. To locate more wells and minimise exploration risks across the Kul-Bas acreage the extensive but older JNOC dataset is now also to be reprocessed to more modern standards. Prospects and leads may exist at both Kyzyloi and the Tasaran sand level as well as deeper in the Cretaceous and these will all be targeted with the new improved data.

The Kul-Bas Block — Exploration of Deeper Oil and 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 the Shakhpakhty gas/condensate field (1.7 TCF/0.048 TCM) (Source: *"Uzbekistan-Gazprom Operations", APS Review of Market Trends, October 16, 2006*) have been discovered in the same basin just to the south in northwestern Uzbekistan. The Kul-Bas Block could contain numerous deeper oil and gas prospects at the lower Mesozoic levels (i.e. lower Jurassic and Triassic). The target reservoir units are considered to be non-marine, fluvial-deltaic and lacustrine sandstones that were deposited in a syn-rift environment off the main structural highs. The most likely source rocks for both plays would be the lacustrine Triassic age sediments that produce the gas condensates of nearby Uzbekistan and the waxy oils of the Mangyshlak area. Trapping styles are both structural and stratigraphic pinch-outs against Paleozoic highs with the more marine upper Jurassic also a possible seal. 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 could still be within the oil window of maturity in the area and could charge such prospects.

As well as the new 2D seismic acquisition and the AVO (hydrocarbon indicator) study, both outlined above, the company also plans to reprocess the extensive older JNOC seismic dataset in 2008, both to firm-up shallow gas prospects and to highlight deeper plays seen in the Triassic and Carboniferous. The Company intends to drill a 13,120 foot (4,000m) well in 2008/9 to test the best of the deeper oil prospects which are sizeable but with significant exploration risk remaining at present. JNOC had drilled a deep well on a structural nose in the licence centre 1998, but the prospect does not appear to have a valid closure.

The Company made a preliminary assessment of the 1995-1996 vintage JNOC 2D seismic and considers the deeper 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. No volumes have as yet been put on the potential Carboniferous plays.

A total of 11 Triassic – lower Jurassic leads were 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 new 2007 seismic data specifically infilled the unexplored western side of the Kul-Bas acreage and generally gave better definition illuminating deeper exploration targets. This seismic acquisition more than fulfilled the 2007 work obligations on the Licence.

Tajikistan

Overview

In Tajikistan, the Kulibsky (Kulob) Area in the southwest of the country is subject to the Protocol of Intent initially signed in January 2007 and subsequently extended. In addition, the Company has entered into the IOA giving rights to certain fields in the Kulob Area. Apart from the IOA, the Company does not have a licence or contract for the Kulob Area as at the date hereof but it has the exclusive 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 PSA over the area.

Tajikistan is an independent republic of approximately 7 million 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.

The Protocol of Intent

In January 2007, Tethys signed the Protocol of Intent with the Tajikistan government giving Tethys the exclusive rights to negotiate a PSA for the large Kulibsky (Kulob) area of southwest 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 PSA. In June 2007, the term of Tethys' Protocol was extended and the rights clarified, and a further extension was agreed in December 2007.

The IOA

In September 2007, the Company announced that its wholly owned subsidiary, TTL, had signed the IOA with SOGE relating to oil and gas fields in Southern Tajikistan. The IOA was agreed to and supported by MEI. SOGE is a wholly state owned oil and gas company reporting to MEI which holds the production licenses to a number of fields in the Kulob Area in southern Tajikistan over which Tethys is currently negotiating a PSA. The IOA allows Tethys to commence initial production and rehabilitation operations in the Kulob Area whilst the Tajikistan government finalises certain necessary legislative changes to enable the recently adopted Production Sharing Legislation to become effective. Once this is completed Tethys intends to progress and finalise negotiations on the PSA, and MEI recommended that the IOA be entered into as a precursor to the execution of the PSA and to provide assistance to Tethys in obtaining a PSA for the Kulob Area.

Under the IOA, TTL will invest funds for specific oil and gas rehabilitation operations, which will commence with a relatively small investment. This work may involve perforating and re-perforating wells, sidetracking and working over of some wells, upgrading facilities and well-bore treatment as well additional drilling and well deepening and other unspecified techniques to improve production. The IOA covers fields in Southern Tajikistan specifically including the Beshtentak, Uznohor, and South Pushion oilfields and the Khoja Sartez gas condensate deposit. Further fields and areas may be added to the IOA by mutual consent and TTL has the exclusive right to carry out such activities on the fields. The IOA has a term until September 5, 2014 or until the PSA is effective (which would include these fields) whichever is the earlier. Activities under the IOA are managed through a Management Committee which is chaired and controlled by TTL.

Existing field production will go to SOGE, but any incremental additional production generated by work under the IOA will be split between TTL and SOGE. TTL will receive 75% of all additional production of oil and gas until it has recovered all of its costs. SOGE will receive the remaining 25% of oil and gas produced during this cost recovery period. After TTL has recovered its costs it will receive 70% of the additional production and SOGE will receive 30%. TTL will have the right to sell its production to whomsoever it wishes and there are no price restrictions on these sales by the State.

The Beshtentak field is located 28 miles (45 km) north of Kulob and is currently producing approximately 75 barrels of oil and limited gas production. The field was discovered in 1970 and there are currently 24 operational wells, 6 of which are currently producing at limited potential due to lack of investment and technology. The reservoirs are Paleocene limestone and dolomites in a narrow anticlinal structure at a depth of up to 6,500 ft (2,000 m), the oil is 33-35° API low sulphur crude, and flow rates of up to 800 bopd and up to 7 MMcf/d of gas (200 MCM/d) have been achieved from wells in the past. No deep drilling has been carried out on the field to date.

Also included in the IOA is Khoja Sartez, a gas condensate accumulation located some 8 miles (13 km) to the west of Kulob. This deposit is developed on the flank of a clearly visible large salt dome and is at a much earlier stage of development than is Beshtentak. Drilling has only been carried out in the surface layers to a depth of some 5,580 ft (1,700 m). Tethys believes that the deeper layers and other flanks of the dome have the potential to contain substantial volumes of gas condensate. Four wells have been drilled on the structure and a modern gas processing facility was installed but all the wells are currently shut in due to lack of investment and adequate technology. The Khoja Sartez deposit seems similar to some of the large salt dome related prospects in the southern part of the Kulob Area.

As well as these opportunities for early oil and gas production and cash flow through rehabilitation of existing fields covered by the IOA, experience on these fields will give Tethys valuable additional data on the characteristics and potential of such deposits, as well as establishing an operating organization in the area. The initial work program will involve some 10 well workovers. Work on the first well (Beshtentak #86) has already commenced. Mobilisation of modern perforating equipment to the site took some time, as did supply of tubing and related well equipment as the local equipment was not judged suitable for the works. The Company believes that this is the first work undertaken by an international oil company in Tajikistan and clearly involves significant logistical challenges. In addition the unusually extreme and cold weather experienced in Tajikistan this winter hampered mobilisation of the equipment and as such works on the first well have not yet been completed but significant reservoir data has been obtained which should assist in the future re-development program for the field. In addition to workovers consideration is been given to the drilling of horizontal wells in this fractured carbonate reservoir where such techniques are generally effective.

