

**TETHYS PETROLEUM LIMITED**



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**Compensation and Nomination Committee  
Charter**

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## TETHYS PETROLEUM LIMITED

### 1 INTERPRETATION

In these terms of reference:

“**Board**” means the board of directors of the Company;

“**Executive Chairman**” means the Chairman of the Board of Directors who has executive powers as the most senior executive officer of the Company;

“**Committee**” means the Compensation and Nomination committee of the Board;

“**Company**” means Tethys Petroleum Limited; and

“**Executives**” means the executive officers of the Company and the key employees of the Company.

### 2 CONSTITUTION

By a resolution dated October 5, 2006, the Board resolved, pursuant to the authority and power conferred upon the Board by Article 101 of the articles of association of the Company, to establish a committee of the Board to be known as the Compensation and Nomination Committee.

### 3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee are to assist the Board in (i) setting the compensation of Executives and directors, and (ii) nominating members for election or appointment to the Board, in each case pursuant to a process whereby those responsible for recommendations to the Board have no personal interest in the outcome of the decisions.

### 4 GENERAL DUTIES AND POLICIES

#### 4.1 Compensation

##### 4.1.1 The Committee shall:

- (a) review and approve corporate goals and objectives relevant to the Executive Chairman’s compensation, evaluating the Executive Chairman’s performance in the light of those corporate goals and objectives, and determine (or make recommendations to the Board with respect to) the Executive Chairman’s compensation level based on this evaluation;
- (b) consider and, if deemed appropriate, approve the Executive Chairman’s recommendations for compensation for the Directors and Executive Officers, and Company incentive-compensation plans;

- (c) review executive compensation disclosure before the Company publicly discloses this information;
- (d) reviews and assesses the risks associated with the compensation and benefit programmes and ensures such programmes' are in alignment with the Company's corporate goals and value creation objectives; and
- (e) be responsible for appointing and determining the terms of appointment of any consultants in respect of the Executives' compensation.

4.1.2 In fulfilling its role, the following general policies shall apply:

- (a) the Committee shall determine and agree with the Board the framework or broad policy for the compensation of the Executives;
- (b) in determining such policy, the Committee shall take into account all factors which it deems necessary;
- (c) the remuneration of non-executive directors shall be a matter for the Board; and
- (d) no director or Executive shall be involved in any decisions as to his or her own compensation.

## 4.2 **Nominations**

The Committee shall be responsible for identifying and nominating for the approval of the Board, candidates to be nominated for election by shareholders of the Company and, should Board vacancies occur, for identifying and nominating for approval of the Board, candidates to fill such vacancies. The Committee shall also be responsible for the orientation of new directors and to provide, as required, continuing education opportunities for directors.

## 5 **SPECIFIC DUTIES**

### 5.1 **Compensation**

5.1.1 In connection with the compensation of Executives, the Committee shall:

- (a) review the ongoing appropriateness and relevance of the compensation policy of the Company;
- (b) approve the design of and determine targets for any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- (c) review the design of all share incentive plans or schemes for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the level of individual awards and the performance targets to be used;

- (d) determine the policy for, and scope of, pension arrangements;
- (e) ensure that contractual terms on termination of any Executive, and any payments made, are fair to the individual and the Company;
- (f) within the terms of the agreed policy, and in consultation with the chairman of the Board, review the total individual compensation package of each Executive (including, without limitation, if applicable entitlement to any benefits under share option schemes, incentive, bonus, profit sharing or profit related pay schemes, pension or retirement benefits schemes and death in service or permanent or private health insurance schemes).
- (g) oversee any major changes in employee benefit structures within the Company;
- (h) agree the policy for authorising claims for expenses from the chairman of the Board;
- (i) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and to obtain reliable up-to-date information about remuneration in other companies;
- (j) review the Executive Chairman's performance evaluations of the Executives;
- (k) review and approve the succession plans for the executive management including specific development plans and career planning for potential successors;
- (l) review and approve any management incentive plans for Executives;
- (m) on the recommendation of the Executive Chairman will review and approve the compensation (including perquisites, annual bonus and other incentive awards) of individual Executives other than the Executive Chairman;
- (n) review and approve the design of any bonus plan; and
- (o) review the general eligibility of participants in any share compensation plan adopted by the Company.

5.1.2 In connection with the compensation of the Executive Chairman, the Committee shall:

- (a) review and recommend to the Board for approval the position description for the Executive Chairman (see Appendix A);
- (b) review and recommend to the Board for approval the annual goals and objectives for the Executive Chairman;
- (c) review and evaluate the Executive Chairman's performance relative to the goals and objectives and the requirements of the position description;

- (d) review and recommend to the Board for approval, the Executive Chairman's compensation, including any bonus payment, based on the Committee's evaluation of the Executive Chairman's performance.

5.1.3 The Committee will review for approval by the Board, the compensation for directors, as recommended by the Executive Board.

5.1.4 Review and recommend to the Board for ratification any new stock option grants under any share option plan which may be adopted by the Company from time to time (except de minimus grants recommended by the Executive Board).

