

*This document is only being and may only be distributed to and directed at (i) persons outside the United Kingdom (the “U.K.”); or (ii) persons in the U.K. who (a) are “qualified investors” within the meaning of Section 86(7) of the U.K. Financial Services and Markets Act 2000 (the “FSMA”), and (b) have professional experience in matters relating to investments and who are persons referred to in Article 19 (investment professionals) or Article 49 (high net worth companies, unincorporated associations, etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended); or (c) are otherwise lawfully permitted to receive it (all such persons together being referred to as “relevant persons”). The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. By accepting a copy of this short form prospectus and by offering to acquire Offered Shares (as defined below) under the Offering (as defined below), potential investors in the U.K. will be deemed to have represented that they satisfy the criteria specified in clause (ii) above to be a relevant person. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document is not a prospectus for the purposes of Section 85(1) of the FSMA and contains no offer to the public within the meaning of section 102B of the FSMA, the U.K. Companies Act 2006 or otherwise. Accordingly, this document has not been approved as a prospectus by the U.K. Financial Services Authority (the “FSA”), under Section 87A of the FSMA and has not been filed with the FSA pursuant to the U.K. prospectus rules nor has it been approved by a person authorized under the FSMA.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “1933 Act”), or any state securities laws. Accordingly, except as permitted by the Agency Agreement (as defined herein) and pursuant to an exemption from the registration requirements of the 1933 Act and state securities laws, these securities may not be offered or sold within the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States of America. See “Plan of Distribution”.*

**Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Investor Relations of Tethys Petroleum Limited, at TD Canada Trust Tower, 161 Bay Street, 27<sup>th</sup> Floor, P.O. Box 508, Toronto, Ontario, Canada M5J 2S1, telephone number (416) 572-2065, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

October 12, 2010



**US\$60,000,000 (Minimum Offering)**  
**US\$100,040,200 (Maximum Offering)**

**A Minimum of 42,342,978 Ordinary Shares and a Maximum of 70,600,000 Ordinary Shares**

---

**Price: US\$1.417 (C\$1.45) per Ordinary Share**

---

This short form prospectus qualifies the distribution (the “**Offering**”) of a minimum of 42,342,978 ordinary shares (the “**Offered Shares**”) (the “**Minimum Offering**”) and a maximum of 70,600,000 Offered Shares (the “**Maximum Offering**”) of Tethys Petroleum Limited (“**Tethys**” or the “**Company**”) at a price of \$1.417 per Offered Share or C\$1.45 per Offered Share (the “**Offering Price**”). The issued and outstanding ordinary shares in the capital of the Company (the “**Ordinary Shares**”) are listed on the Toronto Stock Exchange (the “**TSX**”) under the symbol “**TPL**”. On October 8, 2010, the last trading day prior to the date of this short form prospectus, the closing price of the Ordinary Shares on the TSX was C\$1.69. The Offering will be made in each of the provinces of British Columbia, Alberta and Ontario by Fraser Mackenzie Limited and FirstEnergy Capital Corp. (collectively, the “**Agents**”). The Company and the Agents have engaged Quam Capital Limited and Quam Securities Company Limited (collectively, “**Quam**”) and Renaissance Securities (Cyprus) Limited (“**Renaissance Capital**”) (individually, a “**Special Selling Agent**” and collectively, the “**Special Selling Agents**”) with respect to the offering of Ordinary Shares qualified hereby in the United States of America and certain other jurisdictions outside Canada and the United States of America on a private placement basis. The terms of the Offering have been determined by negotiation between the Company and the Agents. The TSX has conditionally approved the listing of the Offered Shares to be distributed

under this short form prospectus on the TSX. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before January 4, 2011. See “*Plan of Distribution*”.

	<u>Price to the Public<sup>(1)</sup></u>	<u>Agents’ Commission<sup>(2)</sup></u>	<u>Net Proceeds to the Company<sup>(3)</sup></u>
Per Ordinary Share .....	\$1.417	\$0.09919	\$1.31781
Minimum Offering <sup>(4)</sup> .....	\$60,000,000	\$4,200,000	\$55,800,000
Maximum Offering <sup>(4)</sup> .....	\$100,040,200	\$7,002,814	\$93,037,386

**Notes:**

- (1) **The Offering Price is payable in US dollars or in Canadian dollars.** The US dollar amount (\$1.417) is the equivalent of the Canadian dollar (C\$1.45) denominated price of the Offered Shares, calculated at a rate of \$0.977= C\$1.00.
- (2) The Company has agreed to pay the Agents and the Special Selling Agents an aggregate fee equal to 7% of the gross proceeds of the Offering, including a fee equal to 1% of the gross proceeds of the Offering payable at the discretion of the Company, subject to a reduction in respect of certain purchasers (the “**Agents’ Fee**”). For the purposes of this short form prospectus, the Agents’ Fee has been calculated on the basis of 7% for all sales, notwithstanding the reduction in respect of certain purchases.
- (3) Before deducting the expenses of the Offering, estimated to be \$1,000,000.
- (4) The minimum subscription amount required from each purchaser under the Offering is \$10,000 (7,057 Offered Shares), or such other amount as determined by Fraser Mackenzie Limited and the Special Selling Agents in their sole discretion.

The Agents conditionally offer the Offered Shares on a “commercially reasonable efforts” basis if, as and when issued, sold and delivered by the Company in accordance with the conditions contained in the agency agreement referred to under “*Plan of Distribution*”, subject to approval of certain legal matters relating to the Offering on behalf of the Company by Borden Ladner Gervais LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. See “*Plan of Distribution*”.

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Provided the Minimum Offering has been achieved, it is expected that the closing of the Offering will take place on or about October 20, 2010, or such later date as the Company and the Agents may agree. Notwithstanding the foregoing, the distribution of the Offered Shares will not continue for a period of more than 90 days after the date of the final receipt for this short form prospectus if subscriptions for the Minimum Offering are not obtained within that period, unless each of the persons or companies who subscribed within that period has consented to the continuation of the Offering. See “*Plan of Distribution*”.

Until such time as a closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held in trust, pending closing of the Minimum Offering. If the Minimum Offering has not been subscribed for prior to the expiry of the 90-day period, the Agents shall promptly return the proceeds of the subscription to the subscribers without interest or deduction unless such subscribers have instructed the Agents otherwise. Should a closing occur in respect of the Minimum Offering, one or more additional closings, if necessary, may occur until the earlier of the Maximum Offering being subscribed for and the expiry of the 90-day period. See “*Plan of Distribution*”.

The certificates representing the Offered Shares will be issued in “book-entry only” form and registered to CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee and deposited with CDS on the same day. No certificates representing the Offered Shares will be issued to subscribers and registration will be made through the depository services of CDS. Subject to the foregoing, holders of Offered Shares will receive only a customer confirmation from the Agents or other registered dealers who are CDS participants and from or through whom a beneficial interest in the Offered Shares is acquired. See “*Plan of Distribution*”.

The mailing address for the Company’s principal executive office is P.O. Box 524, St. Peter Port, Guernsey, GY1 6EL, British Isles, and the registered office is located at 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9007, Cayman Islands.