SSEC

On December 24, 2007, Tethys announced that it had signed an agreement to take a partner in its current projects in Tajikistan by the creation of a joint venture company named SSEC in which Tethys, through TTL will hold a 51% interest, with Sangam, an international investment company owning and funding the other 49%.

The agreement will become effective upon certain conditions precedent being met, expected in the second quarter of 2008. Under the terms of the agreement, SSEC will be controlled by a joint board of directors and will be managed by Tethys under the terms of a Management Services Agreement. SSEC's objective is to become the leading oil and gas company in Tajikistan and to potentially expand its activities outside the Kulob Area, with the possibility of expansion into the downstream sector in the future.

Deep Drilling Rig Purchase

In October 2007, Tethys announced that it had placed an order for a new 2,000 hp (1,470 kW) ZJ70/4500L diesel mechanical drilling rig from a Chinese supplier. This rig, which has a nominal drilling depth of 23,000 ft (7,000 m) will be one of the largest rigs in Kazakhstan and its purchase gives Tethys the benefits of significant flexibility and lower costs over hiring a third party drilling company. The rig would also be available for third party contracts based on Tethys' work program, and will be used for drilling of the deeper prospects in Tajikistan. Construction of the rig at the Sichuan Honghua Petroleum Equipment Co., Ltd. factory in Chengdu, China, is now almost complete with delivery of the rig expected in Kazakhstan in Q2 of 2008 and with drilling expected to commence in Q3 of 2008. Title to the rig will pass to Tethys when the rig leaves the factory and 95% of the purchase price has been paid.

Tethys has assigned ownership of the rig to its wholly owned subsidiary Tethys Petroleum Inc. ("**TPI**"). On March 19, 2008, the Company announced that TPI had secured loan financing from a group of accredited investors in the amount of $5,300,000 toward the purchase of this rig, this being a three-year loan with monthly payments of interest and capital and a final balloon payment. The average annual interest payable expressed as a percentage of the total borrowed funds is 9.3%. 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. The lenders have security over the shares of TPI which has no other assets except the drilling rig. Except for this no corporate guarantees or security were provided by Tethys.

Marketing

Kyzyloi Field — Gas Supply Contract

Natural gas that will be produced by the Company from the Kyzyloi Field will be sold to PCK pursuant to the Gas Supply Contract. Estimated, indicative annual volumes of natural gas to be supplied by Tethys to PCK under the Gas Supply Contract during the first five contract years are as follows:

Contract Year	Annual Volumes in MMcf(1)	Annual Volumes in MMcm(1)
1	6,900	196
2	6,900	196
3	6,900	196
4	6,900	196
5	2,270	64

Note:

(1) The Company sold approximately 215.5MMcf (6.1MMcm) to PCK in 2007 and plans to sell a further 6,360 MMcf (180 MMcm) to PCK 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 PCK 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.

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 licensed area to PCK. The contract commenced on December 19, 2007. The price of natural gas to be supplied at the tie-in point is $32 per Mcm ($0.92 per Mcf) excluding value added tax VAT, or $36.16 per Mcm ($1.02 per Mcf) including VAT over the life of the Gas Supply Contract, with PCK providing bank guarantees against payment. The first payment was received in January of 2008.

Under the terms of the Gas Supply Contract, BNM shall notify PCK 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 PCK is less than the cumulative minimum monthly contract quantity, and in any subsequent calendar year PCK has accepted obligatory quantities, PCK has the right to take such difference at a price of $0.28 per Mcf ($10 per Mcm).

Marketing of Production from Other Properties

In December 2006, GazImpex 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. GazImpex 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. It is likely that any gas produced from the Kul-Bas block would be available for marketing in a similar fashion. In addition, Tethys is currently in discussions with GazImpex on the possibility of further co-operation which may involve GazImpex 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 Kulob Area of Tajikistan, neither the Company nor SSEC has not made any specific plans with respect to the marketing of production from the Tajik fields.

Competitive Conditions

The oil and gas industry is highly competitive. The Company competes for acquisitions and in the exploration, development, production and marketing of oil and gas with numerous other participants, some of whom may have greater financial resources, staff and facilities than the Company. The Company's ability to increase reserves in the future will depend not only on its ability to develop or continue to develop existing properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and gas include price, methods and reliability of delivery and availability of imported products.

Socio-Economic Obligations and Community Relations

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. Local employment is promoted by identifying, providing and supporting job opportunities within the Company's operating areas. In the opinion of management, 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.

BNM is required to invest $30,000 annually into the socio-economic development of the Aktobe 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 operational costs 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.

Environmental

The Company's operations are subject to environmental regulations in the jurisdictions in which it operates and the Company carries out its activities and operations in material compliance with all relevant and applicable environmental regulations and pursuant to best industry practices. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. Payments made by the Company to date have been very small and have been made on a quarterly basis; in 2007, the Company paid $450 in each of Q4 and Q3 and $1,200 in Q2 for minor emissions. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company which are submitted to the appropriate Kazakh authorities. Reports are submitted on semi-annual basis for information purposes and no payments are applicable.

At present, the Company believes that it meets all applicable environmental standards and regulations, in all material respects, and has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations.

Employees

As of December 31, 2007, the Company and its subsidiaries had a total of 97 employees worldwide.

Specialized Skill and Knowledge

The Company believes its success is largely dependent on the performance of its management and key employees, many of whom have specialized skills and knowledge relating to oil and gas operations. The Company believes that they have adequate personnel with the specialized skills and knowledge to successfully carry out the Company's business and operations.

Foreign Operations

The Company's assets are currently located in Kazakhstan and Tajikistan. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability. See *"Risk Factors"* for a further description of the risk factors affecting the Company's foreign operations.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

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

The reserves data set forth below is based upon evaluations by McDaniel with an effective date of December 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 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 natural gas reserves.

McDaniel's were not asked to assess any reserve potential relating to the Company's interest in the IOA in Tajikistan and as such all of the Company's reserves are currently 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.

Throughout the following summary tables differences may arise due to rounding.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A:	Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2
Appendix B:	Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3

Summary of Natural Gas Reserves
As of December 31, 2007
Forecast Prices and Costs

	Natural Gas	
	Gross (MMcf)	**Net (MMcf)**
Reserves Category		
Proved		
Developed Producing	24,983	24,483
Developed Non Producing	1,966	1,927
Undeveloped	16,265	15,940
Total Proved	43,214	42,350
Probable	28,019	27,459
Total Proved Plus Probable	71,233	69,809
Possible	20,949	50,530
Total Proved Plus Probable Plus Possible	92,182	90,338

Summary of
Net Present Values of Future Net Revenue
As of December 31, 2007
Forecast Prices and Costs

Reserves Category	Before Income Taxes Discounted at (%/year) 0	5	10	15	20	After Income Taxes Discounted at (%/year) 0	5	10	15	20	Unit Value Before Income Taxes Discounted at 10%/year
	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	($/Mcf)
Proved											
Developed Producing	12,712	11,601	10,672	9,885	9,213	12,227	11,153	10,257	9,499	8,852	0.44
Developed Non-Producing	1,316	1,209	1,117	1,039	970	913	831	761	703	652	0
Undeveloped	32,605	25,872	20,797	16,898	13,853	26,153	20,582	16,405	13,211	10,727	0.32
Total Proved	46,633	38,682	32,586	27,822	24,036	39,293	32,566	27,423	23,413	20,230	0.75
Probable	78,023	59,206	45,942	36,353	29,263	36,567	26,357	19,405	14,547	11,073	0.35
Total Proved Plus Probable	124,656	97,887	78,528	64,175	53,299	75,859	58,923	46,828	37,960	31,304	1.10
Possible	60,621	44,288	33,277	25,603	20,101	23,413	15,970	11,213	8,059	5,903	0.11
Total Proved Plus Probable Plus Possible	185,276	142,176	111,804	89,778	73,400	99,272	74,893	58,041	46,019	37,207	1.21

