TETHYS PETROLEUM LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the three months ended March 31, 2012

The three months ended March 31, 2012 compared to March 31, 2011

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

	2012	2011	% Change
Revenue	6,487	4,480	45%
Loss for the period	(6,848)	(6,295)	9%
Basic and diluted loss ($) per share	(0.02)	(0.02)	
Capital expenditure	1,209	10,852	-89%
Total Assets	253,945	259,477	-2%
Non-current Liabilities	(5,656)	(10,492)	-20%
Cash balance	4,803	57,500	-92%
Cash and working capital surplus/(deficit)	(1,831)	49,893	-104%
Common shares outstanding			
Basic and diluted	286,707,744	260,629,769	

The following Managementôs Discussion and Analysis (ñMD&Aò) is dated May 15, 2012 and should be read in conjunction with the Companyôs unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended March 31, 2012 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2011. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Companyôs Audit Committee and Board of Directors. The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 ñInterim Financial Reportingò and the requirements of the Disclosure and Transparency Rules (óDTRô) of the Financial Services Authority (óFSAô) in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com*. Readers should also read the ñForward-Looking Statementsò legal advisory contained at the end of this MD&A and also the Companyôs AIF.

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

1) Managementôs Discussion & Analysis: this includes the requirement of National Instrument 51-102 of Canadian Securities Administrators (ñCanadian NI 51-102ò) in respect of a quarterly Managementôs Discussion & Analysis and the requirements of the UKôs Disclosure & Transparency Rules with respect to DTR4.3, Interim management statements; and

2) Interim financial information: this includes the Condensed Consolidated Interim Financial Statements, the requirements of the Canadian NI 51-102 with respect to a quarterly financial report and the requirements of UKôs Disclosure & Transparency Rules with respect to DTR4.3, Interim management statements and a directorsô responsibility statement.

Highlights and Significant Transactions

On January 30, 2012, the Company announced the official inauguration of its Aral Oil Terminal (the "AOT") at Shalkar - a purpose built oil storage and rail loading facility for its oil shipments from the Doris oilfield. AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerȏs company, Olisol Investment Limited (a subsidiary of Eurasia Gas). This facility will enable the Company to initially double production from the Doris field to approximately 4,000 bopd. During 2012 it is planned to expand the capacity of the terminal to more than 12,000 bopd to accommodate future potential production growth dependent upon further drilling results.

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

On February 9, 2012, the Company confirmed the issue of a tender for the final stage of the seismic programme in Tajikistan. The seismic programme will involve the acquisition of new 2D seismic. It is expected that this programme will commence by the summer with initial interpreted results in Q4 2012. When completed, it will identify the location for the first deep well to be drilled by Tethys in its Bokhtar PSC area. This seismic data will be used to firm up an initial deep well drilling location to exploit the very significant upside indicated by the seismic, gravity, gradiometry and magnetic aerial surveys previously carried out.

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

On April 13, 2012, the Company announced it had completed the first shipment of commercial oil production through the AOT at Shalkar.

On April 19, 2012, the Company received permission for a two year extension of the Akkulka Exploration Contract in Kazakhstan where the Company is currently appraising the high potential Doris oil discovery and also where it has several exciting exploration targets.

Total revenue in the three months to March 31, 2012 was USD6.487 million, which represented an increase of 45% on the USD4.480 million in the same period of 2011.

The loss for the three months to March 31, 2012was USD6.848 million, which represented an increase of 9% on the USD6.295 million loss for the same period in 2011.

In the three months to March 31, 2012, capital expenditure was USD1.209 million compared to USD10.852 million in the three months ended March 31, 2011.

Production costs in the three months to March 31, 2012 were USD2.910 million compared to USD1.752 million in the three months ended March 31, 2011 reflecting the additional production costs associated with the enhanced levels of oil production achieved in Kazakhstan.

Administrative costs in the three months to March 31, 2012 at USD4.986 million were 5% lower than the USD5.271 million incurred in the period to March 31, 2011.

Nature of Business

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

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Financial and Operational Review

Kazakhstan Gas Production (Kyzyloi contract)

Period	2012				2011			
	Mcm[1]	Mcf[2]	Mcm/d[3]	boe/d[4]	Mcm[1]	Mcf[2]	Mcm/ d[3]	boe/ d[4]
Q1	35,242.2	1,244,401	387	2,279	28,797.5	1,016,840	320	1,883

Note 1 Mcm is thousands of cubic metres.
Note 2 Mcf is thousands of cubic feet.
Note 3 Mcm/d is thousands of cubic metres per day
Note 4 boe/d is barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

- Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325 mm diameter export pipeline from the Kyzyloi Field gathering station to the main Bukharaï Urals gas trunkline, where a compressor station was constructed at km910 on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas.
- Initial production from the Kyzyloi Field was sold under the long-term take-or-pay contract signed between TAG and gas trading company GazImpex in January 2006. This contract was assigned in December 2007 from GazImpex to the Kazakhstani Petrochemical Company Kemikal LLP, who utilized the gas in the domestic Kazakh market. This contract was further assigned on May 1, 2009 to Asia Gas NG LLP. The contract price is USD32 per Mcm excluding VAT or USD35.84 per Mcm including VAT at the current 12% rate.
- In Q1 2011, one of the compressors was out of commission while being repaired. This was the reason that production was slightly lower in that quarter.
- To the end of Q1 2012 some 570 MMcm under the Gas Supply Contract had been delivered.

Kazakhstan Gas Production (Akkulka contract)

	2012				2011			
	Mcm	Mcf	Mcm/d	boe/d	Mcm[1]	Mcf[2]	Mcm/d	boe/d
Q1	16,273.1	574,605	179	1,053	17,181.9	606,693	191	1,124

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

- To the end of Q1 2012, some 123 MMcm under the Gas Supply Contract had been delivered.

- TAG has made eleven shallow gas discoveries in the Akkulka Exploration Licence and Contract area. The Akkulka Production Contract now covers seven of these wells and four are currently producing from a similar horizon to the Kyzyloi Field and are tied into the Companyǿs existing pipeline infrastructure, with additional compression having been installed at the BCS. The development of the other gas discoveries already made in the Akkulka Block is planned as Phase 3.

