



Corporate governance report

Corporate governance practices refer to the decision-making systems through which owners, directly or indirectly, control a company. Tethys Oil is a publicly traded company listed on Nasdaq Stockholm, Mid Cap. Tethys Oil adheres to the Swedish Code of Corporate Governance (“the Code”). The Code is published on www.bolagsstyrning.se, where a description of the Swedish Corporate Governance model can be found. This Corporate Governance Report 2017 is submitted in accordance with the Swedish Annual Accounts Act and the Code. It explains how Tethys Oil has conducted its corporate governance activities during 2017. Tethys Oil does not report any deviations from the Code, Nasdaq Stockholm’s rule book for issuers, recommendations from the Swedish Securities Council, decisions from Disciplinary Committee at Nasdaq Stockholm or statements from the Swedish Securities Council. The report has been examined by the Company’s auditors, please see page 31.

External and internal framework for governance in Tethys Oil

External:

- Swedish Companies Act
- Accounting legislation (e.g. Swedish accounting act, Swedish Annual Accounts Act and IFRS)
- Nasdaq Stockholm’s rule book for issuers
- Swedish Code of Corporate Governance

Internal:

- Articles of Association
- Board instructions, Rules of procedures
- Policies such as Administration policy, Information policy, CSR policy etc

Shareholders

Tethys Oil’s shares are traded on Nasdaq Stockholm. At year end 2017 the share capital amounted to MSEK 5.9, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2017, the number of shareholders was 5,043 (5,529). Of the total number of shares, foreign shareholders accounted for approximately 67 percent. Lansdowne Partners LLP is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of 3,593,699 shares representing

10.1 percent of shares and votes. Tethys Oil’s holding of its own shares amounted to 1,644,163 (4.63%). For further information on share, share capital development and shareholders, see pages 35–37 and Tethys Oil’s website.

Annual General Meeting

The Annual General Meeting (“AGM”) must be held within six months of the close of the fiscal year. All shareholders who are listed in the share registry on the record date, and who have notified the Company of their participation in due time, are entitled to participate in the AGM. The AGM was held in Stockholm on 17 May 2017. 179 shareholders were represented at the AGM, representing 41 percent of the votes and share capital in the company. The resolutions passed by the meeting included the following:

- Adoption of the income statements and balance sheets for 2016 and discharge of liability for the board of directors and the Managing Director
- Re-election of Per Brilioth, Dennis Harlin, Magnus Nordin, Katherine Støvring (since resigned) and Geoffrey Turbott and election of Robert Anderson, Alexandra Herger and Per Seime as directors. Dennis Harlin was elected chairman of the board
- The chairman will be paid a fee of SEK 595,000 and each AGM elected member not employed by the company will be paid SEK 265,000. The chairman of the audit committee will be paid SEK 90,000 and the chairman of the remuneration committee and the possible technical committee will be paid SEK 65,000 respectively and each of the committees’ members will be paid SEK 35,000 per committee assignment. The total fees for committee work, including committee chairmen fees shall not exceed SEK 535,000. In addition, the AGM approved a frame of SEK 250,000 for work by directors outside of regular board work, payable following resolution of the board of directors
- Auditors will be paid as invoices are approved
- Principles of remuneration to senior executives

- Incentive programme as part of the remuneration package to employees. Issuance of 350,000 warrants where each warrant entitled to subscription to one new share in Tethys Oil. The warrants have a three year duration and the strike price of the warrants was SEK 85.50 per share
- Authorization for the board to decide on repurchasing own shares up to not more than one-tenth of all outstanding shares
- Rules for the appointment and work of the nomination committee
- Authorization for the board to resolve to issue new shares and/or convertibles with consideration in cash and/or with consideration in kind or by set-off, to enable the company to make business acquisitions and to raise capital for the Company’s business operations
- Authorization for the board to resolve to purchase own shares in Tethys Oil AB

The minutes recorded at the AGM can be found at Tethys Oil’s website, www.tethysoil.com.

Nomination process

In accordance with the nomination committee process approved by the AGM 2017, the nomination committee for the AGM 2018 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2017 and the chairman of the board. The names of the members of the nomination committee were announced and posted on the Company’s website on 3 November 2017, i.e. within the time frame of six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2018 has held five meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2018, is published on the Company’s website together with the notice of the AGM.

The Nomination Committee’s assignment is to produce proposals for the following matters, which will be presented to the AGM for resolution:

- AGM chairman
- Board members
- Chairman of the board
- Board fees and remuneration for committee work allocated to each member
- Auditors and auditor's fee
- Proposal regarding procedures and principles for establishing a nomination committee and issues pertaining thereto for the AGM 2019

The work of the nomination committee included evaluation of the board's work, competence and composition, as well as the independence of the members. The nomination committee also considered other criteria such as the background and experience and has also taken part of the board evaluation. Further, the nomination committee has considered the Company's Board diversity policy in its proposal for board members. The Board diversity policy is available on the Company's website.