**An investment in the securities offered hereunder is speculative and involves a high degree of risk. The risk factors identified under the headings “*Note Regarding Forward-Looking Statements*” and “*Risk Factors*” in**

**this short form prospectus and in the AIF (as defined herein) should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered hereunder.**

## TABLE OF CONTENTS

NOTE REGARDING FORWARD-LOOKING STATEMENTS .....	1
FOREIGN JURISDICTION .....	3
ABBREVIATIONS AND CONVERSION FACTORS .....	3
CURRENCY .....	3
DOCUMENTS INCORPORATED BY REFERENCE .....	5
TETHYS PETROLEUM LIMITED.....	7
RECENT DEVELOPMENTS .....	7
CONSOLIDATED CAPITALIZATION .....	9
DESCRIPTION OF SHARE CAPITAL .....	10
PRIOR SALES .....	10
PRICE RANGE AND VOLUME OF TRADING OF ORDINARY SHARES .....	11
USE OF PROCEEDS .....	12
PLAN OF DISTRIBUTION.....	12
RISK FACTORS .....	15
ELIGIBILITY FOR INVESTMENT.....	21
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	21
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	23
INTERESTS OF EXPERTS.....	23
PURCHASERS' STATUTORY RIGHTS .....	24
AUDITORS' CONSENT .....	25
CERTIFICATE OF TETHYS PETROLEUM LIMITED .....	C-1
CERTIFICATE OF THE AGENTS .....	C-2

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus and the documents incorporated by reference herein contain certain forward-looking statements and forward-looking information (collectively, “**forward-looking statements**”) which are based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs as at the date of such statements or information, including, among other things, assumptions with respect to production, future capital expenditures and cash flow. 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 are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements. In addition, this short form prospectus and the documents incorporated by reference herein may contain forward-looking statements attributed to third party industry sources. 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 short form prospectus and the documents incorporated by reference herein should not be unduly relied upon. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Such forward-looking statements in this short form prospectus speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference herein.

Forward-looking statements in this short form prospectus and the documents incorporated by reference herein include, but are not limited to, statements with respect to:

- the Company’s plans with respect to its intended use of the proceeds of the Offering;
- the completion and the closing of the Offering and the timing thereof;
- the quantity of oil and natural gas reserves and resources;
- the performance and characteristics of the Company’s oil and natural gas properties;
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- oil and natural gas production levels;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- capital expenditure programs;
- plans for facilities construction and completion of the timing and method of funding thereof;
- projections of market prices and costs;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- supply and demand for oil, natural gas and commodity prices;
- ability to realize forecast prices for gas production;
- access to existing pipelines;
- the future net revenues from, the Company’s natural gas and natural gas liquids reserves;
- expectations regarding the Company’s ability to raise capital and to add to reserves through acquisitions, exploration and development;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- the tax horizon of the Company;
- future acquisitions and growth expectations within the Company;
- treatment under governmental regulatory regimes and tax laws;
- the impact of governmental regulation on the Company relative to other oil and gas issuers of similar size;
- the ability of the Company to obtain and retain the necessary regulatory licenses and approvals to operate its business as planned; and

- realization of the anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements and information contained in this short form prospectus, the Company has made assumptions regarding, among other things:

- the continued existence and operation of existing pipelines;
- future prices for oil, 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 absence of material changes to the regulatory framework representing royalties, taxes, licensing and environmental matters in the countries in which the Company conducts its business;
- natural 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.

Although the Company believes that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. Neither the Company nor the Agents can guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this short form prospectus and the documents incorporated by reference herein include, but are not limited to:

- failure to realize anticipated benefits of exploration activities;
- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- competition for and/or inability to retain drilling rigs and other services;
- the availability of capital on acceptable terms;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- the need to obtain required approvals and permits from regulatory authorities and third parties, when required;
- general economic conditions in Kazakhstan, Tajikistan, Uzbekistan and globally;
- 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*" in this short form prospectus and in the AIF (as herein defined), which is incorporated by reference herein.

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 and information contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Neither the Company nor the Agents are under any duty to update or revise any of these forward-looking statements after the date**

**of this short form prospectus to conform such statements to actual results or to changes in the Company's expectations except as required pursuant to securities laws.**

### **FOREIGN JURISDICTION**

The Company, the directors of the Company and those officers of the Company who have signed this short form prospectus, are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or reside outside of Canada. In addition, all of the Company's assets are located outside of Canada. Although each of the Company and those directors and officers of the Company that have signed this short form prospectus have appointed Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario M5H 3Y4 as its agent for service of process in Canada, it may not be possible for investors to enforce judgements obtained in Canada against the Company or the directors of the Company and those officers of the Company that have signed this short form prospectus. See "*Risk Factors – Risks Relating to the Offering – Enforcement of Judgments Against the Company and its Directors and Officers*".

### **ABBREVIATIONS AND CONVERSION FACTORS**

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

bbbl	barrel
bbbl/d	barrels per day
km	kilometre
km <sup>2</sup>	square kilometre
m	metre
M\$	thousand dollars
Mcf	thousand cubic feet
Mcm	thousand cubic metres
Mcm/d	thousand cubic metres per day
2D	two dimensional
3D	three dimensional

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

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
ft	m	0.305
m	ft	3.281
miles	km	1.610
km	miles	0.621
acres	km <sup>2</sup>	0.004
km <sup>2</sup>	acres	247.1
bbbl	Mcm	0.000159
Mcm	bbbl	6.290
Mcf	Mcm	0.0283
Mcm	Mcf	35.315

### **CURRENCY**

The following table sets forth, for each of the periods indicated, the high and low rates of exchange for one US dollar expressed in Canadian dollars, the average rate of exchange during each such period and the end of period rate, each based on the noon buying rate published by the Bank of Canada (the "**Noon Buying Rate**").

	<b>Six months ended June 30,</b>	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
High.....	C\$1.0778	C\$1.3000	C\$1.2969	C\$1.1853
Low .....	C\$0.9961	C\$1.0292	C\$0.9719	C\$0.9170
Average .....	C\$1.0338	C\$1.1420	C\$1.0660	C\$1.0748
End of Period.....	C\$1.0606	C\$1.0466	C\$1.2246	C\$0.9881

On October 8, 2010, the Noon Buying Rate was \$1.00 = C\$1.0136 as reported by the Bank of Canada.

In this short form prospectus, references to \$ and US\$ are references to US dollars and references to C\$ are references to Canadian dollars.



## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice President, Investor Relations, Tethys Petroleum Limited, TD Canada Trust Tower, 161 Bay Street, 27<sup>th</sup> Floor, P.O. Box 508, Toronto, Ontario, Canada M5J 2S1, telephone: (416) 572-2065. In addition, copies of the documents incorporated herein by reference may be obtained from the securities commissions or similar authorities in Canada through the SEDAR website at [www.sedar.com](http://www.sedar.com).

The following documents of the Company, filed with the various provincial securities commissions or similar authorities in Canada, are specifically incorporated into and form an integral part of this short form prospectus:

- (a) the annual information form of the Company dated March 31, 2010, for the fiscal year ended December 31, 2009 (the “**AIF**”);
- (b) the audited comparative consolidated financial statements of the Company and the notes thereto as at and for the years ended December 31, 2009 and 2008, and the auditors’ report thereon;
- (c) the management’s discussion and analysis of the financial condition and results of operations for the year ended December 31, 2009 (the “**Annual MD&A**”);
- (d) the unaudited comparative consolidated interim financial statements of the Company and the notes thereto as at and for the three and six months ended June 30, 2010 and 2009;
- (e) the management’s discussion and analysis of the financial condition and results of operations for the three and six months ended June 30, 2010 (the “**Interim MD&A**”);
- (f) the Company’s management information circular dated May 6, 2010, in connection with the annual general meeting of the shareholders of the Company held on June 10, 2010;
- (g) the material change report of the Company dated January 15, 2010, prepared in respect of the private placement of 12,615,000 Ordinary Shares;
- (h) the material change report of the Company dated February 9, 2010, prepared in respect of the initial results of testing on the upper zone of the AKD01 oil discovery in Kazakhstan;
- (i) the material change report of the Company dated February 19, 2010, prepared in respect of the private placement of 30,000,000 Ordinary Shares; and
- (j) the material change report of the Company dated October 7, 2010, prepared in respect of the filing of the preliminary short form prospectus of the Company dated October 4, 2010 and in respect of the terms of the Offering.

Any documents of the type referred to in National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any annual information forms, material change reports (except confidential material change reports), financial statements and related management’s discussion and analysis, business acquisition reports and information circulars, if filed by the Company with the provincial securities commissions or similar authorities in Canada after the date of this short form prospectus and before the termination of the Offering, are deemed to be incorporated by reference in this short form prospectus.