- The Company has chosen not to advance both the Kyzloi and Akkulka gas projects fully due to the relatively low gas prices currently being obtained. The Company is hopeful however that, with the completion of the Kazakhstan ï China gas pipeline (which the Company understands is scheduled for 2013), better gas prices may be obtained with more competition from gas buyers for supply.

Kazakhstan Oil Production (Akkulka contract)

	2012					2011				
Period	Gross fluid		Net	Production		Gross fluid		Net	Production	
	m3	Barrels	Barrels	days	bopd	m3	Barrels	Barrels	days	bopd
Q1	17,149	105,082	94,463	91	1,038	4,219	32,359	30,311	90	337

Note: These figures have been calculated on the total number of days in the period and have not been restricted to the number of production days as in previous MD&Aǿs. The production days were 61 days in 2012 and 26 days in 2011.

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

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

- Test production from well AKD05 commenced in June and carried on into July 2011. There was then a gap in August and September before commercial production commenced in October 2011.

- In November 2011, commercial production commenced from AKD06.

- Between January 1, 2012 and March 31, 2012, because of the severe weather conditions and work on building the necessary facilities only 61 days of pilot production were achieved while the number of days for the same period of 2011 was 26 days.

- In October 2010 the Company commenced selling untreated oil at the well site of AKD01 to an oil trading company which transported the oil by truck to a location north of the town of Emba, 450 km to the north-east, where it is treated before being transported to local refineries.

- With effect from mid-April 2012, the Company continued to sell the oil at the well site but it was then transported to the AOT at Shalkar (see below) a distance of 220 km. This reduction in distance and the resultant reduced turnaround time will enable the Company to increase oil production to 4,000 bopd.

Joint Venture

On February 17, 2011, the Company signed a joint venture agreement to construct and operate AOT, a rail oil loading terminal at Shalkar in Kazakhstan. Transcontinental Oil Transportation (ñTOTò), a wholly owned subsidiary of the Company, and Olisol Investments Limited, a local partner with strong experience in the oil distribution business in Kazakhstan, each has a 50% interest in the project. With the opening of this new rail-loading facility in April 2012, which will reduce the road trucking distance by half, it is planned to increase production initially to 4,000 bopd although the production facility and terminal are designed for potentially much greater production levels in the future with 5,000 - 6,000 bopd planned for later in the year from existing drilled and tested wells.

Uzbekistan Oil Production (North Urtabulak PEC)

Total Production from TPU under PEC

	2012			2011		
	Total Production			Total Production		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	9,004	64,379	707	14,945	106,857	1,187

After State Take

	TPU[1] Share 2012			TPU Share 2011		
	Tonnes	Barrels*	bopd	Tonnes	Barrels*	bopd
Q1	2,443	17,469	192	6,430	45,975	511

** using 7.15 barrels = 1 tonne*

- The Company, through Tethys Production Uzbekistan (ñTPUò), owns a 100% contractor interest in the North Urtabulak PEC for the North Urtabulak Field, together with subsidiaries of Uzbekneftegaz (ñUNGò). This field is located in southern Uzbekistan in the northern portion of the Amu Darya basin. The North Urtabulak PEC does not confer ownership of the North Urtabulak Field to TPU and no reserves or resources have been attributed to TPUôs interest under the North Urtabulak PEC to date.
- Under the North Urtabulak PEC, the contractor receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the contractor receives 20%, and the Uzbek State Partners 80% of the same.
- As at March 31, 2012, the Company was producing approximately 740 bopd (gross) from 14 wells under the North Urtabulak PEC. Part of the North Urtabulak Field lies under a zone of active salt movement which has had limited production in the past due to drilling difficulties.
- In November 2011, the Company announced it had signed an MOU with UNG, establishing a programme for Tethys to obtain a new PEC on an existing oilfield in Uzbekistan ï the Chegara Group of fields. Currently the Field Development Plan (FDP) is being finalised after which the Feasibility Study (FS) will be finished with the results of this being inserted into the new PEC which is currently being negotiated with UNG. The Chegara Group of fields is located in the same geographical area as North Urtabulak. The

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

Chegara Group of fields is less developed than North Urtabulak, and Tethys believes that these fields offer significant potential for additional oil production in the short term.

- In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue providing the framework for a Joint Study and facilitate the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan.

Tajikistan Oil Production (Beshtentak field)

On October 20, 2011, the Company announced that the Beshtentak well BST20, having been worked over by applying modern perforating and acidisation techniques and applying natural gas lift, tested oil at a rate of 533 bopd accompanied by 12,500 cubic metres (441 thousand cubic feet) of gas per day on a restricted choke (10 mm - 25/64 inch) with a flowing tubing head pressure of 26 atmospheres (377 psi).

Initial sales agreements were signed and the first payments from oil sales received.

The well was placed on oil production and the gas was tied into the nearby local gas grid but subsequently production performance indicated possible communication with the nearby BST103 well which is producing gas from the field for the city of Kulob, this gas being part of the ñbase levelò production on the field assigned to the Tajik State. As a result, the BST20 production is currently restricted and it is planned to acquire additional data to ascertain the extent of any possible communication. The well is now back on production but at lower rates than previously, currently approximately 150 bopd.

Meanwhile, three further workover candidates have been identified in other parts of the field (away from existing producers), which are interpreted to contain remaining bypassed oil and gas and work is progressing to fully assess these interesting opportunities. In addition to conducting recompletion work on these three wells, it is planned in the future to locate potentially one or two new high angle or horizontal crestal development wells, which would have the potential to achieve higher production rates than those obtained from the BST20 well.

Production Summary

In the first quarter of 2012, the oil and gas production levels achieved (before the deduction of local governments share or taxation) were as follows:

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	1,038	566	3,332	4,384
Uzbekistan	707	-	-	707
Tajikistan	40	-	-	40
Total	**1,785**	**566**	**3,332**	**5,117**

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

Country	Oil	Gas		Combined
	bopd	Mcm/d	boe/d	boe/d
Kazakhstan	337	511	3,007	3,344
Uzbekistan	1,187	-	-	1,187
Tajikistan	-	-	-	-
Total	**1,524**	**511**	**3,007**	**4,531**

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

Oil production days in the Akkulka field in Kazakhstan were 61 in Q1, 2012 and 26 days in Q1, 2011.

