

# Corporate Governance report 2013

Corporate governance concerns the regulations and structure existing to govern and manage a company in an effective and controlled manner. Corporate governance is primarily aimed at meeting the shareholders' requirements with regard to returns on their investment and to provide all interested parties with comprehensive and correct information about the company and its development. The Corporate governance of Auriant Mining AB (publ) is based on the Swedish Companies Act, the Swedish Corporate Governance Code, the Articles of Association and other relevant laws and rules. Auriant Mining AB (publ) ("Auriant", the "Company") is a Swedish public limited company with its registered office in Stockholm, Sweden and with business operations primarily in Siberia, Russia. Auriant was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005 under the name Central Asia Gold AB (publ). Since July 19, 2010 Auriant's shares are listed at the Swedish stock exchange NASDAQ OMX First North Premier. The shares are traded under the abbreviation, "AUR". Auriant has applied the Swedish Corporate Governance Code (the "Code") since July 1, 2008, except for the deviations detailed in its corporate governance reports. The Code is based on the "comply or explain" principle, which implies that companies applying the Code can deviate from the specific rules, but they must provide an explanation for such deviation. Governance, management and control responsibilities in Auriant are divided between the shareholders at the Annual General Meeting of shareholders (or any Extraordinary General Meeting), the Board of Directors and the Chief Executive Officer.

## THE SHAREHOLDERS' MEETING

The shareholders' right to decide on Auriant's business is exercised at the Shareholders' Meeting of the Company, which is the Company's highest decision-making body. The Board of Directors is appointed by the Shareholders' Meeting and the Chief Executive Officer is appointed by the Board of Directors. The Shareholders' Meeting has a sovereign role over the Board of Directors and the Chief Executive Officer. The duties of the Shareholders' Meeting include the election of Members of the Board, the approval of principles for the appointment of the Nomination Committee, the adoption of income statement and balance sheet, resolutions on appropriation of profits and discharge from liability for the Members of the Board and the Chief Executive Officer of the company, the determination of fees

payable to the Members of the Board and to the auditors and the principles governing conditions of employment and remuneration for the Chief Executive Officer and senior executives and, where relevant, the amendment of Articles of Association and the election of auditor.

## SHAREHOLDERS

As of the end of 2013 there were in total 17,802,429 shares in the Company and the same amount of votes. There were 2,962 shareholders in the Company as of December 31, 2013 and the largest shareholder was Bertil Holdings Ltd holding 52.32% of shares. Bertil Holdings Ltd is the only shareholder representing more than one tenth of the voting rights of all shares in the Company. The share capital of the Company as at that date amounted to SEK 200,277,327.

## ANNUAL GENERAL MEETING IN 2013

Auriant's 2013 AGM was held on Wednesday, May 15, 2013 in Stockholm. The minutes from the meeting are available at [www.auriant.com](http://www.auriant.com).

The following principal resolutions were adopted:

- The Board of Directors and the Chief Executive Officer were discharged from liability for the past financial year.
- Board members Preston Haskell, Andre Bekker, Peter Daresbury and Ingmar Haga were re-elected to the Board for 2013 and Sergey Kashuba and Bertil Villard were elected new Board members.
- It was decided that the Board of Directors would themselves elect one of them as the Chairman of the Board.
- Board fees were established for the Chairman of the Board in the amount of SEK 250,000 and for the other Board Members, in the amount of SEK 200,000 each. It was decided that remuneration amounting to SEK 25,000 per year and member shall be paid for the committee work.
- It was resolved to elect Öhrlings PricewaterhouseCoopers with Martin Johansson as responsible auditor.

- The AGM approved the principles for appointment of the Nomination Committee in accordance with the Nomination Committees proposal.
- The AGM approved the Board's proposal on adoption of the guidelines for the remuneration of members of the executive management.
- The AGM decided to establish an incentive program for the members of management and a number of other employees through the issuance of employee stock options and warrants, in accordance with the Board's proposal.
- The AGM decided to establish an incentive program for the Company's Board of Directors through the issuance of stock options and warrants, in accordance with the proposal made by a shareholder representing 52.87% of the shares and votes in the Company.