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

Reserves Category	Revenue	Royalties	Operating Costs	Develop-ment Costs	Abandon-ment and Reclamation Costs	Other Expenses[(1)]	Future Net Revenue Before Income Taxes	Income Taxes	Future Net after Revenue Income Taxes
	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)
Total Proved	74,655	1,493	12,733	11,267	425	2,104	46,633	7,340	39,293
Total Proved Plus Probable	179,600	3,592	23,671	24,927	650	2,104	124,656	48,796	75,859
Total Proved Plus Probable Plus Possible	259,304	5,186	30,867	35,071	800	2,104	185,276	86,004	99,272

Note:
(1) Other expenses refers to the repayment of historical costs.

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

Reserves Category	**Production Group**	**Future Net Revenue before Income Taxes (discounted at 10%/year)**	**Unit Value**
		(M$)	($/MCF)
Total Proved	Natural Gas	32,586	0.77
Total Proved Plus Probable	Natural Gas	78,528	1.12
Total Proved Plus Probable Plus Possible	Natural Gas	111,804	1.2

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 and Inflation Rate Assumptions
As of December 31, 2007
Forecast Prices and Costs

	Oil Brent Crude Oil Price ($/bbl)	Natural Gas Existing Gas Sales Contract Price ($/Mcf)	Natural Gas Additional Gas Sales Contract Gas Price ($/Mcf)	Inflation rate %/year
Historical				
2007	62.50	0.90	0.90	2.00
Forecast				
2008	89.00	0.90	3.38	2.00
2009	85.70	0.90	3.45	2.00
2010	82.20	0.90	3.52	2.00
2011	78.50	0.90	3.59	2.00
2012	77.40	0.90	3.66	2.00
2013	76.20	0.90	3.73	2.00
2014	77.70	0.90	3.81	2.00
2015	79.30	0.90	3.88	2.00
2016...	80.80	0.90	3.96	2.00
2017	82.50	0.90	4.04	2.00
2018	84.10	0.90	4.12	2.00
2019	85.80	0.90	4.20	2.00
2020	87.50	0.90	4.29	2.00
2021	89.30	0.90	4.37	2.00
2022	91.10	0.90	4.46	2.00
2023	92.92	0.90	4.55	2.00
2024	94.78	0.90	4.64	2.00
2025	96.68	0.90	4.73	2.00
2026	98.61	0.90	4.83	2.00
2027	100.58	0.90	4.93	2.00
Thereafter......................................	2%	0.90	2%	2%

Reserves Reconciliation

The following table sets forth a reconciliation of Tethys' total gross proved, probable and proved plus probable reserves as at December 31, 2007, against such reserves as at March 31, 2007, based on forecast prices and cost assumptions.

	Associated and Non-Associated Gas		
Factors	**Gross Proved (MMcf)**	**Gross Probable (MMcf)**	**Gross Proved Plus Probable (MMcf)**
March 31, 2007(1)	39,227	26,577	65,804
Extensions and Improved Recovery	-	-	-
Technical Revisions	988	378	1,366
Discoveries	3,215	1,064	4,279
Acquisitions	-	-	-
Dispositions	-	-	-
Economic Factors	-	-	-
Production	(216)	-	(216)
December 31, 2007	43,214	28,019	71,233

Note:

(1) As the Company was not a reporting issuer as at December 31, 2006, information is presented as at March 31, 2007, being the effective date of the Company's most recent evaluation of its natural gas reserves.

Additional Information Relating to Reserves Data

Undeveloped Reserves

Proved Undeveloped

2007 – 16,265 MMcf

Probable Undeveloped

2007 – 12,269 MMcf

Based on the forecast prices and costs evaluation carried out by McDaniel and reflected in the McDaniel Reserve Report, there are 16,265 MMcf (470.6 Mcm) of gross proved undeveloped reserves of natural gas and 12,269 MMcf (347.3 Mcm) of gross probable undeveloped reserves of natural gas attributable to the Company as of December 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.

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 *"Description of the Business — Marketing"*.

Future Development Costs

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

Year	Total Proved Estimated Using Forecast Prices and Costs (M$)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (M$)	Total Proved Plus Probable Plus Possible Estimated Using Forecast Prices and Costs (M$)
2008	4,830	4,830	4,830
2009	3,244	6,865	9,227
2010	1,561	4,370	5,046
2011	637	3,502	8,029
2012	216	325	325
Total for all years undiscounted	11,267	24,927	35,071
Total for all years discounted at 10% per year	9,687	19,528	26,699

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.

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 south-eastern 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 1967 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 2009 to file and establish any commercial discoveries which will then be incorporated into a production contract. There are no mandatory relinquishments, surrenders, back-ins or changes in ownership in respect of the Kyzyloi or Akkulka contract areas.

The Company has constructed a 35 mile (56 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 December 31, 2007:

	Natural Gas			
	Producing		Non-Producing[1]	
	Gross	Net	Gross	Net
Kyzyloi Field	6	6	1	1
Akkulka Block	0	0	8	8
Total	6	6	9	9

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

See *"Description of the Business"*.

The Akkulka Proved and Probable reserves were undeveloped as at December 31, 2007, but are expected to be tied-in in Q4 2008.

Properties with No Attributed Reserves

Undeveloped land holdings of the Company consist of the Kul-Bas Exploration and Production Contract area in Kazakhstan which originally comprised 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 combined exploration and production contracts (which mainly only contain a work program for exploration and not production) for 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 first relinquishment of 549,303 acres (2,223 km^2) was made in November 2007 but is still waiting final state confirmation. The work program on this area amounts to a total of approximately $7,700,000 over the initial six year exploration period, with a $160,000 commitment in 2006, a $940,000 commitment for 2007 ($2,1003,000 of which was actually spent as of December 31, 2007), and a $3,030,000 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 $3,280,000 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 $10,000 per year for socio-economic development programs. See "*Description of the Business - Kul-Bas Block and Kul-Bas Exploration and Production Contract*".

Forward Contracts

BNM is a party to a gas sales agreement. BNM and GazImpex entered into the Gas Supply Contract on January 5, 2006. In December 2007, this contract was assigned to PCK, who will utilize the gas in the Kazakh domestic market. The Gas Supply Contract is for a maximum of 850,000 Mcm at a fixed price of $36.20 per Mcm including VAT. See *"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 $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 $626,000 and the accretion was $35,000 for a total of $661,000.

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, 2007:

	To December 31, 2007 (M$)
Property Acquisition Costs	
Proved Properties	10,100
Unproved Properties	4,900
Exploration Costs	2,592
Development Costs	19,922
Total	37,514

Exploration and Development Activities

The following table summarizes the gross and net exploration wells in which the Company participated during the periods indicated. These wells are located in Kazakhstan.