Financial Review

Loss before tax

The Company recorded a net loss after taxation of US$6.79 million in the quarter ended March 31, 2012 compared to a net loss of US$6.30 million in the same period of 2011. The principal differences between the two periods were as follows:

	Three months ended March 31		
	2012	**2011**	**Movement**
Sales and other revenues	6,487	4,480	45%
Total revenue and other income	**6,487**	**4,480**	45%
Production expenses	(2,910)	(1,752)	66%
Depreciation, depletion and amortization	(3,036)	(2,612)	16%
Listing expenses	-	(6)	-100%
Business development expenses	(184)	(20)	820%
Administrative costs	(4,986)	(5,271)	-5%
Stock-based compensation	(603)	(1,193)	-49%
Foreign exchange gains/(loss) net	(64)	200	-132%
Fair value gains/(loss)	(896)	(8)	11100%
Loss from jointly controlled entity	(62)	(209)	-70%
Finance income/(loss) net	(454)	(7)	6386%
Loss before taxation	**(6,708)**	**(6,398)**	**4%**
Taxation	(140)	103	-236%
Loss after taxation	**(6,848)**	**(6,295)**	**9%**

Note

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

Revenue

	Three months ended March 31		
	2012	2011	Change
Gas sales	1,652	1,491	11%
Oil sales[2]	2,439	501	387%
Refined product sales	2,308	2,422	-5%
Other revenue	88	66	33%
	6,487	4,480	45%

Note 2 Oil sales in Kazakhstan are reported net of water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Emba,

Gas sales

- The gas sales are generated from both the Kyzyloi and the Akkulka contracts in Kazakhstan and, as referred to in *Kyzyloi Gas Production* above, are sold to Asia Gas NG LLP at agreed prices of USD32 per Mcm excluding VAT for the Kyzyloi gas and USD38 including VAT for the Akkulka gas.
- Total volumes sold in the three months to March 31, 2012 were 34.7.MMcm (2011: 28.6MMcm) from Kyzyloi and 16.0MMcm (2011: 17.4 MMcm) from Akkulka.
- Gas sales for the three months to March 31, 2012 were USD1,652,000 compared to USD1,491,000 for the same period in the prior year.

Oil sales

A breakdown of oil sales in the first quarter of 2012 and 2011 are as follows:

2012

Period	Gross bbls	Revenue $000	Price at wellhead	Compensation $000	VAT $000	Net Sales $000
Q1	89,024	2,671	30.0	79	278	2,313

2011

	Gross bbls	Revenue $000	Price at wellhead	Compensation $000	VAT $000	Net Sales $000
Q1	28,796	598	24.1	26	55	517

Net figures exclude the compensation for water content plus compensation for natural wastage, transportation costs of water from the well head to the terminal at Emba. The VAT can be recovered by the Companyǿs Kazakh subsidiary.

Refined products sales (Uzbekistan)

	Three months ended March 31		
	2012	2011	Change
Refined product sales	2,308	2,422	-5%

- Refined product sales for the three months to March 31, 2012 were USD2,308,000 compared to USD2,422,000 in the same period of 2011 This reduction was considerably less than the drop in production in 2012 compared to 2011 because the sales in 2012 included products paid for in 2011 but not delivered until 2012.

  Deferred revenue from refined product sales, i.e. goods sold and paid for but awaiting delivery, at March 31, 2012 was USD1,330,000 (December 31, 2011: USD1,839,000).
- Under the North Urtabulak PEC, TPU receives 50% of all incremental production from each well from the North Urtabulak Field for the first three years of production, with the remaining 50% to be shared between the Uzbek State Partners. For the subsequent five years, the company receives 20%, and the Uzbek State Partners 80% of the same. As at March 31, 2012 more than half of these wells were past the initial three years of production.

Operating expenses

	Three months ended March 31		
	2012	2011	Change
Kazakhstan	2,046	1,257	63%
Uzbekistan	686	495	39%
Tajikistan	170	0	100%
Other	8	0	100%
Total	2,910	1,752	66%

Kazakhstan

The split between the gas and oil production in Kazakhstan was as follows:

Kazakhstan gas production	USD707,000	
Production cost per boe	USD2.36	(2011:USD2.86)
Kazakhstan oil production	USD1,339,000	
Production cost per barrel	USD14.00	(2011: USD8.46)

The majority of production costs in Kazakhstan are fixed and as such the unit cost of production will decrease as production increases.

Total production costs in Kazakhstan were higher in the three months ended March 31, 2012 compared to the same period in 2011 primarily as a result of the increased levels of oil production. See *Oil Production Kazakhstan (Akkulka contract)* above

Depreciation, depletion and amortization expense

	Three months ended March 31		
	2012	2011	Change
DD & A costs	3,036	2,612	16%

- The increased DD&A charge in the three months to March 31, 2012, compared to the same period in 2011, was the result of higher production levels in 2012.

Business development expenses

	Three months ended March 31		
	2012	2011	Change
Business Development Expenses	184	20	820%

Business development costs relate primarily to costs incurred in the Company's pursuit of new contracts in Central Asia.

Administrative expenses

	Three months ended March 31		
	2012	2011	Change
Staff	2,465	2,065	19%
Travel	755	961	-21%
Office	670	577	16%
Professional fees	591	684	-14%
Marketing costs	145	298	-51%
Other	360	686	-47%
	4,986	5,271	-5%

There was an increase in staff and office costs in the three months to March 31, 2012 compared to the same period in 2011, as a result of increased levels of staff particularly in Kazakhstan and other operational areas. These increases were offset by savings in all other categories of expenditure.

Share based payments

	Three months ended March 31		
	2012	2011	Change
Share based payments	603	1,193	-49%

In the three months to March 31, 2012, some 210,000 options were granted, 15,000 were exercised and 114,000 were forfeited or expired.

