

TETHYS OIL

Corporate Governance Report 2012



Corporate governance report

Corporate governance refers to the rules and structure established for the efficient management of a limited liability company's operations. Ultimately, the purpose of corporate governance is to accommodate the shareholders' demand for returns and all stakeholders' need for information regarding the Company and its development.

Since the Company's shares have been listed on NASDAQ OMX First North the Company has not yet been required to comply with the Swedish Code of Corporate Governance (the "Code"). As from the listing of the Company's shares on NASDAQ OMX Stockholm the Company will comply with the Code. The Code stipulates what is good practice on the Swedish stock market for all Swedish limited liability companies, regardless of market capitalisation, the shares of which are listed for trading on a regulated market in Sweden. At present there are two regulated markets in Sweden, NASDAQ OMX Stockholm and NGM Equity. The Code is based on the "comply or explain" principle, which means that a company can deviate from the Code's norms if such deviations are satisfactorily explained. Possible deviations will be announced and explained by Tethys Oil in the yearly corporate governance report. The Company expects that the Code will be adhered to in its entirety and, accordingly, that no deviations will have to be explained.

General meetings

The general meeting is the Company's highest decision-making body. The responsibilities of the general meeting are regulated in the Swedish Companies Act ("SCA") and in the articles of association. Annual general meetings are to be held at the latest six months after the end of the fiscal year. Shareholders registered in the share register and which have given notice of their intention to participate in due time have a right to participate at the general meeting. The annual general meeting is normally held in Stockholm in May. At the annual general meeting the shareholders elect the board of directors and the auditors and resolve on remuneration, principles for the nomination committee and on discharge of liability for the board of directors and the man-

aging director and adopt the profits/losses of the parent company and the group. The articles of association are changed by the annual general meeting or an extraordinary general meeting.

The annual general meeting on 16 May 2012 dealt with customary matters, such as the appropriation of the Company's profits, determination of the remuneration for the board of directors and the auditors, and of the number of members of the board of directors, election of the board of directors and the chairman and the establishment of procedures for appointing the nomination committee. Further it was resolved on guidelines for remuneration of senior management and on an authorisation for the board of directors to resolve on an issue of shares. See the section "The Tethys Oil share" for more information on the authorisation and the section "Compensation" for more information on the guidelines. All board members, senior management and auditors were present at the annual general meeting. The nomination committee was not completely formalised and thus did not participate at the 2012 annual general meeting.

The board of directors

The articles of association stipulate that the board of directors of Tethys Oil shall consist of no less than three and no more than ten board members with no more than three deputy board members. Board members are elected for a maximum of one year at a time. The board of directors of Tethys Oil consists of seven directors and no deputies. Six board members are independent from the Company, the Company's management and the Company's larger shareholders, and seven board members are independent from larger shareholders/interested parties. Morgan Sadarangani has been appointed the secretary of the board of directors. The chairman of the board of directors, Vincent Hamilton, was active in the Company up to and including November 2012, but is since then no longer active in the Company.

The board of directors has the overall responsibility for managing the Company's business and affairs in the best possible way on behalf of the shareholders. The board

of directors' work is governed by annually adopted rules of procedure. The board of directors supervise the work of the managing director by continually following up the Company's operations. The board of directors also ensures that the Company's organisation, administration and control are properly managed. The board of directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. The board of directors also appoints the managing director and determines the managing director's salary and other compensation.

The chairman of the board of directors supervises the work and is responsible for it being well organised and efficient. This entails, among other things, continually following the Company's operations in contact with the managing director and being responsible for other board members receiving the information and documentation needed to ensure high quality discussions in and well founded decisions by the board of directors. The chairman is responsible for the evaluation of the board of directors' and the managing director's work and represents the board of directors in ownership matters.

According to the current rules of procedure the board of directors shall, after the constituent board meeting following the annual meeting, hold a minimum of 6 planned meetings during the financial year. During 2011 the board held 9 meetings and during 2012 it held 13 meetings. So far during 2013 the board of directors has held 2 meetings where minutes were kept, in addition to on-going contact with the Company's management. The board of directors has established two committees: the remuneration committee and the audit committee.

