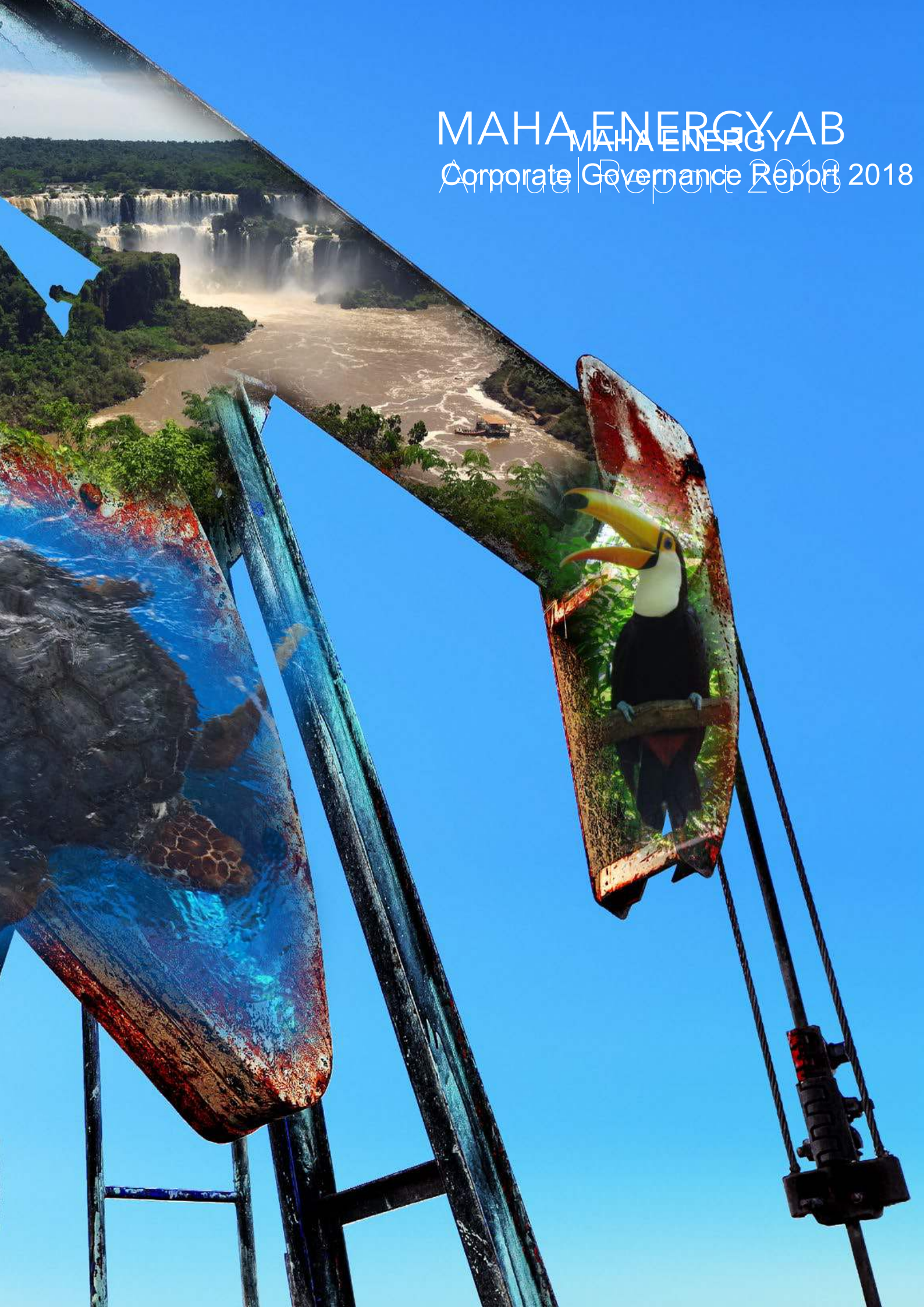

MAHA ENERGY AB

MAHA ENERGY | Annual Report 2018

Corporate Governance Report 2018

Corporate Governance Report

Maha Energy is committed to a corporate governance frame work that ensures its business is operated ethically and responsibly in accordance with best practices for Companies of a similar size and scope and seeks to ensure the interests of shareholders, management and the Board of Directors remains aligned.