64,500 warrants were granted in connection with commissions payable to brokers with respect to 2012 loans. See *Liquidity and Capital Resources* below

Foreign exchange

	Three months ended March 31		
	2012	2011	Change
Foreign exchange (gain) / loss	64	(200)	-132%

A small loss foreign exchange loss was incurred in the period.

Fair value

	Three months ended March 31		
	2012	2011	Change
Fair value loss / (gain)	896	8	11100%

The movement in the fair value in the three months to March 31, 2012, was a combination of the following movements:

- Interest rate swap valuation following repayment of loans associated with the drilling of Uzbekistan well USD630,000 (2011: nil);
- Reduction linked to the foreign exchange hedging arrangement USD148,000 (2011: nil);

- Valuation of warrants issued, as a result of the movement in the share price in the period USD414,000(2011: USD8,000).

Joint venture

	Three months ended March 31		
	2012	2011	Change
Loss from joint venture	62	209	-100%

Loss from the jointly controlled joint venture in 2012 represented the Companyҫs 50% share in the loss incurred by the AOT, while 2011 figure of USD209,000 represented the Companyҫs 51% share in the loss incurred by SSEC.

Finance costs

	Three months ended March 31		
	2012	2011	Change
Finance (income) / costs -net	454	7	6386%

Finance costs consist primarily of interest costs net of any interest income.

Taxation

	Three months ended March 31		
	2012	2011	Change
Current income tax expense	144	11	1,200%
Deferred tax (recovery) / expense	(40)	(114)	65%
Total	140	(103)	236%

The current tax loss arose in Uzbekistan and the deferred tax movement related to Kazakhstan.

Capital Expenditure

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

	Three months ended March 31		
	2012	2011	Change
Kazakhstan	230	8,045	-97%
Uzbekistan	83	2,777	-97%
Tajikistan	895	-	100%
Other and Corporate	1	30	-97%
	1,209	10,852	-88%

There were no major items of capital expenditure in the three months to March 31, 2012.

Use of Funds

Set out below are details of the planned use of funds as detailed in the prospectus dated October 4, 2010:
The primary differences were in relation to:

1. The well drilling programme in Kazakhstan is ongoing with a further two appraisal wells planned for 2012/13 and testing of the exploration well in Kul Bas.
2. Phase 1 of the production and processing infrastructure is complete and Phases 2 and 3 should be completed later this year.
3. There is no significant production yet in Tajikistan and so few costs have been incurred in relation to Production and Processing infrastructure.
4. In Uzbekistan no seismic work has yet been undertaken.
5. While only one well has been drilled in Uzbekistan there have been a number of workovers.

	Prospectus dated Oct 04, 2010	**Incurred to Dec 31, 2011**	**Balance**
Kazakhstan			
Appraisal and Exploration Wells	47,500	34,089	13,411
Production and Processing Infrastructure	19,800	12,650	7,150
Seismic Data	6,000	3,070	2,930
Tajikistan			
Production and Processing Infrastructure	3,760	-	3,760
Seismic Data	3,000	3,000	-
Exploration and Appraisal Drilling Wells	4,000	4,000	-
Uzbekistan			
Seismic Data	2,000	-	2,000
Production Drilling	5,940	2,763	3,177
Total	92,000	59,572	32,428

The primary explanation of the difference between the ñBalanceò of USD32.4 million per the above table and the cash balance of USD4.8 million per the Companyôs financial statements are as follows:

Reduced cash from 2011 Kazakhstan Revenue primarily due to adverse weather conditions

Reduced cash from 2011 Uzbek sales

Increased spending on Komsomolsk wells

Drilling of EOL09 oil discovery exploration well in Tajikistan

Business development costs

Summary of Quarterly Results

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

Financials ($000's)	**Jun 30 2010**	**Sept 30 2010**	**Dec 31 2010**	**Mar 31 2011**	**Jun 30 2011**	**Sep 30 2011**	**Dec 31 2011**	**Mar 31 2012**
Revenue	6,030	3,173	3,387	4,480	9,883	7,771	8,163	6,487
Net loss	(3,322)	(7,118)	(11,210)	(6,295)	(2,696)	(8,575)	(9,424)	(6,786)
Basic and diluted loss ($) per share	(0.02)	(0.04)	(0.04)	(0.02)	(0.01)	(0.03)	(0.04)	(0.02)
Capital expenditure	7,316	11,950	14,584	10,852	14,834	11,148	5,068	1,209
Total assets	184,082	182,081	267,748	259,477	261,144	255,066	263,391	253,945
Total long term liabilities	(14,938)	(15,963)	(11,535)	(10,492)	(8,434)	(8,295)	(7,224)	(8,361)
Cash balance	30,232	12,917	79,135	57,400	35,855	18,425	11,631	4,803
Cash and working capital surplus	24,408	6,046	69,718	49,893	24,137	4,893	942	(1,831)

Significant factors influencing quarterly results

- During the course of the Q2 2010, a number of Uzbekistan refined product shipments were completed which related to 2009 production. The consequence of this was that the refined product revenue recognized in Q2 2010 was significantly higher than if it was linked purely to Q2 2010 production.
- Akkulka gas production commenced in Q3 2010. Oil sales from oil test production from Doris commenced in Q4 2010 resulting in revenue of US$748,000 in Q4 2010 and $501,000 in Q1 2011.
- The Company raised $100 million (gross) in October 2010 through the issue of equity.
- Oil sales in Kazakhstan picked up with effect from Q2 2011.
- Uzbekistan sales fell away significantly from Q3 2011 though they would appear to be leveling out with effect from Q1 2012 and are currently reasonably stable.
- There was an impairment adjustment in Uzbekistan in Q4 2011 of USD8.98 million.
- Kazakhstan oil sales were significantly affected by adverse weather conditions in Q1 2012.

Financial position

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

	Mar 31, 2012	**Dec 31, 2011**	**Movement**	**Movement Details**
Property, plant and equipment	125,994	128,918	(2,924)	Little capital expenditure was incurred in the quarter while DD&A was incurred in line with production
Prepaids and other receivables	9,793	10,217	(424)	Increase in VAT balance in Kazakhstan plus increase in prepayments to contractors.
Trade and other receivables	5,844	5,478	366	Partial movement of long term VAT receivable to current receivables.