	Year Ended December 31, 2007			
	Exploration		**Total**	
	Gross	**Net**	**Gross**	**Net**
Exploration gas wells	8	8	8	8
Success rate	6	6	6	6
	75%	75%	75%	75%

A total of 7 development wells were re-completed during the Company's 2007 financial year. There were no new development wells drilled during that period and they are therefore not included in the above table. See *"Description of the Business"* for a discussion of the Company's development and exploration plans.

Production Estimates

The following discloses the estimated net average daily production of Tethys in 2008 by product type associated with the first year of future net revenue estimates reported in the McDaniel Reserve Report.

	Natural Gas (MMcf/d)
Gross Proved	19.7
Gross Proved plus Probable	19.7

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 100% of the estimated production disclosed under the above table, for the year ending December 31, 2008:

	Natural Gas (MMcf/d)
Gross Proved	19.7
Gross Proved plus Probable	19.7

Production History

The following table shows the Company's average daily production volume, before deduction of royalties, payable to others by major producing region for each of the last four fiscal quarters and the year ended December 31, 2007.

	2007				
Product	**Year**	**Q4**	**Q3**	**Q2**	**Q1**
Natural Gas (Mcf/d)	17,962	17,962	-	-	-

Note:
(1) The average value represents 12 days of production from December 19, 2007 to December 31, 2007.

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 Annual Information Form 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 Annual Information Form. 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 Central Asia. 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.

Management Services Provided by Vazon and Dependence on Key Personnel

The services of each executive officer of the Company, other than the Chief Financial Officer and Finance Director, Executive Vice President, Corporate Development and Chief Commercial Officer, Vice President Exploration and Vice President Investor Relations are provided under the terms of two management services agreements with a corporate entity, Vazon. As a result, the executive officers of the Company, although officers of the Company, are not employed directly by the Company but rather by Vazon. Vazon is a corporation wholly owned by Dr. David Robson, the Company's President, Chief Executive Officer and Chairman. Either management services agreement may be terminated on six months' notice by Vazon or the Company. Should Vazon (acting through Dr. Robson) determine to terminate either or both management services agreements, the Company would be required to enter into an employment or other relationship directly with the executive officers or, failing which, would be required to retain the services of alternate executive officers. There is no certainty that the Company would be able to attract and retain suitable candidates should either of the management services agreements be terminated and the executive officers choose not to be employed or retained by the Company. Any such termination may materially and adversely affect the Company. Moreover, the Company is dependent on its eight executive officers to manage its affairs and operations. The departure of any one executive officer may negatively impact on certain of the Company's operations until a suitable replacement candidate is appointed.

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.

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 stability clauses in local Tenge denominated service and supply contracts in Kazakhstan. 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 Ordinary Shares trade in Canadian dollars on the TSX.

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 through its subsidiaries 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.

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 contractors 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 Annual Information Form 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 and the IOA giving the Company the exclusive rights to negotiate for a PSA or similar binding contract giving the Company rights to carry out oil and gas exploration and production activities in certain areas of Tajikistan. The IOA gives certain rights to the development and re-development of certain fields in the area but this is a commercial agreement and does not give the Company any rights to hydrocarbons in the ground, nor the licence or title to the production of sub-soil resources. As such the IOA is less robust than would be a licence, concession or production sharing agreement. Although negotiations on the PSA 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 uses terms such as "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, 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 at December 31, 2007. 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.

For the fiscal years ended December 31, 2005, 2006 and 2007, the Company recorded net losses of $2,065,000, $6,943,000 and $41,779,000 respectively, and has an accumulated deficit of $51,625,000 as at December 31, 2007. 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. In 2007 an impairment adjustment of $12,800,000 was required under the US GAAP ceiling test which is calculated on proved reserves only at constant prices. (Under Canadian GAAP an allowance would have been made for probable reserves and there would have been no need for the impairment adjustment.) No impairment of oil and gas properties was recorded in 2006 or 2005. 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 for the year ended December 31, 2007, for a discussion on the nature of the Company's operations and going concern. See *"Additional Information."*

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

There is a possibility of delays in obtaining the necessary governmental approvals to commence or increase production. Any such delays could reduce the Company's revenues and income below those anticipated in the Company's business plan.

Property Interests and Governmental Approvals

The interest of the Company's subsidiaries in the Kyzyloi Field, Akkulka Block and Kul-Bas 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.

In addition to consents described above in respect of the Kazakh Contracts, the purchase and sale of oil and gas properties and oil and gas businesses in Kazakhstan is subject to approval of the MEMR and the Kazakhstan government's waiver of its priority right to purchase the alienated oil and gas assets and businesses. Business acquisitions may also be subject to review by the Committee for Protection of Competition of the Ministry of Industry and Trade (the "**Antimonopoly Committee**") under Kazakhstan antimonopoly legislation and may be subject to findings of non-compliance with other regulatory authorities. Although the Company is of the view that it has obtained the required consents of the MEMR and the necessary Kazakhstan government's waiver in respect of its acquisitions to date, the Company is not in a position to verify its compliance with the antimonopoly legislation, if required. Failure to obtain the Antimonopoly Committee's approval does not make the transaction invalid, although Kazakhstan's antimonopoly legislation gives the Antimonopoly Committee authority to intervene in cases of activities considered to be monopolistic, including the right to file a claim in a court to invalidate prior acquisitions if the transactions violated the antimonopoly legislation. Prior and future acquisitions and divestitures by the Company may be subject to review and possible invalidation by a court if considered to be contrary to antimonopoly legislation.

The offering of securities by the Company, may also, in certain circumstances, be interpreted as being subject to the waiver of the Kazakhstan government's priority right. Future offerings by the Company may be subject to delays to the extent that notice to the MEMR is required to ensure compliance with the Kazakhstan government's priority right.

Disclosure Controls and Procedures; Internal Control Over Financial Reporting

Disclosure controls and procedures have been designed by the Tethys Management to ensure that information required to be disclosed by the company is accumulated, recorded, processed and reported to the company's management as appropriate to allow timely decisions regarding disclosure. While the Company's management has concluded that the company's disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information related to the company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure this cannot be guaranteed and changes may be required to ensure their effectiveness.

The Management of Tethys has designed and implemented a system of internal controls over financial reporting as of December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with both Canadian and US GAAP. While management believe that these controls are effective for a company of its size there can be no guarantee that errors will not occur and additionally as the Company grows there will be increases in the administration burden and expense.

Conflicts of Interest

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.

Risks 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 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 Annual Information Form 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. Both Kazakhstan and BNM are signatories 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 and gas and which also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. In addition, 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. While in the period between its introduction in 1993 until 2002, the Tenge depreciated significantly against the U.S. dollar, in two cases over a short period of time, the position has changed of late. In the two-year period from December 2005 to December 2007, the Tenge actually appreciated some 10% against the U.S. Dollar but the Company cannot assure prospective investors that this trend will continue and that the Tenge will not experience depreciation against the U.S. dollar in the future. The Company also cannot guarantee 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 expenses incurred inside Kazakhstan and revenues generated there 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. The Company is looking to mitigate the exchange risk in attempting to negotiate exchange rate stability clauses in local Tenge denominated service and supply contracts in Kazakhstan.

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.

Risks 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 PSA, given that there are no precedents for this, it is possible that the terms of such a PSA may be challenged, additional taxes may be imposed, or may be found to conflict with other Tajik laws and regulations even though the Company is working on amendments to Tajik legislation to enable such

PSAs. 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 PSA, 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.