**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or**

**superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it is made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

## TETHYS PETROLEUM LIMITED

### General

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 mailing address for the Company’s principal executive office is P.O. Box 524, St. Peter Port, Guernsey GY1 6EL, British Isles, and the Company’s registered office is located at 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9007, Cayman Islands.

### Business of the Company

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, Tajikistan and Uzbekistan. 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 Company operates as the service contractor under the North Urtabulak PEC (as hereinafter defined) for the Uzbek State Partners, which gives incremental production rights to increase production volume of oil from wells on the North Urtabulak Oil Field in the south-central part of the country, close to the border with Turkmenistan and within 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.

Further details concerning the Company, including information with respect to the Company’s assets, operations and development history and the Company’s reserve and other oil and gas information relating to the Company’s assets are provided in the AIF. The contents of the AIF are incorporated by reference into this short form prospectus. Readers are encouraged to thoroughly review the AIF as it contains important information concerning the Company.

## RECENT DEVELOPMENTS

### Kazakhstan Drilling Update

In February 2010, the Company announced the initial results of testing on the upper zone of the AKD01 (“Doris”) oil discovery in Kazakhstan. The upper zone flowed oil at a restricted rate of over 5,400 bbl/d. Combined with the recent testing on the lower zone the AKD01 well has now flowed oil at a combined rate in excess of 6,800 bbl/d. Well AKD01 encountered two oil-bearing zones, the lower zone being a Jurassic carbonate sequence at approximately 2,355 m and the upper zone, being a Cretaceous sandstone at approximately 2,174 m.

The Company has drilled one appraisal well (AKD02) in proximity to the Doris oil discovery to evaluate and establish the size and potential of the discovery and also to provide the necessary data to obtain a production contract. It is also drilling an exploration well (AKD03) on a prospect nearby. The Company is also re-drilling a well (G6RE) drilled in the past that was never tested. These three wells are described in greater detail below.

The AKD02 appraisal well was spudded in April 2010 and preliminary results announced in June 2010. The AKD02 well is approximately 4 km to the north-west of the AKD01 well. Despite the fact that oil shows were observed in the core, the lower Cretaceous zone shows low hydrocarbon saturation, possibly due to a fault between two wells. The Jurassic carbonate zone appears to be oil bearing and is in the process of being tested currently awaiting acidisation equipment. This well may be side tracked subject to the results of the Cretaceous zone testing and the 3D seismic.

The AKD03 (**Dione**) exploration well, which is located approximately 10 km to the south-west of the AKD01 Doris discovery well (on a separate prospect), is currently at a depth of 2,823 m (in what is interpreted to be the middle Jurassic sequence) and casing has been run. On the AKD03 well, a potential oil bearing zone has been identified in good quality Cretaceous sandstones, these being similar to the reservoir, in the AKD01 Doris discovery well. The Jurassic carbonate zone is also present in the well with a thickness of over 20 m and with hydrocarbon indications while drilling and on the wireline logs. In addition to these two intervals, a third potential oil bearing interval has been identified in the deeper middle Jurassic sequence. This is a coal bearing sequence of probable deltaic origin, with hydrocarbon indications in likely channel sandstones. The primary target for this well is in the deeper Triassic sequence (which had oil shows in thin sands in well AKD01) with a planned total depth of approximately 4,000 m. Once drilling is completed, testing of this well is planned with the objective of assessing the potential for the production of commercial hydrocarbon and the possible extent of the reservoirs.

The G6 well, which is located approximately 16 km to the west of the AKD01 well, was originally drilled in 2001 by the then contractor on the Akkulka block and was abandoned without running casing or testing. The re-entry of well G6 (named well G6RE (on the separate **Dodone** prospect)) has now been drilled to a depth of 2,835 m in order to test a deeper potential oil bearing zone identified from the wireline logs in the original G6 hole. The hole is currently being prepared to run casing but differential sticking in the bottom section probably caused by higher formation pressures and permeable zones has slowed down the process. Once casing has been run, preparations for testing will commence.

In addition to the appraisal programme, Tethys is currently carrying out a 3D seismic survey over the Doris discovery and is acquiring additional targeted 2D seismic lines to firm up further potential in the area.

In September 2010, the Company commenced selling untreated oil at the well site of AKD01 to an oil trading company which is transporting the oil by truck to the town of Emba, located 450 km to the north-east, where it will be treated before being transported to local refineries. Tethys plans that initial daily production under this early production scheme to be 750 bbl/d which will be sold at the wellhead at an initial price of US\$22/bbl for the untreated oil. This test production scheme is being implemented to gain reservoir information, realise early cash flow, and also to prepare for the higher production and associated logistics for the next stage.

Tethys anticipates the second stage of the oil production scheme for the production from AKD01 to commence in the second quarter of 2011 whereby production is planned to increase to 3,000 to 4,000 bbl/d. The increased production will require a more significant trucking operation. Tethys has not yet determined whether trucking will be performed by the Company or a third party transporter. Once this trucking operation has been established and production has been increased, the Company expects to realize improved margins on the production from AKD01 due to more effective transportation.

### **Tajikistan Drilling Update**

The Company is currently drilling the directional KOM01 well on the eastern part of the Komsomolsk gas field, under the capital city of Dushanbe. The well is currently at a depth of 2,117 m at the top of the primary Jurassic target. Wireline logs indicate hydrocarbons may be present in the secondary targets of the Cenomanian and Hauterivian. Casing has been run and the well is being prepared to drill to a planned total depth of 2,480 m with this anticipated being reached in the fourth quarter of 2010.

Operations on the East Olimtoi EOL09 exploration well have been suspended for several months awaiting arrival of specialised equipment. This equipment has now arrived and operations are expected to recommence shortly.

### **Uzbekistan Drilling Update**

The Company has just commenced a radial drilling programme of five wells on the North Urtabulak oil field, with each well having a planned four laterals. It is hoped that the application of this technology, never before applied in this region, will result in increased production on this field. If successful, the Company would expect to expand its programme of radial drilling both in Uzbekistan and in Tajikistan.

The NUR96H2 well (a re-drill of the previous NUR96H well, which initially flowed at a rate of some 2,000 barrels of oil per day) is expected to commence in mid-October and to be completed by the end of November. It is hoped that this well will add significantly to field production.

### **Kazakhstan Second Phase Gas Production**

Gas produced from the Company's Kyzylai and Akkulka fields flows along a company-built 56 km pipeline to Tethys' booster compressor station adjacent to the tie-in point to the major Bukhara-Urals export trunkline system where gas-fired compressors compress the gas into the trunkline. Kyzylai field (Phase 1) gas production is currently being sold under the long-term take-or-pay contract with Asia Gas NG LLP at a price of US\$36/Mcm including value added tax ("VAT") which can be recovered by the Company.

The Company's second gas development project in Kazakhstan (Phase 2), which ties-in the discoveries made in the Akkulka Block to the existing infrastructure, was completed and certified by the State Commission of Kazakhstan in August 2010. Six dry gas wells in the Akkulka Block have been completed and tied-in to the Company's 56 km pipeline. In addition, the installation of two additional reciprocating compressors at the Company's compressor station has been completed. Tethys expects production from Phase 2 to be at a rate comparable to production from the Kyzylai Field wells.

In September 2010, the Company entered into a second gas sales contract with Asia Gas NG LLP pursuant to which gas will be sold at a price of US\$38/Mcm (including VAT). Gas sold under this contract is for domestic sales and as such, is subject to a 0.05% royalty payment to the Kazakh State. The new gas sales contract runs for a period of two years and the parties have agreed to assess the price after one year. Tethys expects average daily contract quantity for Phase 2 to be approximately 500 Mcm, which gives a total production for Phase 1 and Phase 2 of approximately 1,000 Mcm/d.

### **Kazakhstan Exploration Contract Extensions**

The Company received permission from the Ministry of Oil and Gas of the Republic of Kazakhstan in June 2010 to extend the Akulkka Exploration Contract for two years from March 10, 2011 to March 10, 2013 (subject to certain routine amendments to the contract). The Ministry of Oil and Gas has extended the contract to enable detailed appraisal of the commercial discovery of oil at the AKD01 well and further exploration in the contract area.

