TETHYS Petroleum

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2008

March 31, 2009

TABLE OF CONTENTS

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 TAG's exploration licence and contract in respect of the Akkulka Block;

"**Annual Information Form**" means the annual information form of Tethys dated March 31, 2009;

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

"Bokhtar PSC" or "**PSC**" means the production sharing contract entered into between KPL and the Government of Tajikistan, represented by MEI, on June 13, 2008 covering the Bokhtar area of southwest Tajikistan;

"**CanArgo**" means CanArgo Energy Corporation, a US public oil and gas company, listed on both the NYSE Alternext US LLC in New York and the Oslo Stock Exchange in Norway;

"**CDN$**" means Canadian dollars, the lawful currency of Canada;

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

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

"**Contract Area**" means the total net area covered by the Bokhtar PSC, as further described under "*Description of the Business-Tajikistan*";

"**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 the subsidiaries set out herein under the heading "*Corporate Structure*";

"**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 TAG 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 19, 2009 and effective December 31, 2008;

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

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

"**MET**" or "**Mineral Extraction Tax**" means the mineral extraction tax payable to the government of Kazakhstan in respect of oil and gas production in Kazakhstan;

"**NI 52-110**" means National 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;

"**RFCA**" means the special trading floor of the Regional Financial Centre Almaty operated by the Kazakhstan Stock Exchange JSC;

"**Somoni**" means Tajik Somoni, the lawful currency of Tajikistan;

"**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;

"**TAG**" means TethysAralGaz LLP (formally known as BN Munai LLP), a limited liability partnership registered in Kazakhstan in which the Company, through TKL, has a 100% interest;

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

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

"**Tethyda**" means Tethyda Limited, a company registered in Cyprus and wholly owned subsidiary of the Company;

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

"**TPI**" means Tethys Petroleum Incorporated, a wholly owned subsidiary of the Company;

"**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;

“**TSTL**” means Tethys Services Tajikistan Limited, a wholly owned subsidiary of TTL;

“**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;

“**U.S. GAAP**” means U.S. generally accepted accounting principles;

“**Uzbekistan**” means the Republic of Uzbekistan;

“**VAT**” means value added tax;

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

“$” means U.S. dollars, the lawful currency of the United States of America; and

“**£**” means British pounds sterling.

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;

"**Albian**" means a geological stage of the Cretaceous period from 112.0 to 99.6 million years ago;

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

"**Aptian**" means a geological stage of the Cretaceous period from 125.0 to 112.0 million years ago;

"**atm**" means atmospheres, a measurement of pressure equivalent to 102.667 kilopascals;

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

"Barremian" means a geological stage of the Cretaceous period from 130.0 to 125.0 million years ago;

"**bbl**" means barrel;

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

"**Bcfpd**" means billion cubic feet per day;

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

"**Bcmpd**" means billion cubic metres per day;

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

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

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

"**Cenomanian**" means a geological stage of the Cretaceous period from 99.6 to 93.5 million years ago;

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

"**cf**" means cubic feet;

"**cm**" means cubic metres;

"**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 (Petroleum Society), as amended from time to time;

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

"**°C**" means degrees, Celsius;

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

“**Eocene**” means the geological epoch from 55.8 to 33.9 million years ago within the Paleogene system of the Cenozoic era, 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 MET, 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;

“**Hauterivian**” means a geological stage of the Cretaceous period from 136.4 to 130 million years ago;

“**hp**” means horsepower;

“**Jurassic**” means the geological period from 199.6 to 145.5 million years ago;

“**kW**” means kilowatt;

“**km**” means kilometre;

“**km^2**” means square kilometres;

“**Kyzyloi Sandstones**” or “**Kyzyloi Sand**” 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 U.S. dollars;

“**Mbbl**” means thousands of barrels;

“**MBOE**” means thousand barrels of oil equivalent;

“**Mcf**” means thousand cubic feet;

“**Mcfpd**” means thousand cubic feet per day;

“**Mcm**” means thousand of cubic metres;

“**Mcmpd**” 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 U.S. dollars;

“**MMbbl**” means million barrels;

“**MMBOE**” means million barrels of oil equivalent;

“**MMcf**” means million cubic feet;

“**MMcfpd**” means million cubic feet per day;

“**MMcm**” means million cubic metres;

“**MMcmpd**” means million cubic metres per day;

“**Neogene**” means a geological period of the Cenozoic era, from 23.03 to 5.33 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 amounts payable in respect of the Mineral Extraction Tax;

(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 period, from 65.5 to 61.7 million years ago, immediately after the Cretaceous period;

“**Paleogene**” means the geological period from 65.5 to 23 million years ago;

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

“**Permian**” means the geological period from 299 to 251 million years ago and it is the last period of the Paleozoic era;

“**PNN logging**” means pulsed neutron-neutron logging, a modern wireline logging technique which can be used in cased hole and subject to interpretation may indicate the presence of hydrocarbons;

“**psi**” means pounds per square inch, a measure of pressure and equivalent to 0.068 atm;

“**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 or Tasaran Sand**” 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; and

“**Triassic**” means the geological period from 251 to 199.6 million years ago.

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*”. Unless otherwise stated, all gas and oil volumes are expressed as at standard conditions of temperature and pressure (temperature = 15 °C and pressure = 1 atm).

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 BOE basis, natural gas volumes have been converted to oil equivalence at 6 Mcf:l bbl. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:l bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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.

While the Company reports its results of operations in U.S. dollars, its expenditures are paid and its income earned to a significant extent in foreign currencies. Moreover, the Ordinary Shares of the Company are listed on the TSX and trade in Canadian dollars. Set out below is certain 2008 exchange rate data for the Tenge, Somoni, Pound Sterling and Canadian dollar relative to the U.S. dollar.

Canadian Dollar:

Highest rate in 2008: $1 = CDN$0.9711
Lowest rate in 2008: $1 = CDN$1.3008
Rate as of December 31, 2008: $1 = CDN$1.2246

Source: Bank of Canada

British Pound Sterling:

Highest rate in 2008: $1 = £0.4924
Lowest rate in 2008: $1 = £0.6956
Rate as of December 31, 2008: $1 = £0.69560

Source: Bank of England

Kazakhstan Tenge:

Highest rate in 2008: $1 = 119.48 Tenge
Lowest rate in 2009: $1 = 120.85 Tenge
Rate as of December 31, 2008: $1 = 120.77 Tenge

Source: National Bank of Kazakhstan

Tajikistan Somoni:

Highest rate in 2008: $1 = 3.3997 Somonis
Lowest rate in 2008: $1 = 3.4649 Somonis
Rate as of December 31, 2008: $1 = 3.4519 Somonis

Source: National Bank of Tajikistan

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
cm	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
atm	psi	14.697

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements or information (collectively, "**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 this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form. In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the quantity of reserves and resources;
- oil and natural gas production levels;
- capital expenditure programs;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- access to existing pipelines;
- the quantum of, and future net revenues from, natural gas and natural gas liquids reserves;
- expectations regarding the Company's ability to raise capital and to add to reserves through acquisitions and development;
- future acquisitions, including the expected acquisition of the shares of a subsidiary of Rosehill Energy plc; and
- treatment under government regulatory and taxation regimes.

With respect to forward looking statements contained in this Annual Information Form, the Company has made assumptions regarding, among other things:

- the continued existence and operation of existing pipelines;
- future prices for natural gas and natural gas liquids;
- future currency and exchange rates;
- the Company's ability to generate sufficient cash flow from operations and access capital markets to meet its future obligations;
- the regulatory framework representing royalties, taxes and environmental matters in the countries in which the Company conducts its business;
- gas production levels; and
- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

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;
- the need to obtain required approvals and permits from regulatory authorities;
- general economic conditions in the countries in which the Company operates;
- changes to royalty regimes and government regulations regarding royalty payments;

- risks associated with exploring for, developing, producing, processing, storing and transporting natural gas;
- unavailability of required equipment and services;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- changes in government regulations; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described herein can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. 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.

CORPORATE STRUCTURE

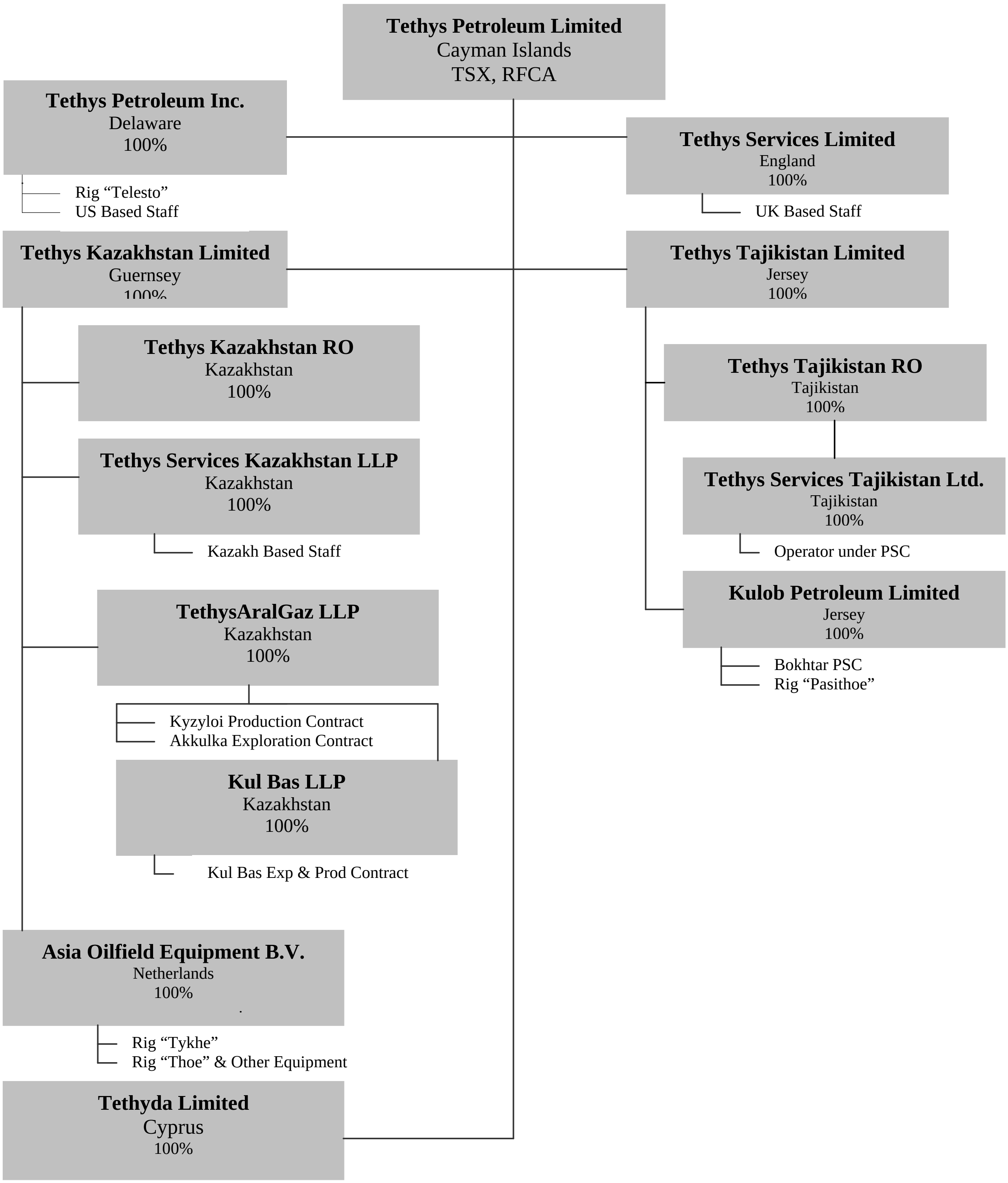
Name, Address and Incorporation

The Company was incorporated under the name "Tethys Petroleum Investments Limited" pursuant to the laws of Guernsey on August 12, 2003. On September 22, 2006, the Company changed its name to "Tethys Petroleum Limited". The Company was continued under the laws of the Cayman Islands on July 17, 2008.

The Company's registered office is located at Queensgate House, South Church Street, P.O. Box 1234, Grand Cayman, KY1-1108, Cayman Islands. The Company's principal executive office is at P.O. Box 524, St. Peter Port, Guernsey, GY1 5EL, British Isles.

Intercorporate Relationships

The corporate ownership structure of Tethys and its principal subsidiaries (including the jurisdiction of incorporation and current percentage ownership (voting and equity) by Tethys or a subsidiary) 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 and has entered into an agreement to potentially acquire a project in Uzbekistan.

Tethys was incorporated in Guernsey on August 12, 2003, specifically to hold certain interests of CanArgo in Central Asia. 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.

On January 24, 2007, Tethys completed a private placement whereby it issued 34,674,390 Pre-Consolidation Ordinary Shares (or 6,934,378 Ordinary Shares after giving effect to the Share Consolidation) 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 TAG for Tethys, through its wholly-owned subsidiary TKL, to acquire the 30% of TAG 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 TAG 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. The Ordinary Shares are listed on the TSX under the symbol "TPL".

