

TETHYS OIL

Corporate governance
report 2016



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 2016 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 2016. 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 reviewed by the Company’s auditors, please see page 29.

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 2016 the share capital amounted to MSEK 6, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2016, the number of shareholders was 5,529 (5,563). Of the total number of shares, foreign shareholders accounted for approximately 64 percent. 18 percent of the Swedish shareholding was held by legal entities. Tethys Oil’s holding of its own shares amounted to 1,329,224 (3.74%). For further informa-

tion on share, share capital development and shareholders, see pages 33–35 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 18 May 2016. The AGM was attended by 179 shareholders, representing 38 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 2015 and discharge of liability for the board of directors and the managing director
- Re-election of Per Brilioth, Dennis Harlin, Magnus Nordin, Katherine Støvring and Geoffrey Turbott and election of Richard Rettig as director. Dennis Harlin was elected chairman of the board
- The chairman will be paid a fee of SEK 560,000 and each AGM elected member not employed by the company will be paid SEK 250,000. The chairman of the audit committee and the chairman of the remuneration committee will be paid SEK 65,000 respectively and each of the committees’ members will be paid SEK 35,000. The total fees for committee work, including committee chairmen fees shall not exceed SEK 410,000. 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 65.50 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.

Extraordinary General Meeting

An Extraordinary General Meeting (“EGM”) was held in Stockholm on 25 October 2016. The EGM was attended by 129 shareholders, representing 32 percent of the votes and share capital in the company. The resolutions passed by the meeting included the following:

- Share split, reduction of share capital and increase of share capital by way of a bonus issue, enabling the share redemption program of SEK 3.00 per share

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

Nomination process

In accordance with the nomination committee process approved by the AGM 2016, the nomination committee for the AGM 2017 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2016 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 16 November 2016, i.e. within the time frame of six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2017 has held four meetings during its mandate and informal contacts have taken place between such meetings. The nomina-

tion committee report, including the final proposals to the AGM 2017, 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 2018

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 also taken part of the board evaluation.

The nomination committee for the AGM 2016 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 2016 has consisted of six directors and no deputies. Dennis Harlin has been chairman of the board. Five board members are independent from the Company, the Company's management

and the Company's larger shareholders, and six board members are independent from larger shareholders.

Board of directors elected at the AGM 2016

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
Per Brilioth	2013	Member	1969	Sweden	Yes	Yes
Magnus Nordin	2001	Member	1956	Sweden	No	Yes
Richard Rettig	2016	Member	1978	Sweden	Yes	Yes
Katherine Støvring	2012	Member	1965	United States	Yes	Yes
Geoffrey Turbott	2015	Member	1963	New Zealand	Yes	Yes

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 2016

February	Fourth quarter and year-end report 2015
April	Annual report 2015 and AGM 2016
May	First quarter report 2016
August	Second quarter report 2016
September	Strategy
November	Third quarter report 2016
December	Budget

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 2016

During 2016 the board held seven ordinary meetings and nine extraordinary meetings.

Board of directors and committee attendance

Board member	Member Audit committee	Member Remuneration committee	Board meetings	Audit committee meetings	Remuneration committee meetings
Dennis Harlin (Chairman)	Yes	Yes	16/16	4/4	3/3
Per Brilioth	Yes	Yes (Chairman)	13/16	4/4	3/3
Magnus Nordin	No	No	16/16	-	-
Richard Rettig	Yes	Yes	8/9	2/2	0/0
Katherine Støving	Yes	Yes	15/16	4/4	3/3
Geoffrey Turbott	Yes (Chairman)	Yes	16/16	4/4	3/3

Remuneration committee

The board has established a remuneration committee for the period up to and including the AGM 2017, consisting of all board members with the exception of the managing director Magnus Nordin. Per Brilioth is the chairman of the committee. The remuneration committee convened three times in 2016. 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 2016. The remuneration committee reports to the board, normally in conjunction with the following board meeting.

Audit committee

The board has established an audit committee for the period up to and including the AGM 2017, consisting of all board members with the exception of the managing director Magnus Nordin. Geoffrey Turbott is the chairman of the committee. The audit committee convened four times in 2016. 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.

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 2016.

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 2016, 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, although such assets are not included in the Company's balance sheet. The current independent qualified reserves auditor is DeGolyer and MacNaughton. For further information, see Reserves on page 39.

Managing director and executive management

The executive management in Tethys Oil at the time of the AGM consisted of the managing director, the chief financial officer ("CFO") and the executive vice president ("EVP") corporate development.

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 legal framework, the business plan, the budget and the instruc-

tion 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.

Changes to executive management

The executive management structure was unchanged until September 2016 when a chief technical officer (“CTO”) was appointed and included in the executive management. Beginning December the position of EVP ceased to exist. The executive management at year-end consists of the managing director, the CFO and the CTO. The board of directors have approved these changes to the executive management, being a permitted deviation.

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 pay

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 programs. Variable salary to employees will be based upon their individual contribution to the Company’s performance. The yearly variable cash salary

shall be within the range of 1–4 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 managing director and nine months between the company and other members of executive management. All members of executive management are entitled to twelve months payments if the Company terminates their contracts. The board is entitled to deviate from the proposed guidelines if special reasons exist.

Remuneration to executive management 2016

(amounts in SEK thousands)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2016	Total 2015
Managing director	2,082	443	340	1,288	12	4,164	3,886
Other executive management	3,080	485	454	1,584	241	5,844	4,474
Total	5,162	927	794	2,871	253	10,008	8,360

The increase in remuneration to executive management primarily relate to increased base salaries and changes to the executive management structure during the year. For further information, please see note 12.

Remuneration to the board 2016

Remuneration to be paid to the board of directors for the period between the AGMs of 2016 and 2017 amounts to a total of TSEK 1,970, allocated among the board members in the way shown in the below table. The annual general meeting 2016 resolved that remuneration of the chairman of the board of directors shall be TSEK 560 per annum and of the other members TSEK 250 per member per annum. Remuneration is not paid for ser-

vice 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 each of the audit and remuneration 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. Out of this frame, a total of TSEK 120 has been paid.

Remuneration to board and committee members for the period between the AGMs of 2016 and 2017

(amounts in SEK thousands)

Member	Board of directors	Audit committee	Remuneration committee	Separate remuneration	Total
Dennis Harlin	560	35	35	–	630
Per Brilioth	250	35	65	–	350
Magnus Nordin	–	Not member	Not member	–	–
Richard Rettig	250	35	35	–	320
Katherine Støving	250	35	35	–	320
Geoffrey Turbott	250	65	35	120	470
Total	1,560	205	205	120	2,090

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 and furthermore, Tethys Oil only holds non-operated interest. 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 evalu-

ating 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 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, 18 April 2017

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 2016 on pages 24–28 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, 18 April 2017

PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
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Ulrika Ramsvik
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