## 5.2 **Nominations**

5.2.1 The Committee shall:

- (a) regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes deemed necessary;
- (b) give full consideration to succession planning for the Board and the Executives in the course of its work, taking into account the challenges and opportunities facing the Company and the skills and expertise that will be needed in the future to address these;
- (c) be responsible for identifying and nominating for the approval of the Board, candidates to nominate for election by the shareholders and to fill board vacancies as and when they arise;
- (d) before an appointment or nomination is made by the Board, evaluate the balance of skills, knowledge and experience on the Board, and, in light of the results of such evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:
  - (i) consider candidates from a wide range of backgrounds;
  - (ii) consider candidates on merit and against objective criteria; and
  - (iii) take care to ensure appointees have sufficient time available to devote to the position;
- (e) review annually the time required from non-executive directors, and undertake a performance evaluation to assess whether the non-executive directors are fulfilling their duties;
- (f) ensure that all new Directors receive a comprehensive orientation, including an understanding of the contribution that the Director is expected to make, an

explanation of the Board and its committees, and an explanation of the Company's business; and

- (g) provide, if and when required, continuing education opportunities for all Directors, both to maintain and enhance their skills as Directors, and to keep Directors current in their knowledge and understanding of the Company's business.

5.2.2 The Committee shall also make recommendations to the Board concerning:

- (a) succession planning for directors;
- (b) membership of the committees of the Board, in consultation with the chairmen of those committees;
- (c) the re-appointment of any non-executive director at the conclusion of his or her specified term of office having given due regard to their performance and their ability to continue to contribute to the Board in light of the knowledge, skills and experience required;
- (d) the continuation (or not) in service of any director who has reached the age of 70;
- (e) the nomination for re-election by shareholders of each director having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required;
- (f) the system of corporate governance of the Company, including: (i) developing and recommending to the Board a set of corporate governance guidelines for the Company; (ii) reviewing and reassessing the adequacy of such guidelines at least annually; and (iii) recommending to the Board for approval such changes to the guidelines as the Committee believes are appropriate;
- (g) the appointment of any director to Executive or other office other than to the position of chairman of the Board, the recommendation for which would be considered at a meeting of the full Board.

## **6 REPORTING**

- 6.1 The chairman of the Committee shall report formally to the Board after each meeting on all matters within its duties and responsibilities.
- 6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter or area within its remit where action or improvement is needed.
- 6.3 The Committee's terms of reference shall be available on request and shall be available on the Company's website (if any).

## 7 REGULATORY DUTIES

- 7.1 In carrying out its duties under these terms of reference, the Committee shall:
- (a) give due regard to:
    - (i) all relevant legal requirements;
    - (ii) the rules the stock exchanges on which the Company's securities are listed;
  - (b) ensure that it has such information as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

## 8 MEMBERSHIP

- 8.1 Members of the Committee shall be appointed from time to time by the Board.
- 8.2 The Committee shall consist of at least two members.
- 8.3 The majority of the members of the Committee shall be "independent" directors of the Company (within the meaning of applicable securities legislation and rules of stock exchanges). The chairman of the Board shall not be a member of the Committee if he is an executive director.
- 8.4 Appointments to the Committee shall be such periods as may be determined by the Board.
- 8.5 The Board shall appoint the chairman of the Committee who shall be an independent director of the Company. In the absence of the chairman, or in the circumstances referred to in paragraph 10.8 below, members of the Committee present at a duly convened meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office. The chairman of the Board shall, to the extent that he is a member of the Committee at all, not be chairman of the Committee.
- 8.6 The Board may from time to time remove members from the Committee.

## 9 SECRETARY

The Board shall from time to time nominate an appropriate person to be the secretary of the Committee.

## 10 MEETINGS

- 10.1 The Committee shall meet at least twice a year and at such other times as the chairman of the Committee shall require.

- 10.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee.
- 10.3 Unless otherwise agreed, at least 3 working days notice shall be given of each meeting of the Committee.
- 10.4 Unless otherwise agreed, each notice of a meeting of the Committee shall:
- (a) confirm the venue, time and date of the meeting;
  - (b) include an agenda of items to be discussed at the meeting; and
  - (c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.
- 10.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.
- 10.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee, both of whom should be non-executive directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 10.7 Only members of the Committee have the right to attend meetings of the Committee. However, others (such as the other directors and external advisers) may be invited to attend and speak at (but not vote at) all or part of meetings of the Committee as and when appropriate.
- 10.8 The chairman of the Board (if he is a member of the Committee and also Chairman of the Committee) shall not chair the Committee when it is dealing with the matter of succession to the chairmanship.
- 10.9 Meetings of the Committee may be held by conference telephone, video-conference or using similar communications equipment whereby all members participating in the meeting can hear each other.
- 10.10 Matters for decision by the Committee shall be decided by a majority decision of the members, save that in the event of an equality of votes for and against a particular matter the Chairman of the Committee shall have a second or casting vote in respect of that matter.

## 11 **MINUTES**

- 11.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.