At the 2013 Annual General Meeting 12,021,494 shares were represented by 12 shareholders either in person or via proxies. The shares represented comprised approximately 68% of the total number of shares in the Company.

#### ANNUAL GENERAL MEETING IN 2014

The Annual General Meeting of the Shareholders will be held on Tuesday May 13, 2014 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 15:00, and the doors will open at 14:30. The annual report for 2013 will be available on the Company's website as of April 22, 2014.

#### NOMINATION COMMITTEE

The role of the Nomination Committee is to present proposals to the AGM for: (i) the election of AGM Chairman; (ii) the number of members of the Board; (iii) the election of the Chairman of the Board and other Board members; (iv) Board fees, allocated between the Chairman and other members; (v) any remuneration for committee work; and (vi) the election and payment of auditors and alternate auditors (where applicable). In addition, the Nomination Committee shall make proposals for decisions about principles for establishing a new Nomination Committee.

The principles for the appointment of the Nomination Committee were approved by the AGM of May 15, 2013, as follows. The Company shall have a Nomination Committee comprised of the Chairman of the Board and four other members representing each of the four owners with the largest voting power. The selection of the four largest shareholders shall be made on the basis of the



share register of the Company kept by Euroclear Sweden AB as of the last banking day in October 2013 and other reliable shareholder information that the Company will have obtained at that time. At the earliest convenient date after the end of October the Chairman of the Board shall contact the four shareholders with the largest number of voting rights, as determined above, and will request that they each appoint a member to the Committee. If any of the shareholders decline their right to appoint a member to the Nomination Committee, the shareholder with the next largest voting power shall be provided with the opportunity to appoint a member. The Nomination Committee's mandate continues until a new Nomination Committee is appointed. The Chairman of the Nomination Committee shall, unless the members agree otherwise, be the member representing the shareholder with the largest shareholding in the Company. If a member leaves the Nomination Committee before its work is completed, and if the Nomination Committee deems that it is necessary to replace this member, then the Nomination Committee shall appoint a new member. No fees shall be paid to the members of the Nomination Committee.

The Nomination Committee may charge fair and reasonable expenses for travel and for reporting to the Company.

The Nomination Committee has been formed in accordance with the above described principles, as follows: Preston Haskell, the Chairman of the Board, Risto Silander representing Bertil Holdings Ltd, Peter Hamberg representing Niclas Eriksson with the family, and Bernt Plotek representing himself. As one of the four largest shareholders decided not to appoint a member, an opportunity to do so was offered to the fifth largest shareholder, which also chose not to appoint a member to the Nomination Committee. It turned out to be impracticable to obtain reliable shareholder information necessary to

establish the shareholder with the next largest voting power within a reasonable time, due to a number of shareholders holding their shares through nominees. The Nomination Committee was duly constituted by the four members appointed as above. The Nomination Committee has met in person and has also had telephone contact.

The Nomination Committee works in the best interests of all shareholders of the Company and focuses on ensuring that the Company's Board of Directors is comprised of members who possess the knowledge and experience which corresponds to the needs of the Company.

### BOARD OF DIRECTORS

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organisation of the Company and the administration of the Company's business, and shall continually assess the Company's and the Group's financial situation. The Board of Directors deals with issues of material significance, such as business plans including profitability targets, budgets, interim reports and annual reports, the acquisition or sale of companies, significant property acquisitions or sales, the establishment of important policies, the structure of internal control systems, and significant organisational changes. Each year, Auriant's Board establishes terms of reference of the Board of Directors, written instructions regarding financial reporting and the division of work between the Board and the Chief Executive Officer. The terms of reference regulate, among other things, the Board's duties, the minimum number of Board meetings each year, the manner in which meetings are to be notified and the documents required to be distributed before Board

meetings and the manner in which the minutes of Board meetings are to be drawn up. The written instructions regarding financial reporting regulate the reporting system in place, as the Board needs to be able to continually assess the Company and Group's financial position. A Chart of Authority, approved by the Board, regulates the division of work, authorities, and responsibilities, between the Board and the Chief Executive Officer.