IPO Until the End of 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 between TAG and the gas trading company GazImpex in January 2006 (the "**Kazakh Gas Supply Contract**"). This contract relates to up to 30 Bcf (850 MMcm) of gas from the Kyzyloi Field, or to gas delivered from the Kyzyloi Field until December 1, 2012 (whichever is the earlier), and was assigned 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 $0.90 per Mcf ($32 per Mcm) excluding VAT or $1.02 per Mcf ($35.84 per Mcm) including VAT at the current 12% rate. 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 an agreement to take a partner in its current projects in Tajikistan. Under the agreement, Tethys, through TTL, and private investment company Sangam Limited ("**Sangam**") would form a joint company named "Seven Stars Energy Corporation" ("**SSEC**") owned and funded 51% by TTL and 49% by Sangam. SSEC was to be the vehicle through which TTL would negotiate and conclude the planned PSC for the Bokhtar Area and TTL would assign its rights to previous agreements in Tajikistan to SSEC. The agreement would become effective subject to certain conditions precedent being met. These conditions have not yet been met and as such the agreement is not yet in effect.

2008 and 2009 to Date

On March 19, 2008, the Company announced that TPI had secured loan financing from a group of accredited investors in the amount of $5.3 million to fund the purchase of a new ZJ70 drilling rig (subsequently named Rig "Telesto") from a Chinese factory for use on the Company's projects.

On March 28, 2008 the Company announced that its Ordinary Shares had been approved for listing on the Official List of the Regional Financial Center of Almaty Special Trading Floor (the "**RFCA**") operated by the Kazakhstan Stock Exchange JSC. This listing is secondary to the Company's primary listing on the TSX. To date no shares have traded on this secondary market pending the implementation of a settlement process.

On June 13, 2008, the Company's wholly-owned subsidiary KPL entered into the Bokhtar PSC with the Government of Tajikistan, represented by the MEI (collectively, the "**Tajik State**"). The PSC gives KPL the exclusive right, as contractor under the PSC, to conduct oil and gas operations in the Contract Area (as defined herein) during the term of the PSC and to receive the Company's share of production from the Contract Area.

On June 27, 2008, the Company completed a public offering of 21,276,596 Ordinary Shares at an offering price of $2.35 (CDN$2.39) per share for gross proceeds of $50,000,000.

Following the expiry of the August 1, 2008 negotiation period, the Company decided for commercial reasons not to proceed with the negotiations for the acquisition of the Rostoshinkoe gas discovery in Kazakhstan, in respect of which it entered into a memorandum of understanding in April 2008.

On January 9, 2009, the Company completed the purchase of a second drilling rig (this being a ZJ30 unit and subsequently named Rig "**Tykhe**"). The purchase price of this second rig was part-financed through a $2 million loan financing from a group of accredited investors.

On January 16, 2009, KPL signed a one year initial gas sales contract with OJSC Kulyabgaz to supply up to 65 Mcmpd (2.3 MMcfpd) of gas to the town of Kulob in Southern Tajikistan at a fixed price of 300 Somoni per Mcm of gas ($86 per Mcm or $2.44 per Mcf using the exchange rate at that time) (the "**Tajik Gas Supply Contract**").

On January 21, 2009, the Company also acquired a coiled tubing workover unit and paid part of the acquisition price by issuing 1.4 million Ordinary Shares.

On February 27, 2009, the Company announced that the Company and its subsidiary, Tethyda, had signed an agreement, which is subject to certain regulatory requirements, corporate approvals and additional conditions, to acquire from the British company, Rosehill Energy plc ("**Rosehill**"), its wholly-owned subsidiary which holds Rosehill's entire interest in the Production Enhancement Contract ("**PEC**") for the North Urtabulak Oil Field in Uzbekistan (the "**Proposed Acquisition**"). The consideration for the purchase of this project is 15 million Ordinary Shares. Pursuant to the terms of the agreement, these shares will be restricted for resale for a period of up to one year. At the date of this AIF, the Proposed Acquisition has not yet been completed.

DESCRIPTION OF THE BUSINESS

General

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. In addition, the Company has agreed to acquire a project in Uzbekistan (see "*General Development of the Business – Company History – 2008 and 2009 to Date*"). In Kazakhstan, the Company's assets are presently located in three contiguous blocks in an area 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 west 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. In Uzbekistan, the project which the Company has agreed to acquire pursuant to the Proposed Acquisition, lies in the Amu-Darya basin.

Tethys' objective is to build a diversified oil and gas exploration and production company with a mix of short-term cash flow and development potential focused on Central Asia in areas with substantial oil and gas potential.

Overview of Properties

In Kazakhstan, the Company owns its current interests through TAG, a wholly owned Kazakh limited liability partnership. 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), producing from the Kyzyloi sand reservoir. TAG also has a 100% interest in the surrounding Akkulka Exploration Licence and Contract area (also known officially as "Akkulkovskoe", 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 66.64 Bcf (1.89Bcm) of natural gas in the Kyzyloi Field and the Akkulka Block as at December 31, 2008. The Kyzyloi Field commenced production on December 19, 2007. See "*Statement of Reserves Data and Other Oil and Gas Information*". Tethys constructed 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 at km910 on that trunkline (known as the "**BCS**") 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. During 2008, Tethys worked over two further wells on the Kyzyloi Field (G12 and G16) and has now brought these wells on production as part of the development of the Kyzyloi Field.

Some of the shallow gas discoveries made at Kyzyloi sand level in the central part of the Akkulka Block ("**Central Akkulka**") are currently in the process of being brought into production as what is referred to as "Phase 2" of the Kyzyloi / Akkulka shallow gas development. Initially wells AKK04, 09, 11 and 13 are expected to be brought on production in the second quarter of 2009 with AKK12 expected to follow later in the year. Further work is planned to bring onstream the deeper Tasaran Sand gas reservoir discovered in wells AKK14 and AKK15, and on other Kyzyloi Sand pools, namely South-East Akkulka (AKK16), North Akkulka (AKK05) and North West Akkulka (AKK08 and AKK10) over the next year to eighteen months.

In Tajikistan, the Company, through KPL, has concluded the Bokhtar PSC which covers an area of some 8.6 million acres (approximately 35,000 km^2). This PSC is for a term of 25 years of a large highly prospective region which previously produced oil and gas. The Contract Area includes the Khatlon Region and the area around the capital city, Dushanbe, and includes more than 50 different prospective structures which have already been identified in the area by Tajik Geology.

Tethys believes that the Contract Area has considerable potential for oil and gas condensate. The area includes almost the entire Tajik portion of the Afghan-Tajik basin, an extension of the prolific Amu Darya basin which contains giant and supergiant gas and gas condensate fields in nearby Turkmenistan and Uzbekistan. A hydrocarbon system exists in the Contract Area but only limited exploration has taken place in the past. Several reservoir horizons are present and both sweet light oil and gas condensate has been produced. Salt tectonics dominate the southern part of the area where numerous salt domes provide the potential for substantial hydrocarbon traps. The Contract Area includes several oil and gas condensate discoveries and KPL will carry out both appraisal and rehabilitation of these deposits as well as exploration for new targets. The rehabilitation activities are aimed at establishing early cash flow whilst exploring for high potential deeper prospects. The first work has been carried out on the Komsomolsk Field near Dushanbe and the Khoja Sartez Field near Kulob with gas being tested from both fields. Limited commercial production of gas has already commenced from Khoja Sartez and further work is planned for these fields and for the Beshtentak oilfield. In addition, a seismic acquisition program has commenced.

Overview of Land Holdings

The following table summarizes the Company's principal properties in Kazakhstan and Tajikistan (and the percentage interest of the Company therein):

Property	Basin	Gross Acreage [km^2]	Expiry Date (assuming no extensions)
Kazakhstan			
Production Contracts (100%)			
The Kyzyloi Field Licence and Production Contract	North Ustyurt	70,967 [287.2]	June 2014
Exploration Contracts (100%)			
The Akkulka Exploration Licence and Contract	North Ustyurt	341,121 [1,380.5]	September 2009
The Kul-Bas Exploration and Production Contract (1)	North Ustyurt	2,095,450 [8,480.2]	November 2030
Tajikistan			
Bokhtar PSC (currently 100%)**(2)**	Afghan-Tajik Basin	8,586,899 [34,750.7]	June 2033
Total Acreage		**11,094,437**	
Total km^2		**44,898.6**	

Notes:

(1) Following the first contractual relinquishment in 2007, confirmed by the Kazakh authorities in December 2008

(2) Under previous agreements relating to SSEC, up to 49% of this interest may be allocated to Sangam

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 1.490 MMbopd of oil and 2.6 Bcfpd (73.6 MMcmpd) 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.

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 TAG on May 15, 2001. The contract was entered into between the MEMR and TAG 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 TKL 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, TAG 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. To date, TAG has reimbursed the government $303,764 in respect of the Kyzyloi Field. In addition, TAG pays a royalty of 2% of production. All work commitments under the contract have been met.

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[1] Source: *BP Statistical Review of World Energy, 2007*

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 MMcfpd (1,840 Mcmpd). These wells form the basis for the initial development of the Kyzyloi Field. The Company has successfully worked over two additional old exploration wells on the field with the G12 and G16 wells currently on production and with the Kazakhgas drilled well KYZ109 currently reserved to provide additional flow potential later in field development.

Kyzyloi is Tethys' first producing field, currently producing gas at a sales gas rate of approximately 20 MMcfpd (566 Mcmpd). 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 which is the home of one of the largest underground gas storage ("**UGS**") facilities in Kazakhstan. According to the McDaniel Reserve Report, effective December 31, 2008, total Reserves in the Kyzyloi Field (Proved plus Probable plus Possible) net to the Company's interest are 48.6 Bcf (1.38 Bcm) with Proved plus Probable Reserves being 40.3 Bcf (1.14 Bcm) and Proved Reserves being 26.9 Bcf (0.76 Bcm). Gas is currently being produced from eight wells (KYZ 102,103,104,105,106,107, G12 and G16 - a ninth well KYZ109 is held in reserve) which flow gas into Tethys' 35 mile (56 km) pipeline which carries the gas to the BCS, 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. Two additional reciprocating compressors are being installed at the BCS taking total installed power to 2,615 hp (1,950 kW). This is the current 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 and forms part of the transcontinental Central Asia to Russia and Europe gas transportation network.

The initial production is being sold under the Kazakh Gas Supply Contract with PCK who utilise the gas in the domestic Kazakh market. This contract relates to up to 30 Bcf (850 MMcm) of gas from the Kyzyloi Field, or to gas delivered from the Kyzyloi Field until December 1, 2012 (whichever is the earlier. The contract price is $0.90 per Mcf ($32 per Mcm) excluding VAT or $1.02 per Mcf ($35.84 per Mcm) including VAT at the current 12% rate. The Company has the ability to offset VAT levied on the sale of gas from the Kyzyloi project against VAT costs incurred by TAG 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 TAG on September 17, 1998. The contract initially granted TAG exploration rights for a period of five years, however it has been extended and is currently in effect until September 17, 2009. See "*Risk Factors*". 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 $14,780,000 over the initial five-year term. Although only $13,200,000 was spent by September 2003, TAG 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 17, 2009. Under the latest extension to the contract, TAG has committed to spending an additional $1,850,000 for the period of September 18, 2007 to September 17, 2009. TAG has now applied for a production contract for certain discoveries made within the Akkulka Block.

Royalties were anticipated to fall in the range of 2% to 6% under the Akkulka Exploration Licence and Contract with the rate to be set thirty days before the commencement of production and being dependent on the level of reserves. With the introduction of the new Kazakh tax regime in 2009, the Akkulka contract may now be subject to the Mineral Extraction Tax ("**MET**") rather than royalty, with no royalty payable. MET is expected to be 0.5% of revenue for domestic sales and 10% for exports. Furthermore, on commencement of commercial production, payments totalling $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, TAG must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration. TAG 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.

<u>Akkulka Block</u>

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 TAG'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*
AKK14	Central Akkulka	7.5 MMcfpd (212 Mcmpd) gas from Tasaran horizon and 5.3 MMcfpd (150 Mcmpd) gas from the Kyzyloi horizon	*Central Akkulka discovery well in both Kyzyloi and Tasaran horizons*
AKK15	North-East Central Akkulka	6.9 MMcfpd (195 Mcmpd) gas	*North-East Central Akkulka discovery well, Tasaran horizon*
AKK16	South-East Central Akkulka	10.2 MMcfpd (289 Mcmpd)	*South-East Central Akkulka discovery well, Kyzyloi horizon*

According to the McDaniel Reserve Report, effective December 31, 2008 total Reserves in the Akkulka Block (Proved plus Probable plus Possible) net to the Company's interest are 38.8 Bcf (1.10 Bcm) with Proved plus Probable Reserves being 26.3 Bcf (0.75 Bcm) and Proved Reserves being 14.0 Bcf (0.40 Bcm). Development of these reserves by expansion of the Kyzyloi gas development program with these reserves began in 2008 with the tieing into the existing Kyzyloi export infrastructure the Central Akkulka wells and with the installation of an additional 1,046hp (780kW) of compression at the BCS to significantly increase overall gas production (termed "**Phase 2**"). This is expected to be completed in the second quarter of 2009.

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 (the "**2007 Resource Report**"), which has not been updated since that date, gave mean unrisked prospective resources of 121.0 Bcf (3.41 Bcm) or 12.70 Bcf (0.358 Bcm) risked, for identified shallow gas prospects in the Akkulka Block. Since April 2007, four prospects identified in that report have been drilled to date: AKK-PAL-01 and AKK-PAL-02 were drilled and tested in 2008 by AKK15 and AKK16 respectively. Pre-drill resource estimates were 5.734 Bcf (0.162 Bcm) and 1.605 Bcf (0.04 Bcm) on a mean unrisked and 0.929 Bcf (0.026 Bcm) and 0.260 Bcf (0.007 Bcm) on a mean risked basis, respectively. The combined total gross-to-company Proved plus Probable Reserves at December 31, 2008 for the two upgraded prospects is 7.99 Bcf (0.226 Bcm) comprising SE Central Akkulka (formerly known as AKK-PAL-01) and NE Central Akkulka (formerly referred to as AKK-PAL-02). It should be noted that well AKK14 was drilled on a prospect not identified in the 2007 Resource Report but located from Tethys' own work using advanced processing techniques applied to the seismic and well data together with information from other sources such as vertical seismic profiles. Prospects and leads have been primarily at Kyzyloi sand level but more recently these have been identified at the slightly deeper level of the Tasaran sand following the success of the AKK14 and 15 wells.