The nomination committee for the AGM 2018 consisted of the following members:

- Erik Norman, chairman of the nomination committee, representing himself,
- Viktor Modigh, representing Magnus Nordin
- Mikael Petersson, representing Lansdowne Investment Company Limited, and
- Dennis Harlin, chairman of Tethys Oil

The board and its work

Board composition

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 since the AGM 2017 has consisted of eight directors and no deputies. Dennis Harlin has been chairman of the board. Seven board members are independent from the Company, the Company's management and the Company's larger shareholders, and eight board members are independent from larger shareholders.

For further information on the board members, please see pages 32–33.

Board of directors elected at the AGM 2017

Member	Elected	Position	Year of birth	Nationality	Independent in relation to the Company	Independent in relation to the Company's larger shareholders
Dennis Harlin	2015	Chairman	1941	Sweden	Yes	Yes
Robert Anderson	2017	Member	1953	United Kingdom	Yes	Yes
Per Brilioth	2013	Member	1969	Sweden	Yes	Yes
Alexandra Herger	2017	Member	1957	United States	Yes	Yes
Magnus Nordin	2001	Member	1956	Sweden	No	Yes
Per Seime	2017	Member	1946	Norway	Yes	Yes
Katherine Støvring ¹	2012	Member	1965	United States	Yes	Yes
Geoffrey Turbott	2015	Member	1963	New Zealand	Yes	Yes

1. Stepped down from the board in March 2018

Rules of procedure

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 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 AGM, hold a minimum of seven ordinary meetings during a calendar year.

Timing and main items for ordinary meetings following AGM

May	Constituent meeting
August	Second quarter report
September–November	Strategy
November	Third quarter report
December	Budget approval
February	Fourth quarter and year-end report
April	Annual report and AGM
May	First quarter report

Assessment of the board's work

The chairman of the board is responsible for assessing the board's work including the performance of individual board members. This is done on an annual basis through a questionnaire which is anonymous for the directors. The assessment focuses on such factors as the board's way of working, number of meetings and effectiveness, time for preparation, available competence

and individual board members influence of the board's work. The nomination committee takes part of the results, and it is a component in the nomination committee's work to submit proposals concerning board members.

The board's work in 2017

During 2017 the board held 14 meetings of which seven were ordinary and seven

extraordinary, in person, via telephone and per capsulam. Attendance at the meetings are shown in the table. Secretary at the meetings was Chief Financial Officer ("CFO") Jesper Alm. Prior to each meeting board members were provided with an agenda and written information on the matters to be covered. Each meeting has included the possibility to discuss without management representatives being present.

Board of directors and committee attendance

Board member	Member Audit committee ¹	Member Remuneration committee ¹	Member Technical committee ¹	Board meetings	Audit committee meetings	Remuneration committee meetings	Technical committee meetings
Dennis Harlin (Chairman)	-	Yes	-	14/14	3/3	4/5	-
Robert Anderson ²	-	-	Yes (Chairman)	9/9	-	-	4/4
Per Brilioth	-	-	-	12/14	3/3	3/3	-
Alexandra Herger ²	-	-	Yes	7/9	-	-	4/4
Magnus Nordin	-	-	-	14/14	-	-	-
Richard Rettig ³	-	-	-	4/5	3/3	3/3	-
Katherine Støvring ⁴	Yes	Yes	-	10/14	5/6	3/5	-
Per Seime ²	Yes	Yes (Chairman)	-	7/9	3/3	2/2	-
Geoffrey Turbott	Yes (Chairman)	-	Yes	14/14	6/6	-	4/4

1 Members as from the AGM 2017

2 Elected to the board at the AGM 2017

3 Stepped down from the board at the AGM 2017

4 Stepped down from the board in March 2018

Board committees

In order to increase the efficiency of its work and enable a more detailed analysis of certain matters, the board has formed committees: Audit, Remuneration and Technical. Committee members are appointed within the board for a period of maximum until the next AGM. The committee's duties and authorities are regulated in the annually approved rules of procedure for each committee. The committees perform monitoring and evaluations resulting in recommendations to the board of directors, where all decision making takes place.

Audit committee

The board has established an audit committee for the period up to and including the AGM 2018, consisting of Geoffrey Turbott as chairman and Katherine Støvring (since resigned) and Per Seime as members of the committee. The audit committee convened six times in 2017. The work has mainly focused on supervising

the Company's financial reporting and assessing the efficiency of the Company's financial internal controls, with the primary objective of providing support to the board in the decision making processes regarding such matters. The audit committee also regularly liaises with the Group's statutory auditor as part of the annual audit process and reviews the audit fees and the auditor's independence and impartiality. The Audit committee reports to the board, normally in conjunction with the following board meeting.