According to the Articles of Association, the Board of Directors shall comprise a minimum of three members and maximum of ten members, without deputy members, elected by the Annual General Meeting.

### CHAIRMAN OF THE BOARD OF DIRECTORS

During 2013, Auriant's Chairman of the Board led the Board's work and ensured that the Board fulfilled its duties. The Chairman of the Board has continually followed the Group's business and development through contact with the Chief Executive Officer.

### MEMBERS OF THE BOARD OF DIRECTORS

At year-end 2013, Auriant's Board was comprised of five Board members, Preston Haskell, Andre Bekker, Peter Daresbury, Ingmar Haga and Bertil Villard, all elected by the Annual General Meeting on May 15, 2013. Sergey Kashuba, also elected by the 2013 AGM, resigned during the year in order to take up a COO position in another gold mining company. The members of the Board are presented in more detail in the Board of Directors section of the annual report, and the details of the members' independence vis à vis the Company and its management are presented below.

#### BOARD MEMBERS' INDEPENDENCE AND SHARES IN AURIANT

Board member	Shares in Auriant	Warrants in Auriant	Independent of the company and management*	Independent of the major shareholders*
Preston Haskell	9,314,968	0	No	No
Andre Bekker	0	30,000	Yes	No
Ingmar Haga	0	30,000	Yes	Yes
Peter Daresbury	0	30,000	Yes	Yes
Bertil Villard	0	30,000	Yes	Yes

\* Independence as defined by the Swedish Code of Corporate Governance.

**BOARD MEMBERS' ATTENDANCE AT BOARD MEETINGS IN 2013**

Name	Position	Present
Preston Haskell	Chairman	23 <sup>1</sup> /25
Andre Bekker	Member	25/25
Peter Daresbury	Member	25/25
Ingmar Haga	Member	25/25
Bertil Villard	Member	14/14
Sergey Kashuba	Member	4/4
Denis Alexandrov*	Member, CEO	9 <sup>2</sup> /12

\* Board member elected at the AGM 2012.

<sup>1</sup> Mr. Haskell refrained from participating in 2 Board meetings held by correspondence, due to conflict of interest.

<sup>2</sup> Mr. Alexandrov refrained from participating in 3 Board meetings held by correspondence, due to conflict of interest.

**THE BOARD'S WORK IN 2013**

The Board held 25 meetings in 2013, 17 of which were held by correspondence, 3 by telephone and 5 meetings were held in person. The important issues dealt with by the Board in 2013, in addition to the approval of the annual report and the interim reports, and approval of the budgets, were as follows:

- The Company's financial position and liquidity
- Strategic decision-making
- Approval of major contracts, in accordance with the Chart of Authority
- Issue of 185,442 shares pursuant to the exercise by Firstlife Services Ltd of warrants issued to it under the incentive program for the Company's CEO Denis Alexandrov, adopted at the Extraordinary General Meeting held on November 27, 2012
- Preparation for the Annual General Meeting
- Meeting with the auditor without presence of the Group's management

**BOARD COMMITTEES****Remuneration Committee**

The Board decided in May 2013 that the Remuneration Committee shall be constituted by Preston Haskell (chairman), Peter Daresbury, Ingmar Haga and Bertil Villard and shall be chaired by the Chairman of the Board. The Remuneration Committee submits proposals for

resolution by the Board regarding salary and other terms of employment for the CEO. The committee also approves proposals regarding salaries and other terms of employment for the Group's management, according to the CEO's proposal.