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 around the Akkulka high and especially 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. mid - 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 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 were not penetrated by wells on the Akkulka high because of erosion or non-deposition, regionally contains a number of potential reservoir levels. The sections become 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 and the first deep well on the Akkulka block spudded late in 2008 (well AKDO1) using the Company's ZJ70 rig Telesto. 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 11,480 ft (3,500 m) and the exploration target can be regarded as substantially larger than the shallow targets but with commensurately higher risks. As of the date hereof, the 13 3/8^{ths} casing of the well has been set and cemented and the Company has temporarily halted operations whilst working with the Chinese drilling supplier to formulate effective solutions for any technical and quality control issues prior to recommencing drilling.

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 was made in November 2007 and was confirmed by the Kazakh authorities on December 21, 2008. As a result, the block is now effectively 2,009,540 acres (8,480 km^2). However, in order to allow the Company time to effectively explore the block an application was made by the Company to reduce and/or extend the relinquishments on the block. This application was granted by the Kazakh State in February 2009. In effect, the relinquishments will now be added to the Contract as an amendment where 20% is relinquished by the end of Year 2 (completed), 0% in Year 3 (2008), 10% by the end of Year 4 (2009), 20% by the end of the fifth contract year and all remaining territories, outside commercial discovery areas, by the end the of the sixth year.

The work program on this area amounts to a total of approximately $7,700,000 over the initial six-year exploration period. As at December 31, 2008, $5,152,500 has been spent on work commitments under the contract, this being approximately 30% more than required during the period largely due to acquiring additional seismic data. This contract is likely to be subject to MET which is expected to be 0.5% of revenue for domestic sales or 10% of revenue for export sales. 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 KazGeCo who conducted a total of 334 line miles (535 line km) 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 which began in the second quarter of 2008.

The improved data quality from the 2007 seismic survey was used in a new AVO inversion study in 2008 to tie in the gas wells of Akkulka and Kyzyloi to new shallow exploration leads in Kul-Bas with the aim of minimizing exploration risk pre drill.

Well KUL01 was drilled on resource prospect KUL-PAL-07 and reached a total depth of 1,942 ft (593 m) in May 2008. Gas shows were noted during drilling and logging and several zones were tested. The lower intervals were tested over 2 zones in a net 46 ft (14 m) interval from 1,381 to 1,502 ft (417 – 458 m) but no gas was found. The well was then perforated over a 16 ft (5 m) interval from 1,154 to 1,178 ft (353 – 358 m) and tested gas up to 1.9 MMcfpd (54 Mcmpd) on a 40/64ths of an inch (16 mm) choke. Since that time the well has been suspended pending further assessment.

Well KUL02 was drilled on resource prospect KUL-PAL-01 and reached a total depth of 2,539 ft (774 m) in September 2008. Gas shows were noted during drilling and on the electric logs but perforations at several intervals from the Lower Tasaran and all the way up to a zone analogous to the Kyzyloi horizon were perforated but the zones were either dry or water bearing. The well has now been suspended pending further assessment and might be used for downhole vertical seismic profile studies in 2009.

Well KUL03 was drilled on resource prospect KUL-PAL-03 and reached a total depth of 2,162 ft (659 m) in November 2008. Gas indications from wireline logging were noted over the primary, Lower Paleogene target however on test the 33 ft (10 m) interval from 1,811 – 1,844 ft (552 – 562 m) produced minor amounts of formation water from a zone interpreted to be a tight, carbonate cemented sandstone. The well has now been suspended pending further assessment and might be used for both downhole vertical seismic profile studies and possible well stimulation techniques to increase production from such tight sands, dependent on economic conditions.

To locate future wells and minimise exploration risks across the Kul-Bas acreage the extensive but older JNOC dataset was purchased in 2008 and approximately 1,250 line miles (2,000 line km) is now being 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 / 48 Bcm) (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 began to reprocess approximately 1,250 line miles (2,000 line km) of the extensive older JNOC seismic dataset late in 2008, both to firm-up shallow gas prospects and to highlight deeper plays seen in the Triassic and Carboniferous. The Company currently plans to drill a 13,120 ft (4,000 m) well in 2010 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 central part of the Block in 1998, but the prospect does not appear to have a valid closure. The Company intends to finish this re-processing and interpretation during the second quarter of 2009 with a view to identifying new prospects at both shallow and deep levels.

The 2007 seismic data specifically in-filled 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 under the terms of the Kul-Bas licence. The 2008 work program consisted of $3,030,000 of capital expenditure and involved the drilling of three shallow wells, this was completed with wells KUL01-03. Actual expenditures exceeded slightly the minimum work program. In 2009, the Company has a minimum commitment of $485,000 which is outlined for new seismic works, most likely to involve detailing the leads and prospects that are expected to be identified in the JNOC re-processing.

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) were estimated in April 2007 for these prospects by McDaniel in the 2007 Resource Report.

The 2007 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 2007 Resource Report has not been updated to account for any new information acquired since that time.

Tajikistan

Overview

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 but also has extensive farmed valleys and hills. Oil was first discovered in 1909 in the Fergana valley in the north of the country but exploration and development of oil and gas was limited throughout the Soviet period. By 1996, further lack of investment and a civil war which broke out in Tajikistan in 1992 following the collapse of the Soviet Union and which lasted until 1997, resulted in oil production falling to approximately 600 bopd and gas production falling to approximately 4 MMcfpd (113 Mcmpd) (Source: *World Energy Council Report (2005)*). The oil and gas industry has suffered from extreme under-investment in Tajikistan and basic modern oilfield equipment is lacking, with drilling rigs and other equipment being of 1960s-1970s vintage. As a result, there are very few exploration activities currently being undertaken in Tajikistan.

In Tajikistan, the Company, through KPL, concluded in June 2008 the Bokhtar PSC which covers an area of some 8.6 million acres (approximately 35,000 km^2). The PSC is for a term of 25 years for a large highly prospective region which has existing oil and gas. The Contract Area includes the Khatlon Region and the area around the capital city, Dushanbe, and includes more than 50 different prospective structures which have already been identified in the area by Tajik Geology.

Exploration and Appraisal Potential

The Contract Area under the Bokhtar PSC lies within the Afghan-Tajik basin, the eastward extension of the prolific Amu Darya basin of Turkmenistan and Uzbekistan. The Amu Darya basin is primarily natural gas prone (although with some significant oil fields) and contains some super-giant natural gas and condensate fields such as the Dauletabad field in Turkmenistan (reported to have had initial estimated recoverable natural gas reserves of approximately 60 Tcf (1.7 Tcm)[1] and other super-giant fields. Gaffney Cline & Associates ("**GCA**"), the UK reserve audit firm who carried out a reserve assessment on the South Yolotan field in the Turkmenistan portion of the Amu Darya basin have concluded that the South-Yolotan field may be the fifth or fourth largest in the world.[2]

The principal hydrocarbon bearing sedimentary section of the Afghan-Tajik basin lies from the Jurassic to the Paleogene, marine carbonates and clastic rocks. The latter post salt section is well developed in the Tajik part of the basin, where the Paleocene-Bukhara formation limestones form an important oil and gas reservoir. The initial regional geological review carried out by Tethys suggests that there is potential for large structures especially sub salt in the Bokhtar area, possibly containing both oil and natural gas. Reservoir rocks are present, as are mature source rocks. The area has significant structuring, both tectonic and through active salt movement ("**halokinesis**"), and potentially attractive prospects should occur in both the sub-salt and post-salt section. The Company believes that the area is under-explored and that it has a very real potential for significant oil and gas deposits, although some of these structures are expected to be at substantial depths.

Existing conventional oil company data in the area consisted of mainly elderly Soviet-era geological maps, well logs and limited seismic data. The first phase of the Company's work on the area is focused on development of existing

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[1] *Source: USGS Bulletin 2210-H*
[2] *Jim Gillet, GCA Manager in interview on Turkmen State News Agency, October 2008*

gas and oil deposits, and on an active exploration work program; with exploration drilling based on modern studies planned to start in 2010 and the first partial relinquishment due in 2015. The exploration potential of this large part of the Afghan-Tajik basin, as referenced above, is significant, particularly in the deeper undrilled pre salt levels which have analogues as quoted in Turkmenistan and Uzbekistan. In 2008 and 2009, the Company has begun a program of geological and geophysical studies and the acquisition of up to 625 miles (1,000 km) of deep penetrating (to 22,966 ft (7,000m)) seismic data to map this potential, first regionally and then to detail drillable prospects at both pre and post-salt levels. In addition, Tajik specialists had worked up a prospect at East Olimtoi in the south of the Contract Area, on the flank of a salt swell, and a Soviet-era UralMash rig was already erected and has been active on the site. The well is currently at a depth of 6,713 ft (2,046 m). The Company has agreed to take over drilling operations from the Tajikistan State company in the second quarter of 2009. There are other similar salt swell flank prospects to be explored nearby which will be one of the the first subjects of the new deep seismic survey.

Tajik Market

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

In early March 2007, the Tajikistan government introduced production sharing legislation (the "**Production Sharing Law**"), which established the framework for production sharing in mineral extraction, with the investor providing the capital for the venture and with the product being split between the investor and the government of Tajikistan. Pursuant to the Production Sharing Law, the maximum level of cost recovery shall not exceed 70% of production, however, the law gives significant flexibility to the negotiation of commercial terms between an investor and the government of Tajikistan in any production sharing contract. For instance, an investor has the right to export their production, and to utilise government owned infrastructure. Furthermore, the Production Sharing Law also provides for contract stability and for protection of investor rights.

There is currently little foreign investment in the Tajik oil and gas sector, however, the current and more stable political situation together with the recently adopted Production Sharing Law may open up the market. In early 2007, the Russian gas company RAO GazProm ("**GazProm**") was granted a licence to explore and develop the Sargazon gas field (estimated recoverable 1.06 Tcf (30 Bcm)) and the Rengan gas field (estimated recoverable 1.24 Tcf (35 Bcm)) in southern Tajikistan[3]. According to GazProm, Tajikistan's total oil and gas deposits are estimated at 106 Tcf (3 Tcm) of natural gas.[4] The Russian President Dmitry A. Medvedev has publically stated that *"If we work, in 2-2.5 years time Tajikistan would have its own gas"* and added that the country may even export it[5]. Tethys believes it is one of the first western companies to progress an oil and gas exploration and production project in the country.

The MEI estimates Tajikistan hydrocarbon reserves to be some 285 MMbbl and 30 Tcf (852 Bcf) cubic metres of natural gas[6], however as current oil production in Tajikistan is small, the infrastructure is under-developed. Current oil production in the south is refined at small local topping plants, while in the north, there is access to the refineries in the Fergana valley which are reported to have a capacity of some 170,000 bopd. Rail routes exist from the Kulob area through both Dushanbe and Qurghonteppa into the Uzbek rail network, and extend into the overall Central

[3] *Alexander's Oil and Gas Connections, January 1, 2007*
[4] RIA Novosti, June 10, 2008
[5] *Millot Newspaper, Issue 39 (160), September 25, 2008*
[6] *FSU Oil and Gas Monitor, August 20, 2008*

Asian rail complex. Oil discovered in the Kulob area would likely be transported initially by rail to either the Fergana refineries or the recently refurbished refinery located at Bukhara in Uzbekistan.

With regard to natural gas, the infrastructure is somewhat better developed. Tajikistan is connected to the Central Asia gas grid and currently receives the majority of its gas through this grid. Prior to independence, Tajikistan consumed approximately 200 MMcfpd (5.66 MMcmpd) of gas. However, with the economic decline which occurred during and after a civil war that followed the break-up of the Soviet Union, the current consumption is presently much lower at approximately 116 MMcfpd (3.29 MMcmpd)[7]. Industry is the major user and with access to domestically produced gas, the Company expects consumption to increase. Major users include the Tadaz aluminium plant, the Azot fertilizer plant and the Tojikcement cement production factory. Currently most natural gas is imported from Uzbekistan which is reported to currently charge a price of $6.80 per Mcf ($240 per Mcm)[8]. In the event of a large gas discovery, possible export options would include export through the Central Asian system into Uzbekistan and continuing either through one of the major trans-regional pipeline systems such as Bukhara-Urals or Central Asia centre and into the Russian-European export system. Alternatively, gas could be routed through the Tashkent-Bishkek-Almaty system, or the Petrochina pipeline system from Turkmenistan into Kazakhstan and potentially onwards into the Chinese market. The Company expects that following either option through Kazakhstan would potentially further develop Tethys' niche in the rapidly growing Kazakhstan natural gas market and would open further opportunities for the development of its business. An additional alternative route for exporting a substantial amount of gas may be the planned "Nabucco" system across the Caspian Sea into Europe or the Trans-Afghan pipeline which, if completed, will take Central Asian gas to Pakistan and India.[9]

In Tajikistan, most of the Khatlon Region and the area around the capital city Dushanbe in the southwest of the country are subject to the PSC. Prior to entering into the PSC, the Company entered into the Protocol of Intent in January 2007, which gave Tethys the exclusive right to negotiate a production sharing contract in respect of the Bokhtar area. In early March 2007, the Tajikistan government introduced the Production Sharing Law which laid the fiscal and commercial framework for the PSC. As a precursor to the PSC, TTL signed an investment and operating agreement (the "**IOA**") relating to oil and gas fields in Southern Tajikistan in September 2007 with Southern Oil and Gas Exploration State Unitary Enterprise, a wholly state owned oil and gas company that reports to the MEI. The IOA allowed Tethys to commence initial production and rehabilitation operations in the Bokhtar area while the Tajikistan government finalised certain necessary legislative changes to enable the Production Sharing Law to become effective. These changes became effective in the summer of 2008. On June 13, 2008, KPL entered into the PSC with the MEI, as the representative of the Tajik State.