Cash and cash equivalents	4,180	10,746	(6,566)	Refer to Consolidated Statement of Cash Flows in the annual financial statements
Restricted cash	623	885	(262)	Funds required as security against credit cards and hedging arrangement.
Derivative financial instruments - interest rate swap	-	630	(630)	This no longer applies in 2012
Other reserves	39,172	38,530	642	Stock based compensation expense incurred in the period.
Non controlling interest	8,818	8,918	(100)	This represents the 15% non-controlling interest in SSEC
Accumulated deficit	151,648	144,962	6,686	Loss incurred for the three months to March 31, 2012. Refer to the *Loss before tax* above.
Non-current financial liabilities - borrowings	2,819	1,632	1,187	Additional funding raised in the quarter relating to Phase 2 and 3 of the drilling equipment based loan.
Current financial liabilities - borrowings	6,025	8,396	(2,371)	Settlement of the two loans related to the Uzbekistan well NU116 less funds raised through the drilling equipment loan.
Derivative financial instruments - warrants	1,348	264	1,084	Movement in the fair value of the liability together with expiry of some warrants
Derivative financial instruments - foreign exchange hedge	8	157	(149)	Reduction in the fair value of a foreign currency hedge as it nears completion.
Deferred revenue	1,330	1,839	(509)	Revenue received in advance of shipments in Uzbekistan
Current taxation	144	-	144	Taxation charge on profits generated by TPU in Uzbekistan
Trade and other payables	7,758	10,179	(2,421)	Reduction in trade payables in Kazakhstan and Tajikistan.

Contractual obligations and liabilities as at March 31, 2012

		Payments Due by Period $'000s			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**After 5 years**
Financial borrowings	$8,844	$6,025	$2,819	-	-
Operating leases	$1,321	$926	$341	54	-
Trade and other payables	$8,258	$7,758	$251	$227	$22
Commitments	$3,372	$3,372		-	-
Total contractual obligations	**$21,795**	**$18,081**	**$3,411**	**$281**	**$22**

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

Liquidity and Capital Resources

In December 2011, the Company closed on the first tranche of a maximum USD10 million loan facility amounting to USD4.0 million, which was secured by the ZJ70 and ZJ30 rigs and other equipment. The second tranche for

USD3.2 million was completed in February 2012 and the third tranche for USD2.8 million, to fulfill the total facility was completed in March 2012.

This facility gave lenders the choice of two methods of repayment designated Option A and Option B. Under Option A, which has a term of one year, lenders have the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date. Option B, which has a term of two years, gives lenders the right to receive equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date. These borrowings are held at amortized cost and their carrying amounts approximate to their fair value at the balance sheet date. The interest payable on the borrowed funds is 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each USD100,000 principal amount of the loan advanced to the Company. As at March 31, 2011, 4,938,621 such warrants have been granted to lenders. Lenders have security over the shares of the Companyĝs wholly owned subsidiary (which owns its rigs and associated equipment), Imperial Oilfield Services Limited (ñIOSLò) which has no other assets except the drilling rigs and associated equipment. See *Note 11 of the condensed consolidated interim financial statements.*

For details of avenues that the Company is currently pursuing to improve liquidity refer to the ñ*Funding"* section below.

Cash Flows

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

	31 March 2012	**31 March 2011**	**% Change**
Net cash used in operating activities	(3,693)	(5,070)	-27%
Net cash used in investing activities	(1,718)	(16,484)	-90%
Net cash used in financing activities	(1,067)	(262)	307%
Foreign exchange difference	(88)	81	-209%
Decrease in cash and cash equivalents	(6,566)	(21,735)	70%

Operating activities

The reduction in the cash used in operating activities in the three months to March 31, 2012, compared the first three months of 2011 is a result of the higher revenue figures of USD6,487,000 (2011:USD4,480,000) and subsequent settlements.

Investing activities

Delays in increasing the oil production to 4,000 bopd resulted in the cash inflow in the three months to March 31, 2012 being less than was anticipated and as a result some of the planned capital expenditure had to be pushed back a number of months. The amount of capital expenditure incurred in the three months was minimal and significantly less than the same period of 2011.

Financing activities

The funds raised in tranches 2 and 3 of the loan facility (See *Liquidity and Capital Resources* above) were used to repay loans associated with the drilling of a well in Uzbekistan that were due for settlement in the first quarter of 2012.

Capital management

The Companyôs capital structure is comprised of shareholdersô equity and debt.

The Companyôs objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Companyôs commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including ócurrent and non-current borrowingsô as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as óequityô as shown in the consolidated statement of financial position plus net debt.

	March 31, 2012	March 31, 2011
	$	$
Total financial liabilities - borrowings	8,844	7,955
Less: cash and cash equivalents	(4,803)	(57,400)
Net debt / (funds)	4,041	(49,445)
Total equity	231,676	234,522
Total capital	235,717	185,077

The net debt at March 31, 2012 was USD4,041,000 while there was no net debt at March 31, 2011 but the Company has assessed the position and is confident that future cash flows will be sufficient to service this debt and to support ongoing operations. See *Funding* below

Funding

The directors have considered the Companyôs current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements, in concluding whether it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the quarter ended 31 March 2012. The Companyôs activities, together with the factors likely to affect its future development, performance and position are set out in this Management Discussion & Analysis document. The key issues impacting the cash flows of the Company are the increased oil production following the commissioning of the AOT rail terminal, completed in mid-April 2012, and receipt of a USD5 million debt facility from the Companyôs bankers in Kazakhstan. The financial position of the Company, its cash flows and liquidity position are as set out in this Management Discussion & Analysis document on pages 13 to 16. The Company reports a loss for the three months ended March 31, 2012 of USD6.8 million (2011: USD6.3 million). As at April 30, 2012, the Company held cash of USD2.6 million.

Following the commissioning of the AOT rail terminal at Shalkar in mid-April the Company has already seen a significant increase in daily oil shipments. The Company believes that the increased oil sales resulting from the anticipated production levels of 4,000 ï 6,000 bopd, will generate sufficient levels of cash to fund its ongoing activities and its current capital expenditure plans. Completion of this terminal was originally anticipated to be in the fourth quarter of 2011 but due to adverse weather this was delayed to mid-April 2012.