**Finance and Audit Committee**

The Finance and Audit Committee was established in January 2013, consisting of the Board members Peter Daresbury and Ingmar Haga, with Mr. Daresbury serving as the chairman of the committee. Following his election to the Board at the 2013 AGM, Mr. Villard became the third member of the committee. The members of the committee have the necessary competence and experience in the accounting matters.

**Technical Committee**

The Technical Committee, established in January 2013, is comprised of Ingmar Haga and Andre Bekker. The committee's task is to advise the rest of the Board on mining and technical issues.

The committees report to the Board on a regular basis and on any major decisions taken.

**BOARD FEES**

The Board of Directors' fees are decided by the Shareholders' meeting. The following Board fees were approved by the Shareholders' meetings in 2013: the Board fees the Chairman of the Board in the amount of SEK 250,000 and for the other Board Members, in the amount of SEK 200,000 each. It was decided that remuneration amounting to SEK 25,000 per year and member shall be paid for the committee work.

## GROUP MANAGEMENT

The Group's management comprises the CEO, CFO, CIO, COO, Head of HR, Chief Geologist, and Group General Counsel. The Group management has regular meetings in order to discuss the strategic and operational issues related to the management of the Auriant Group. The management of the Company is presented on pages 40-41 of this report.

The Chief Executive Officer is responsible for the ongoing management of the Company. The CEO's work is evaluated once a year. Denis Alexandrov is Chief Executive Officer for Auriant Mining AB since May 2012.

In the event that the CEO becomes unable to fulfill CEO's duties, the deputy CEO shall substitute for the CEO until the new CEO is appointed. Such events are defined in the terms of reference of the CEO, adopted by the Board. The Board of Auriant Mining AB appointed Irina Olsson as deputy CEO of the Company in January 2014.

## REMUNERATION OF EXECUTIVE MANAGEMENT

For information regarding the remuneration policy and the remuneration of the Chief Executive Officer, senior executives and other employees, please see Note 3 to the financial statements.

## LONG-TERM INCENTIVE PROGRAMS

The Board regularly evaluates the need for long-term incentive programs. Currently there are the following long-term incentive programs in the Company:

- the long-term incentive program for the Chief Executive Officer and the Chief Investment Officer of the Company, adopted at the Extraordinary General Meeting on November 27, 2012;
- the long-term incentive program for the members of management and a number of other employees, adopted at the Annual General Meeting on May 15, 2013;
- the long-term incentive program for the Company's Board of Directors, adopted at the Annual General Meeting on May 15, 2013 upon the proposal of the major shareholder.

## AUDITOR

The AGM appoints an auditor of the Company. The auditor's task is to examine the Company's annual financial statements and accounts, as well as the management by the Board and the Chief Executive Officer. The AGM

of May 15, 2013 appointed, for a period until the 2014 AGM, Öhrlings PricewaterhouseCoopers AB as the Company's auditors. The responsible auditor at Öhrlings PricewaterhouseCoopers AB is Authorized Public Accountant Martin Johansson. Martin's audit engagements, in addition to Auriant, include Kraft Foods Sverige AB, Sotkamo Silver AB, PetroGrand AB, etc.

The audit is conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit of the annual accounts is conducted during the period from January to April. The process is initiated, however, when the examination of the nine-month accounts is initiated in October of the financial year in question. The 9 months interim report was subject to review during the financial year.

## INTERNAL CONTROL

Internal control is often defined as a process that is influenced by the Board, the company management and other staff, and which is developed to provide reasonable assurance that the company's targets are being met in terms of the business operations being both appropriate to the goals of the company and being efficient. Reasonable assurance is also to be provided as regards the reliability of the financial reporting and compliance with relevant laws and regulations. Internal control consists of various aspects: control environment, risk assessment, control activities, information and communication, as well as monitoring.