The total net area covered under the PSC is approximately 8.6 million acres (34,785 km^2) (the "**Contract Area**"). The Contract Area is located in the southwestern part of Tajikistan and covers a large prospective region which has existing oil and gas discoveries but has seen limited exploration to date. The Contract Area includes over 50 different prospective structures (as identified by Tajik Geology) and several existing oil and gas fields, including the Beshtentak, Khoja Sartez and Komsomolsk fields.

Management of Tethys believes that the Contract Area has considerable potential for oil and gas condensate. The Contract Area includes almost the entire Tajik portion of the Afghan-Tajik basin, an extension of the Amu Darya basin, which contains giant and supergiant gas and gas condensate fields in nearby Turkmenistan and Uzbekistan. It has been estimated that the mean unrisked resources for the Afghan portion of the basin, which lies to the south of the Contract Area, are 1,500 MMbbl of oil, 8.1 Tcf of natural gas and 370 MMbbl of NGL's[10].

As announced on December 24, 2007, the Company entered into an agreement with Sangam to create the joint venture company SSEC in which Tethys, through TTL, holds a 51% interest, and with Sangam holding the other 49%. The agreement was due to come into effect once certain conditions were met. To date these conditions have not been met. 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. If the agreement were to come into effect

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[7] *Alexander's Oil and Gas Connections, January 1, 2007*
[8] *FSU Oil & Gas Monitor, 14 January 2009*
[9] *Heritage Foundation, 2006*
[10] *US Geological Survey 2006*

it would be intended that both KPL and TSTL will become wholly owned subsidiaries of SSEC, with the Company then holding its appropriate indirect interest in the PSC.

The Bokhtar PSC

The PSC gives KPL the exclusive right, as Contractor under the PSC, to conduct certain oil and gas operations in the Contract Area during the term of the PSC and to receive the Company's share of production from the Contract Area. Under the PSC, KPL will recover 100% of its costs from up to 70% of total production from oil and natural gas, the maximum allowed under the Production Sharing Law. The remaining production (termed "**Profit Production**") will then be split in accordance with a fixed formula between KPL and the Tajik State. The Tajik State's share of the costs include all taxes, levies and duties. Under the PSC, KPL has the right to sell its share of Profit Production to any third party, whether a resident of Tajikistan or not, at a price determined by KPL. The Operator under the PSC is TSTL, a wholly owned subsidiary of TTL.

The terms of the PSC are fixed over the life of the PSC, which has a term of 25 years (the "**Initial Term**"). If in respect of any development area, commercial production remains possible beyond the Initial Term, the PSC may be extended with respect to such development area for an additional term of not less than 5 years or to the end of the producing life of the development area.

Pursuant to the PSC, KPL, as Contractor, is required to select and relinquish portions of the Contract Area with the first relinquishment being after 7 contract years. KPL is not required to relinquish any portion of the original Contract Area containing a development area or an area containing a declared commercial discovery for which a development plan has been sought and is awaiting approval by the Tajik State.

A Coordination Committee established by KPL and MEI is responsible for the overall supervision of oil and gas operations conducted under the PSC. The Coordination Committee is comprised of a total of six representatives, three of whom have been appointed by the MEI and three of whom have been appointed by KPL with KPL providing the Chairman of the Committee. Decisions of the Coordination Committee are made by majority decision of the representatives present and entitled to vote. KPL and the MEI shall endeavour to reach agreement on all matters presented to the Coordination Committee. In the event that on any matter the Coordination Committee are unable to reach agreement then KPL's point of view shall prevail. However if the MEI is reasonably of the view that the proposed action would result in serious permanent damage to that field or reservoir which would materially reduce economic recovery of petroleum from the field or reservoir then the matter will be referred to an internationally recognized independent expert appointed by KPL and the MEI whose decision on accepted international Petroleum Industry practice shall be final and binding.

Pursuant to the PSC, KPL is required to fund a minimum work program (the "**Work Program**") in respect of the Contract Area. The proposed Work Program is designed to provide additional data for a focused exploration of the Contract Area and will involve the acquisition of additional seismic data, gravity and magnetic data and exploration drilling. The proposed Work Program will be carried out in two phases. The first phase ("**Phase I**"), to be completed within 18 months from the effective date of the PSC, is expected to consist of: (i) geological studies; (ii) reprocessing of existing seismic and other geophysical data; (iii) acquisition of seismic and other geophysical data; and (iv) initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The total minimum cost of Phase I is estimated to be approximately $3,000,000. Upon completion of Phase I, KPL will determine whether to proceed with the second phase of the Work Program ("**Phase II**") or terminate the PSC. Phase II, which is to be completed within 18 months of the completion of Phase I, is expected to involve the commencement of the drilling of an exploration well to determine the oil and gas potential of the Bukhara formation and to perform additional rehabilitation activities if economically justified. The total minimum cost of the activities planned in Phase I and Phase II is estimated to be approximately $5,000,000. To date KPL has spent more that $8,000,000 on activities under the PSC, exceeding the financial commitments under the PSC.

Below is a summary of operations carried out by Tethys to date on the three principal fields included in the Contract Area, specifically the Beshtentak Field, the Khoja Sartez Field and the Komsomolsk Field.

The Beshtentak Field

The Beshtentak field is located 28 miles (45 km) north of the Town of Kulob and is currently producing approximately 20 bbls of oil and limited gas production. The field was discovered in 1970 and there are currently 24 operational wells, 4 of which are currently producing at limited potential due to lack of investment and technology. The reservoirs are Paleocene Bukhara 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 oil flow rates of up to 800 bopd and up to 7 MMcfpd of gas (200 Mcmpd) have been achieved from wells in the past. No deep drilling has been carried out on the field to date. KPL is currently evaluating the remaining potential of the field with a view to moving ahead with a field redevelopment program potentially involving horizontal drilling and water injection.

The Khoja Sartez Field

The Khoja Sartez field is a gas condensate accumulation located some 8 miles (13 km) to the west of the Town 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 the Beshtentak field. Drilling has only been carried out in the surface layers to a depth of some 5,580 ft (1,700 m) with the Bukhara limestone as primary reservoir target. The Company 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 appears similar to some of the large salt dome related prospects in the southern part of the Kulob Area.

In December 2008, natural gas was successfully tested from the Khoja Sartez 22 (KJZ22) well at estimated rates (based on wellhead pressures) up to 2.8 MMcfpd (80 Mcmpd) on a 12 mm choke with a flowing tubing head pressure of some 40 atm (588 psi). On January 16, 2009, KPL signed the Tajik Gas Supply Contract, a one year initial gas sales contract with OJSC Kulyabgaz to supply up to 2.3 MMcfpd (65 Mcmpd) of gas to the town of Kulob in Southern Tajikistan at a fixed price of 300 Somoni per Mcm of gas ($2.44 per Mcf or $86 per Mcm using the exchange rate at that time). See *"Description of the Business - Marketing – Tajik Gas Supply Contract"*.

The Komsomolsk Field

The Komsomolsk Field is an abandoned and now reworked gas condensate field where production dates from the late 1960s lying just to the north and under the Tajik capital Dushanbe. There were 27 prospecting and exploration wells drilled in the area, defining a Komsomolsk anticline that was first identified at surface and that continued and steepened with depth. Wells drilled to around 4,430 ft (1,350 m) penetrated the Cretaceous and some 6 wells went to, and 3 wells went through, the Jurassic reservoir at approximately 7,054 ft (2,150 m). By 1964 commercial flows of gas were established from the Cenomanian (horizon X) in well 90, followed by wells 1, 3 and 183. Well 183 also proved gas from the horizons XI, XII, and XIII or the Albian, Aptian and Barremian although these were seen as non commercial in scope, although the Company has tested gas from some of these intervals after the application of modern PNN logging. In the same year wells 180 and 191 proved horizon XIV, the Hauterivian, as commercial for gas condensate and by 1965 well 180 had established commercial gas in the Jurassic. The field was shut-in in 1987, but limited production continued until 1993.

Each reservoir has a separate gas-water-contact ("**GWC**") established from logs and test data, and with an active acquifer charged most likely from the mountains to the north and north east. Faulting appears common within the reservoir and a north-south trending fault bisects the field along the line of the Vardzob river separating the field into two, namely West Komsomolsk, where the vast majority of gas production has been from to date, and East Komsomolsk, where only minor gas has been produced to date, largely has a large part of East Komsomolsk lies under the northern suburbs of Dushanbe and where the drilling of vertical production wells was difficult in the past.

According to Tajik MEI data, the field has produced a total of approximately 70 Bcf (2.0 Bcm), during the period 1966 to 2000, more than 50% of which was recovered in the first 5 years of production. Maximum stabilised single well production rates were recorded as 7.3 MMcfpd (207 Mcmpd) from well KOM183 and the field maximum production rate of 27 MMcfpd (767 Mcmpd) was achieved in 1968.

The Company has been evaluating and working over wells on West Komsomolsk and has to date carried out workover activities on three wells namely KOM007, KOM180 and KOM183. KOM007 which is close to the gas-water-contact did not yield any positive results and junk was found in KOM183. Work on KOM180 has however successfully produced gas but with considerable water flow most likely coming from deeper watered-out zones due to old and poor cement behind the production casing. Nonetheless, the Company believes that additional potential remains in West Komsomolsk either through more comprehensive workover activities or new drilling.

The Company's management believes that the eastern part of Komsomolsk is largely undrained with the potential for additional gas production. Much of East Komsomolsk lies under the suburbs of Dushanbe and with the lack of expertise in directional drilling in the past had not been developed. The Company has selected a location for an initial East Komsomolsk inclined directional development well which is likely to have a horizontal step-out to the top of the Hauterivian reservoir of some 2,300 ft (701 m) from the surface location and will test all the reservoir sequence including the Jurassic. This well would be the first in up to three planned East Komsomolsk development wells, and given available finance the Company would like to commence this development program in the first half of 2009 using the Company's new Rig "Tykhe" which is being mobilised to Tajikistan.

Rigs and Equipment

Although the Company's primary business is that of oil and gas exploration and production, the Company sees significant benefit both operationally and from a cost perspective in owning and operating its own drilling and production equipment. In the areas in which the Company operates, it is often difficult and expensive to source third party drilling and related contractors, and this not only has cost implications but also has the potential for delays and lack of flexibility. The Company does not have as its strategy to become a service provider – its equipment is primarily for its own projects. However, if the equipment is not being utilised for the Company's operations, then such equipment may be hired out to third parties.

The Company has established a new Dutch wholly owned subsidiary, Asia Oilfield Equipment B.V. ("**AOE**") to own its drilling rigs and other production equipment. At the present time, not all of the assets have been transferred to AOE and its subsidiaries, however this process is underway and is expected to be completed within the next six months.

Currently the main pieces of equipment which are owned by the Company are as follows:

Rig "Telesto"	New ZJ70/4500L 2,000 hp (1,470 kW) 450 tonne hookload diesel mechanical drilling rig constructed at the Sichuan Honghua Petroleum Equipment Co., Ltd. factory in Chengdu, China. This has a nominal drilling depth of over 23,000 ft (7,000 m) and is one of the largest rigs in Central Asia. Telesto is currently on location in the Akkulka Block of Kazakhstan where it is drilling the first deep exploration well (AKD001). Telesto is currently owned by TPI but will be transferred to a new single purpose subsidiary of AOE in the near future. In March 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.
Rig "Tykhe"	New ZJ30/1700 CZ 1,080 hp (792 kW) 180 tonne hookload diesel truck mounted mechanical drilling rig, constructed at the factory in Nanyang, China. This rig has a nominal drilling depth of approximately 9,843 ft (3,000 m). Tykhe is currently mobilized to Tajikistan for planned drilling operations on the Komsomolsk and Beshtentak. Tykhe is currently owned by AOE but will be transferred to a new single purpose vehicle in the near future. In January 2009, the Company announced that AOE had secured loan financing from a group of accredited investors in the amount of $2,000,000 toward the purchase of this rig.
Rig "Thoe"	UP60/80 400 hp (294 kW) 80 tonne hookload diesel truck mounted mechanical drilling rig with a nominal drilling depth of 6,562 ft (2,000 m) (with 24 kg/m drilling pipes) and workover depth of 13,123 ft (4,000 m) (with 14 kg/m pipes). Currently in Bozoi, Kazakhstan.

Rig "Pasithoe"	A50 330 hp (243 kW) 50 tonne hookload diesel truck mounted mechanical drilling/workover rig. Currently in Dushanbe, Tajikistan.

In addition, the Company owns additional equipment such as an A370 workover rig, workover coiled tubing unit, 25 and 50 tonne cranes, GJC40-17 Cementing Unit, forklifts, trucks, technics and pipeline welding equipment.