This report will outline and report on the corporate governance practices and systems of the Company through which owners, directly or indirectly, control a company. The shares are listed on Nasdaq First North (MAHA-A) and the Maha Secured Bonds 2017-2021 are listed on Nasdaq OMX (MAHA 101), both in Stockholm. As the Company is not formally required to follow the Swedish Code of Corporate Governance (the "Code"), this 2018 Corporate Governance Report is submitted in accordance with the Swedish Annual Accounts Act. It explains how Maha has conducted its corporate governance activities during 2018. The Company is not aware of any deviations from Annual Accounts Act, 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.

Regulatory Framework
The Company observes good corporate governance practices in accordance with the laws and regulations of Swedish legislation, and the Company's own Articles of Association and policies. The Company issues Annual Consolidated Financial Statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and Swedish Annual Accounts Act.

The external regulations and laws governing the Company include:
- Swedish Companies Act
- Accounting legislation (e.g. Swedish Accounting Act, Swedish Annual Accounts Act and IFRS)
- Nasdaq Stockholm's rule book for issuers

The Company's internal corporate governance instruments include:
- **Articles of Association** – these contain customary provisions regarding the Company's governance and do not contain any limitations as to how many votes each shareholder may cast at Shareholders' Meetings, nor any special provisions regarding the appointment and dismissal of Board members or amendments to the Articles of Association
- **Instructions and Rules of Procedure for Financial Reporting, the Managing Director and the Board of Directors as approved by the Board of Directors (the "Board")** – *see section "The Board and its Function" below*
- **Maha Group polices such as Anti-corruption Policy, HSE Policy, Insider Policy, Code of Business Conduct and Ethics** – dedicated group policies, procedures and guidelines have been developed to outline specific rules and controls. The policies, guidelines and procedures cover areas such as Operations, Accounting and Finance, Health, Safety and Environmental, Environment, Anti-Corruption, Human Rights, Information Systems, Insider Information and Corporate Communications and are continuously reviewed and updated as and when required
- **Board Committee Terms of Reference, Mandates and Policies** – *see section "The Board and its Function" below*

The Company regularly seeks advice from its legal counsel, Setterwalls Advokatbyra AB (Stockholm), and Certified Advisor FNCA Sweden AB (Stockholm) on corporate governance matters.

Shareholders
The Company's shares (MAHA-A) are traded on Nasdaq First North and the Company's Secured Bonds 2017-2021 (MAHA 101) are traded on Nasdaq OMX. At year-end 2018 the share capital amounted to TSEK 453,326, represented by 98,369,050 shares, of which 90,259,168 were Class A shares and 8,109,882 were class B shares. In addition, there were an additional 50,000 convertible class C2 shares. The class A and B shares have one (1) vote per share whereas the class C2 shares have two-tenths (2/10) votes per share. Kvalitena AB is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of approximately 21 million shares representing a 21.8 percentage of shares and votes. For further information on share, share capital and shareholders (see section "The Maha Share").

Annual General Meeting
The Annual General Meeting ("AGM") must be held within six (6) months of the close of the fiscal year. The Company calls the meeting through announcements in Swedish Official Gazette, Svenska Dagbladet and its website. 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. Shareholders of Class A, B and C2 shares are entitled to exercise their respective voting rights in accordance with the description above (Shareholders). Under the Articles of Association and Swedish law, the AGM must address those matters listed below marked with "*". The 2018 AGM (in compliance with the Articles of Association and Swedish laws) was held in Stockholm on May 30, 2018. Seventeen (17) shareholders were represented at the AGM, representing 43.05 percent of the votes and share capital in the Company. The submissions and resolutions passed by the 2018 AGM included the following:
- Submission of the annual report and the auditor's report and the consolidated financial statements and the auditor's report on the group*;
- Approval of administrative matters concerning the AGM*;
- Resolution in respect of adoption of the profit and loss statement and the balance sheet and the consolidated profit and loss statement and the consolidated balance sheet*;
- Resolution in respect of the members of the Board and the Managing Director's discharge from liability*;
- Determination of the number of members of the Board and the number of auditors and, where applicable, deputy auditors;