Existing oil trucking operations were also disrupted as a result of severe winter weather conditions in Kazakhstan which reduced the forecast sales revenue and therefore the cash available to the Company. The loans associated with the Uzbekistan NU116 well, drilled in late 2009, were due for settlement in the first quarter of 2012 with USD4.1 million due in January 2012 and USD3.4 million in March 2012. To assist with these commitments, the Company put in place a loan secured against drilling equipment. The total amount of the loan was USD10 million and the first tranche of USD4 million was completed in December 2011, the second tranche of USD3.2 million was completed in February and the final tranche of USD2.8 million was completed in March 2012.

While as stated above, management is confident that, with the increased production levels at 4,000 – 6,000 bopd, the Company will have sufficient funding for its ongoing activities and its current capital expenditure plans, it is aware that because of the reduced level of oil sales in the first four months of 2012 additional funding may be necessary to meet planned outflows. The Company has a number of options with respect to capital expenditure and can defer, delay or cancel several planned capital items. Given the low level of committed capital expenditure, the Directors believe that the Company has sufficient funds but would like to progress other activities if funding allows. For this reason, the Company has been exploring a number of alternative funding arrangements including discussions with the Company's Kazakh bank with regard to a USD5 million loan facility which are very close to being finalized.

The Company is currently adopting a prudent approach to cash management and will proceed with such projects when certain milestones have been met. Discussions have also been initiated with regard to reserve based lending and on other corporate and project related financing options.

With regard to longer term requirements, the Company regularly considers farm-out/farm-in and joint venture opportunities as a means of developing its business and sharing financial and/or commercial risks. As at the date of this report, the Company is in discussions with several parties with regard to a potential farm in and/or joint ventures.

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

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at March 31, 2012 the Company had authorized share capital of 700,000,000 Ordinary Shares of which 286,707,744 (2011: 260,629,769) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

As at the date of this report, May 15, 2012, a total of 34,388,129 (2011: 31,275,572) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at the date of this report, May 15, 2012, is 33,885,000 and the number of warrants outstanding is 6,903,226.

OUTLOOK

The information provided under this heading is considered as forward looking information, as such please refer to *Forward Looking Statements* on page 25 of this MD&A.

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of oil and gas field development projects and long-term high potential exploration projects focused on the Central Asian region. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

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

- fully appraise the Doris and Dione oil field discoveries in the Akkulka Block, Kazakhstan;
- increase production from the Doris field to 5,000 - 6,000 bopd;
- test and evaluate the Kalypso (KBD01) exploration well with the aim of proving the presence of producible hydrocarbons;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- acquire contracts on new existing oil fields and exploration acreage in Uzbekistan;
- complete the final stage of the seismic programme in Tajikistan;
- fully evaluate the Persea well ï future activity may include possible deepening of the well and a production test of the drilled Alai zone;
- further evaluation and testing of the Beshtentak Field in Tajikistan including a plan for further workovers.

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

Kazakhstan Operations Update

On January 30, 2012, the Company announced the official inauguration of its AOT terminal ï a new storage and rail loading facility for its oil shipments from the Doris oilfield. The AOT is owned and operated through a 50:50 joint venture by Tethys and its Kazakh oil trading partnerõs company, Olisol Investment Limited. The facilities were fully completed in Q1 2012 but before commencing commercial operations and to be fully operational the facilities needed to be visited by a Kazakh governmental State Commission which took place in mid-April 2012. The initial plan for the AOT is to enable the Company to increase production to approximately 4,000 bopd. It is planned to expand the capacity of the terminal to more than 12,000 bopd (over a further two phases) to accommodate future potential production growth dependent upon further drilling results, or third party production.

Production from Akkulka area is planned to increase to 5,000 - 6,000 bopd later in the year from the existing drilled wells, and further production increases are expected but are dependent on the results of the appraisal / exploration drilling planned for 2012. Further evaluation of the 3D seismic dataset acquired using state of the art processing and interpretation techniques is revealing the potential for the presence of sand fans in the Cretaceous sandstone sequence and these data are being integrated with the results of the well data to plan future appraisal/exploration well locations in the greater Doris area.

The next appraisal well, AKD07, is expected to spud mid-year 2012 and will be located to the south-east of the original AKD01 discovery well and will target 3P reserves at the Cretaceous Aptian sand level in what is believed to be a channel sand system, whilst simultaneously targeting an exciting exploration prospect (named "Dyna") that has been identified on the new seismic data from a bright amplitude anomaly at a slightly shallower level and is interpreted to be part of a different, larger sand fan system. The prospective resource for this new target will be disclosed after the completion of a new independent Kazakhstan Resource Report, which is due to be issued imminently.

Additional exploration/appraisal prospects have been identified using the newly interpreted 3D and 2D data. This data has led to the identification of a number of other attractive exploration prospects at the Doris reservoir levels and other horizons. All these will be included in the new resource report.

Tajikistan Operations Update

In 2011, Tethys carried out an aeromagnetic graviometry survey over more than half of the Bokhtar PSC Area. The initial analysis of the data from the aerial graviometry survey completed at the end of 2011 has revealed several attractive prospective areas with the potential presence of very large deep sub-salt and sub-thrust prospects within the Bokhtar PSC Area. This area lies within the Afghan-Tajik basin whose extension, the Amu Darya basin contains some of the worldôs largest gas and condensate fields, many located in the sub-salt section. No well has ever been drilled through the salt zone to the pre-salt section in the Tajik part of this basin. It is now planned to acquire additional seismic which will target these areas and provide the final data in a comprehensive programme to optimally locate a deep well. It is expected that this seismic work will commence in the summer with initial interpreted results in Q4 2012. It is also expected that Tethysô large drilling rig ñTelestoò will be mobilized to Tajikistan before the end of this year in order to drill this well.

The seismic programme will involve the acquisition of new 2D seismic data. The programme has been designed to target the areas which the graviometry survey has identified to be the most likely to contain large deep prospects including potential Jurassic reefs located on the edge of likely Permian basement high features as well as significant expected potential in Cretaceous sandstones. Jurassic reefs and Cretaceous sands form some of the most prolific fields in the Amu Darya basin and no wells have ever been drilled through to the Jurassic horizon through the overlying salt layer in Tajikistan to date. The data also reveals significant potential in other parts of the Bokhtar PSC Area..