Marketing

Kyzyloi Field — Kazakh Gas Supply Contract

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

Contract Year	Annual Volumes in MMcf(1)	Annual Volumes in MMcm(1)
2009	6,900	196
2010	6,900	196
2011	6,900	196
2012	2,270	64

Note:

(1) The Company sold 6,050 MMcf (172 MMcm) to PCK in 2008 pursuant to the Kazakh Gas Supply Contract. The figures for future supply are estimates only and the amount of gas that may be sold by the Company to PCK on an annual basis under the Kazakh 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 Kazakh Gas Supply Contract, has a term until the earlier of (i) when 850 MMcm (30 Bcf) has been delivered under the contract, or (ii) December 1, 2012, the date on which all contracts and licences pursuant to which the gas to be delivered under the Kazakh Gas Supply Contract terminate. The Kazakh Gas Supply Contract is based on a take-or-pay principle and covers natural gas to be produced from the Kyzyloi Field Licence and Production Contract area only. There is no obligation on TAG under the contract to dedicate all of the natural gas produced from the licensed area to PCK. The term of the contract commenced on December 19, 2007. The price of natural gas to be supplied at the tie-in point is fixed for the life of the Gas Supply Contract at $0.90 per Mcf ($32 per Mcm) excluding VAT, or $1.02 per Mcf ($36.16 per Mcm) including VAT (at 13% in 2008), with PCK providing bank guarantees against payment. The first payment was received in January of 2008.VAT payable by the Company was calculated at a rate of 13% in 2008 and will be calculated at a rate of 12% in 2009. Under the terms of the Kazakh Gas Supply Contract, TAG 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 delivered to PCK is less than the cumulative minimum monthly contract quantity (such difference being referred to as the "**shortfall**"), and in any subsequent calendar year PCK has accepted obligatory quantities, PCK has the right to take the shortfall at a price of $0.28 per Mcf ($10 per Mcm).

Khoja Sartez Field – Tajik Gas Supply Contract

On January 16, 2009, KPL signed the Tajik Gas Supply contract with OJSC Kulyabgaz (a wholly owned subsidiary of the State company Tajikgaz) to supply limited volumes (up to 2.3 MMcfpd (65 Mcmpd)) of gas to the town of Kulob in Southern Tajikistan at a fixed price of 300 Somoni per Mcm ($2.44 per Mcf or $86 per Mcm using the exchange rate at that time). The initial limited gas supply is being delivered through a 7.5 mile (12 km) pipeline from the KJZ22 well on the Khoja Sartez Field. Additional workovers and work on upgrading the gas delivery system is being considered.

Marketing of Production from Other Properties

In December 2006, GazImpex confirmed in writing to TAG its interest in purchasing gas production from the Akkulka Block, in addition to any purchases under the Kazakh 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 into Kazakhstan). The terms and conditions of any such arrangement would 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. The Company is in discussion with several other gas customers for the supply of Akkulka gas. The recent dispute between GazProm and the government of the Ukraine over the supply of gas to the Ukraine, together with recent fluctuations in European fuel oil prices have caused some problems with gas volumes in the export system and with pricing. The Company believes that these issues are now being resolved and a more structured gas market may result.

Given the current early stage of development of the Company's other properties in Tajikistan, no specific arrangements have yet been made for marketing any production from such properties including the Beshtentak Field. With regards to the Komsomolsk Gas Field, any initial test gas production is likely to be sold on the same basis as the Tajik Gas Supply Contract, although the Company believes it likely that any more significant volumes produced from East Komsomolsk will be marketed on a different basis, this being related to the import price of Uzbek gas.

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.

The Company's principal competitive advantages relate to its geological expertise, experience in Central Asia and, subject to market conditions, access to capital. Senior management of the Company has developed a thorough understanding of the geology of Central Asia and of its operational challenges and opportunities. The Company's senior management also has a comprehensive understanding of the commercial and regulatory environments in Kazakhstan, Tajikistan and Uzbekistan. The Company, as a publicly listed issuer, has certain competitive advantages over other foreign entities operating in Kazakhstan and Tajikistan, in terms of access to capital (subject to market conditions. However, State owned companies and certain multi-national oil companies have greater financial resources than the Company. The continued success of the Company will be based on its ability to raise capital to expand its production capabilities and further its exploration initiatives.

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 also with 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.

TAG 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 TAG's operations under the Kyzyloi Field Licence and Production Contract must be of Kazakh origin. TAG must also give preference to Kazakh personnel and, on an annual basis, must contribute not less than 1% of its investment capital costs to the professional education of Kazakh personnel involved in operations being conducted in connection with the contract. TAG 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.

According to the PSC, KPL has an obligation to invest in the socio-economic development of the Bokhtar Area annually. KPL has already contributed to several social programs in Tajikistan, for example provision of generators to local maternity hospitals. The socio-economic budget for each year is proposed and approved at the Coordinating Committee of the PSC but no minimum amount is provided in the PSC. The funds invested under such programs are fully cost recoverable. Under the PSC, KPL or the Operator has the obligation, where employees have the appropriate experience and skills, to engage employees who are citizens of Tajikistan with the aim of these employees ultimately making up at least 70% of the total employees engaged in the implementation of the works under the PSC. However, this is with the proviso that foreign employees and specialists will be employed where necessary for the effective operation of works under this Contract or due to the unavailability of suitably trained and qualified local staff. In addition KPL has an unquantified obligation to implement appropriate training programs for Tajik staff with the intention of replacing foreign staff with suitably trained and experienced local specialists.

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 environmental compliance reports are required to be submitted by the Company to relevant government authorities. The Company may be required to make payments to the Kazakhstan government in respect of certain emissions. Payments made by the Company to date have not been significant. In 2007, TAG paid an aggregate of $9,100 for minor emissions. Payments made in 2008 by TAG totalled $35,154 in respect of minor emissions with $2,804 allocated to Kul-Bas. The Company is also required to prepare and submit to the appropriate Kazakh authorities on a semi-annual basis, reports detailing any air pollution toxic waste caused by the Company and the expenditures made by the Company with respect to environmental protection. The reports are provided for informational purposes only and no payments are applicable.

In Tajikistan, under the Bokhtar PSC any development plan must also include an abandonment and site restoration program together with a funding procedure for such program. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account by KPL which shall be held in the joint names of the State and the KPL or their respective nominees, or its designee. KPL's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the development area must be limited to the obligation to place the necessary funds in the approved account. In addition any areas relinquished must be restored to the same environmental condition as they were prior to the date of the Bokhtar PSC (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable. An independent environmental base line study has been carried out on the Beshtentak oilfield.

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, 2008, the Company and its subsidiaries had a total of 156 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

This Statement of Reserves Data and Other Oil and Gas Information was prepared on and is dated March 19, 2009 (the "**Statement**"). The effective date of the Statement is December 31, 2008.

Disclosure of Reserves Data

The Company engaged McDaniel to evaluate the Company's natural gas reserves as at December 31, 2008, and in connection therewith, McDaniel prepared the McDaniel Reserve Report evaluating the Company's natural gas reserves as at December 31, 2008.

The reserves data set forth below is based upon evaluations by McDaniel with an effective date of December 31, 2008. 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 was not asked to assess any reserve potential relating to the Company's interest in the PSC 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, 2008
Forecast Prices and Costs

	Natural Gas	
Reserves Category	**Gross (MMcf)**	**Net (MMcf)**
Proved		
Developed Producing	21,995	21,619
Developed Non Producing	16,089	14,499
Undeveloped	4,956	4,832
Total Proved	43,040	40,950
Probable	28,398	25,691
Total Proved Plus Probable	71,437	66,640
Total Possible	22,953	20,743
Total Proved Plus Probable Plus Possible	94,391	87,384

Summary of
Net Present Values of Future Net Revenue
As of December 31, 2008
Forecast Prices and Costs

	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)					Unit Value Before Income Taxes Discounted at 10%/year
Reserves Category	**0**	**5**	**10**	**15**	**20**	**0**	**5**	**10**	**15**	**20**	($/Mcf)
	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	(M$)	
Proved											
Developed Producing	24,022	20,585	17,885	15,732	13,992	18,853	16,450	14,540	12,999	11,738	0.83
Developed Non-Producing	56,633	49,862	44,563	40,328	36,878	48,632	42,672	38,032	34,339	31,344	3.07
Undeveloped	4,584	3,450	2,588	1,928	1,416	1,668	1,092	661	337	91	0.54
Total Proved	85,238	73,897	65,037	57,988	52,287	69,154	60,214	53,233	47,675	43,173	1.59
Probable	115,567	87,007	67,520	53,771	43,784	56,289	41,070	30,940	23,959	18,999	2.63
Total Proved Plus Probable	200,805	160,903	132,556	111,759	96,070	125,443	101,284	84,173	71,634	62,172	1.99
Possible	104,585	74,214	55,058	42,358	33,574	45,130	30,799	22,073	16,472	12,711	2.65
Total Proved Plus Probable Plus Possible	305,391	235,117	187,614	154,117	129,645	170,573	132,083	106,245	88,106	74,884	2.15

Total Future Net Revenue
(Undiscounted)
As of December 31, 2008
Forecast Prices and Costs

Reserves Category	Revenue	Royalties[2]	Operating Costs	Develop-ment Costs	Abandon-ment and Reclama-tion 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	113,676	9,372	10,681	5,903	550	1,932	85,238	16,084	69,154
Total Proved Plus Probable	266,193	24,191	23,071	15,468	725	1,932	200,805	75,362	125,443
Total Proved Plus Probable Plus Possible	398,054	36,979	31,190	21,712	850	1,932	305,391	134,817	170,573

Notes:

(1) Other expenses refers to the repayment of historical costs.
(2) Royalties include the Mineral Extraction Tax.

Future Net Revenue
By Production Group
As of December 31, 2008
Forecast Prices and Costs

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year)	Unit Value
		(M$)	($/Mcf)
Proved	Natural Gas	65,037	1.59
Proved Plus Probable	Natural Gas	132,556	1.99
Proved Plus Probable Plus Possible	Natural Gas	187,614	2.15

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, as of a given date, 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.

(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, 2008
Forecast Prices and Costs

	Oil Brent Crude Oil Price ($/bbl)	Natural Gas Existing Gas Sales Contract Price ($/Mcf)	Natural Gas Additional Gas Sales Price[1] ($/Mcf)	Inflation rate %/year
Historical				
2008	N/A	0.90	N/A	N/A
Forecast				
2009	58.50	0.90	3.80	2.00
2010	69.90	0.90	4.16	2.00
2011	81.60	0.90	4.47	2.00
2012	88.60	0.90[2]	4.68	2.00
2013	95.80	0.90	5.43	2.00
2014	97.70	0.90	5.65	2.00
2015	99.70	0.90	5.86	2.00
2016	101.70	0.90	6.07	2.00
2017	103.60	0.90	6.25	2.00
2018	105.80	0.90	6.46	2.00
2019	107.90	0.90	6.65	2.00
2020	110.00	0.90	6.84	2.00
2021	112.20	0.90	7.03	2.00
2022	114.50	0.90	7.22	2.00
2023	116.80	0.90	7.41	2.00
2024	119.14	0.90	7.59	2.00
2025	121.52	0.90	7.78	2.00
2026	123.95	0.90	7.97	2.00
2027	126.43	0.90	8.15	2.00
2028	128.96	0.90	8.34	2.00
Thereafter	2%	0.90	2%	2%

Notes:

(1) The un-contracted gas price was calculated by McDaniel for the McDaniel Reserve Report based on gas sales in the Central Asia and European markets.

(2) The Term of the Kazakh Gas Supply Contract ends on December 1, 2012 (or earlier if the agreed volumes of gas have been delivered). Accordingly, gas delivered after December 1, 2012 will not be subject to the price of the Kazakh Gas Supply Contract (being $0.90 per Mcf plus VAT).

Reserves Reconciliation

The following table sets forth a reconciliation of Tethys' total gross proved, probable and proved plus probable reserves as at December 31, 2008, against such reserves as at December 31, 2007, based on forecast prices and cost assumptions.

Factors	Associated and Non-Associated Gas Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	43,214	28,019	71,233
Extensions and Improved Recovery	-	-	-
Technical Revisions	412	(5,192)	(4,780)
Discoveries	5,533	5,570	11,103
Acquisitions	-	-	-
Dispositions	-	-	-
Economic Factors	-	-	-
Production	(6,119)	-	(6,119)
December 31, 2008	43,040	28,397	71,437

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables disclose the volumes of Proved and Probable Undeveloped Reserves as at the dates noted therein. The references to "First Attributed" refers to Proved or Probable Undeveloped Reserves as at the earliest date in the relevant year when such Undeveloped Reserves were first attributed to the Company. 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.

Proved Undeveloped	Associated and Non-Associated Gas[1] First Attributed (MMcf)	Total at Year End (MMcf)
Prior	-	-
2006	-	-
2007	16,283	16,283
2008	-	4,956

Probable Undeveloped	First Attributed (MMcf)	Total at Year End (MMcf)
Prior	-	-
2006	-	-
2007	13,537	13,537
2008	1,108	7,130

Note:

(1) Based on the forecast prices and costs evaluation carried out by McDaniel and reflected in the McDaniel Reserve Report.

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 development wells in order to develop the reserves and also anticipates the installation of additional compression facilities in 2010 in the Akkulka area. 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 there from 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. TAG has a contractual obligation to sell approximately 30 Bcf (0.85 Bcm) of gas at prices believed to be 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$)
2009	850	850	850
2010	4,301	9,537	10,200
2011	208	2,341	6,780
2012	212	318	318
2013	108	325	325
Thereafter	223	2,097	3,240
Total for all years undiscounted[(1)]	5,903	15,468	21,712

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

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 the Contract Area in the Afghan-Tajik basin (an extension of the Amu Darya Basin) in Tajikistan.