## CONTROL ENVIRONMENT

Internal control is underpinned by the control environment, which comprises the culture communicated by the Board and company management, and according to which they operate, and that provides the discipline and structure for the other aspects of internal control. The control environment primarily consists of the organisational structure, the assignment of responsibility and powers, management philosophy, ethical values, staff competence, policies and guidelines, as well as routines. In addition to the relevant legislation, the framework within which Auriant's Board and management work is comprised of the owners' aims and the Swedish Corporate Governance Code. The formal decision-making procedure is based on the division of responsibility between the Board and the CEO, which the Board establishes each year in the form of the Chart of Authority. The Board has established procedures for its work. The CEO is able to delegate a degree of decision-making to other senior executives. Two members of the Board have the authority to sign on behalf of the Company. Furthermore, the CEO, in his normal business activities, is also entitled to sign on behalf of the Company.

## RISK ASSESSMENT

All business operations involve risk. A structured risk assessment makes it possible to identify the material risks having an effect on internal control with regard to financial reporting and where these risks exist within the organisation. Auriant's Board continually assesses the Company's risk management. This work consists in assessing the preventative measures which need to be taken to reduce the Company's risks. This involves, for example, ensuring that the Company has appropriate insurance and that the Company has the necessary policies and guidelines in place.

## CONTROL ACTIVITIES

Control measures are required to prevent, detect and correct errors and discrepancies. Each quarter, Auriant Mining's Finance Department compiles financial reports providing details of earnings and cash flow for the most recent accounting period at subsidiary and Group level. Deviations from budget and forecasts are analysed and commented on. Documented processes exist for the compiling of the information on which the financial reports are based. Detected errors and discrepancies are analyzed and followed up.

## MONITORING

Financial monitoring is carried out on a quarterly basis for all profit centres and at Group level. In addition, Group management receives operational results on a weekly and monthly basis. Monitoring is, then, carried out in comparison with budgets. Auriant Mining AB is a mining company in its early stages, which is why no earnings or sales forecasts are currently provided externally. Instead, the financial report in February of each year stipulates targets for the expected volume of gold production for the full year. These targets are subsequently revised as often as is deemed necessary. As the gold production is currently highly seasonal, this usually occurs, at the earliest, in the summer months when production has begun in earnest.

The Board on a weekly, monthly and quarterly basis receives the operational reports, including plan-to actual analysis, of the Group. In 2013 finance reports of the Group, including profit and loss statement, cash flows, statement of financial position, were analyzed by the Board on a quarterly basis. The Board continuously evaluates the information provided by the Company management. Each month the CEO reports to the Board on the Company's performance with regard to the targets in the Business Plan. Given its size, the Company has chosen not to establish a separate internal audit unit. If the Board finds it appropriate, internal control will be further expanded. The issue of internal control and a separate internal audit unit is annually reviewed by the Board and will be discussed again in 2014.

## Auriant has not complied with the Swedish Corporate Governance Code as regards the following points:

- Code rule 2.5 provides that the company is to announce names of members of the nomination committee on its website no later than 6 months before the Annual General Meeting.

The Company did not update names of members of the nomination committee on its website before 13 November 2013 being the date falling 6 months before the 2014 Annual General Meeting date. It has proven impracticable to do so within a less than two week period given that under the guidelines for the appointment of the nomination committee approved at the 2013 Annual General Meeting, the nomination committee was to be formed on the basis of the share register of the Company as of the last banking day in October 2013.

- Code rule 6.1 provides that the Chairman of the Board is to be elected by the shareholders meeting.

In Auriant, the Board is responsible to elect its Chairman. It is believed to be in the Company's best interest that the Board is responsible for the election of the Chairman since this increases the flexibility of the Board's work.

- Code rule 9.8 provides that share- and share-price-related incentive programmes are to be designed so that the vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years.