It is planned to carry out a new resource report in Q2 2012.

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

Further to the problems experienced with the Beshtentak well, BST20, see *Tajikistan Oil Production (Beshtentak field)* above, a water isolation workover is planned which, for low cost, has the potential to increase oil production from that well. Workovers for two or three other Beshtentak wells are also being considered.

The Persea 1 exploration well, located near the town of Kurgon-Teppa in the south-west part of the Bokhtar PSC area, was drilled primarily targeting the Bukhara limestone formation in a four-way dip closed structure with the overlying Alai formation forming a potential secondary target. The well reached a total depth of 2,655 metres and wireline logs show a 50 metre gross zone of possible hydrocarbons within mixed sandstone and carbonate sequence assigned to the Alai formation. The well is being evaluated at present for both deepening to newly interpreted horizons and for future testing, to be carried out on a cash flow prioritised basis with the cost to be financed by internally generated cash flow.

The East Olimtoi EOL09 exploration well reached a total depth of 3,765 metres in the Akdzhar formation in August 2011. The initial results from the raw logs indicated several zones of interest in the Bukhara limestone sequence with potential high oil saturations but testing has shown this reservoir to be unproductive and may require hydraulic fracturing. The Alai formation showed both good oil and gas shows while drilling (with oil and gas to surface) and the electric logs through this interval indicate several hydrocarbon bearing zones with no evidence of any oil-water contact. The well required heavy drilling mud to control the well and it is likely that this has damaged the formation. The well testing programme is planned to be continued in 2012 once specialist equipment is available and operational to stimulate and attempt to establish continual flow of oil from the Alai zone, where oil has been recovered. The EOL 09 well is the first exploration oil discovery in Tajikistan since independence. Future work may involve sidetracking of this well or further appraisal drilling

Uzbekistan Operations Update

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

In November 2011, the Company announced it had signed an MOU with UNG, establishing a programme for Tethys to obtain a new PEC on an existing oilfield in Uzbekistan ï the Chegara Group of fields. Currently the Field Development Plan (FDP) is being finalised after which the Feasibility Study (FS) will be finished with the results of this being inserted into the new PEC which is currently being negotiated with UNG. The Chegara Group of fields is located in the same geographical area as North Urtabulak. The Chegara Group of fields is less developed than North Urtabulak, and Tethys believes that these fields offer significant potential for additional oil production in the short term.

In February 2012, the Company announced it had signed an additional MOU with UNG. The objective of this MOU was to continue providing the framework for a Joint Study and facilitate the negotiation process for an Exploration Agreement relating to certain exploration blocks in the North Ustyurt Basin of Uzbekistan.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited (ñVazonò) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services under a ñnot for profit flow throughò contract from Vazon in the three months ended March 31, 2012 was USD799,581 (March 31, 2011 USD765,362).

Vazon as a Guernsey based company plays, amongst other things, a pivotal role in the obtaining and maintaining of residence licences for senior staff in Guernsey as well as addressing certain regulatory issues.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants (OPC) USA LLC, all of which have one common director with the Company, has charged Tethys for work on projects in Tajikistan, Kazakhstan and Uzbekistan. Total fees for the three months ended March 31, 2012 were nil (December 31, 2011 ï USD11,422). OPC participated in the 2011 loan financing described in *Liquidity and Capital Resources* above, advancing USD200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD15,030. The loan was advanced under the same conditions and terms disclosed in note 11 of the condensed consolidated interim financial statements afforded to non-related parties.

Two officers of the Company participated in the 2011 loan financing described in *Liquidity and Capital Resources* above, for which they received 75,000 and 232,620 warrants valued at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively for a one year term under the same conditions and terms disclosed in note 11 of the condensed consolidated interim financial statements afforded to external parties.

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions.

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

RISKS AND UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2011 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com

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

The Company has identified its principal risks for 2012 to include:

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

Financial Risk Management

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

	Mar 31, 2012	**Mar 31, 2011**
	$	**$**
Trade receivables	1,395	1,310
Cash and cash equivalents	4,803	57,400
Investments	1,116	1,017
Loan receivable from jointly controlled entities	2,000	38,179
	9,314	97,906

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to only one customer during the year. The Company does not believe it is dependent upon this customer for sales due to the nature of gas products and the associated market. The Company's sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At March 31, 2012, the trade receivable balance amounted to USD1,395,000 (2011 ï USD1,310,000), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

Included in the restricted cash balance at March 31, 2012 is USD0.623 million security deposit held by HSBC Bank in support of the hedging arrangement put in place in May 2011 and in support of company credit cards. *See Hedging Arrangement below*.

In Uzbekistan, the Company makes use of three customers where full payment is in US Dollars and is required before delivery of the oil and therefore there is limited exposure to credit risk in this country. In Tajikistan, oil is currently being purchased by two buyers where prepayment in full is also required before delivery.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of the counterparties are banks with high credit ratings (BBB or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Within the Central Asian countries, banks with the international ratings are generally not available.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Companyôs ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at March 31, 2012.

The Companyôs processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorizing project expenditures and ensuring appropriate authorization of contractual agreements. Revenue and expenditure levels, both actual and projected, are reviewed on a regular basis and forecasts updated accordingly. These forecasts enable the Company to identify when additional financing might be needed or expenditure plans adjusted.

The timing of cash outflows relating to financial liabilities and commitments at the reporting date are summarized on page 14 above in *Contractual obligations and liabilities as at March 31, 2012.*

Particularly in the current climate, there can be no assurance that debt or equity financing will be available or sufficient to meet the Companyôs requirements or if debt or equity financing were available, that it would be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material impact on the Companyôs financial condition, timing of activities and results of operations and prospects.

Interest rate risk

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

Because of the current level of deposit interest rates on USD being less than 1%, the Companyôs exposure to interest rate risk on short term deposits is minimal.