As a result of its interest in TAG, the Company currently has a 100% interest in, and is operator of, a proven shallow gas field (the Kyzyloi Field). TAG 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. The Company, through KPL is Contractor under the Bokhtar PSC. All of the Company's properties are onshore. The Company's developed properties are described in further detail below.

The Kyzyloi Field was first discovered in 1967 with additional seismic being shot in the 1990s. 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 filed documents relating to a production contract for Akkulka.

The Company has constructed a 35 mile (56 km) 12.8 inch (325 mm) diameter pipeline from its Kyzyloi Field and compressor station to tie-in to the Bukhara-Urals pipeline, which is a gas trunkline transporting gas from Central Asia into Russia and on into Europe.

Oil and Gas Wells

The number of producing and non-producing wells in which the company had an interest as of December 31, 2008 is presented in the table below. The number of net wells corresponds to the number of gross wells as the company has a 100% working interest in each well, subject to revenue sharing and royalties under the relevant contracts.

	Natural Gas			
	Producing		**Non-Producing[(1)]**	
Kazakhstan	**Gross**	**Net**	**Gross**	**Net**
Kyzyloi Field	6	6	3	3
Akkulka Block	0	0	8[(2)]	8[(2)]
Tajikistan				
Khoja Sartez	0	0	1	1
Total	6	6	15	15

Notes:

(1) "Non-Producing" wells means wells which are not producing but which are considered capable of production.
(2) The Akkulka Proved and Probable reserves were developed-non producing as at December 31, 2008, but are expected to be in production in 2009 once tied into the Bukhara-Urals pipeline.

Properties with No Attributed Reserves

Undeveloped land holdings of the Company consist of the Kul-Bas Exploration and Production Contract area in Kazakhstan and the majority of the Contract Area in Tajikistan.

Kazakhstan

The Kul-Bas Exploration and Production Contract area 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 was made in November 2007 and ratified in December 2008 by the Kazakh authorities. The relinquishments were reduced and changed in February 2009 and the Company expects to relinquish approximately 222,390 acres (900 km^2) in 2009. The work program on this area amounts to a total of approximately US$7,700,000 over the initial six year exploration period, that started with a US$160,000 commitment in 2006, a US$940,000 commitment for 2007 and a US$3,000,000 commitment for 2008, all of which were met. The minimum work program agreed for 2009 is US$706,000 for the acquisition and processing of new seismic.

The royalty payable was expected to range from 4% to 6% depending on the size of the deposit and set 30 days before production commenced but this is likely to be replaced by the Mineral Extraction Tax at 0.05% for domestic sales or 10% for exports. 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*”.

Tajikistan

The Bokhtar PSC in Tajikistan gives KPL the exclusive right, as Contractor under the PSC, to conduct certain oil and gas operations in the Contract Area during the term of the PSC and to receive the Company’s share of production from the Contract Area. The Contract Area is approximately 34,785 km^2 (8.6 million acres) and is located in the southwestern part of Tajikistan. The Contract Area includes over 50 different prospective structures (as identified by Tajik Geology) and several existing oil and gas fields, including the Beshtentak, Khoja Sartez and Komsomolsk fields. The Contract Area specifically excludes certain structures on which licences have previously been issued to non-Tajik State entities. Under the PSC, KPL will recover 100% of its costs from up to 70% of total production from oil and natural gas, the maximum allowed under the Production Sharing Law. The remaining production (termed “Profit Production”) will then be split in accordance with a fixed formula between KPL and the Tajik State. The Tajik State’s share of the costs includes all taxes, levies and duties. Under the PSC, KPL has the right to sell its share of Profit Production to any third party, whether a resident of Tajikistan or not, at a price determined by KPL. The Operator under the PSC is TSTL, a wholly owned subsidiary of TTL.

The terms of the PSC are fixed over the life of the PSC, which has a term of 25 years. If in respect of any development area, commercial production remains possible beyond the Initial Term, the PSC may be extended with respect to such development area for an additional term of not less than 5 years or to the end of the producing life of the development area.

Pursuant to the PSC, KPL, as Contractor, is required to select and relinquish portions of the Contract Area with the first relinquishment being after 7 contract years in respect of 25% of the Contract Area (less any development areas) and at five year intervals thereafter in respect of 50% of the then remaining Contract Area (less any development areas).

KPL is not required to relinquish any portion of the original Contract Area containing a development area or an area containing a declared commercial discovery for which a development plan has been sought and is awaiting approval by the Tajik State.

A Coordination Committee established by KPL and MEI is responsible for the overall supervision of oil and gas operations conducted under the PSC. The Coordination Committee is comprised of a total of six representatives, six of whom have been appointed by the MEI and three of whom have been appointed by KPL with KPL providing the Chairman of the Committee. Decisions of the Coordination Committee are made by majority decision of the representatives present and entitled to vote. KPL and the MEI shall endeavour to reach agreement on all matters presented to the Coordination Committee. In the event that on any matter the Coordination Committee are unable to reach agreement then KPL's point of view shall prevail. However if the MEI is reasonably of the view that the proposed action would result in serious permanent damage to that field or reservoir which would materially reduce economic recovery of petroleum from the field or reservoir then the matter will be referred to an internationally recognized independent expert appointed by KPL and the MEI whose decision on accepted international Petroleum Industry practice shall be final and binding.

Pursuant to the PSC, KPL is required to fund a minimum work program (previously defined as the "**Work Program**") in respect of the Contract Area. The proposed Work Program is designed to provide additional data for a focused exploration of the Contract Area and will involve the acquisition of additional seismic data, gravity and magnetic data and exploration drilling. The proposed Work Program will be carried out in two phases. Phase I, to be completed within 18 months from the effective date of the PSC, is expected to consist of: (i) geological studies; (ii) reprocessing of existing seismic and other geophysical data; (iii) acquisition of seismic and other geophysical data; and (iv) initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The total minimum cost of Phase I is estimated to be approximately US$3,000,000. Upon completion of Phase I, KPL will determine whether to proceed with Phase II or terminate the PSC. Phase II, which is to be completed within 18 months of the completion of Phase I, is expected to involve the commencement of the drilling of an exploration well to determine the oil and gas potential of the Bukhara formation and to perform additional rehabilitation activities if economically justified. The total minimum cost of the activities planned in Phase I and Phase II is estimated to be approximately US$5,000,000. To date over $8,000,000 has been spent on activities under the PSC.

Forward Contracts

TAG is a party to the Kazakh Gas Supply Contract which was entered into in January 2006 and was assigned to PCK in December 2007. The Kazakh Gas Supply Contract is for a maximum of 850,000 Mcm (approximately 30 Bcf) at a fixed price of $32.00 per Mcm excluding VAT. The term of the Kazakh Gas Supply Contract expires on the earlier of (i) the date when the maximum volume provided under the Kazakh Gas Supply Contract (850 MMcm (30 Bcf)) has been delivered or (ii) December 1, 2012, the date on which all contracts and licenses pursuant to which the gas to be delivered under the Kazakh Gas Supply Contract terminate.

On January 16, 2009, KPL signed the Tajik Gas Supply Contract with OJSC Kulyabgaz to supply gas to the town of Kulob in Southern Tajikistan. The price under the contract is fixed for the period of the contract at 300 Somoni (approximately $86) per Mcm ($2.44 per Mcf) and the initial contract is to supply up to 65,000 cubic metres (2.3 MMcf) of gas per day.

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

<u>Kazakhstan</u>

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 had initially estimated the costs to be $25,000 per well for each well, but following the actual retirement of the first three wells in 2008, the estimate was reduced to $5,000 per well. An accretion cost is added each year in respect of asset retirement obligations.

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.

<u>Tajikistan</u>

Under the Bokhtar PSC, any Development Plan in Tajikistan must also include an abandonment and site restoration program together with a funding procedure for such program. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account by KPL which shall be held in the joint names of the State and the KPL or their respective nominees, or its designee. KPL's responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the Development Area shall be limited to the obligation to place the necessary funds in the approved account. In addition any areas relinquished areas must be brought into the same condition as they were prior to their transfer to KPL (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable.

Tax Horizon

<u>Kazakhstan</u>

The tax system which applies to the Company's operations Kazakhstan is based on a combination of mineral extraction tax, 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 and is expected to be reduced to 20% in 2009. 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 profits 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 0% 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. TAG is subject to corporate income tax and excess profit tax in Kazakhstan. The Company expects that no corporate income tax will due be in respect of 2008. However, in future years corporate income tax will become due on any net income taxable in Kazakhstan at a rate of 20%. An excess profit tax may also become due in the future and can range from an additional 0% to 60%.

The mineral extraction tax to which the Company's Kul-Bas and Akkulka projects are subject ranges from 0.5% to 1.5% of revenue earned from domestic sales and is equal to 10% for export sales.

<u>Tajikistan</u>

Under the Bokhtar PSC, the Tajik State's share of petroleum production includes all taxes, levies and duties which would otherwise be payable. (See "*Business of the Company – Tajikistan - Bokhtar PSC*" for a description of the revenue sharing provisions of the PSC). Accordingly, the Company does not expect that additional corporate income tax will become due on any net revenue earned in Tajikistan under the Bokhtar PSC.

Costs Incurred

The following table summarizes capital expenditures related to the Company's activities for the year ended December 31, 2008:

	Year December 31, 2008 (M$)		
Property Acquisition Costs	**Kazakhstan**	**Tajikistan**	**Total**
Proved Properties …………………………	Nil	Nil	Nil
Unproved Properties……………………..	Nil	Nil	Nil
Exploration Costs………………………….	3,701	Nil	3,701
Development Costs…………………………	17,212	2,484	19,696
Total(1)	20,913	2,484	23,397

Note:

(1) Does not include the costs incurred in respect of the acquisition of the drilling rigs and ancillary equipment.

Exploration and Development Activities

The following table summarizes the gross and net exploration wells in which the Company participated during year ended December 31, 2008 in Kazakhstan and Tajikistan.

	Year Ended December 31, 2008			
	Kazakhstan		**Tajikistan**	**Total**
Exploration Wells	**Gross**	**Net**	**Gross**	**Net**
Natural Gas	7	7	0	0
Total Exploration Wells	7	7	0	0
Development Wells				
Natural Gas	2	2	5	5
Oil	0	0	2	2
Dry	0	0	5	5
Total Development Wells	2	2	7	7

In Kazakhstan, a total of two development wells were re-completed during the Company's 2008 financial year i.e. Kyzyloi G12 and G16, these were tied in and are currently producing. 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.

In Tajikistan, a total of three development wells were attempted during the period of the IOA up to June 13, 2008 (being the date of the PSC), sub-commercial volumes of oil and gas were received. Since the signing of the PSC and up to December 31, 2008, a further four wells were re-entered for development, namely Khoja-Sartez and numbers 180, 183 and 007 in Komsomolsk. Well number 180 in Komsomolsk is currently being assessed for gas production while the other two were unsuccessful.

Production Estimates

The following discloses the estimated production of Tethys in 2009 by product type associated with the future net revenue estimates reported in the McDaniel Reserve Report.

	Natural Gas (MMcf)
Kazakhstan	
Gross Proved	9,784
Gross Proved plus Probable..................................	10,230
Tajikistan[1]	
Gross Proved	0
Gross Proved plus Probable..................................	0

Note:

(1) Although the Beshtentak, Komsomolsk and Khoja Sartez fields in Tajikistan are expected to produce in 2009, the above estimates do not include such fields as reserves were not attributed to these fields as at December 31, 2008

The following table sets forth the volume of production estimated by the McDaniel Reserve Report for the Kyzyloi and Akkulka Fields, 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)
Kyzyloi	
Gross Proved	5,356
Gross Proved plus Probable..................................	5,356
Akkulka	
Gross Proved	4,428
Gross Proved plus Probable..................................	4,874

Production History

The following table shows the Company's average daily sales 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, 2008.

	2008				
Product	**Year**	**Q4**	**Q3**	**Q2**	**Q1**
Natural Gas (Mcfpd)	18,280[1]	17,479	18,243	19,672	17,428

Note:

(1) The average value represents 331 days of production from January 1, 2008 to November 27, 2008. Production from the Kyzyloi field was suspended from November 28, 2008 to March 5, 2009 partly as a result of maintenance work on the Bukhara-Urals trunkline and preventative health and safety issues related to the installation of additional compression at the BCS for Phase 2.

RISK FACTORS

An investment in Ordinary Shares is speculative and involves a high degree of risk that should be considered by potential investors. 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. The Company's 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. The Company 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. The Company 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. The Company 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 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 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 the Company's 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 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. 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 the Company 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.

Gas Pipeline

The Company is economically dependent on the pipeline from the Kyzyloi Field to the BCS and the onward Bukhara-Urals trunkline in that should anything adverse happen to these pipelines then the sales revenue would cease. Although the trunkline is owned by Intergas Central Asia, currently a Kazakh State company, and no problems are currently envisaged with respect to exporting the Company's gas through this system, it may be that in the future the trunkline owners refuse to take the Company's gas, impose excessively high transportation charges, or that the trunkline capacity may be reached. The trunkline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently as any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian economy, it is anticipated that there would be significant efforts to minimize any break in supply. However external factors may effect this. For example in December 2008 – January 2009 a dispute between the Russian gas company RAO GazProm and Ukraine resulted in a temporary closure of the Russian gas export system to Europe which, although not directly affected, did have a significant knock-on effect of the whole export system, including gas flowing through the Central Asian gas trunkline network. Moreover, delivery of gas by the Company was suspended from November 28, 2008 to March 5, 2009 partly as a result of maintenance work on the Bukhara-Urals trunkline.