DIVIDENDS OR DISTRIBUTIONS

The Company has not declared or paid any dividends or distributions on the Ordinary Shares to date. The payment of dividends or distributions in the future are 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.

DESCRIPTION OF SHARE CAPITAL

Ordinary Shares

The authorized capital of the Company consists of 500,000,000 Ordinary Shares of which 45,116,696 Ordinary Shares are issued and outstanding as at March 28, 2008. 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 in proportion to their respective shareholdings 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 are entitled on a show of hands to one vote and on a poll to one vote for every share held.

MARKET FOR SECURITIES

Price Range and Volume of Trading of Ordinary Shares

The Ordinary Shares are listed on the TSX under the symbol "TPL". The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Ordinary Shares on the TSX since the Ordinary Shares commenced trading on the TSX on June 27, 2007.

	Price Range		
Period	**High**	**Low**	**Trading Volume**
2007			
June(1)	3.00	2.65	123,708
July	4.01	2.77	9,452,684
August	3.10	2.31	1,811,915
September	3.20	2.40	1,506,990
October	3.90	2.81	1,378,900
November	3.40	2.80	696,852
December	3.10	2.80	3,290,290
2008			
January	3.10	2.59	1,142,659

	Price Range		
Period	High	Low	Trading Volume
February	2.90	2.60	273,510
March[(2)]	2.90	2.50	1.947,002

Notes:
(1) Represents the period from June 27, 2007 to June 30, 2007.
(2) Represents the period from March 1, 2008 to March 27, 2008.

Prior Sales

During the financial year ended December 31, 2007, the following securities of the Company that are not listed or quoted on a marketplace were issued as follows:

Date of Issue	Number and Type of Securities Issued
June 8, 2007	2,090,000 2017 Warrants[(1)]
June 26, 2007	3,261,000 Options[(2)]
June 26, 2007	6,767,504 Performance Warrants[(3)]
June 27, 2007	1,346,154 Short Term Loan Warrants[(4)]
September 19, 2007	270,000 Options[(5)]
December 7, 2007	60,000 Options[(6)]

Notes:
(1) On June 8, 2007 the Company issued warrants (the "**2017 Warrants**") to purchase an aggregate of 2,090,000 Ordinary Shares. The 2017 Warrants relate to a private placement of Pre-Consolidation Ordinary Shares which was completed on January 24, 2007. The 2017 Warrants are exercisable at a price of $2.50 per share and have a term of ten years from the date of issuance of certificates relating thereto.
(2) On June 26, 2007, the Company granted to certain directors and officers of the Company, options ("**Options**") to purchase an aggregate of 3,261,000 Ordinary Shares. The Options are exercisable at $2.75 per share and expire on June 25, 2014.
(3) On June 26, 2007, the Company granted to certain officers of the Company, warrants ("**Performance Warrants**") to acquire an aggregate of 6,767,504 Ordinary Shares. The Performance Warrants are exercisable at $4.125 per share until December 27, 2009, $5.50 per share until June 27, 2011 and $6.875 per share until December 27, 2012.
(4) Under the terms of the Short-Term Loan, the noteholders were entitled to receive additional consideration for the advance of the loan in the form of warrants to subscribe for Ordinary Shares at the closing of the IPO or 90 days following the date of the first commercial sale of hydrocarbons by the Company. The two lenders opted to receive warrants (the "**Short Term Loan Warrants**") on closing of the IPO. These warrants are exercisable in whole or in part until September 2011 and entitle the holders to subscribe for 1,346,154 Ordinary Shares at a price of $2.50 per share.
(5) On September 19, 2007, the Company granted Options to purchase an aggregate of 270,000 Ordinary Shares to an officer of the Corporation. The Options are exercisable at $2.75 per share and expire on September 18, 2014
(6) On December 7, 2007, the Company granted Options to purchase an aggregate of 60,000 Ordinary Shares to an employee and consultant of the Company. The Options are exercisable at $3.18 per share and expire on December 6, 2014.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

As at the date hereof, no securities of the Company are subject to escrow or contractual restrictions on transfer.

DIRECTORS AND OFFICERS

The following table sets forth, for each director and officer of Tethys: his or her name; municipality, province or state and country of residence; all positions and offices now held by him or her; the month and year in which he or she was first elected a director and his or her principal occupation during the preceding five years.

Name and Municipality of Residence	Position with the Company	Director Since	Principal Occupation During the Past Five Years
Russ Hammond London, United Kingdom	Director	July 26, 2006	Corporate Director.
Liz Landles St. Peter Port, Guernsey British Isles	Executive Vice President, Corporate Secretary and Director	August 12, 2003	Currently Executive Vice President, Corporate Secretary of Tethys. Prior thereto, Ms. Landles was Executive Vice President, Corporate Secretary of CanArgo.
Rt. Hon Peter Lilley M.P.[(1)(2)] London, United Kingdom	Vice Chairman and Director	July 26, 2006	Member of the United Kingdom Parliament, House of Commons.
Bernard Murphy Hertfordshire, United Kingdom	Chief Financial Officer and Finance Director	August 16, 2006	Currently Chief Financial Officer and Finance Director of Tethys. Prior thereto, Mr. Murphy was a company director within the Abacus Accountancy Network since 2004 and prior thereto, Mr. Murphy held a number of senior financial positions for several organizations.
Paul Murphy[(1)] Jumeirah Islands, Dubai	Director	July 26, 2006	Managing Director of Kraken Financial Group Limited. Prior thereto, Mr. Murphy was director/manager of MeesPierson Reads.
Dr. David Robson St. Peter Port, Guernsey, British Isles	President, Chief Executive Officer and Chairman	August 12, 2003	Currently President, Chief Executive Officer and Chairman of Tethys. Prior thereto, Dr. Robson was Chairman and Chief Executive Officer of CanArgo.
Colin Smith[(1)] St. Peter Port, Guernsey British Isles	Director	August 16, 2006	Consultant to financial services organizations in Guernsey, including the Kraken Financial Group Limited and Raven Russia Limited. Prior thereto, Mr. Smith was Director of BDO Novus Limited.
Julian Hammond London, United Kingdom	Executive Vice President, Corporate Development and Chief Commercial Officer	N/A	Currently Executive Vice President, Corporate Development and Chief Commercial Officer of Tethys. Prior thereto, Mr. Hammond was Vice President, Investor Relations and Business Development Manager of CanArgo.
George Mirtskhulva Almaty, Kazakhstan	Vice President, Commercial and Head of Kazakhstan Business Unit	N/A	Currently Vice President, Commercial and Head of Kazakhstan Business Unit; First Deputy Director of BNM and General Director of TSK. Prior thereto, Mr. Mirtskhulava held various positions for CanArgo from December 2000 until August 2005, including as a commercial analyst, a financial analyst and a senior economist.

Name and Municipality of Residence	Position with the Company	Director Since	Principal Occupation During the Past Five Years
Graham Wall Almaty, Kazakhstan	Vice President, Technical	N/A	Currently Vice President, Technical of Tethys; Deputy Director, Technical for BNM, Deputy Director, Technical for TSK was formerly Exploration Manager for CanArgo.
Rosemary Johnson-Sabine London, United Kingdom	Vice President, Exploration	N/A	Currently Vice President, Exploration of Tethys. Prior thereto, Managing Director (London office) and Vice President Exploration and New Business Development of Maersk Oil and Gas, an independent Danish oil and gas company.
Sabin Rossi Boston, Massachusetts, USA	Vice President, Investor Relations	N/A	Currently Vice President, Investor Relations of Tethys and President of TPI. Prior thereto, Vice President External Affairs and Investor Relations for CanArgo. Prior thereto, Business Consultant.