- Determination of the fees payable to the members of the Board and the auditors*;
- Election of members of the Board, auditors and, where applicable, deputy auditors*;
- Resolution regarding principles for the appointment of and instructions regarding a Nomination Committee (see below)*;
- Resolution regarding an incentive program and issuance of warrants (LTIP) (see below);
- Resolution regarding authorisation for the Board to increase the share capital by up to 10%. The board of directors was authorized to resolve on issuance of new shares, warrants and/or convertible debentures during the period until the next annual general meeting and at one or more occasions.

Nomination Committee and its Function

In accordance with the Nomination Committee process approved by the 2018 AGM, the Nomination Committee for the 2019 AGM consists of members appointed by three (3) of the largest shareholders of the Company based on shareholdings as at 30 September 2018 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 22 October 2018 (within the time frame of six (6) months before the AGM as prescribed by the Code).

The Nomination Committee for the 2019 AGM consists of:

- Harald Pousette, appointed by Kvalitena AB
- Lars Carnestedt, appointed by Nerthus Investments Ltd.
- John Patrik Lindvall, appointed by Jonas Lindvall
- Wayne Thomson, Chairman of the Company's Board

The Nomination Committee for the 2019 AGM is currently completing its mandate. The Nomination Committee Report, including the final proposals to the 2019 AGM, is published on the Company's website at the same time the Notice of the AGM is given. The Nomination Committee has met and conferenced 4 times during which all members attended or were in conference.

The Nomination Committee's purpose is to produce proposals for certain matters including, amongst others, the following (which will be presented to the 2019 AGM for consideration):

- AGM chairman
- Board Members
- Chairman of the Board
- Board fees and remuneration for committee work allocated to each member
- Auditors and auditor's fees

The work of the Nomination Committee includes evaluation of the Board's work, competence and composition, as well as the independence of the members. The Nomination Committee will also consider criteria such as the background and experience of the Board, and evaluate the work completed by it in formulating is recommendations.

The Board and its Function

Board of Directors

Pursuant to the Company's Articles of Association, the Board shall consist of not less than three (3) and not more than seven (7) ordinary members, without any deputy members. There are no specific stipulations in the Company's Articles of Association on how the board members should be assigned or dismissed. Currently, the Company's Board consists of four (4) ordinary members, appointed until the end of the next annual shareholders' meeting. The composition of the Board in the Company has not changed since the Company's 2018 AGM. The current Board is as follows Mr. Wayne Thomson (Chairman), Mr. Anders Ehrenblad, Mr. Jonas Lindvall and Mr. Harald Pousette (see bios in section "The Board of Directors and Management").

During 2018, the Board convened regularly. All members of the Board participated in each Board meeting.

Member	Elected	Position	Year of Birth	Nationality	Independent in Relation to Company	Independent in relation to the Company's larger shareholders
Wayne Thomson	2014	Chairman	1951	Canadian	Yes	Yes
Jonas Lindvall	2013	Member	1967	Swedish	No	No
Anders Ehrenblad	2013	Member	1965	Swedish	Yes[1]	Yes
Harald Pousette	2017	Member	1965	Swedish	Yes	No

1 *Anders Ehrenblad is the Deputy Managing Director of Maha Energy AB for Swedish law purposes and to ensure the Company has a signatory in Stockholm, but performs no formal or informal management role*

Rules of Procedure

The Board's work is governed by the approved Rules of Procedure. The Board supervises the work of the Managing Director by monitoring the Company's operational and financial activities. The Board ensures that the Company's organisation, administration and controls are properly managed. The Board adopts strategies and goals and provides review and approval of larger investments, acquisitions and disposals of business activities or assets. The Board also appoints the Managing Director and determines the Managing Director's salary and other compensation. The Chairman of the Board supervises the Board and is respon-

The Committee's work focused on establishing remuneration guidelines to management, to monitor and evaluate variable remuneration and to construct and propose incentive programs to the AGM or Board as applicable. This Committee makes recommendations to the Board.