In August 2010 the Ministry of Oil and Gas of the Republic of Kazakhstan agreed to extend the Exploration Period for the Company's Kul-Bas Exploration and Production Contract for two years from November 11, 2011 to November 11, 2013 (subject to certain routine amendments to the contract). The extension to the exploration period gives Tethys an additional two years to explore this area that has several prospects and leads and with a proved oil system in the Akkulka block which is surrounded by the Kul-Bas area.

### **Uzbekistan MOU**

In September 2010, the Company signed a Memorandum of Understanding ("MOU") with the Uzbek State oil and gas company, National Holding Company "Uzbekneftegaz" ("UNG"). The MOU states that Tethys and UNG will conduct joint studies to determine the possibilities of improving hydrocarbon recovery on certain long-term production fields in the Republic of Uzbekistan in order to then sign a contract in accordance with the applicable legislation of the Republic of Uzbekistan.

The Company expects that such contract would be a similar contractual arrangement to the Production Enhancement Contract ("**North Urtabulak PEC**") that a subsidiary of the Company has over the North Urtabulak Field in Uzbekistan that has operated successfully for some 10 years. Under this contract, the Company's subsidiary is allocated refined products for the oil it produces and sells these on the export market in United States dollars.

## **CONSOLIDATED CAPITALIZATION**

There have been no material changes in the consolidated share capitalization or in the indebtedness of the Company since June 30, 2010. After giving effect to the Minimum Offering and the Maximum Offering, Tethys anticipates an

increase in the share capital of the Company of approximately \$54,800,000 (42,342,978 Ordinary Shares) and \$92,000,000 (70,600,000 Ordinary Shares), respectively.

### DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of 700,000,000 Ordinary Shares of \$0.10 par value and 50,000,000 preference shares of \$0.10 par value (“**Preference Shares**”) issuable in one or more series, of which 187,969,769 Ordinary Shares and no Preference Shares are issued and outstanding as at October 8, 2010.

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 Ordinary Share held. The holders of Ordinary Shares have rights of dissent in respect of certain fundamental transactions and the Ordinary Shares are subject to compulsory acquisition if an acquiror acquires over 90% of the outstanding Ordinary Shares pursuant to a take-over bid, as set out in the Company’s articles of association.

The holders of Preference Shares (if and when issued), will be entitled to dividends granted on such shares in priority to dividends granted to holders of Ordinary Shares, and the Preference Shares also confer upon holders thereof, certain rights on dissolution, which are in priority the rights conferred upon holders of Ordinary Shares in such circumstances. The Preference Shares may (but are not required to) entitle the holders thereof to vote at general meetings of the shareholders.

### PRIOR SALES

The following table summarizes the issuance by the Company of Ordinary Shares or securities convertible or exercisable into Ordinary Shares in the 12-month period prior to the date of this short form prospectus:

<u>Date</u>	<u>Securities</u>	<u>Price Per Security</u>	<u>Number of Securities</u>
November 2, 2009 <sup>(1)</sup>	Share Options	US\$0.60	120,000
January 1, 2010 <sup>(2)</sup>	Share Options	US\$0.80	3,498,000
January 4, 2010 <sup>(3)</sup>	Ordinary Shares	C\$0.53	10,000,000
January 25, 2010 <sup>(4)</sup>	Ordinary Shares	C\$0.82	12,615,000
March 1, 2010 <sup>(5)</sup>	Ordinary Shares	C\$1.55	30,000,000
April 9, 2010 <sup>(6)</sup>	Share Options	US\$2.10	3,288,000
April 20, 2010 <sup>(7)</sup>	Ordinary Shares	US\$0.60	60,000
April 30, 2010 <sup>(8)</sup>	Share Options	US\$2.10	120,000
May 26, 2010 <sup>(9)</sup>	Ordinary Shares	US\$0.60	100,000
May 26, 2010 <sup>(10)</sup>	Ordinary Shares	US\$0.80	40,000
June 10, 2010 <sup>(11)</sup>	Share Options	US\$2.10	30,000
August 25, 2010 <sup>(12)</sup>	Ordinary Shares	C\$0.60	600,000

**Notes:**

- (1) On November 2, 2009, the Company granted 120,000 options with an exercise price of \$0.60 to one of its Officers on their appointment to the Company.
- (2) On January 1, 2010, the Company granted to certain of its directors, officers and employees 3,498,000 options with an exercise price of \$0.80.
- (3) On January 4, 2010, the Company issued 10,000,000 Ordinary Shares at a price of \$0.50 (or C\$0.53) each for gross proceeds of \$5 million, to be used to fund the Company’s drilling activities and for general corporate purposes for project development and capital expenditures.
- (4) On January 25, 2010, the Company issued 12,615,000 Ordinary Shares at a price of \$0.79273 (or C\$0.82) each for gross proceeds of \$10 million, to be used for project development and capital expenditures.
- (5) On March 1, 2010, the Company issued 30,000,000 Ordinary Shares at a price of \$1.475 (or C\$1.55) each for gross proceeds of \$46.5 million, to be used for capital expenditures and general corporate purposes.
- (6) On April 9, 2010, the Company granted to certain of its directors, officers and employees 3,288,000 options with an exercise price of \$2.10.

- (7) On April 20, 2010, the Company issued 60,000 Ordinary Shares as a result of an option exercise.
- (8) On April 30, 2010, the Company granted 120,000 options with an exercise price of \$2.10 to one of its Officers on their appointment to the Company.
- (9) On May 26, 2010, the Company issued 100,000 Ordinary Shares as a result of an option exercise.
- (10) On May 26, 2010, the Company issued 40,000 Ordinary Shares as a result of an option exercise.
- (11) On June 10, 2010, the Company granted 30,000 options with an exercise price of \$2.10 to one of its employees.
- (12) On August 25, 2010, the Company issued 600,000 Ordinary Shares as a result of a warrant exercise.

### **PRICE RANGE AND VOLUME OF TRADING OF ORDINARY SHARES**

The Ordinary Shares trade 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 as reported by sources Tethys believes to be reliable for the periods indicated:

<u>Date</u>	<u>High (C\$)</u>	<u>Low (C\$)</u>	<u>Trading Volume</u>
<b>2009</b>			
October	0.86	0.62	4,583,259
November	0.83	0.55	9,561,882
December	0.83	0.54	14,093,887
<b>2010</b>			
January	1.00	0.79	15,941,500
February	2.04	0.92	37,870,700
March	1.96	1.55	17,625,000
April	2.18	1.69	18,453,000
May	1.94	1.45	12,133,600
June	1.88	1.24	9,977,100
July	1.60	1.31	3,834,100
August	1.76	1.47	2,716,800
September	2.19	1.53	9,914,984
October 1 - 8	1.75	1.43	9,024,992

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the Offered Shares distributed under this short form prospectus are estimated to be approximately \$54,800,000, in the case of the Minimum Offering, and approximately \$92,000,000, in the case of the Maximum Offering, after deducting the Agents' Fee of approximately \$4,200,000 in the case of the Minimum Offering, and approximately \$7,000,000 in the case of the Maximum Offering, and the estimated expenses of this Offering of \$1,000,000.

The net proceeds of the Offering are intended to be used by the Company to fund work on the Company's existing properties in Tajikistan, Kazakhstan and Uzbekistan. The aim of the Offering is to provide funding for near-term development and appraisal activities in Tajikistan, Kazakhstan and Uzbekistan, to potentially enhance the value of the Company's exploration assets in Tajikistan and to an extent in Kazakhstan and to further expand the Company's oil development in Kazakhstan and to acquire additional data to potentially enhance the value of the Company's exploration assets in Tajikistan and Kazakhstan. This is further described below.