Notes:
(1) Member of the Audit Committee.
(2) Member of the Compensation and Nomination Committee.

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.

As at the date of this Annual Information Form, the directors and officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 274,127 Ordinary Shares or approximately 0.6% of the issued and outstanding Ordinary Shares. The information as to the number of Ordinary Shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors and officers of the Company individually.

Corporate Cease Trade Orders

None of the Company's directors or executive officers, have, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company that:

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Bankruptcies

Except as disclosed below, none of the Company's directors or executive officers, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has within 10 years prior to the date of this Annual Information Form:

(i) been a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or

(ii) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

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 or executive officers, nor any shareholder holding a sufficient number of sufficient number of securities of the Company to affect materially the control of the Company, have been subject to:

(i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(ii) 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.

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. 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 Memorandum and Articles 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.

PROMOTER

CanArgo may be considered to have been the promoter of the Company in that it took the initiative in founding and organizing the Company. The Company was a wholly owned subsidiary of CanArgo until the first quarter of 2007, when its interest in the Company was diluted as a result of various share issuances completed by the Company during the first and second quarters of 2007. As at June 27, 2007, being the closing date of the Company's IPO, CanArgo, through its wholly owned subsidiary CanArgo Limited, beneficially held 8,000,000 Ordinary Shares (the "**CanArgo Shares**"), representing 17.7% of the issued and outstanding Ordinary Shares. On July 30, 2007, the CanArgo Shares were sold through private transactions brokered by an agent at a price of $2.95 per share for gross proceeds received by CanArgo of $23,600,000. As at the date of this Annual Information Form, CanArgo, does not beneficially own, or exercise control and direction over, directly or indirectly, any of the Ordinary Shares of the Company or any voting securities of the Company's subsidiaries.

On October 23, 2006, the Company capitalized an inter-company loan in the amount of $22,296,000 from CanArgo into 69,000,000 Pre-Consolidation Ordinary Shares (equal to 13,800,000 Ordinary Shares after giving effect to the Share Consolidation) 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 June 12, 2007, CanArgo transferred 5,800,000 Ordinary Shares to its noteholders upon the conversion of certain notes, as a result of which CanArgo held, directly or indirectly, 8,000,000 Ordinary Shares upon completion of the transaction.

Prior to completion of the IPO, CanArgo provided ongoing management services to Tethys under the terms of a technical services and loan agreement between CanArgo and Tethys (the "**CanArgo Agreement**"). During 2006, 2005 and 2004, the services of the executive officers of the Company were provided by CanArgo to the Company in accordance with the CanArgo Agreement, pursuant to which the Company paid CanArgo $1,150,000 for 2006 and $300,000 for each of 2005 and 2004 in respect of service provided to the Company by the executive officers. The CanArgo Agreement was terminated in connection with the completion of the IPO.

AUDIT COMMITTEE

Audit Committee Charter

The audit committee of the Company ("**Audit Committee**") is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the external auditors. The Audit Committee Charter of Tethys is set forth as Appendix C of this Annual Information Form.

Composition of the Audit Committee

The current members of the Audit Committee are Colin Smith (Chairman), Rt. Hon. Peter Lilley and Paul Murphy. Messrs. Smith and Lilley are independent within the meaning of MI 52-110, 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 has 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 judgement. The Board of Directors has approved the appointment of a new Non Executive Director, Mr. Piers Johnson, with effect from April 2, 2008. Mr. Johnson will replace Mr. Paul Murphy as a member of the Audit Committee on his appointment as a Director. 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 information such as financial statements, management's discussion and analysis, annual information forms and prospectuses.

Relevant Education and Experience of Members of the Audit Committee

Colin Smith

Mr. Smith has been a non-executive director of the company since August 2006 and is also the Chairman of the Audit Committee. Mr. Smith acts as a consultant to financial service organisations in Guernsey, including the Kraken Financial Group Limited ("**Kraken**"), which is a multi-disciplinary financial services organisation, and Raven Russia Limited, the AIM listed investment company that invests in commercial property in Russia and other members of the CIS. Mr. Smith is also a non-executive director of the Da Vinci CIS Private Sector Growth Fund Limited, which is a listed investment fund. Prior to September 2007, Mr. Smith was a director in the audit and assurance division of the chartered accountancy practice of BDO in Guernsey. Mr. Smith graduated from the University of Glasgow with a degree in accountancy and qualified as a chartered accountant with the Institute of Chartered Accountants of Scotland in 1993. He is resident in Guernsey.

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 Melchior Japan Investment Trust plc and IDOX plc and a Member of the Advisory Board, Scholl of Management, University of Southampton. He is currently a 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 educated at Clare College, Cambridge, where he obtained a Bachelor's degree in natural science and economics.

Paul Murphy

Mr. Murphy is currently Managing Director of Kraken, a Guernsey-based investment and insurance provider. Prior to joining Kraken, Mr. Murphy was a director of MeesPierson Reads, one of the largest financial institutions in Guernsey. Prior thereto, Mr. Murphy worked in London for Touche Ross and Grant Thornton, in their respective international tax practices. Mr. Murphy is a Chartered Tax Adviser with over 15 years of experience. Mr. Murphy obtained a Bachelor of Science degree in civil engineering from the University of Strathclyde.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year, has the Company relied on any of the following exemptions from MI 52-110:

(a) the exemption in section 2.4 (*De Minimis Non-Audit Services*);

(b) the exemption in subsection 3.3(2) (*Controlled Companies*);

(c) the exemption in section 3.4 (*Events Outside Control of Member*);

(d) the exemption in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*);

(e) the exemption in section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*);

(f) the exemption in section 3.8 (*Acquisition of Financial Literacy*); or

(g) an exemption from MI 52-110, in whole or in part, granted under Part 8 (*Exemptions*).

During the year ended December 31, 2007, the Corporation relied on the exemption contained in section 3.2(2) (*Initial Public Offerings*) which provides that if an issuer has filed a prospectus to qualify the distribution of securities that constitutes its initial public offering, the issuer is exempt from the requirement of MI 52-110 that every member of the audit committee be independent, provided that a majority of the audit committee members are independent. During the financial year ended December 31, 2007, the Company filed a final prospectus dated June 18, 2007, in respect of the IPO. As disclosed under the heading "*Composition of the Audit Committee*", Mr. Murphy is not considered independent. It is intended that Mr. Johnson will replace Mr. Murphy as a member of the Audit Committee effective upon the date of Mr. Johnson's appointment.

Audit Committee Oversight

At no time since the commencement of the Company's most recent financial year, has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the Board of Directors.

Pre-Approval Policies and Procedures

The Audit Committee has delegated to the Chairman of the Audit Committee (or such other member of the Audit Committee who may be delegated authority), the authority to act on behalf of the Audit Committee between meetings of the Audit Committee with respect to the pre-approval of audit and permitted non-audited services provided by PricewaterhouseCoopers LLP ("**PWC**"). The Audit Committee is required to be notified of any non-approved services over and above audit and tax. The Chairman reports on any such pre-approval at the next meeting of the Audit Committee. To date, there have been no non-approved services provided.