Members of the committee during 2017 prior to AGM 2017 consisted of Geoffrey Turbott (chairman) with Dennis Harlin, Per Brilioth, Richard Rettig and Katherine Støvring as members.

Remuneration committee

The board has established a remuneration committee for the period up to and including the AGM 2018, consisting of Per

Seime as chairman and Katherine Støvring (since resigned) and Dennis Harlin as members. The remuneration committee convened five times in 2017. The work has mainly focused on establishing principles for remuneration to management, to monitor and evaluate variable remuneration and the application of the guidelines for remuneration as well as to construct and propose an incentive programme to the AGM 2018. The remuneration committee reports to the board, normally in conjunction with the following board meeting.

Members of the committee during 2017 prior to AGM 2017 consisted of Per Brilioth (chairman) with Dennis Harlin, Richard Rettig, Katherine Støvring and Geoffrey Turbott as members.

Technical committee

The board has established a technical committee for the period up to and including the AGM 2018, consisting of Robert

Anderson as chairman and Alexandra Herger and Geoffrey Turbott as members. The technical committee convened four times in 2017. The work has mainly focused on following up on work programs and budgets, evaluation of and recommendation on appointment of independent qualified reserve auditor, oversight of the reserves audit process, review of operations management systems and technical review of new ventures projects. The technical committee reports to the board, normally in conjunction with the following board meeting.

The technical committee was established in conjunction with the AGM 2017.

External auditors of the Company
Statutory auditor

Pursuant to its Articles of Association, Tethys Oil must have one or two auditors, and no more than two deputies. A registered firm of auditors may be appointed as the Company’s auditor. Tethys Oil’s auditor is PricewaterhouseCoopers AB with Johan Malmqvist as Lead partner and Ulrika Ramsvik as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company’s auditor at the AGM 2017.

Tethys Oil’s auditor: PricewaterhouseCoopers AB

	Johan Malmqvist	Ulrika Ramsvik
Role	Lead partner	Co-signing auditor
Year of birth	1975	1973
Company auditor since	2015	2014

The audit firm has, besides the audit, conducted a limited number of other assignments on behalf of Tethys Oil. These assignments mainly consisted of services associated with auditing, such as in-depth reviews during audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2017, remuneration to PricewaterhouseCoopers AB amounted to MUS\$ 0.2 (MUS\$ 0.1). For details on remuneration to auditors, see note 10, auditor’s fees.

Independent qualified reserves auditor
Tethys Oil’s independent qualified reserves auditor annually certifies Tethys Oil’s oil reserves and resources, although such assets are not included in the Company’s balance sheet. The independent qualified reserves auditor for the 2017 report was ERC Equipose Limited (“ERCE”). Independent qualified reserves auditor for the 2016 report was DeGoyler and MacNaughton Canada Limited (“DMCL”). The selection of ERCE followed the closure of DMCL’s Calgary office, which office carried out the audit in relation to the 2016 report. For further information, see Reserves on page 9.

Managing Director and executive management

The executive management in Tethys Oil throughout 2017 has consisted of the Managing Director (Magnus Nordin), CFO (Jesper Alm) and the Chief Technical Officer (“CTO”) (Fredrik Robelius).

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 is responsible for the day to day business of the Company and shall take the decisions needed for developing the business – within the legal framework, 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.

Remuneration policy to executive management

Remuneration policy to the executive management includes five elements:

- Basic salary
- Pension arrangements
- Yearly variable salary, including the right to participate in share-based long-term incentive
- Other benefits
- Severance arrangements

The board is entitled to deviate from the proposed guidelines if special reasons exist.

Basic salary

The basic salary shall be in line with market conditions, be competitive, and shall take into account the scope and responsibility associated with the position, as well as the skills, experience, and performance of the executive.

Pension arrangements

The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions shall be in relation to the basic salary and is set on an individual basis but shall not be higher than what is tax deductible.

Variable salary

Senior executives shall be part of two variable remuneration systems payable in cash and/or in combination with a right to acquire warrants in the Company in the share based incentive programs. Variable salary to senior executives will be based upon their individual contribution to the Company’s performance. The yearly variable cash salary shall be within the range of one to four monthly salaries per person and year. The targets for variable cash remuneration shall be determined by the board prior to each financial year and individual agreements shall be arranged with each participant, the content of which depends on the participant’s position at the time the agreement is arranged. The targets shall be objectively quantifiable and related to budget. The targets shall consist of financial and operational key indicators. The yearly variable salary will be determined annually in connection with publication of the year-end report for the respective financial year based on an evaluation of the participants’ achievement of the targets as described in the individual agreements. Payment of variable cash remuneration shall be conditional upon the participant remaining employed for the duration of the programme. The board has the right to adjust the incentive program during the term of the programme in the case of, for example, extraordinary increases or decreases in the group’s earnings.