	Minimum Offering (M\$)	Maximum Offering (M\$)
<b>Tajikistan</b>		
Production and Processing Infrastructure	1,500	3,760
Seismic Data	-	3,000
Exploration and Appraisal Drilling Wells	-	4,000
<b>Kazakhstan</b>		
Appraisal and Exploration Wells	33,500	47,500
Production and Processing Infrastructure	16,800	19,800
Seismic Data	3,000	6,000
<b>Uzbekistan</b>		
Seismic Data	-	2,000
Production Drilling	-	5,940
<b>Total</b>	<b>54,800</b>	<b>92,000</b>

Tethys intends to use the net proceeds of the Offering as described above to accomplish the Company's stated business objective of building a diversified oil and gas exploration and production company, initially focused on Tajikistan, Uzbekistan and Kazakhstan in Central Asia, through the enhancement of the Company's asset base through exploratory and development drilling within its core project areas. In addition, the Company will continue to evaluate strategic acquisition opportunities of oil and natural gas properties from time to time where it views further exploration and development opportunities exist. Potential acquisitions are pursued to complement Tethys' development programs and generally occur within the boundaries of its core regions. There is no particular significant event or milestone that must occur for the Company's business objectives to be accomplished. While the Company believes it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploration for and development of oil and natural gas has a number of inherent risks. See "Risk Factors" in this short form prospectus and in the AIF.

Although the Company intends to expend the proceeds from the Offering as described above, the actual allocation of the net proceeds may vary from that set out above, depending on future operations and unforeseen events.

## PLAN OF DISTRIBUTION

Pursuant to the terms and conditions of the agency agreement dated as of October 12, 2010 between the Company and the Agents (the "Agency Agreement"), the Company has appointed the Agents to offer for sale on a "commercially reasonable efforts" basis, subject to compliance with all legal requirements and the terms and conditions contained in the Agency Agreement, 42,342,978 Offered Shares in the case of the Minimum Offering and up to 70,600,000 Offered Shares in the case of the Maximum Offering at a price of \$1.417 per Offered Share or C\$1.45 per Offered Share, payable in cash against delivery of certificates representing the Offered Shares, for gross proceeds of \$60,000,000 in the case of the Minimum Offering and \$100,040,200 in the case of the Maximum



Offering. In addition, pursuant to the Agency Agreement and the selling agency agreement among the Company, the Agents and the Special Selling Agents dated as of October 12, 2010 (the “**Selling Agency Agreement**”), the Company has appointed Quam and Renaissance Capital to offer for sale on a “commercially reasonable efforts” basis Offered Shares in the United States of America and in certain other jurisdictions outside of Canada and the United States of America, where each such Special Selling Agent is qualified to carry on business. The Offering Price is payable in US dollars or in Canadian dollars. The Canadian dollar amount is the equivalent of the US dollar denominated price of the Offered Shares, calculated at a rate of \$0.977= C\$1.00. Closing of the Offering is expected to be on or about October 20, 2010 or such later date as may be agreed upon by the Company and the Agents. While the Agents and the Special Selling Agents have agreed to use their commercially reasonable efforts to sell the Offered Shares, they are not obliged to purchase any Offered Shares that are not sold. The obligations of the Agents under the Agency Agreement may be terminated at the Agents’ discretion on the basis of its assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The obligations of the Special Selling Agents shall be terminated if the obligations of the Agents under the Agency Agreement are terminated and may also be terminated at their discretion on the basis of the occurrence of certain stated events. The terms of the Offering have been determined by negotiation between the Company and the Agents.

The Agency Agreement and the Selling Agency Agreement provide for payment by the Company of the Agents’ Fee, which is equal to 7% in aggregate of the gross proceeds raised in the Offering, for various services rendered to the Company in connection with the Offering, including a fee equal to 1% of the gross proceeds of the Offering payable at the discretion of the Company, subject to a reduction in respect of certain purchasers. For the purposes of this short form prospectus, the Agents’ Fee has been calculated on the basis of 7% for all sales, notwithstanding the reduction in respect of certain purchases.

Provided that the Minimum Offering has been achieved, it is expected that closing of the Offering will take place on or about October 20, 2010, or such later date as the Company and the Agents may agree. Notwithstanding the foregoing, the distribution of the Offered Shares will not continue for a period of more than 90 days after the date of a receipt for this short form prospectus if subscriptions for the Minimum Offering are not obtained within that period, unless each person or company who subscribed within that period has consented to the continuation of the Offering. It is expected that definitive certificates representing the Offered Shares will be available for delivery at closing.

Until such time as a closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents and the Special Selling Agents will be held in trust, pending closing of the Minimum Offering. If the Minimum Offering has not been subscribed for prior to the 90-day period, the Agents and the Special Selling Agents shall promptly return the proceeds of subscription to the subscribers without interest or deduction unless such subscribers have otherwise instructed the Agents or the Special Selling Agents. Should a closing occur in respect of the Minimum Offering, one or more additional closings, if necessary, may occur until the earlier of the Maximum Offering being subscribed for and the expiry of the 90-day period.

The certificates representing the Offered Shares will be issued in “book-entry only” form and registered to CDS or its nominee and deposited with CDS on the same day. No certificates representing the Offered Shares will be issued to subscribers and registration will be made through the depository services of CDS. Subject to the foregoing, holders of Offered Shares will receive only a customer confirmation from the Agents or other registered dealers who are CDS participants and from or through whom a beneficial interest in the Offered Shares is acquired.

The Company has agreed that it will not, without the prior consent of the Agents and the Special Selling Agents, which consent shall not be unreasonably withheld, directly or indirectly, issue, sell, grant an option or right in respect of, or otherwise dispose of any Ordinary Shares or any securities convertible into or exercisable or exchangeable for any Ordinary Shares, at any time prior to 180 days after the initial closing of the Offering, other than: (i) the sale of Offered Shares pursuant to the Agency Agreement; (ii) the grant or exercise of stock options and other similar issuances pursuant to the Company’s stock incentive plan; (iii) the issue of Ordinary Shares upon the exercise of the convertible securities, warrants or options outstanding prior to the initial closing of the Offering; and (iv) the issue of Ordinary Shares or other equity securities of the Company as consideration for the acquisition of oil and natural gas properties or shares of companies in the energy industry or for the acquisition of equipment required for the Company’s operations.

The Company has agreed to indemnify the Agents and the Special Selling Agents against certain liabilities and expenses, including liabilities under applicable securities legislation in certain circumstances, or to contribute to payments the Agents or the Special Selling Agents may have to make in respect thereof.

The TSX has conditionally approved the listing of the Offered Shares to be distributed under this short form prospectus on the TSX. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before January 4, 2011.

This short form prospectus is only being and may only be distributed to and directed at (i) persons outside the U.K.; or (ii) persons in the U.K. who (a) are “qualified investors” within the meaning of Section 86(7) of the FSMA, and (b) have professional experience in matters relating to investments and who are persons referred to in Article 19 (investment professionals) or Article 49 (high net worth companies, unincorporated associations, etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended); or (c) are otherwise lawfully permitted to receive it (all such persons together being referred to as “**relevant persons**”).

The securities being offered hereunder are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. By accepting a copy of this short form prospectus and by offering to acquire Offered Shares under the Offering, potential investors in the U.K. will be deemed to have represented that they satisfy the criteria specified in clause (ii) above to be a relevant person. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document is not a prospectus for the purposes of Section 85(1) of FSMA and contains no offer to the public within the meaning of section 102B of FSMA, the U.K. Companies Act 2006 or otherwise. Accordingly, this document has not been approved as a prospectus by the FSA, under Section 87A of FSMA and has not been filed with the FSA pursuant to the U.K. prospectus rules nor has it been approved by a person authorized under FSMA.