Remuneration committee

The board has established a remuneration committee for the period up to and including the annual meeting for 2013, consisting of all board members with the exception of Magnus Nordin and Vincent Hamilton. Jan Risberg is the chairman of the committee. The remuneration committee prepares the board of directors' decisions in matters of remuneration and the principles for remuneration, especially

concerning the Company's senior management. The committee monitors and evaluates programs for variable remuneration to senior management, the application of the guidelines for remunerations to senior management adopted by the general meeting as well as the current structures and levels of remuneration in the Company. The remuneration committee has a preparatory role and presents decision proposals for the board of directors to decide on.

Audit committee

The board has established a remuneration committee for the period up to and including the annual meeting for 2013, consisting of all board members with the exception of Magnus Nordin and Vincent Hamilton. Jan Risberg is the chairman of the committee. The audit committee monitors the financial reporting, the quality of the Company's internal control, internal auditing and risk management. The committee informs itself on the auditing, oversees the impartiality and independence of the auditor and assists the nomination committee with proposals for auditors to the general meeting. The audit committee has a preparatory role and presents decision proposals for the board of directors to decide on.

Attendance

The table below shows the attendance during 2012 of each board member in the meetings of the board of directors, the remuneration committee and the audit committee, respectively.

Nomination Committee

The nomination committee is the shareholders' body tasked with submitting proposals to the general meeting concerning

election and remuneration matters, and in certain cases propose procedural matters regarding the nomination committee for the following year. The nomination committee is appointed annually by decision of the annual general meeting. At the annual general meeting in 2012 it was resolved that an independent board member who is not active in the Company is to invite four of the Company's larger shareholders to constitute the nomination committee. The nomination committee shall appoint a chairman from its members. The members of the nomination committee shall be announced at least six months prior to the annual general meeting of 2013. If a member of the nomination committee resigns before it has finished its assignment the remaining members shall appoint a new member.

The nomination committee for the annual general meeting of 2013 consists of the following members:

Dennis Harlin, who is chairman of the nomination committee and who represents himself and Annemarie Danielsson; Vincent Hamilton, who represents himself; Jan Risberg, who represents himself; Mikael Petersson, who represents himself, Niklas Antman and SSE Capital.

Managing director

The managing director of Tethys Oil is, in accordance with the SCA, responsible for the day-to-day management of the Company's operations according to the guidelines and instructions of the board of directors. The board of directors has adopted an instruction for the managing director which clarifies the responsibilities and authority of the managing director. According to the instruction the managing

director shall provide the board of directors with decision data in order to enable the board to make well-founded decisions and with documents to enable it to continually monitor the activities for the year. The managing director shall take the decisions needed for developing the business, within the framework of the SCA, the business plan, the budget and the instruction for the managing director adopted by the board of directors as well as in accordance with other guidelines and instructions communicated by the board of directors.

Internal control

The board of directors' responsibility for internal control is governed by the SCA and the Code which require the annual announcing of information regarding how the internal control of financial information is organised. The internal control of Tethys Oil is designed to provide reasonable assurance that the Company's assets are protected and that financial reporting is reliable and in accordance with generally accepted accounting principles, laws and regulations. The internal control is in accordance with what is expected from a listed company, taking into account the size and the complexity of the Company's operations.

Tethys Oil continually works on improving the financial reporting through evaluating the risk of errors in the financial reporting and related control activities. Control activities include following up instructions and the application of accounting principles. The board of directors is responsible for and monitors the control activities, which involve all levels of the organisation. The activities limit the identified risks and ensure correct and reliable financial reporting. The Group's central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the board of directors, which minimises the risks for errors in the financial reporting. The control activities also include following up on the authorisation manual and accounting principles. These control activities also include the operators of co-owned projects. The board of directors further decides on specific control activities and internal auditing and auditing of operators in cooperation projects.