As and when Corporate Governance and/or public disclosure issues arise under the Company's Policies this Committee assists the Board.

Reserves/HSE Committee

The Board established a Reserves/HSE Committee shortly after the 2018 AGM for the period up to and including the 2019 AGM, consisting of Wayne Thomson, Chairman and Jonas Lindvall. This Committee convened as required in 2018. This Committee is governed by the Reserves and HSE Committee Terms of Reference and the Health, Safety and Environmental Policy Document. The work has mainly focused on following up on evaluation of and recommendation on appointment of independent qualified reserve auditor, oversight of the reserves audit process and review of operations and HSE management systems as required. This Committee made recommendations to the Board, normally in conjunction with the Board meeting and particularly in respect of the Company's Reserve Report.

Board Member	Attend	Audit Committee	Attend	Compensation/ Corp Governance /Disclosure Committee	Attend	Reserves Committee	Attend
Wayne Thomson	5/5	Yes (Chairman)	5/5	Yes	2/2	Yes (Chairman)	1/1
Jonas Lindvall	5/5	–	–	–		Yes	1/1
Anders Ehrenblad	5/5	Yes	5/5	Yes	2/2	–	–
Harald Pousette	5/5	Yes	5/5	Yes (Chairman)	2/2	–	–

External Auditors

At the 2018 AGM for the period until the conclusion of the next Annual General Meeting the authorized accounting firm Deloitte AB was elected as Maha's auditor. The Auditor in charge is Fredrik Jonsson.

Financial Reporting and Control

The Board of Directors has the ultimate responsibility of the internal controls for the financial reporting. Maha's systems of internal control, with regard to financials 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 disclosure requirements that Maha must meet as a listed company.

Internal Controls

While the Board (with assistance from the Audit Committee), in accordance with the Swedish Companies Act, has the ultimate responsibility for the internal controls over the Company's financial reporting; front line responsibility for such is with the Managing Director and CFO under the approved Instructions for Financial Reporting and the Instructions to Managing Director. In line with listed companies of similar size in the oil and gas sector, Maha maintains a system of internal controls for its financial reporting that is designed to minimize risks of error and ensure a high level of reliability and compliance with applicable accounting principles. The Company's CFO and Managing Director continually work on improving the financial reporting process through evaluating the risk of errors in the financial reporting and related control activities. Control activities include close monitoring and approval by the Company's executive team, in line with the authorization guidelines of: invoices, other payables, contracts and legal commitments, and other financial and treasury activities in relation to the oil and gas operations of the Company in Wyoming and Brazil. With the 2017 acquisition of the Tie Field and Tartaruga Field in Brazil the Company's executive team has been regularly in Brazil providing oversight and further rationalizing of financial reporting, procurement and internal control processes to ensure best practices are employed. The purpose of these activities is to ensure and monitor that control activities are in place for the areas of identified risks related to financial reporting and potentially fraudulent activities. The Audit Committee, the CFO, and the Managing Director follow up on the compliance and effectiveness of the Company's internal controls to ensure the quality of internal processes is appropriate and develop controls as considered necessary.

Remuneration for Board Members and Senior Management

For additional information on Board member and senior management compensation please refer to Note 29 to the Financial Statements.

Information and Communication

The Board has adopted an Internal Disclosure Procedure 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 audit committee ensures and monitors that adequate control are in place for the identified areas of risk related to financial reporting activities.