

# Corporate Governance Report 2018

Corporate governance involves the regulations and structure established 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 the return on their investment, and at providing all stakeholders with comprehensive, and correct, information as regards 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) (in this Corporate Governance Report also referred to as "Auriant", the "Company" or the "Parent Company") is a Swedish public limited liability company with its registered office in Stockholm, Sweden and with business operations primarily in Siberia, Russia. Auriant was founded in 2004 and was 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 have been listed on the Swedish stock exchange, Nasdaq First North Premier. The shares are traded under the ticker "AUR". Auriant applies the Swedish Corporate Governance Code (the "Code"). The Code is based on the "comply or explain" principle, which implies that companies applying the Code can deviate from specific rules, but they must provide an explanation for such deviation. Deviations from the Code rules are detailed in the Company's Corporate Governance Reports. Governance, management and control responsibilities in Auriant are divided between the shareholders's meeting, the Board of Directors and the Chief Executive Officer.

## THE SHAREHOLDERS' MEETING

The shareholders' right to decide on Auriant's business matters 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 the income statement and balance sheet, resolutions on the appropriation of profits and discharge from liability for the members of the Board and the Chief Executive Officer, the determination of fees payable to the members of the Board and to the auditors and determination of the principles governing remuneration for the Chief Executive Officer and senior executives, the election of auditors and, where relevant, amendments to the Articles of Association.

## SHAREHOLDERS

In April 2018 the Company issued 23,801,320 new

shares subscribed for by exercising warrants of series 2017/2018, which were issued in connection with the rights issue in September 2017. There were, as of the end of 2018, in total, 98,648,502 shares in the Company and the same number of votes. There were 3,067 shareholders in the Company as of December 28, 2018. The largest shareholder was Bertil Holdings Ltd with 52.27% of shares. The second largest shareholding was that of GoMobile Nu AB, which held 22.69% of shares. There are no other shareholders representing more than one tenth of the voting rights of all shares in the Company. The share capital of the Company as of December 28, 2018 totaled SEK 11,097,956.42.

## ANNUAL GENERAL MEETING 2018

Auriant's 2018 AGM was held on May 14, 2018 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 previous financial year.
- It was resolved that until the end of the next annual general meeting, the number of Board Members shall be 4 and the number of deputies shall be 1.
- Lord Peter Daresbury, Ingmar Haga, Preston Haskell and Patrik Perenius were re-elected to the Board. James Provoost Smith Jr. was re-elected as Deputy Board Member.
- Lord Peter Daresbury was re-elected as Chairman of the Board.
- It was resolved that remuneration to the Chairman of the Board shall be SEK 400,000, and SEK 250,000 to each of the other ordinary board members and to the deputy board member. It was decided that remuneration amounting to SEK 25,000 per year and member shall be paid for participation in each committee established by the Board.
- It was resolved to re-elect the auditing firm, Öhrlings PricewaterhouseCoopers AB as auditor.
- The AGM approved the principles for appointment of the Nomination Committee in accordance with the Nomination Committee's proposal.
- The AGM approved the Board's proposal on adoption of the guidelines for remuneration to members of the executive management.

At the Annual General Meeting 2018, a total of 71,594,680 shares were represented by 5 shareholders either in person or via proxies. The shares represented comprised 72.58 per cent of the total number of shares in the Company.

## ANNUAL GENERAL MEETING IN 2019

The Annual General Meeting of shareholders will be held on Tuesday, May 14, 2019, at Näringslivets Hus, Storgatan 19, Stockholm. The annual report for 2018 is available on the Company's website as of April 23, 2019.

## 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 regarding the principles to be applied in establishing a new Nomination Committee.

The principles for the appointment of the Nomination Committee were approved by the AGM of May 14, 2018, as follows.

