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Tethys Oil

Corporate Governance Report

2019

Corporate Governance Report 2019

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 2019 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 2019. 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 25.

External and internal framework for governance in Tethys Oil

External:

- Swedish Companies Act
- Accounting legislation (e.g. Swedish Book-keeping 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
- Internal control framework with Code of Conduct, policies etc.

Shareholders

Tethys Oil’s shares are traded on Nasdaq Stockholm. At year end 2019 the share capital amounted to SEK 6,050,862, represented by 36,294,960 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2019, the number of shareholders was 7,044 (6,602). Of the total number of shares, foreign shareholders accounted for approximately 65 percent. Lansdowne Partners Austria is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of 3,633,699 shares representing 10.0 percent of shares and votes.

Tethys Oil’s holding of its own shares amounted to 1,954,163 (5.4 percent). For further information on share, share capital development and shareholders, see pages 29–31 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 register 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 15 May 2019. 188 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 2018 and discharge of liability for the Board of Directors and the Managing Director;
- Re-election of Robert Anderson, Alexandra Herger, Magnus Nordin, Per Seime and Geoffrey Turbott, with Geoffrey Turbott elected as chairman of the Board. Gavin Graham was also elected to join the Board of Directors, it being resolved that the Board of Directors shall comprise of six ordinary members;
- Remuneration of the members of the Board of Directors and the chairman of the Board of Directors, including Board committee membership, to be as follows: (i) annual fees of the members of the Board of Directors of SEK 330,000 (excluding the CEO); (ii) annual fees of the chairman of the Board of Directors of SEK 700,000; (iii) annual fees for committee members of SEK 35,000 per committee assignment, annual fees for the chairmen of the remuneration committee and technical committee, if applicable, of SEK 65,000 each and an annual fee for the chairman of the audit committee of SEK 90,000, unless the committee is chaired by the chairman of the Board of Directors in which case an annual fee of SEK 65,000. The total fees for committee work, including committee chairmen fees shall not exceed SEK 360,000; and (iv) if a member of the Board of Directors, following a resolu-

tion 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, within a frame of SEK 250,000, may be paid by resolution of the Board of Directors;

- Re-election of PricewaterhouseCoopers AB as auditors. Auditors will be paid as invoices are approved;
- Guidelines for compensation of senior executives;
- Authorisation for the payment of a dividend of SEK 2.00 per share to the Company’s shareholders to be paid in two instalments of SEK 1.00 per share each in May and November 2019 and that the record dates for such cash dividends be 17 May 2019 and 18 November 2019;
- Approval of a incentive programme as part of the remuneration package to employees. Issuance of 350,000 warrants where each warrant is entitled to subscription to one new share in Tethys Oil during the period 1 June 2022 up to and including 7 October 2022. Subscription price for the warrants was SEK 78.50 per share;
- Authorisation for the Company to perform an extraordinary distribution of SEK six (6) per outstanding share through a share split, a reduction of the share capital with redemption of shares from the share split and an increase of the share capital by way of a bonus issue;
- Authorisation for the Board to resolve on repurchasing own shares up to but not more than one-tenth of all outstanding shares and to resolve on transfer of own shares;
- Rules for the appointment and work of the nomination committee; and
- Authorisation 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 and with the right to deviate from the shareholders’ preferential rights up to but not more than one-tenth of all outstanding shares, to enable the Company to make business acquisitions and to raise capital for the Company’s business operations.

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 2019, the nomination committee for the AGM 2020 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2019 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 27 November 2019. Owing to one of Tethys Oil's largest shareholders as at 30 September 2019 divesting a large part of their holdings in October 2019, Tethys Oil was unable to disclose the composition of its nomination committee by the date falling six months prior to the AGM as required by Code 2.5 of the Swedish Code of Corporate Governance.

The nomination committee for the AGM 2020 has held four meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2020, 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; and
- Proposal regarding procedures and principles for establishing a nomination committee and issues pertaining thereto for the AGM 2021.

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 in the Board evaluation. Further, the nomination

Board of Directors elected at the AGM 2019

Member	Elected	Position	Year of birth	Nationality	Independent in relation to the Company	Independent in relation to the Company's larger shareholders
Geoffrey Turbott	2015	Chairman	1963	New Zealand	Yes	Yes
Robert Anderson	2017	Member	1953	United Kingdom	Yes	Yes
Gavin Graham	2019	Member	1954	United Kingdom	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

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 2020 consisted of the following members:

- Viktor Modigh, chairman of the nomination committee, representing Magnus Nordin;
- Mikael Petersson, representing Lansdowne Partners Austria GmbH and Coeli Asset Management AB;
- Jan Risberg, representing himself; and
- Geoffrey Turbott, 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 2019 has consisted of six members and no deputies. Geoffrey Turbott has been chairman of the Board. Five Board members are independent from the Company and the Company's management, and six Board members are independent from larger shareholders. For further information on the Board members, please see pages 26–27.

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 controls are properly managed. The Board of Directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. It 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 five ordinary meetings during a calendar year.

Timing and main items for ordinary meetings following AGM

May	Constituting meeting
August	Second quarter report, review auditors' report
September–November	Strategy and discussion investment plan/budget
December	Investment plan and budget, liquidity and forecast
January–February	Fourth quarter and year-end report, allocation of profit, review auditors' report
March–April	Annual report and AGM

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 Board members. 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 in assessing the results, and it is a component in the nomination committee's work to submit a proposal to the AGM concerning Board members.