Management Services Provided by Vazon and Dependence on Key Personnel

The services of the President and Chief Executive Officer, the Executive Vice President, Vice President Technical and Vice President Commercial are provided under the terms of two management services agreements with a corporate entity, Vazon. As a result, these 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 Chairman, President and Chief Executive Officer. Either management services agreement may be terminated on up to 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 these 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 ten 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, TAG, has entered into the Kazakh 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, Uzbekistan 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

While the Company’s expenditures are to a significant extent paid and its income earned in foreign currencies, its results of operations are reported in U.S. dollars. As a result, the Company is exposed to market risks resulting from fluctuations in foreign currency exchange rates to the extent U.S. dollar revenues do not equal U.S. dollar expenditures. A material change in the value of any such foreign currency could result in a material effect on the cash flow and revenues.

Expenses incurred in Kazakhstan and revenues generated in Kazakhstan are in part in Tenge, expenses incurred in Tajikistan and revenues generated in Tajikistan are in part in Somoni (as is the case for amounts payable to Kulob Petroleum Limited under the Tajik gas supply contract), certain compensation expenses and expenses incurred in respect of executive offices are in Pounds Sterling. The Tenge and Somoni are difficult to hedge and the Company is not currently using exchange rate derivatives to manage exchange rate risks. In addition, foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings. Any fluctuation in the exchange rate of the Tenge, Somoni, Pounds Sterling and Canadian dollar will impact on the Company’s results of operations. In addition, any variation in the rates of inflation in Canada, Kazakhstan, Tajikistan or the British Isles relative to the rate of inflation in the United States (in as much as this affects the U.S. dollar exchange rate) will impact on the Company’s results of operations. The recent devaluation of the Tenge and Somoni against the U.S. dollar are reflective of the above statement.

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. There can be no assurance, however, that 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 or Somoni will continue to be freely exchangeable into U.S. dollars or that the Company will be able to exchange sufficient amounts of Tenge or Somoni into U.S. dollars or Pounds Sterling to meet its foreign currency obligations.

Moreover, the Ordinary Shares trade in Canadian dollars on the TSX and accordingly the variation in exchange rates between the U.S. dollar and Canadian dollar will also affect the market price of our shares on the Toronto Stock Exchange.

See “*Currency and Exchange Rates*” elsewhere in this AIF for historical data on exchange rates of the Tenge, Somoni and Pounds Sterling relative to the U.S. dollar.

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.

The Company is conducting exploration and development activities in Kazakhstan and Tajikistan, and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, The Company believes that the governments of Kazakhstan and Tajikistan support the exploration and development of their oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Kazakhstan and/or Tajikistan will not result in their respective governments 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 in other countries in which the Company may operate in the future.

Legal Systems

The Company is governed by the laws of the Cayman Islands and the Company's principal subsidiaries are incorporated under the laws of Guernsey, Jersey, Kazakhstan and the Netherlands**.** The Company through its subsidiaries carries on operations in Kazakhstan and Tajikistan. 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. 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 and Tajikistan may have less developed legal systems 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 there from 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 and Tajikistan, 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 and/or Tajikistan 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.

"Resource" vs. "Reserves"

Throughout this document, the Company has attempted to provide an appreciation of the potential that the Company's asset base offers. In doing so, the Company 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 that the Company is not the operator of its oil and gas properties, the Company 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. The Company has taken steps to mitigate these risks to an extent by purchasing some of its own drilling and production equipment.

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 the Company 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 the Company 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.

Seasonality and Weather Patterns

The level of activity in the Central Asia oil and gas industry is influenced by seasonal and unexpected weather patterns which may lead to declines in production and exploration activity. Harsh winter conditions may impede access to remote locations and drilling activities and limit the Company's ability to perform maintenance on equipment. Also, certain oil and gas producing areas may be located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Moreover, wet weather and spring thaw may make the ground unstable. Consequently, the movement of rigs and other heavy equipment may be restricted, thereby reducing activity levels. As an example, weather issues have delayed both the installation of the Phase 2 equipment in Kazakhstan and the drilling of the deep exploration well AKDO1.

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, 2008. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures.

Since inception, the Company has incurred significant losses from its operations and negative cash flows from its operating activities and has an accumulated deficit of $74,252,000 as at December 31, 2008. Since the Company intends to invest in developing its business, further losses and negative cash flows 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 U.S. GAAP ceiling test which was 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 2008. No assurance can be given that the Tethys Group will not experience operating losses or additional write-downs in the future. See Note 1 of the audited consolidated financial statements of the Company for the year ended December

31, 2008, for a discussion on the nature of the Company's operations and going concern. Also 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.

Extreme weather conditions in the Kazakhstan production area during the construction phase of the pipelines and compressors have been and could continue to cause delays, such as extreme cold in winter and excess muddy conditions in Spring delaying construction and transport of equipment. Risk of delay from third party suppliers and countries is possible, an example being the earthquake in Sichuan Province in China in May 2008 where the two new compressors for the Phase 2 construction were being built.

Property Interests and Governmental Approvals

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

The interest of the Company's subsidiaries in the Bokhtar Area in Tajikistan is represented by the PSC which grants KPL exploration and production rights over a defined area. The PSC is subject to certain conditions, including minimum expenditure and work program commitments and as it is the first contract of its type in Tajikistan there are inherent risks associated with its ultimate implementation, despite the fact that disputes under the PSC are arbitrated under Swedish Law. There is also a risk that the PSC may not be renewed after its initial 25 year term.

Disclosure Controls and Procedures; Internal Controls Over Financial Reporting

Disclosure controls and procedures have been designed by the Company's 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 Company's management has designed and implemented a system of internal controls over financial reporting as of December 31, 2008 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 U.S. 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.

Adoption of International Financial Reporting Statements (IFRS)

The Company has decided to adopt IFRS as its financial reporting standard for periods beginning January 1, 2009. As a result, the Company's financial statements commencing with the three months ended December 31, 2009 will no longer be prepared in accordance with U.S. Generally Accepted Accounting Principles ("**US GAAP**"). The impact of the adoption of IFRS on the Company's financial reporting is described in the Management Discussion and Analysis for the year ended December 31, 2008 and is available on SEDAR. Although the Company has identified (and noted in the "**MD&A**") certain areas as having the greatest potential impact to the Company's accounting (property, plant and equipment, impairment and share based compensation), there is a risk that the adoption of IFRS will impact other areas and that the impact on those areas identified may be more significant than anticipated.

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.

Relinquishment of Exploration Rights

The Company is contractually required to relinquish certain exploration rights pursuant to several of the exploration and production contracts to which the Company (or its subsidiaries) is a party. In addition, certain of the Company's exploration rights are expected to expire during the financial year ended December 31, 2009. Collectively, this will have the result of reducing the total area available to be explored by the Company if not offset in some manner. There are mandatory relinquishments under the Kul-Bas Exploration and Production Contract which requires the Company to relinquish 20% of the contract area annually, except for areas in which a discovery is made. As at December 31, 2008, 20% of the total contract area has been relinquished. Although the Company proposes to drill additional wells on the Kul-Bas Block in 2009, it is expected that the Company will relinquish 10% of the contract area at the end of 2009 and may relinquish additional areas in each year thereafter, until the end of the six year exploration period ending at the end of 2011. With respect to the Akkulka Block, the exploration rights under the Akkulka Exploration Licence and Contract are currently in effect until September 17, 2009. The Company has obtained an extension to evaluate discoveries made on the Akkulka Block and is in the process of applying for production contracts in respect of discoveries in the contract area. The exploration rights on those areas of the Akkulka Block outside the areas subject to an application for a production contract or subject to an evaluation extension, are not expected to be renewed after September 17, 2009. In addition, there are also mandatory relinquishments under the PSC in Tajikistan after 7 contract years and each 5 years subsequent to that. See *"Description of the Business – Kul-Bas Block and Kul-Bas Exploration and Production Contract"*, *"Description of the Business – Akkulka Block and Akkulka Exploration Licence and Contract"* and *"Description of the Business – Tajikistan – The PSC"*.

Risks Related to the Republics of Kazakhstan and Tajikistan

Political, Economic, Legal and Fiscal Instability

Kazakhstan and Tajikistan are former constituent republics of the Soviet Union. At the time of their respective independence in 1991, each became a member of the CIS. Because Kazakhstan and Tajikistan have a relatively short history of political stability as independent nations and have experienced significant change in adapting to a market oriented economy, 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 and natural gas 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 legislation applicable to oil and gas exploration, development and acquisition activities;
- nationalisation or expropriation of property; and
- interruption or blockage of oil or natural gas 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. In addition, adverse economic conditions in Kazakhstan or Tajikistan could have a material adverse affect on the Company's business, financial condition and results of operations.

Further, Kazakhstan and Tajikistan also depend on neighbouring states to access world markets for a number of their exports, including oil and gas. Kazakhstan and Tajikistan are thus dependent upon good relations with their neighbours to ensure their ability to export. Although one of the aims of economic integration within the CIS is to assure continued access to export routes, should access to those routes be materially impaired, this could adversely impact the economies of Kazakhstan and Tajikistan.

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.

Like other countries in Central Asia, Kazakhstan and Tajikistan 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 and Tajikistan, whose economies and state budgets rely in part on the export of oil, gas 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, gas 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. 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 and Tajikistan.

The transition of Kazakhstan and Tajikistan to market oriented economies 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. Although reforms designed to establish a free market economy have been adopted, there can be no assurance that such reforms will continue or that such reforms will achieve all or any of their intended aims.

Legal and Regulatory 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 TAG 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 their evolution under Kazakh laws and licencing practices.

Taxation Risks and Issues in Kazakhstan

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. In addition, amendments to current Kazakhstan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

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, mineral extraction taxes 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 0% 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 for certain 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.

Legal and Regulatory Framework in Tajikistan

Tajikistan introduced production sharing legislation in 2007 and the Company's PSC is the first to be adopted under the new regulatory regime. As the legal and regulatory framework for oil and gas is emerging in Tajikistan, it is possible that the terms of such a PSC may be challenged, additional taxes may be imposed, or may be found to conflict with other Tajik laws and regulations. There may also be problems with repatriation of currency from Tajikistan, and in the use of the banking system.

Taxation Risks and Issues in Tajikistan

Although under the PSC all of KPL's tax obligations are covered through the States share of production, the taxation system in Tajikistan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Tajikistan 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. Despite the fact that the Company's CEO currently sits on the Consultative Council for the Improvement of the Investment Climate under the President of Tajikistan there can be no guarantee that such involvement can prevent negative changes in the business environment which may affect the Company.

Tax declarations, together with other legal compliance areas 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 Tajikistan substantially more significant than typically found in countries with more developed tax systems. In addition, amendments to current Tajikistan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

In general terms, taxes in Tajikistan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as fees for licences. Profits are taxed at a rate of 25% of taxable income (calculated as revenue less permitted deductions). VAT at a rate ranging to 20% is imposed on goods produced in Tajikistan and goods imported into Tajikistan. Payments due to state agencies in respect of oil and gas production are determined under the particular terms of production sharing contracts of which the Bokhtar PSC is an example. Under the Bokhtar PSC, the Tajik State's share of production covers all of the Company's taxes, levies and duties in respect of production thereunder..

Lack of Infrastructure in Tajikistan

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 only limited oil refining facilities 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, 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

The authorized capital of the Company consists of 700,000,000 Ordinary Shares of $0.10 par value of which 67,793,292 Ordinary Shares are issued and outstanding as at March 31, 2009 and 50,000,000 preference shares of $0.10 par value (the "**Preference Shares**"), none of which have been issued or are outstanding. The principal attributes of the Ordinary Shares and Preference Shares are summarized below. In addition, the Company's shareholder rights plan is summarized below.

Ordinary Shares

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

Preference Shares

The Preference Shares are issuable in series. Subject to the Company's articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions (including voting rights) attaching to each series. The Preference Shares, when issued, will rank prior to the Ordinary Shares with respect to dividends and return of capital on winding up as the holders of Preference Shares are not entitled to vote at meetings of shareholders.

Shareholder Rights Plan

The Board of Directors and the shareholders of the Company approved a shareholder rights plan (the "**Rights Plan**") in 2008. The terms of the Rights Plan are such that, subject to certain exceptions, if a person acquires 20% of the outstanding Ordinary Shares, a take-over bid must be made for all Ordinary Shares and must be open for 60 days after the bid is made. If more than 50% of the Ordinary Shares held by persons independent of the acquiror are deposited or tendered pursuant to the bid, and not withdrawn, the acquiror may take up and pay for such shares. The bid must then remain open for a further period of 10 business days on the same terms.

In the event a take-over bid is made that does not adhere with the above terms, the rights attaching each Ordinary Share pursuant to the Rights Plan will separate from the Ordinary Shares and become exercisable 10 trading days after the earlier of: (a) a person having acquired 20% or more of the Ordinary Shares, or (b) the commencement or announcement in respect of a take-over bid to acquire 20% or more of the Ordinary Shares. Prior to such separation event, the rights are not transferable separately from the Ordinary Shares. After such separation, rights will be evidenced by certificates which are transferable and will be traded separately from the Ordinary Shares.

The rights, when exercisable, permit the holder to purchase, for the exercise price, one Ordinary Share for each right. The exercise price of the rights will be equal to three times the prevailing market price at the time the rights separated from the Ordinary Shares pursuant to the Rights Plan. Rights that are beneficially owned by the person making the take-over bid which does not adhere to the above terms shall become null and void.