- 11.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 11.3 Following each meeting of the Committee, the secretary shall promptly circulate, for comment, draft minutes to each member who was present at the meeting.
- 11.4 After approval and signing of the minutes by the chairman of the meeting, the secretary shall circulate copies of the minutes to all members of Committee and, to all members of the Board, unless a conflict of interest exists.

## **12 AUTHORITY**

- 12.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 12.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 12.3 The Committee is authorised to:
  - (a) seek any information it requires (including from any employee of the Company);
  - (b) seek legal or other professional advice (including the advice of independent compensation or other consultants);
  - (c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;
  - (d) to secure the attendance of external advisors at its meetings (if it considers it necessary);
  - (e) to obtain reliable, up-to-date information about (1) compensation in other companies and (2) nomination and appointment processes and (3) governance processes other companies; and
  - (f) to exercise such other powers and perform such other duties and responsibilities as are incident to the purposes, duties and responsibilities of the Committee specified herein or as may from time to time be delegated by the Board;

all at the Company's expense.

## **13 OWN PERFORMANCE**

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

To exercise such other powers and perform such other duties and responsibilities as are incidental to the purposes, duties and responsibilities of the Committee specified herein or as may from time to time be delegated by the Board.

#### **14 DELEGATION**

The Committee may determine that a specific matter or categories of matters within this mandate should be delegated to a special sub-committee composed of members of the Committee. Any such delegation must comply with all applicable corporate law requirements and with any applicable rules of securities regulators and any stock exchanges on which the Company's securities are listed. If the Committee delegates any matter to such a sub-committee, the Committee shall establish the procedures for the conduct of the business so delegated (including quorum requirements).

**APPENDIX A:**

**POSITION DESCRIPTION AND ROLES AND RESPONSIBILITIES OF THE  
EXECUTIVE CHAIRMAN**

**President and Chief Executive Officer**

In these terms of reference:

“CEO” means the Chief Executive Officer of the Company;

“CAO” means the Chief Administrative Officer of the Company;

“CFO” means the Chief Financial Officer of the Company; and

“COO” means the Chief Operating Officer of the Company.

Leader of the organisation. Chair of the Corporate Board and Executive Board. Applying business acumen and strategic vision to lead the Company and improve its competitive standing. To lead, in conjunction with the Board and with input from the CEO, the development of the Company’s strategy.

Overall Strategy of the business – business direction, M&A strategy, new project and new country entries, business development strategy and initiation, balancing the business model following agreement with the Board on overall strategy.

Advice to CEO on business, technical and political areas and on significant corporate deals and potential opportunities. Maintaining an overall view on the progress of the business and advice to the CEO and other senior staff on such issues.

Assess the principal risks of the Company and to ensure that these risks are being monitored and managed.

Oversee the implementation of the Company’s long and short term plans in accordance with its strategy. As Chairman of the Executive Board ensure ongoing budgets prepared by the CFO with input from the CEO are properly discussed and approved in line with the guidelines agreed by the Corporate Board.

In conjunction with the CEO, CFO and CAO ensure effective internal controls and management information systems are in place, ensure that the Company has appropriate systems to enable it to conduct its activities both lawfully and ethically and ensure that the Company maintains high standards of corporate citizenship and social responsibility wherever it does business.

High level political and business contacts including developing and maintaining relationships with host governments, Ministers, Presidents and the like as well as governments in areas where the Company may wish to work. Also maintaining support from Western, Asian and other supportive or potentially supportive governmental and non-governmental bodies such as: US

State Department, NSC, Commerce and Energy Departments; UK Government, European Union, World Bank, IMF, IFC, ADB, EBRD, APEC, PBEC etc.

Maintaining relationships with major shareholders and developing potential new shareholders and stakeholders.

Attending and presenting at international conferences relating to the company, its general position in its operating area and further establishing the Company's position as by further developing the position as experts on the region and on energy issues for independent companies with press interviews, TV interviews and the like.

Ensure that the Directors are properly informed and that sufficient information is provided to the Board from the CEO, CFO, CAO and others to enable the Directors to form appropriate judgments.

Together with other members of the Executive Board, ensure the integrity and timeliness of all public disclosures made by the Company. Final sign off of these disclosures (which may be delegated to the CEO where appropriate).

Together with the Company Secretary, develop Board agendas, request that meetings of the Board be called when appropriate, determine the date, time and location of the annual meeting of shareholders and to develop the agenda for the meeting.

Developing further high-level relationships with current and potential future partners, which may have a strategic impact on the business.

Chair and manage the Executive Board and the main Company Board. Chair the AGM and any Special or Extraordinary Meetings of Shareholders. Final sign off on AFE's and bank transfers – bank transfers following sign off by CFO, CEO and CAO.

Reportees – CEO, CAO and staff & CFO.

In addition to the responsibilities described above, the Executive Chairman will ensure that there is a good working relationship between the executive and non-executive directors, sufficient time to discuss strategic issues and attempt to reach a consensus on Board decisions. It is accepted that the CEO has responsibility for the day-to-day management of the company and putting into effect the decisions and policies of the board but keeping the Executive Chairman fully informed to provide appropriate input.