Share based incentive programme

The share based incentive programme has the purpose to retain and recruit qualified and committed personnel on a global market for oil companies. The programme is available to all employees and is intended to be re-occurring annually.

Other benefits

Non-financial benefits shall be based on market terms and shall facilitate the duties of each senior executive.

Severance arrangements

A termination period of twelve months applies between the Company and Man-

aging Director and three to six months between the Company and other members of executive management. The Managing Director is entitled to twelve month's payments if the Company terminates the contract and other members of executive management are entitled to six to twelve month's payments.

Remuneration to executive management 2017

(amounts in SEK thousands)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2017	Total 2016
Managing Director	2,186	549	680	1,277	12	4,704	4,164
Other executive management	3,548	317	967	1,161	162	6,155	5,844
Total	5,734	866	1,648	2,438	174	10,860	10,008

The increase in remuneration to executive management primarily relate to increased base salaries. For further information, please see note 12.

Remuneration to the board 2017

Remuneration to be paid to the board of directors for the period between the AGMs of 2017 and 2018 amounts to a total of TSEK 2,615, allocated among the board members in the way shown in the below table. The annual general meeting 2017

resolved that remuneration of the chairman of the board of directors shall be TSEK 595 per annum and of the other members TSEK 265 per member per annum. Remuneration is not paid for service of the boards or directors of subsidiaries.

Magnus Nordin, who is employed by Tethys Oil, does not receive any remuneration for his service on the board of directors. Annual fees for committee members are TSEK 35 per committee assignment

and annual fees for the chairman of the audit committee is TSEK 90 and for each of the remuneration and technical committee are TSEK 65. Further, if a member of the board of directors, following a resolution by the board of directors, performs tasks which are outside the regular board work, separate remuneration in the form of hourly fees on market terms may be paid by resolution of the Board of Directors, for which purpose a frame of TSEK 250 was allowed.

Remuneration to board and committee members for the period between the AGMs of 2017 and 2018

(amounts in SEK thousands)

Member	Board of directors	Audit committee	Remuneration committee	Technical committee	Separate remuneration	Total
Dennis Harlin	595	-	35	-	-	630
Robert Anderson	265	-	-	65	-	330
Per Brilioth	265	-	-	-	-	265
Alexandra Herger	265	-	-	35	-	300
Magnus Nordin	-	-	-	-	-	-
Per Seime	265	35	65	-	-	365
Katherine Støving	265	35	35	-	-	335
Geoffrey Turbott	265	90	-	35	-	390
Total	2,185	160	135	135	-	2,615

Financial reporting and control

The board of directors has the ultimate responsibility of the internal control for the financial reporting. Tethys Oil's system of internal control, with regard to financial reporting, is designed to minimize risks involved in financial reporting process and ensure a high level of reliability in the financial reporting. Furthermore, the system of internal control ensures compliance with applicable accounting requirements and other requirements that Tethys Oil must meet as a listed company.

Tethys Oil's main assets are owned in partnership. The focus of internal control is therefore to ensure reliability and accuracy of the operator's financial information. The control is conducted by monthly and quarterly cost controls, quarterly budget reviews and interviews with operator to understand and explain deviations.

Internal control

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 on 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 Company'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 minimizes the risks for errors in the financial reporting. The control activities also include following up on the authorization manual and accounting principles. These control activities also include the operators in partnerships. The board of directors further decides on specific control activities and auditing of operators in partnerships. The financial department regularly follows up on deviations and irregularities and report to the audit committee. This structure is considered sufficient and suitable given the size and nature of the Company's business.

At the current size of the Company and the fact that the Company holds non-operated interest or early stage operated exploration interest it is not considered necessary for a dedicated internal auditor function.

Information and communication

The board has adopted an information policy for the purpose of ensuring that the external information is correct and complete. There are also instructions regarding information security and how to communicate financial information.

Monitoring

Both the board and the management follow up on the compliance and effectiveness of the company's internal controls to ensure the quality of internal processes. The board receives detailed monthly reports on the financial situation and development of the business to this end. The audit committee ensures and monitors that control activities are in place for important areas of risk related to financial reporting.

Stockholm, 4 April 2018

Tethys Oil AB (publ)
The board of directors

This is a literal translation of the Swedish original report

Auditor's report on the corporate governance statement

To the general meeting of the shareholders in Tethys Oil AB (publ), corporate identity number 556615-8266.

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2017 on pages 26–31 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 4 April 2018
PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
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