The Agents have agreed in the Agency Agreement that they will not, directly or indirectly, offer for subscription or sale or solicit applications for any of the Offered Shares, nor will they distribute any documents in relation to the Offering to any person: (a) if by doing so it would cause the Offering to be regarded as an offer to the public within the meaning of section 102B of the FSMA and/or which would require the Company to issue a prospectus (within the meaning of the U.K. prospectus rules published by the FSA) with regard to the same; and/or (b) who does not fall within Article 19 (investment professionals) and/or 49 (high net worth entities, unincorporated associations etc.) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

The Offered Shares offered hereby have not been and will not be registered under the 1933 Act or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. The Selling Agency Agreement permits the Special Selling Agents to arrange for certain eligible investors in the United States to purchase Offered Shares directly from the Company pursuant to exemptions from registration under the 1933 Act. In addition, the Agency Agreement provides that the Agents will, and the Selling Agency Agreement provides that the Special Selling Agents will offer and sell Offered Shares outside the United States only in accordance with Regulation S under the 1933 Act. The Agents and the Special Selling Agents have agreed that, except as permitted by the Agency Agreement and the Selling Agency Agreement, they will not offer or sell the Offered Shares within the United States.

In addition, until 40 days after the closing of the Offering, any offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering), may violate the registration requirements of the 1933 Act if such offer or sale is made other than in accordance with an available exemption under the 1933 Act.

Under the terms of a subscription agreement between Pope Asset Management, LLC and the Company dated December 19, 2009, certain funds managed by Pope Asset Management, LLC (collectively, “**PAM**”) have a right to participate in future issues and sales of Ordinary Shares of the Company for cash consideration completed by December 31, 2010, including the Offering, in order to maintain its then current proportionate equity interest in the Company, which was 17.9% reported as of September 29, 2010. Such right does not apply to the issue of Ordinary Shares pursuant to (i) the exercise of options granted under the Company’s 2007 Long Term Incentive Plan; (ii) the exercise of warrants outstanding on the date hereof or which may be granted in connection with loan transaction or acquisition; (iii) or acquisitions. In the case of the Maximum Offering, PAM has a right to acquire up to 12,622,831

Ordinary Shares under the terms of the Offering. The Company has been advised that PAM has indicated its interest in purchasing up to 12,690,000 Ordinary Shares under the terms of the Offering. Should PAM subscribe for such number of Ordinary Shares, it will continue to exercise control over 17.9% of the Ordinary Shares outstanding.

## RISK FACTORS

The acquisition of Ordinary Shares involves a high degree of risk and should be considered speculative. An investor should carefully consider the following risk factors and all of the other information contained in this short form prospectus (including the AIF and the other documents incorporated by reference) before purchasing any of the Ordinary Shares. If any event arising from these risks occurs, the Company's business, prospects, financial condition, results of operations or cash flows could be adversely affected, the trading price of the Ordinary Shares could decline and all or part of any investment may be lost. Additional risks and uncertainties not currently known to the Company, or that are currently deemed immaterial, may also materially and adversely affect the Company's business operations.

### Risks Relating to the Company and its Business

An investor should carefully consider the risk factors disclosed in the AIF under the heading "*Risk Factors*", in the Annual MD&A and in the Interim MD&A and in the other documents incorporated by reference herein. See "*Documents Incorporated by Reference*". The following is a list of the risks which are described in detail in the AIF and all of which are incorporated by reference herein: property interests and governmental approvals; competition in the oil and gas industry; substitute energy sources; marketability of our production; commodity price fluctuations; nature of the oil and gas business; dependence on gas pipelines; management services provided pursuant to a services agreement and dependence on key personnel; gas supply contracts and other hedging activities; sufficiency of financial resources; international operations; foreign currency and fiscal matters; political and regulatory risk; legal systems; production variances from reported reserves; distinction between "resources" and "reserves"; availability of equipment and access restrictions; operating hazards and limited insurance coverage; seasonality and weather patterns; environmental risks; reliance on third party operators and key personnel; recurring losses and going concern; cost of new technologies; production delays; disclosure controls and procedures; internal controls over financial reporting; adoption of International Financial Reporting Statements; conflicts of interest; relinquishment of exploration rights; current markets conditions; potential declines in reserves; the leased properties of the Company, its subsidiaries and interests in limited liability partnerships (collectively, the "**Group**"); as well as certain risks related to operating in Kazakhstan, Tajikistan and Uzbekistan, including political, economic, legal and fiscal instability; legal and regulatory environment in Kazakhstan; taxation risks and issues in Kazakhstan; legal and regulatory framework in Tajikistan; taxation risks and issues in Tajikistan; lack of infrastructure in Tajikistan; legal and regulatory environment in Uzbekistan; legal and regulatory framework in Uzbekistan; taxation risks and issues in Uzbekistan; and lack of infrastructure in Uzbekistan.

#### *Kazakh State Priority Right under Kazakhstan's New Subsurface Law*

The AIF describes the risks associated with the Kazakh State's priority right in respect of any transfer of an interest in a company that has the right to directly or indirectly control an entity that has subsurface rights in Kazakhstan whose main activity is related to subsurface use in Kazakhstan. See "*Risk Factors – Risks Related to the Company and its Business – Property Interests and Governmental Approvals*" in the AIF.

The Kazakh State introduced a new law on subsurface and subsurface use with effect from July 2010 (the "**Subsurface Law**"). Many of the articles are the same or have the same effect as the previous subsurface law. Article 71 of the previous subsurface law granted the Kazakh State a priority right to acquire any interest being sold in a legal entity, whether directly or indirectly, and on terms no worse than that offered to the buyer, if the main activity of such legal entity was related to subsurface use in Kazakhstan. Under Article 36 of the new Subsurface Law, which effectively replaces the old article 71, the State has a priority right to acquire any interest (including securities) in a company that may directly and or indirectly determine and or exert influence on decisions made by the subsurface user if the main activity of that legal entity is related to subsurface use in the Republic of Kazakhstan.

Provided the main activity of that legal entity is related to subsurface use in Kazakhstan, the consent of the competent authority of the Kazakh State (the "**Competent Authority**") is required for, among other things, an

issuance of shares for circulation on the organized stock market. There is an exception to the consent and waiver requirement for subsequent trading of shares on organized stock markets.

As in the previous law, the new Subsurface Law does not have a definition of main activity related to subsurface use in Kazakhstan.

The then appointed Competent Authority for the purposes of the previous subsurface law, the RK Ministry of Energy and Mineral Resources, has previously taken a preliminary, non-binding view that Tethys' main assets are located in Kazakhstan. Tethys sent its objection to this view, providing additional information about Tethys' assets in Uzbekistan and Tajikistan, as an explanation why its main assets should not be considered to be located in Kazakhstan. The Ministry of Energy and Mineral Resources never responded. The current Competent Authority, the Ministry of Oil and Gas, has not taken a formal position on this issue.

Should the Competent Authority decide that the Company's main activity was in Kazakhstan, then the Kazakh State has a priority right under the new Subsurface Law (as it did under the previous subsurface law in respect of prior offerings) and the Competent Authority now also has to approve the transaction. In such case, the Competent Authority will have the right to terminate the Company's exploration and production license and contracts in Kazakhstan (the "**Kazakh Contracts**"). If the Kazakh Contracts were terminated by the Competent Authority, the Company would lose its subsurface use rights in the Kazakh Contracts. In addition, Article 36 provides that any transaction involving the transfer of subsurface use interests without the Competent Authority's consent is invalid. If the Kazakh State decided the Company's main activity was in Kazakhstan and took such action to terminate the Kazakh Contracts, the Company would assert that the Kazakh State had no right to terminate the Kazakh Contracts because the Company's main activity is not subsurface use in Kazakhstan.