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in a number of foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Companyôs cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. A significant portion of expenditures in Kazakhstan are denominated in local currency, the Tenge. There is limited availability in exchange rate derivatives to manage exchange rate risks with this currency.

During the last year, the Company used an exchange rate derivative to manage its risk as a result of the significant exchange rate fluctuation of the USD against GBP but this arrangement is due to terminate at the end of April 2012 and the Company has no current plans for any further hedging arrangements..

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

Hedging arrangement

On May 12, 2011, the Company took out foreign currency hedge contracts to hedge exposure to the USD/GBP exchange rate. The contracts are in the form of a put option to sell US dollars with a strike price of 1.6495, with a clause that if a barrier level in the foreign currency exchange rate of 1.5675 is breached on the date of expiry, the option converts to a forward contract at the strike price of USD1.6495. The fair value of the foreign currency contract was calculated using a valuation technique based on observable market inputs. Should the foreign currency exchange rate on the date of expiry be above the barrier of 1.5675 then no settlement would be required. Should the USD/GBP foreign currency rate be above 1.6495 then the options could be exercised at a gain to the Company.

In this arrangement each month up to and including December 2011, the Company could convert up to USD1 million on a set day each month at the lower of the market rate or a maximum secured rate of USD1.6495. From January to April 2012, the sum involved each month reduced to USD0.75 million. In support of this arrangement, the Company has to hold funds in the form of a security deposit with the bank though the balance required reduces during the period of the hedge. At March 31, 2012, this balance was USD0.15 million.

Foreign currency risk

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. While there are in fact restrictions on repatriation of capital and distribution of earnings from Uzbekistan to foreign entities, the Company has not been affected by this as it is paid for its refined product sales in US Dollars outside of Uzbekistan. There can be no assurance, those restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Soum will continue to be exchangeable into U.S. Dollars or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Soum into U.S. Dollars or Pounds Sterling to meet its foreign currency obligations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as marketability of production and commodity prices.

Marketability of Production

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Companyÿs production could have a material adverse effect on the Companyÿs revenues and financial position.

Commodity price risk

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in oil and/or natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. In Kazakhstan the Company has fixed price gas contracts up to the end of 2012 but its oil contract in Kazakhstan and its refined products in Uzbekistan are subject to commodity price fluctuation and it may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. Beyond 2012 fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for oil and gas prices in the region is good, the recent events in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, there needs to be consideration of production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and as such there are many differing opinions on the cause of recent price changes.

As previously stated production from both the Kyzyloi and Akkulka contracts in Kazakhstan are sold at fixed prices, at least until the end of 2012, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations. In Uzbekistan, the Company sells refined petroleum products on a monthly basis and is consequently also subject to movements in the oil price.

Sensitivities

The price of gas sales from gas produced from the Kyzyloi gas field under the Gas Supply Contract is fixed in US dollars until December 1, 2012 and the Akkulka gas field under the Gas Supply Contract is fixed in US dollars until September, 2012 and consequently there is no sensitivity to currency movements or market movements in the gas price.

The price of oil sales from the Doris discovery planned at 4,000 bopd (Phase 1) due to commence in May 2012 has yet to be agreed and therefore would be sensitive to movements in the market price. On a production level of 4,000 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in the sales revenue of USD1,460,000 per annum.

The sales revenue in Uzbekistan is sensitive to fluctuations in the price of oil. At net production levels of 200 bopd, a movement of USD1 per barrel on the price received by the company would result in a maximum plus or minus movement in the sales revenue of USD73,000 per annum.

Environmental

The Company's operations are subject to environmental, safety and health and sanitary regulations in the jurisdictions in which it operates. Whilst the Company believes that it carries out its activities and operations in material compliance with these environmental, safety and health and sanitary regulations, there can be no guarantee that this is the case. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on a semi-annual basis for information purposes and no payments are applicable. In Tajikistan, the Company is subject to environmental regulation and its activities are subject to inspection by the appropriate authority in that country.

At present, the Company believes that it meets satisfactory environmental standards in all material respects in all of the areas in which it operates, and has included appropriate amounts in its capital expenditure budget to continue to meet its current environmental obligations. However, the discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards (ñIFRSsò) and IFRIC Interpretations issued by the IFRS Interpretations Committee.

Please refer to the annual consolidated financial statements for the year ended December 31, 2011 Note 2 *Summary of Significant Accounting Policies* for details of the Companyôs accounting policies.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of March 31, 2012 which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at March 31, 2012. The Companyôs control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition, where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

Under the supervision of the CEO and the CFO, an evaluation of the effectiveness of internal control over financial reporting based on ñInternal Control ï Integrated Frameworkò issued by the Committee of Sponsoring Organisations of the Treadway Commission was carried out in Q4 of 2011. Based on this evaluation management concluded that the Companyôs internal control over financial reporting was effective as at December 31, 2011. No material weakness relating to the design of the Companyôs system of ICFR or relating to the Companyôs operations as at December 31, 2011 was identified. A similar exercise will be carried out in the course of 2012.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures (DC+P) as that term is defined in NI 52-109. Disclosure controls and procedures have been designed by the Tethys Management, under the supervision of the CEO and CFO, to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Companyôs management as appropriate to allow timely decisions regarding disclosure.

FORWARD-LOOKING STATEMENTS

In the interest of providing Tethysô shareholders and potential investors with information regarding the Company and its subsidiaries, including managementôs assessment of Tethysô and its subsidiariesô future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as ñforward-looking statementsò) within the meaning of the ñsafe harbourò provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as ñanticipateò, ñbelieveò, ñexpectò, ñplanò, ñintendò, ñforecastò, ñtargetò, ñprojectò or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2012 capital investments projections, and the potential source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Companyôs actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Companyôs and its subsidiariesô marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Companyôs and its subsidiariesô ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Companyôs ability to generate sufficient cash flow from operations to meet its current and future obligations; the Companyôs ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Companyôs and its subsidiariesô ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate and terrorist threats; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; future prices for natural gas; future currency and exchange rates; the Companyôs ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business: gas production levels; and the Companyôs ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Companyôs demands. Statements relating to ñreservesò or ñresourcesò or ñresource potentialò are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and except as required by law Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.