Unless renewed with the concurrence of the shareholders of the Company, Rights Plan will terminate on the date of the 2011 annual meeting of shareholders of the Company.

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 during the year ended December 31, 2008.

	Price Range		
Period	**High**	**Low**	**Trading Volume**
2008			
January	3.10	2.59	1,142,659
February	2.90	2.60	273,510
March	2.90	2.50	1,947,002
April	2.84	2.25	896,960
May	2.60	2.20	2,516,127
June	2.80	2.01	6,396,748
July	2.79	2.15	2,052,481
August	2.35	2.00	3,572,205
September	2.20	1.01	289,658
October	1.25	0.50	2,771,529
November	1.25	0.74	2,563,500
December	0.83	0.52	1,162,477

Prior Sales

During the financial year ended December 31, 2008, 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
April 7, 2008	795,000 Warrants(1)
April 25, 2008	129,000 Options(2)
June 27, 2008	2,145,000 Options(3)

Notes:

(1) On April 7, 2008 the Company issued warrants to purchase an aggregate of 795,000 Ordinary Shares. These warrants relate to a loan financing from a group of accredited investors in the amount of $5,300,000 toward the purchase of a ZJ70 diesel mechanical rig. The warrants are exercisable at a price of CDN$3.25 per share and have a term of three years from the date of issuance of certificates relating thereto.

(2) On April 25, 2008 the Company granted Options ("**Options**") to purchase an aggregate of 129,000 Ordinary Shares to a director of the Company. The Options are exercisable at $2.75 per share and expire on April 24, 2015.

(3) On June 27, 2008, the Company granted to certain directors, officers and employees of the Company, Options to purchase an aggregate of 2,145,000 Ordinary Shares. The Options are exercisable at $2.50 per share and expire on June 26, 2015.

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 EXECUTIVE OFFICERS

The following table sets forth, for each director and executive 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.

Directors

Name and Municipality of Residence	Position with the Company	Director/Officer Since	Principal Occupation During the Past Five Years
Bernard Murphy Hertfordshire, England	Finance Director and Chief Financial Officer	August 16, 2006	Currently Finance Director and Chief Financial Officer of Tethys. Prior thereto, Mr. Murphy was a company director within the Abacus Accountancy Network since 2005 and prior thereto, Mr. Murphy held a number of senior financial positions for several organizations.
Liz Landles St. Peter Port, Guernsey British Isles	Executive Director, Executive Vice President and Corporate Secretary	August 12, 2003	Currently Executive Director, Executive Vice President and Corporate Secretary of Tethys. Prior thereto, Ms. Landles was Executive Vice President, Corporate Secretary of CanArgo.

Name and Municipality of Residence	Position with the Company	Director/Officer Since	Principal Occupation During the Past Five Years
Dr. David Robson[3] St. Peter Port, Guernsey, British Isles	Chairman, President and Chief Executive Officer	August 12, 2003	Currently Chairman, President and Chief Executive Officer of Tethys. Prior thereto, Dr. Robson was Chairman and Chief Executive Officer of CanArgo.
Russ Hammond [2] London, England	Director	July 26, 2006	Corporate Director.
Piers Johnson [1][3] London, England	Director	April 2, 2008	Managing Director of Oilfield Production Consultants (OPC) Limited (Consulting firm to the Oil and Gas Industry).
Rt. Hon Peter Lilley M.P.[1][2][3] London, England	Vice Chairman and Director	July 26, 2006	Member of the United Kingdom Parliament, House of Commons.
Paul Murphy Jumeirah Islands, Dubai	Director	July 26, 2006	Managing Director of Kraken Financial Group Limited (Financial and Wealth Management Services). Prior thereto, Mr. Murphy was director/manager of MeesPierson Reads.
Colin Smith[1] St. Peter Port, Guernsey British Isles	Director	August 16, 2006	Chief Operating Officer and director of Raven Russia Limited (Property Investment Company). Prior thereto, Mr. Smith was director of BDO Novus Limited.

Notes:

(1) Member of the Audit Committee.
(2) Member of the Compensation and Nomination Committee.
(3) Member of the Reserves Committee.

Executive Officers

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
Luka Chachabaia Tbilisi, Georgia	Vice President Operations	Currently Vice President Operations of Tethys. Prior thereto, Mr. Chachabaia was an oil and gas engineer including 11 years working for Schlumberger in various engineering and management positions.

Name and Municipality of Residence	Position with the Company	Principal Occupation During the Past Five Years
Julian Hammond London, United Kingdom	Chief Commercial Officer and Vice President Corporate Development	Currently Chief Commercial Officer and Vice President Corporate Development of Tethys. Prior thereto, Mr. Hammond was Vice President, Investor Relations and Business Development Manager of CanArgo.
Rosemary Johnson-Sabine London, England	Vice President, Exploration	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.
George Mirtskhulava Almaty, Kazakhstan	Vice President, Commercial and Head of Kazakhstan Business Unit	Currently Vice President, Commercial and Head of Kazakhstan Business Unit; First Deputy Director of TAG 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.
Sabin Rossi Boston, Massachusetts, USA	Vice President, Investor Relations	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.
Ian Philliskirk London, England	General Counsel and Vice President	Currently General Counsel and Vice President. Prior thereto, Mr. Philliskirk worked for Pinsent Masons LLP as well as The Emirates National Oil Company in Dubai ("ENOC") where he was the Group Legal Manager and Company Secretary.
Graham Wall Tbilisi, Georgia	Vice President, Technical	Currently Vice President, Technical of Tethys; Deputy Director, Technical for TAG, Deputy Director, Technical for TSK was formerly Exploration Manager for CanArgo.

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 Law (2007 Revision) of the Cayman Islands.

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, 591,627 Ordinary Shares or approximately 0.9% 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

(i) 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 the Company 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 the Cayman Islands, which require that the directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in such 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 within the last two completed years in that it took the initiative in founding and organizing the Company. CanArgo is no longer a shareholder of the Company and has not been since July 2007. 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.

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**"). The CanArgo Agreement was terminated in connection with the completion of the IPO.

Prior to the IPO a non-compete and Area of Mutual Interest ("**AMI**") agreement was put in place between Tethys and CanArgo giving a priority right of access to projects in Central Asia to Tethys, and similar rights for CanArgo in the Caucasus, whilst agreeing to work jointly (if desired) on projects in the rest of the former Soviet Union and most of the Middle East. The AMI terminated in January 2009 and no work was carried out under this AMI.

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 Piers Johnson. All members of the Audit Committee are independent and financially literate within the meaning of NI 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. Colin Smith was appointed as a Non-Executive Director of the Company in August 2006 and is the Chairman of the Company's Audit Committee. Mr. Smith is the Chief Operating Officer and Director of Raven Russia Limited, the AIM-listed investment company that invests in commercial property in Russia and other members of the CIS. Prior to September 2007, Mr. Smith was a director in the audit and assurance division of the chartered accountancy practice of BDO Novus Limited in Guernsey. Mr. Smith holds a Bachelor Degree in Accountancy from the University of Glasgow and is a member of the Institute of Chartered Accountants, Scotland.

Rt. Hon. Peter Lilley M.P.

Mr. Peter Lilley was appointed as a Non-Executive Director of the Company in July 2006. As well as being a member of the Audit Committee, Mr. Lilley is also the Vice Chairman and the Chairman of the Compensation and Nomination Committee of the Company. Mr. Lilley is currently a Non-Executive Director of Melchior Japan Investment Trust PLC, a company listed on the main list of the London Stock Exchange, and IDOX plc, a company quoted on AIM market in London. Mr. Lilley worked as an Oil Industry Analyst for W. Greenwell & Co from 1972, becoming a partner of the company in 1979. In April 1986, the firm became Greenwell Montagu Securities and he was appointed a director of this company from 1986 to 1987. Mr. Lilley was Secretary of State for Trade and Industry of the United Kingdom from 1990 to 1992 and he is currently a serving Member of the United Kingdom Parliament. Mr. Lilley holds a Bachelor Degree in Natural Science and Economics from Clare College, Cambridge.

Piers Johnson

Mr. Piers Johnson was appointed as a Non-Executive Director of the Company in April 2008. Mr. Johnson has over 25 years of experience in the oil and gas exploration and production industry. Since 1988, he has served as Managing Director of Oilfield Production Consultants (OPC) Limited, a petroleum and reservoir engineering consultancy company which specialises in operational procedures, integrated studies, wellsite supervision and well test analysis. From 1982 to 1986, he worked for Flopetrol Johnston Schlumberger, an oilfield services provider, serving as a well test supervisor, location manager and also district sales engineer (Asia). Mr. Johnson holds a Bachelor of Science Degree in Mechanical Engineering from Nottingham University. He is also a Chartered Engineer with the Institution of Mechanical Engineers and a member of each of the Society of Petroleum Engineers, the Petroleum Exploration Society of Great Britain and the Energy Institute. Mr. Johnson is a visiting lecturer in Petroleum Engineering at the Institute Francais du Petrol in Paris, France.

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 NI 52-110:

(a) the exemption in section 2.4 (*De Minimis Non-Audit Services*);
(b) the exemption in subsection 3.2(2) (*Initial Public Offerings*);
(c) the exemption in subsection 3.3(2) (*Controlled Companies*);
(d) the exemption in section 3.4 (*Events Outside Control of Member*);
(e) the exemption in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*);
(f) the exemption in section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*);
(g) the exemption in section 3.8 (*Acquisition of Financial Literacy*); or
(h) an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*).

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. 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.

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 two financial year ended December 31, 2008 and 2007.

Type of Service Provided	Year-ended December 31, 2008	Year-ended December 31, 2007
Audit fees (including quarterly reviews)	$517,820	$555,650
Audit-related fees	72,890	Nil
Tax fees	Nil	Nil
All other fees	40,000	Nil
Total	**$630,710**	**$555,650**

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.

Vazon is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect on June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the fiscal year ended December 31, 2008 was US$1,070,156 (2007 - US$522,237).

Kraken Financial Group (KFG) has a common director with the Company. In 2008, KFG was engaged by the Company to assist in obtaining loan financing in relation to the purchase of both Telesto and Tykhe drilling rigs. As a result of the services provided in connection with the Telesto transaction, KFG received 6% commission of the funds it was responsible for introducing to the Company. This commission is to be taken in the form 81,447 Ordinary Shares, which were yet to be issued at year end. As a result the Company has recognized a liability for US$234,000 (2007 - US$Nil). In relation to similar services provided in connection with the loan financing of the Tykhe drilling rig, KFG received commission of US$21,000 (2007 - US$Nil).

KFG also acted as broker for Tethys in the placement of various insurance policies, including Directors & Officers, for which the combined annual premiums were US$112,615 (2007 - US$112,000).

Oilfield Production Consultants (OPC) Ltd and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to the optimization of the existing compressors and those to be installed as part of Phase 2 gas production from Akkulka, and has consulted on certain reservoir modelling work on projects in Tajikistan. Total fees in the fiscal year ended December 31, 2008 were US$395,531 (2007- US$Nil).

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, Canada.

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, and which are not otherwise required to be disclosed in accordance with the requirements of part 12 National Instrument 51-102 are as follows:

1. the Kazakh Gas Supply Contract;

2. 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;

3. 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; and

4. the Kyzyloi Field Production Contract.

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 PricewaterhouseCoopers LLP, Chartered Accountants ("**PWC**") and McDaniel. None of the designated professionals of McDaniel have any registered or beneficial interest, 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.

PWC has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

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 ended December 31, 2008 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 +44 1481 725922.

Additional information, including information regarding the Company's directors' and officers' remuneration, is contained in the Company's Management Information Circular, prepared in connection with the annual and extraordinary meeting of Tethys' shareholders to be held on May 7, 2009.

Additional financial information is provided in Tethys' consolidated financial statements and management's discussion and analysis for the year ended December 31, 2008. Copies of such documents may be obtained in the manner set forth above.

APPENDIX A
FORM 51-101F2

(attached)

March 19, 2009

Tethys Petroleum Limited
P. O. Box 524
St Peter Port
Guernsey, GY1 6EL
British Isles

Attention: The Board of Directors of Tethys Petroleum Limited

Re: Form 51-101F2
Report on Reserves Data by an Independent Qualified Reserves Evaluator of Tethys Petroleum Limited (the "Company")

To the Board of Directors of Tethys Petroleum Limited (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2008. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008, 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 percent, included in the reserves data of the Company evaluated by us, for the year ended December 31, 2008, and identifies the respective portions thereof that we have evaluated, audited and reviewed and reported on to the Company's management:

		Net Present Value of Future Net Revenue $M (before income taxes, 10% discount rate)			
Preparation Date of Evaluation Report	**Location of Reserves**	**Audited**	**Evaluated**	**Reviewed**	**Total**
March 19, 2009	Kazakhstan	-	132,556	-	132,556

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

6. We have no responsibility to update our report for events and circumstances occurring after the preparation date.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. 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 by B. H. Emslie"

B. H. Emslie, P. Eng.

Calgary, Alberta
Date: March 19, 2009

APPENDIX B
FORM 51-101F3

(attached)

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, 2008, 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 Reserves Committee of 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 Reserves Committee of 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, on the recommendation of the Reserves Committee, 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"	*"Graham Wall"*
Dr. David Robson President and Chief Executive Officer	**Graham Wall** Vice President, Technical
"Bernard Murphy"	*"Liz Landles"*
Bernard Murphy Director	**Liz Landles** Director

March 31, 2009

APPENDIX C
Audit Committee Charter

(attached)

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.