The Extraordinary General Meeting in Auriant held on 27 November 2012 approved the incentive program for the CEO of the Company and Chief Investment Officer where the date for acquisition of shares and/or the vesting period is less than three years. Furthermore, the Annual General Meeting on 15 May 2013 approved the long-term incentive program for the Company's Board of Directors and the long-term incentive program for the members of management and a number of other employees. Each of those programs also provides for the vesting period that is less than three years.

It was considered to be in the best interests of the Company and all shareholders to create a greater participatory interest for the members of the Board of Directors, CEO, CIO and a number of other employees by offering incentive programmes with the shorter period for acquisition of shares and/or shorter vesting period, than what the Swedish Code for Corporate Governance recommends.

- Code rule 9.8 further provides that remuneration of non-executive board members is not to include share options.

The Annual General Meeting on 15 May 2013 approved the long-term incentive program for the Company's Board of Directors, which includes stock options. It was considered to be in the best interests of the Company and all shareholders to adopt such incentive program for the following reasons. The Company has been successful in recruiting non-executive board members who are highly qualified and experienced. For a company the size of Auriant to be able to attract such quality individuals, a key factor has been the potential offering of stock options. Furthermore, this method of reward will save cash for the Company that, as a growing junior mining company, has limited free cashflow and thus, is not in a position to offer higher board fees or synthetic stocks to board members. The ownership of those stock options will also align the interests of the non-executive board members to those of the shareholders.

#### PARENT COMPANY

The Parent Company is a holding company without significant operational activities. The Parent Company supports the subsidiaries with financing, investor relations and strategic decisions, etc. and has no revenue other than other operating income and interest on loans to the subsidiaries and on bank accounts.

The operating result for 2013 was MSEK -8.7 (US\$ -1.3 m) (2012: was MSEK -3.4 (US\$ -0.5 m)). The difference from last year is mainly due to the fact that in 2012 the gain from the sale of 20% of the shares in Awilia Enterprises Ltd. to Centerra Gold was recognized in accordance with the JV agreement for the Kara Beldyr license area as Centerra in January 2012 earned the right to another 20% in the JV.

Net financial items for 2013 amounts to MSEK -21.6 (US\$ -3.3 m) (2012: MSEK -242.7 (US\$ -37.3 m)) and includes interest expense related to the Golden Impala bonds in amount of MSEK -36.5 (US\$ -5.6 m) and interest expense in the amount of MSEK -0.495 (US\$ -0.076

m) from the short term loan received from Mr. Preston Haskell, compensated by intragroup loan interest income in amount of MSEK 17.8 (US\$ 2.7 m) (2012: includes write down of intercompany loan receivables of MSEK - 238.9 (US\$ -36.7) related to Tardan)

Net result for the reporting period amounted to MSEK -30.3 (US\$ - 4.6 m) (2012: MSEK - 246.2 (US\$ - 37.8 m)).

Total cash balance in the parent company was MSEK 5.8 (US\$ 0.9 m) (2012: MSEK 1.2 (US\$ 0.2 m) at the end of December 2013.

In 2013 a new loan from the shareholder of MSEK 18.2 (US\$ 2.8 m) was received, of which MSEK 6.0 (US\$ 0.9 m) was repaid. As of December 31, 2013 the loan liability was MSEK 12.8 (US\$ 2.0 m) including interest accrued during the period.

#### PROPOSAL FOR PROFIT DISTRIBUTION

The Group's equity at year-end 2013 amounted to MSEK 7.5, of which the share capital is MSEK 200.3.

In the Parent Company the unrestricted shareholders equity amounts to:

	SEK
Share premium reserve	580,798,838
Translation difference reserve	-61,073,337
Retained earnings	-536,270,824
Net income for the year	-30,251,275
<b>Total unrestricted equity</b>	<b>-46,796,598</b>

The Board of Directors and the Chief Executive Officer propose that the Parent Company's accumulated losses are carried forward and that no dividend is paid for the financial year.