#### *Property Interests and Governmental Approvals*

The Company's subsidiaries obtain their exploration and/or production rights in Kazakhstan, Uzbekistan and Tajikistan through entering into various contracts with governmental agencies in such countries (the "**Contracts**"). Ownership of the land covered by the Contracts usually remains with the relevant state and/or state owned companies, with the Company only obtaining land use rights as necessary for the operations. The Company's subsidiaries are required to obtain other specific operational licences for example, to carry out their exploration and/or production activities. Some of these licences, permits and authorisations may be held by third party service providers, such as drilling companies. There is no assurance that all licences, permits or authorisations have been or will be granted to the Group and there is no assurance that the Group has all the requisite licences, permits or authorisation to carry out their exploration and/or production activities. There is also no assurance whether the Group has complied with all of the environmental, safety, health and sanitary regulations. In this respect, no experts or advisers have been engaged to conduct any audit or technical review of the operations of the Group, including any audit to determine if the Group has the required licences, permits or authorisations necessary to conduct operations. The Company has identified some instances where activities relating to certain Contracts have been carried out in non-compliance with all technical requirements of such Contracts. While the Company, on the advice of its legal advisors, considers the risks of such non-compliance to be low, there is still a risk that the authorities may make a determination with respect to such Contracts that may have a material adverse affect upon the Company.

#### *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. As such, fluctuations in oil and gas prices could materially and adversely affect the Company's business, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for gas prices in the region is good, the recent fall in both prices and demand caused by the recent economic slowdown in Europe and the FSU and in particular the gas dispute between OAO GazProm and Ukraine described below has led to significant uncertainties as to the price of and demand for Central Asian gas which may continue to have an impact on the pricing and demand for Kazakh gas in the short term.

The impact on demand for oil and gas of the economic downturn is not uniform. For example, demand has risen in China but fallen in the U.S. Also, there needs to be consideration of production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and as such there are many differing opinions on the cause of recent price changes.

This impact on the Company's operations was only evident in the operations in Uzbekistan. The gas production in Kazakhstan is sold at a fixed price, and so the fluctuation in world commodity prices had no effect on the Company's monthly revenue from the Kazakh operations. In Uzbekistan, the Company sells refined petroleum products on a monthly basis, and the fall in the oil price in the first and second quarters of 2009 reduced monthly revenue.

The Bukhara-Urals trunkline carries gas from Central Asia through Kazakhstan and into the Russian export system and consequently any problems would have adverse implications for the economy of Uzbekistan in particular and to a lesser extent the Russian and Kazakh economies, it is anticipated that there would be significant efforts to minimize any disruption in supply.

However, there are external factors that may affect this. For example, in December 2008 to January 2009 a dispute between the Russian gas company OAO GazProm and Ukraine, resulted in a temporary closure of the Russian gas export system to Europe which, although not directly related, did have a significant knock-on effect of the whole export system, including gas flowing through the Central Asian gas trunkline network.

### *Gas Pipeline*

The Company is economically dependent on the pipeline from the Kyzylol Field to a booster compression station constructed at km910 on the Bukhara-Urals gas trunkline 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 to January 2009 a dispute between the Russian gas company OAO 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.

### *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. Alternatively the Company may seek further funding through issue of equity but particularly in the current market conditions, there can be no assurances that management would be successful with such initiatives. 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 is subject to risks related to its operations in or interests relating to Kazakhstan, Tajikistan and Uzbekistan, including those related to the exploration, development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. 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.

In particular, Uzbekistan and Tajikistan border Afghanistan. Afghanistan is currently in a situation of instability. Such stability and security issues may have an adverse effect on the ability of the Group to gain access to equipment and personnel. In addition, any particular domestic or international incidents in the region may have an adverse effect on the sentiment of the market towards energy companies that operate in Central Asia, as well as an adverse effect on the willingness of lenders and new investors to provide financing to the Group. Currently, the Group is not subject to any foreign investment restrictions in Kazakhstan, Tajikistan and Uzbekistan.

The government of the Russian Federation and Russian oil and gas companies may exert a significant degree of influence in the region. Russian regulations and policies may have a significant impact on the market prices of natural gas in the Group's markets. Actions taken by Russian authorities and companies may also have an impact on the Group's ability to provide its products to market although this is mitigated by the Group's oil product exports to other markets and the planned natural gas pipelines from Central Asia to the People's Republic of China. Actions taken by the Russian government and competitors in Russia may be unpredictable and would be out of the Group's control. There is no guarantee that actions taken by Russian and other foreign entities will not have a material adverse effect on the Group's prospects and the trading price of the Ordinary Shares.

### *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 certain subsidiaries 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, Tajikistan and Uzbekistan, 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, Tajikistan and Uzbekistan 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, Tajikistan and/or Uzbekistan 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, Tajikistan, Delaware, Cyprus, England and the Netherlands. The Company through its subsidiaries carries on operations in Kazakhstan and Tajikistan and, through the North Urtabulak Production Enhancement Contract, Uzbekistan. 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, Tajikistan and Uzbekistan 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.

### *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 consolidated deficit of \$99.7 million as at June 30, 2010. Since the Group 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 Group, there is no assurance that the Group will become or remain profitable in the future. 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. No assurance can be given that the Group will not experience operating losses in the future. In the event that the Company is unable to generate sufficient revenue and cash flow from its operations, it may need to seek further funding from the equity or debt markets or alternative sources. Particularly in the current market conditions, there would be no guarantee of success.

### **Risks Relating to the Offering**

In addition to the risk factors in the AIF describing risks to the Company's business, the following additional risk factors should be considered by persons considering an investment in the Ordinary Shares.

#### *Share Price Volatility*

A number of factors could influence the volatility in the trading price of the Ordinary Shares, including changes in the economy or in the financial markets, industry related developments, and the impact of changes in the Company's daily operations. Each of these factors could lead to increased volatility in the market price of the Ordinary Shares. In addition, variations in earnings estimates by securities analysts and the market prices of the securities of the Company's competitors may also lead to fluctuations in the trading price of the Ordinary Shares.

#### *Liquid Public Market*

The trading volume of the Ordinary Shares on the TSX has been subject to significant fluctuations. See "*Price Range and Volume of Trading of Ordinary Shares*". Trading volumes can be expected to continue to be subject to significant fluctuations. Lower trading volumes may make it difficult for subscribers to sell their Ordinary Shares at the prevailing market price. There is no assurance that trading volumes on the TSX will increase to provide greater liquidity to shareholders in the future.

#### *Discretion in the Use of Proceeds*

The Company's management will have broad discretion concerning the use of the proceeds of the Offering as well as the timing and application of their expenditure. See "*Use of Proceeds*". As a result, purchasers of Ordinary Shares will be relying on the judgment of management for the application of the proceeds of the Offering. The results and the effectiveness of the application of the proceeds are uncertain. If the proceeds are not applied effectively, the results of the Company's operations may suffer.

#### *Dividends*

The Company has not declared or paid any cash dividends on the Ordinary Shares to date. The payment of dividends in the future will be dependent on the Company's earnings and financial condition and on such other factors as the Board of Directors considers appropriate. Unless and until the Company pays dividends on the Ordinary Shares, shareholders may not receive a return on their Ordinary Shares.

#### *Dilution*

The Offering Price significantly exceeds the net tangible book value per share of the Ordinary Shares. Accordingly, purchasers of Offered Shares will experience immediate and substantial dilution of their investment. Investors may be subject to further dilution if the Company sells additional Ordinary Shares or issues additional Ordinary Shares in connection with future acquisitions. In addition, Ordinary Shares issued upon the exercise of outstanding stock options will lead to further dilution for purchasers in the Offering.

#### *Enforcement of Judgments Against the Company and its Directors and Officers*

The Company, the directors of the Company and those officers of the Company that have signed this short form prospectus, are incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or reside outside of Canada. In addition, all of the Company's assets are located outside of Canada. Although each of the Company and the directors and officers of the Company that have signed this short form prospectus have appointed Borden Ladner Gervais LLP at 40 King Street West, Toronto, Ontario M5H 3Y4 as their agent for service of process



in Canada, it may not be possible for investors to enforce judgements obtained in Canada against the Company, the directors of the Company and those officers of the Company that have signed this short form prospectus.