External Auditor Service Fees

The following table provides information about fees billed to the Company and its affiliates for professional services rendered by Tethys' external auditor, PWC, during the financial year ended December 31, 2007.

Type of Service Provided	**Year-ended December 31, 2007**
Audit fees (including quarterly reviews)	$555,650
Audit-related fees	Nil
Tax fees	Nil
All other fees	Nil
Total	**$555,650**

As at December 31, 2006, the Company was a wholly owned subsidiary of CanArgo and the audit fees of the Company were included in the audit fees of CanArgo. Accordingly, there are no comparable figures for the year ended December 31, 2006.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below and elsewhere in this Annual Information Form, management of the Company is not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any shareholder of the Company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the voting securities of the Company or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

The Company issued to Kraken 2% commission in the form of 411,271 Pre-Consolidation Ordinary Shares in February 2007 in satisfaction of a commission payable in connection with a private placement completed in February 2007. During the course of the placement process, Kraken had managed the escrow bank account into which funds were paid by each of the investors until all of the funds were present, at which point they were paid over to the Company and the shares issued. For the provision of this service, Kraken was paid the sum of $19,500 (£10,000). A fee of $60,000 was paid to Paul Murphy, a director of the Company, for his part in introducing the investors. Kraken also acted as a broker for the Company in the placement of directors' and officers' insurance for which the annual premium was $112,000. Paul Murphy, a director of the Company, is the Managing Director of Kraken.

A management services contract directly with Vazon came into effect on June 27, 2007, whereby 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 to be issued to Tethys at the end of each month. The total costs charged to Tethys in the year ended December 31, 2007 by Vazon was $522,537.

Mr. Russell Hammond, a non-executive director of Tethys and CanArgo is also an Investment Advisor to Provincial Securities Limited ("**Provincial**"). Provincial had an interest in Tethys which was sold in June 2005 to CanArgo by a share exchange for shares in CanArgo. Provincial received 5,500,000 shares of CanArgo 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 or any of the Company's common stock owned by Provincial.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Ordinary Shares is Equity Trust & Transfer Company at its principal offices in Toronto, Ontario and Calgary, Alberta.

MATERIAL CONTRACTS

The only material contracts entered into by the Company during the most recently completed financial year, or before the most recently completed financial year that are still in effect, other than contracts entered into during the ordinary course of business, are as follows:

1. the Gas Supply Contract;

2. the area of mutual interest and non-compete agreement entered into between the Company and CanArgo on January 24, 2007;

3. the management services agreement dated May 10, 2007 between the Company and Vazon providing for, among other things, the services of Dr. David Robson as Chairman of the Board of Directors, and as President and Chief Executive Officer of the Company; and

4. the management services agreement dated June 8, 2007 between the Company and Vazon providing for, among other things, the services of Vazon and the services of Ms. Liz Landles, Mr. Graham Wall and Mr. George Mirtskhulava as executive officers of the Company.

Copies of the foregoing material contracts have been filed by the Company on SEDAR and are available online at www.sedar.com.

INTEREST OF EXPERTS

There is no person or company who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by Tethys during, or related to, its most recently completed financial year and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or company, other than PWC and McDaniel.

None of the designated professionals of PWC or McDaniel have any registered or beneficial interests, direct or indirect, in any of the Company's securities or other property or of the Company's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Company.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Company, there are no legal proceedings material to the Company to which the Company is or was a party to or of which any of its properties is or was the subject of, during the financial year neither ended December 31, 2007 nor are there any such proceedings known to the Company to be contemplated.

To the knowledge of the Company, there were no: (i) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the Company's last financial year; (ii) penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the last financial year.

ADDITIONAL INFORMATION

Additional information concerning Tethys is available through the internet on SEDAR which may be accessed at www.sedar.com. Copies of such information may also be obtained without charge by request to the Corporate Secretary of Tethys by mail at P.O. Box 524, St. Peter Port, Guernsey, GY1 6EL, British Isles, telephone: +44 1481 725911, facsimile at +44 1481 725922.

Additional information, including information regarding the Company's directors' and officers' remuneration, is contained in the Company's Management Information Circular dated March 20, 2008, prepared in connection with the annual and extraordinary meeting of Tethys' shareholders to be held on April 24, 2008.

Additional financial information is provided in Tethys' consolidated financial statements and management's discussion and analysis for the year-ended December 31, 2007. Copies of such documents may be obtained in the manner set forth above.

APPENDIX A

FORM 51-101F2

REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR

To the board of directors of Tethys Petroleum Limited (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2007. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.

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) 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 for the year ended December 31, 2007, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management and Board of Directors:

			Net Present Value of Future Net Revenue (Before income taxes, 10% Discount Rate)			
Independent Qualified Reserves Evaluator or Auditor	**Preparation Date of Evaluation Report**	**Location of Reserves (Country)**	**Audited (M$)**	**Evaluated (M$)**	**Reviewed (M$)**	**Total (M$)**
McDaniel & Associates Consultants Ltd.	March 25, 2008	Kazakhstan	-	78,528	-	78,528

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined and are presented in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

6. We have no responsibility to update the report referred to in paragraph 4 for events and circumstances occurring after its preparation date.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

(signed) *"B.H. Emslie"*
B.H. Emslie, P.Eng.

Calgary, Alberta
Date: March 25, 2008

APPENDIX B

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

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 are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.

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 Form 51-101F1 containing reserves data and other oil and gas information;

(b) the filing of the Form 51-102F2 which is 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. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

"Dr. David Robson"
Dr. David Robson
President and Chief Executive Officer

"Graham Wall"
Graham Wall
Vice President, Technical

"Bernard Murphy"
Bernard Murphy
Director

"Liz Landles"
Liz Landles
Director

March 28, 2008

APPENDIX C

Audit Committee Charter

May 2007

TETHYS PETROLEUM LIMITED

Audit Committee
Charter

TETHYS PETROLEUM LIMITED

1 INTERPRETATION

In these terms of reference:-

"**Auditor**" means the external auditors of the Company;

"**Board**" means the board of directors of the Company;

"**Code of Conduct and Ethics Policy**" means the Company's Code of Conduct and Ethics Policy in force at the date of adoption of this Charter, as it may be amended of replaced from time to time;

"**Committee**" means the audit committee of the Board; and

"**Company**" means Tethys Petroleum Limited.

2 CONSTITUTION

By a resolution dated October 5, 2006, the Board resolved, pursuant to the authority and power conferred upon the Board by Article 101 of the Company's articles of association, to establish a committee of the Board to be known as the audit committee.

3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to assist the Board in meeting its financial reporting responsibilities and to oversee the Company's relationship with the Auditor.

4 SPECIFIC DUTIES

The Committee shall perform the following duties for the Company.

4.1 Financial Reporting

4.1.1 The Committee shall review the financial statements of the Company, including its:

(a) annual and interim reports and accounts;

(b) announcements of annual and interim results; and

(c) any other formal announcement relating to the Company's financial results.

4.1.2 The Committee shall review and discuss with management and the Auditor:

(a) the Company's annual audited financial statements and related documents prior to their filing or distribution, including;

(i) the annual financial statements, related footnotes and Management's Discussion and Analysis, including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;

(ii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;

(iii) any significant changes to the Company's accounting policies;

(iv) the Auditor's audit report on the financial statements; and

(b) the Company's quarterly unaudited financial statements and related documents prior to their filing of distribution, including.