The Board's work in 2019

During 2019, the Board held 20 meetings of which eight were ordinary and twelve extraordinary, in person, via telephone

and per capsulam meetings. Attendance at the meetings are shown in the table below. Board secretary was the Company's Senior legal counsel, Kelsey Emms. 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 in 2019

Board member	Board	Member Audit Committee	Member Remuneration Committee	Member of Technical Committee	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Technical Committee meetings
Geoffrey Turbott	Chairman	Yes (Chairman)	–	–	19/20	5/5	–	–
Robert Anderson	Member	–	–	Yes (Chairman)	20/20	–	–	10/10
Gavin Graham	Member	–	–	Yes	13/20	–	–	7/10
Alexandra Herger	Member	–	Yes	Yes	19/20	–	3/3	10/10
Magnus Nordin	Member	–	–	–	20/20	–	–	–
Per Seime	Member	Yes	Yes (Chairman)	–	20/20	5/5	3/3	–

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 the period 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 2020, consisting of Geoffrey

Turbott as chairman and Per Seime as a member of the committee. The committee remained unchanged throughout the year. The Audit Committee convened five times in 2019. 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 being providing support to the Board in the decision-making processes regarding such matters. The Audit Committee also regularly liaises with the Group's statutory auditors as part of the annual audit process and reviews the audit fees and the auditors' independence and impartiality. The Audit Committee reports to the Board, normally in conjunction with the following Board meeting.

Remuneration Committee

The Board has established a Remuneration Committee for the period up to and including the AGM 2020, consisting of Per Seime as chairman and Alexandra Herger as a member of the committee. The committee remained unchanged throughout the year. The Remuneration Committee convened three times in 2019. The work has mainly focused on establishing principles for remuneration to management, establishing key performance indicators, to monitor and evaluate variable remuneration and the application of the guidelines for remuneration as well as to construct and propose the share-based incentive programme. The Remuneration Committee reports to the Board, normally in conjunction with the following Board meeting.

Technical Committee

The Board has established a Technical Committee for the period up to and including the AGM 2020, consisting of Robert Anderson as chairman, Alexandra Herger and Gavin Graham as members of the committee. The Technical Committee convened ten times in 2019. The work has mainly focused on following up on work programs, budgets and investment proposals, 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. Members of the committee during 2019 prior to AGM 2019 consisted of Robert Anderson (chairman) and Alexandra Herger.

External auditors of the Company Statutory auditors

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 Ulrika Ramsvik as lead partner and Bo Hjalmarsson as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company's auditors at the AGM 2019.

Tethys Oil's auditor: PricewaterhouseCoopers AB

	Ulrika Ramsvik	Bo Hjalmarsson
Role	Lead partner	Co-signing auditor
Company auditor since	2014	2018

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 the audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2019, remuneration to PricewaterhouseCoopers AB amounted to MUSD 0.1

(MUSD 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 2019 report was ERC Equipoise Limited ("ERCE"), the same that also audited the 2018 report. For further information, see Reserves on page 9.

Managing Director and executive management

The executive management in Tethys Oil throughout 2019 has consisted of the Managing Director (Magnus Nordin), CFO (Jesper Alm until June 2019 followed by William Holland) and the 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; and
- Severance arrangements

The Board has the right to deviate from the remuneration policy if there are particular reasons.

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 a long-term incentive program. When allocating warrants the same financial and operational key indicators as for variable cash salary shall be considered.

The yearly variable cash salary shall be within the range of 1–12 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 key performance indicators both for the group's overall and financial performance as well as individual performance. 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. The variable remuneration shall not be pensionable.

Other benefits

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

Severance arrangements

A mutual termination period of 12 months applies between the Company and the

Managing Director and up to six months between the Company and other senior executives. Severance pay shall be paid to the Managing Director of up to 12 months fixed salary and up to 12 months fixed salary for other senior executives if the Company terminates their employment.

Remuneration to executive management 2019

(MSEK)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2019	Total 2018
Managing Director	3.271	0.659	0.696	1.566	0.025	6.217	5.252
Other executive management	7.086	0.771	0.679	1.088	0.011	9.635	6.491
Total	10.357	1.431	1.376	2.654	0.036	15.853	11.671

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

Remuneration to the Board 2019

Remuneration to be paid to the Board of Directors for the period between the AGMs of 2019 and 2020 amounts to a total of TSEK 2,355, allocated among the Board members in the way shown in the below table. The annual general meeting 2019 resolved that remuneration of the chairman

of the Board of Directors shall be TSEK 700 per annum and of the other members TSEK 330 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 fee for committee members is TSEK 35 per committee assignment and annual fees for the chairman of the remuneration and technical committees are

TSEK 65. The annual fee for the chairman of the audit committee is TSEK 90, unless the committee is chaired by the Chairman of the Board in which case the annual fee is 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 2019 and 2020 (in their capacity as board members)

(TSEK)

Member	Board of directors	Audit Committee	Technical Committee	Remuneration Committee	Total
Geoffrey Turbott	700	65	–	–	765
Robert Anderson	330	–	65	–	395
Gavin Graham	330	–	35	–	365
Alexandra Herger	330	–	35	35	400
Magnus Nordin	–	–	–	–	–
Per Seime	330	35	–	65	430
Total	2,020	100	135	100	2,355

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 the 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 operators 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 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 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 reports 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 interests or early stage operated explora-

tion interests, 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, 9 April 2020

Tethys Oil AB (publ)
The Board of Directors

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 2019 on pages 20–25 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, 9 April 2020
PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorized Public Accountant
Lead Partner

Bo Hjalmarsson
Authorized Public Accountant



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