### ELIGIBILITY FOR INVESTMENT

In the opinion of Borden Ladner Gervais LLP, counsel to the Company, and Blake, Cassels & Graydon LLP, counsel to the Agents, based on the provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder in force as of the date hereof and the proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, the Offered Shares, if issued on the date hereof, would be “qualified investments” under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts (“**TFSA**”) (collectively, “**Plans**”), provided that the Ordinary Shares are listed on a designated stock exchange (which currently includes the TSX) at such time.

Notwithstanding that the Offered Shares may be a qualified investment for a trust governed by a TFSA, the holder of a TFSA will be subject to a penalty tax on the Offered Shares held in the TFSA if such Offered Shares are a “prohibited investment” for the purposes of section 207.01 of the Tax Act. The Offered Shares will generally be a “prohibited investment” if the holder of the TFSA does not deal at arm’s length with the Company for the purposes of the Tax Act or the holder of the TFSA has a significant interest (under the meaning of the Tax Act, generally 10% or more of the issued shares of any class owned directly or indirectly by the holder or persons not dealing at arm’s length with the holder) in the Company or a corporation, partnership or trust with which the Company does not deal at arm’s length for the purposes of the Tax Act.

Effective for transactions after October 16, 2009, newly proposed amendments to the Tax Act (the “**Proposed TFSA Amendments**”) would subject any transfer of property (other than a contribution) by a holder or by a person who does not deal with at arm’s length with a holder (such as other exempt plans of the holder) to the holder’s TFSA to a tax equal to 100% of the increase in the total fair market value of the property held in connection with the holder’s TFSA that is attributable to the transfer and would also subject any income or capital gain earned after October 16, 2009 that is reasonably attributable to a “prohibited investment” or a “deliberate over-contribution” to tax equal to 100% of the income or capital gain. No assurance can be given that the Proposed TFSA Amendments will be enacted in their current form or at all.

**Prospective purchasers who intend to hold Offered Shares in their TFSA should consult their own tax advisors regarding their particular circumstances.**

### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

This summary does not apply to a Holder that is a “financial institution” for purposes of the mark-to-market provisions of the Tax Act or a Holder of an interest which is a “tax shelter investment” (both as defined in the Tax Act) or a person who has made a functional currency reporting election under section 261 of the Tax Act. Such Holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act (the “**Tax Proposals**”) which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel’s understanding of the current published administrative

policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not otherwise take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that such Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

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

### **Currency Conversion**

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Offered Shares must be converted into Canadian dollars based on the exchange rates as determined in accordance with the Tax Act. The amount of dividends required to be included in the income of, and capital gains or capital losses realized by, a Holder may be affected by fluctuations in the Canadian/U.S. dollar exchange rate.

### **Foreign Investment Entity Rules**

In the Canadian federal budget released on March 4, 2010, the Minister of Finance announced that certain prior Tax Proposals relating to the taxation of Canadian residents investing in certain non-resident entities (the “**FIE Proposals**”) will not be implemented. The Minister of Finance also proposed to replace the FIE Proposals with a slightly revised version of the current offshore investment fund property rules. There can be no assurance that these revised proposals will be enacted as proposed, or at all.

The existing rules with respect to offshore investment fund property may, in certain circumstances, require a Holder to include an amount in income in each taxation year in respect of the acquisition and holding of the Offered Shares if the value of such shares may reasonably be considered to be derived, directly or indirectly, primarily from portfolio investments in: (i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (ix) any combination of the foregoing (“**Investment Assets**”). Any amount required to be included in computing the Holder’s income in respect of an offshore investment fund property that is a share of a non-resident corporation would be added to the adjusted cost base to the holder of such share.

Based on counsel’s understanding of the facts, including certain representations to counsel by the Company, currently the Offered Shares should not qualify as offshore investment fund property. Provided that an Offered Share is not an offshore investment fund property at any relevant time in the future, an investment by a Holder in the Offered Shares should not be subject to the provisions of the Tax Act relating to investments in offshore investment fund property.

Furthermore, in order for these rules to apply to a Holder in respect of the Offered Shares, it must be reasonable to conclude that one of the main reasons for the Holder acquiring or holding the Shares was to derive a benefit from portfolio investments in Investment Assets in such a manner that the taxes, if any, on the income, profits and gains from such Investment Assets for any particular year are significantly less than the tax that would have been applicable under Part I of the Tax Act if the income, profits and gains had been earned directly by the Holder.

These rules are complex and their application depends, in part, on the reasons for a Holder acquiring or holding the Offered Shares. Holders are urged to consult their own tax advisors regarding the application and consequences of these rules in their own particular circumstances.

## **Foreign Property Information Reporting**

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

## **Disposition of Offered Shares**

A Holder who disposes of or is deemed to have disposed of an Offered Share will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of the Offered Share exceed (or are exceeded by) the aggregate of the adjusted cost base of such Offered Share and any reasonable expenses associated with the disposition. The adjusted cost base to the Holders of an Offered Share acquired pursuant to this Offering will be determined by averaging the cost of such Offered Share with the adjusted cost base of all other Ordinary Shares, if any, owned by the Holder as capital property at the time of such acquisition.

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

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

A Holder that is a Canadian controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6 $\frac{2}{3}$ % refundable tax in respect of its aggregate investment income, which includes an amount in respect of taxable capital gains.

## **Taxation of Dividends Received by Holders of Offered Shares**

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

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

A Holder that is a Canadian controlled private corporation (as defined in the Tax Act) throughout the relevant taxation year may be subject to the 6 $\frac{2}{3}$ % refundable tax in respect of its aggregate investment income, which includes an amount in respect of dividends on the Offered Shares.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, Calgary, Alberta.

The transfer agent and registrar for the Ordinary Shares is Equity Transfer and Trust Company, Toronto, Ontario.

## **INTERESTS OF EXPERTS**

Certain legal matters in connection with the issuance of the Ordinary Shares offered hereby will be passed upon on behalf of the Company by Borden Ladner Gervais LLP, Calgary, Alberta and on behalf of the Agents by Blake, Cassels & Graydon LLP, Calgary, Alberta. As of the date hereof, the partners and associates of Borden Ladner Gervais LLP, as a group, and the partners and associates of Blake, Cassels & Graydon LLP, as a group, beneficially own, directly and indirectly, less than 1% of the securities of the Company.

Reserve and resource estimates incorporated by reference in this short form prospectus in respect of Tajikistan have been prepared by TRACS International Consultancy Limited (“**TRACS**”) and reserves estimates incorporated by reference in this short form prospectus in respect of Kazakhstan have been prepared by McDaniel & Associates Consultants Ltd. (“**McDaniel**”). As at the date hereof, the principals of TRACS and McDaniel, each as a group, beneficially own, directly or indirectly, less than 1% of the securities of the Company.

#### **PURCHASERS’ STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

## AUDITORS' CONSENT

### Consent of PricewaterhouseCoopers LLP

We have read the short form prospectus of Tethys Petroleum Limited (the "**Company**") dated October 12, 2010, qualifying the distribution of a minimum of 42,342,978 Ordinary Shares of the Company and a maximum of 70,600,000 Ordinary Shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Company on the consolidated statements of financial position of the Company as at December 31, 2009, December 31, 2008 and January 1, 2008 and the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the years ended December 31, 2009 and 2008. Our report is dated March 31, 2010.

Calgary, Alberta  
October 12, 2010

(signed) "*Pricewaterhouse Coopers LLP*"  
Chartered Accountants

**CERTIFICATE OF TETHYS PETROLEUM LIMITED**

Dated: October 12, 2010

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta and Ontario.

(signed) "*Dr. David Robson*"  
President and Chief Executive Officer

(signed) "*Bernard Murphy*"  
Finance Director and Chief Financial Officer

**On Behalf of the Board of Directors**

(signed) "*Piers Johnson*"  
Director

(signed) "*Liz Landles*"  
Director

**CERTIFICATE OF THE AGENTS**

Dated: October 12, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta and Ontario.

**FRASER MACKENZIE LIMITED**

By: (signed) "*JC St-Amour*"

**FIRSTENERGY CAPITAL CORP.**

By: (signed) "*Robyn T. Hemminger*"