(i) quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;

(ii) if applicable, the Auditor's report of its review of the financial statements;

(iii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;

(iv) any significant changes to the Company's accounting policies.

4.1.3 The Committee shall review:

(a) the Company's Annual Information Form, or other similar report filed with securities regulatory authorities, as to financial information;

(b) all prospectuses and information circulars of the Company as to financial information;

(c) any financial information contained in other documents, such as announcements of a price sensitive nature.

4.1.4 The Committee shall review:

(a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;

(b) the methods used to account for significant or unusual transactions where different approaches are possible;

(c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditor;

(d) the Company's reporting practices; and

(e) all significant financial reporting issues and all judgements which they contain.

4.1.5 The Committee shall review and discuss with management financial information, including earnings press releases, the use of “pro forma” or non-GAAP financial information and earnings guidance, contained in any filings with the securities regulators or news releases related thereto (or provided to analysts or rating agencies) and consider whether the information is consistent with the information contained in the financial statements of the Company or any subsidiary with public securities. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

4.1.6 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

4.1.7 The Committee shall recommend to the Board the approval of the annual financial statements and related documents and either approve the interim financial statements and related documents or recommend to the Board such financial statements and documents for approval.

4.2 **Internal Controls and risk management systems**

4.2.1 The Committee shall:

(a) keep under review the effectiveness of the Company's internal controls and risk management systems; and

(b) review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and risk management.

4.3 **Ethics Reporting**

4.3.1 The Committee is responsible for the establishment of a policy and procedures for:

(a) the receipt, retention and treatment of any complaint received by the Company regarding financial reporting, accounting, internal accounting controls or auditing matters;

(b) the confidential, anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.

4.3.2 The Committee will review, on a timely basis, serious violations of the Code of Conduct and Ethics Policy including all instances of fraud.

4.3.3 The Committee will review on a summary basis at least quarterly all reported violations of the Code of Conduct and Ethics Policy.

4.4 **Internal Audit**

The Committee shall consider annually whether these is a need for an internal audit function and make a recommendation to the Board accordingly. In the event that an internal audit function is introduced, the Board shall extend as appropriate the terms of reference to include, inter alia, monitoring and reviewing the effectiveness of the internal audit function, senior appointments and removals in respect of that function, resourcing of that function, meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit function.

4.5 **External Audit**

4.5.1 The Committee shall:

(a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the Auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

(b) oversee the Company’s relationship with the Auditor including (but not limited to):

(i) approval of their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;

(ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

(iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;

(iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Company (other than in the ordinary course of business) or any other conflict of interest;

(v) agreeing with the Board a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;

(vi) ensuring receipt, at least annually, from the external auditor of a formal written statement delineating all relationships between the Auditor and the Company, including non-audit services provided to the Company;

(vii) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and

(viii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;

(c) overseeing the work of the Auditor, including the resolution of disagreements between management and the Auditor;

(d) meeting regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;

(e) reviewing and approving the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;

(f) reviewing the findings of the audit with the Auditor;

(g) reviewing any representation letter(s) requested by the Auditor before they are signed by the executive management;

(h) reviewing the executive management letter and executive management's response to the Auditor's findings and recommendations;

(i) giving consideration to the rotation of the audit partner on a periodic basis;

(j) reviewing any related findings and recommendations of the Auditor together with management’s responses including the status of previous recommendations;

(k) reviewing any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the Auditor’s work or access to required information; and

(l) reviewing any other matters related to the conduct of the external audit, which are to be communicated to the Committee by the Auditor under generally accepted auditing standards.

4.5.2 The Committee shall develop and implement policies and procedures on the supply of non-audit services by the Auditor, taking into account any relevant statutory requirements on the matter. If such policies and procedures have not been adopted, the Committee shall pre-approve any non-audit services to be provided to the Company or its subsidiaries by the Auditor, except that the Committee has delegated a de minimis level of $20,000 per annum to the Committee Chair who will report to the Committee at their next meeting of any work approved with this limit.

4.6 **Other Matters**

The Committee shall:

(a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;

(b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members; and

(c) oversee any investigation of activities which are within its terms of reference.

5 REPORTING

5.1 The chairman of the Committee shall report to the Board generally on its proceedings after each meeting.

5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.

5.3 The Committee's Charter shall be available on request and shall be available on the Company's website (if any).

6 REGULATORY DUTIES

In carrying out its duties the Committee shall:

(a) give due regard to:

(i) all relevant legal and regulatory requirements; and

(ii) the rules of any stock exchange or which the Company’s securities may be listed;

(b) ensure that it has such information as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

7 MEMBERSHIP

7.1 Members of the Committee shall be appointed from time to time by the Board, in consultation with the chairman of the Committee.

7.2 The Committee shall be made up of at least three members each of whom shall be a member of the Board.

7.3 The chairman of the Board shall not be a member of the Committee.

7.4 All members of the Committee shall be “independent” as that term is defined under the requirements of applicable securities laws and the standards of any stock exchange on which the Company’s securities are listed, taking into account any transitional provisions that are permitted.

7.5 Members shall serve one-year terms and may serve consecutive terms to ensure continuity of experience. Members shall be reappointed each year to the Committee by the Board at the Board meeting that coincides with the annual shareholder meeting. A member of the Committee shall automatically cease to be a member upon ceasing to be a director of the Company. Any member may resign or be removed by the Board from membership on the Committee or as Chair.

7.6 All members of the Committee must be "financially literate" as that qualification is interpreted by the Board and or acquire such literacy within a reasonable period of time after joining the Committee. At the present time, the Board interprets "financial literacy" to mean a basic understanding of finance and accounting and the ability to read and understand financial statements (including the related notes) of the sort released or prepared by the Company in the normal course of its business.

7.7 The Board shall appoint the chairman of the Committee who shall be a non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.

7.8 The Board may from time to time remove members from the Committee.

7.9 The membership of the Committee shall be set out in the annual report of the Company.

8 SECRETARY

The Board shall from time to time nominate an appropriate person to be the secretary of the Committee.

9 MEETINGS

9.1 The Committee shall meet at least two times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee shall require.

9.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.

9.3 Unless otherwise agreed, at least three (3) working days notice shall be given of each meeting of the Committee.

9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:

(a) confirm the venue, time and date of the meeting;

(b) include an agenda of items to be discussed at the meeting; and

(c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.

9.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.

9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and a duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the other directors, representatives from the finance function of the Company and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.

9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.

9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.

9.10 Matters for decision by the Committee shall be decided by a majority decision of the members.

10 MINUTES

10.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.

10.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

10.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.

10.4 After approval and signing of the minutes by the chairman of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board, (unless a conflict of interest exists).

11 AUTHORITY

11.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.

11.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.

11.3 The Committee is authorised to:

(a) seek any information it requires (including from any employee of the Company) in order to perform its duties;

(b) obtain outside legal or other professional advice (including the advice of independent remuneration consultants) on any matters within its terms of reference including, without limitation, any legal matters which could have a significant effect on the Company's financial position;

(c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;

(d) to secure the attendance of external advisors at its meetings (if it considers it necessary); and

(e) to call any employee to be questioned at a meeting of the Committee as and when required,

all at the Company's expense.

12 OWN PERFORMANCE

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.