Name	Board meetings	Remuneration committee meetings	Audit committee meetings
Håkan Ehrenblad	13 of 13	0 of 0	5 of 5
Vincent Hamilton	13 of 13	n.a.	n.a.
John Hoey	12 of 13	0 of 0	4 of 5
Staffan Knafve	7 of 7	0 of 0	2 of 2
Magnus Nordin	13 of 13	n.a.	n.a.
Jan Risberg	13 of 13	0 of 0	5 of 5
Katherine Støvring	7 of 7	0 of 0	2 of 2

Financial reporting and follow up

In accordance with applicable laws and stock market regulations and other rules applicable from time to time the Company aims to regularly provide correct, reliable and current financial information. The financial information is regularly published in the form of quarterly reports, annual reports and press releases containing news and important events that could affect the Company's share price.

Remuneration

Principles and guidelines

The general meetings resolve on remuneration to the board of directors. Remuneration is not paid for service on the boards of directors of subsidiaries. Magnus Nordin, who is employed by Tethys Oil, does not receive any remuneration for his service on the board of directors. The salaries of the managing director and senior management are determined by the board of directors after proposal by the remuneration committee.

The remuneration for members of the board of directors and senior management during 2012 is shown in the table below.

The board of directors

Remuneration to the board of directors during 2012 amounted to a total of TSEK 350, allocated among the board members in the way shown in the below table.

The annual general meeting 2012 resolved that remuneration of the chairman of the board of directors shall be TSEK 0 per annum and of the other members of the board of directors TSEK 125 per board member per annum.

Senior Management

Total remuneration to the senior managers Vincent Hamilton, Magnus Nordin and Morgan Sadarangani during 2012 amounted to TSEK 4,588, of which TSEK 1,220 was remuneration to the managing director Magnus Nordin. All amounts regarding remuneration to senior management are exclusive of social security contributions. See table below.

For termination of employment the notice period is 12 months when the managing director gives notice, and 12 months when the Company gives notice. For other senior

managers the notice period is 9 months and when the Company gives notice 9 months.

Pensions

Pension costs for senior management amounted to TSEK 30 during 2012.

Auditors

Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. During 2012, remuneration to PricewaterhouseCoopers AB amounted to TSEK 1,162.

Incentive plan

No share related incentive plans that lead to the issue of new shares or other financial instruments exist.

Bonus plan

The Company has not currently adopted any bonus plan. As part of its efforts to retain and recruit personnel, the Company is considering adopting a bonus plan. From time to time the Company has decided to pay bonuses to reward special achievements. This has been done restrictively and has been limited to amounts equivalent to one or two monthly salaries per year.

Remuneration and other benefits 2012 (TSEK unless otherwise stated)	Salary/Board member remuneration	Variable remuneration	Other benefits	Pension Costs	Share related compensation	Total
Board members						
Magnus Nordin	-	-	-	-	-	-
Vincent Hamilton, chairman ¹	-	-	-	-	-	-
Håkan Ehrenblad	100	-	-	-	-	100
John Hoey	100	-	-	-	-	100
Jan Risberg	150 ²	-	-	-	-	150
Katherine H. Støvring ³	-	-	-	-	-	-
Staffan Knafve ³	-	-	-	-	-	-
Total, board members	350	-	-	-	-	350
Senior Managements						
Magnus Nordin	1,220	-	10	-	-	1,230
Vincent Hamilton	2,542	-	-	-	-	2,542
Morgan Sadarangani	826	-	10	30	-	866
Other senior management	-	-	-	-	-	-
Total, senior management	4 588	-	20	30	-	4,638

1 Vincent Hamilton was chief operating officer up to and including November 2012, but is since then solely chairman of the board and not active in the company. A severance payment of 12 months' salary, in accordance with the employment agreement, is included in the remuneration for Vincent Hamilton during 2012.

2 The remuneration to Jan Risberg includes remuneration for work as the chairman of the audit committee and the compensation committee, respectively.

3 Katherine H. Støvring and Staffan Knafve were elected to the board of directors at the annual general meeting on 16 May 2012.

Tethys Oil AB (publ)

Corporate Head Office

Tethys Oil AB
Hovslagargatan 5B
SE-111 48 Stockholm
Sweden
Telephone +46 8 505 947 00
Fax +46 8 505 947 99
E-mail: info@tethysoil.com

www.tethysoil.com