The Nomination Committee shall consist of the Chairman of the Board and three other Members, each representing one of the three owners with the largest voting power. The selection of the three 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 September 2018. However, if it becomes known to the Company that two or more of the largest shareholders are controlled by the same physical person(s) (or the same physical person(s) holds shares in the Company both directly and through a company controlled by him), then all such shareholders shall be considered to comprise one shareholder for the purposes of the participation in the Nomination Committee. At the earliest convenient date after the end of September 2018, the Chairman of the Board shall contact the three shareholders with the largest number of voting rights, as determined above, and request that they each appoint a member to the Nomination Committee. If any of the three shareholders with the largest number of voting rights decline their right to appoint a member to the Nomination Committee, the shareholder with the next largest number of voting rights shall be provided with the opportunity to appoint a member. If such shareholder also declines its right to appoint a member to the Nomination Committee or does not respond to the request within a reasonable time, then the Nomination Committee shall be constituted by the remaining members. Unless the Nomination Committee members decide otherwise, the Chairman of the Nomination Committee shall be the member that represents the shareholder with the largest number of voting rights in the Company. If a member leaves the Nomination Committee before its work is completed, and if the Nomination Committee considers that there is a need to replace this member, then the Nomination Committee shall appoint a new member.

No remuneration shall be paid to the members of the Nomination Committee. The Nomination Committee

may charge the Company reasonable expenses for travel and investigations.

The Nomination Committee for the 2018 AGM was comprised of Lord Peter Daresbury, Chairman of the Board, Ekaterina Drozdova, appointed by the largest shareholder Bertil Holdings Ltd, and Per Åhlgren, appointed by the second largest shareholder GoMobile Nu AB. An opportunity to appoint a member to the Nomination Committee was also offered to the third largest shareholder, which declined its right to appoint a member. The fourth largest shareholder also decided not to appoint a member. The shareholders that appointed members of the Nomination Committee jointly represented more than 64 percent of the voting rights in the Company at the time of formation of the Nomination Committee. The Nomination Committee was duly constituted by the three members appointed as above, and was chaired by Per Åhlgren.

The Nomination Committee works to promote common interests of all shareholders of the Company and focuses on ensuring that the Company's Board of Directors is comprised of members possessing the knowledge and experience corresponding 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 adopts written rules of procedure for the Board of Directors, written instructions to the Chief Executive Officer, written instructions regarding financial reporting and a Chart of Authority further detailing the division of work between the Board and the Chief Executive Officer. The rules of procedure regulate, among other things, the Board's duties, the minimum number of Board meetings to be held each year, the manner in which meetings are to be notified and the documents required to be distributed prior to 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's and Group's financial position. The written instructions to the Chief Executive Officer, together with the Chart of Authority, regulate 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, and maximum of ten, ordinary Members, and not more than five Deputy Board Members, elected by the Annual General Meeting.

## CHAIRMAN OF THE BOARD OF DIRECTORS

The 2018 the Annual General Meeting re-elected Lord Peter Daresbury as Chairman of the Board. During 2018, Auriant's Chairman of the Board led the Board's work and ensured that the Board fulfilled its duties. The Chairman of the Board continually followed the Group's business and development through contact with the Chief Executive Officer.

## MEMBERS OF THE BOARD OF DIRECTORS

At year-end 2018, Auriant's Board was comprised of four ordinary Board Members, Peter Daresbury (Chair), Ingmar Haga, Preston Haskell, and Patrik Perenius, and one Deputy Board Member, James Provoost Smith Jr., all elected by the Annual General Meeting on May 14, 2018. The members of the Board are presented in greater detail in the Board of Directors section of the annual report, and the details of the members' independence vis á vis the Company and its management are presented below.

## BOARD MEMBERS' INDEPENDENCE AND SHARES IN AURIANT

| Board member                                   | Shares in Auriant<br>(owned by the Board member or by his closely related parties) | Stock options in Auriant | Independent of the Company and management | Independent of the major shareholders |
|--|--|--------------------------|---|---------------------------------------|
| Peter Daresbury (Chair)                        | 400,000  | 110,000                  | Yes                                       | Yes                                   |
| Ingmar Haga                                    | 0  | 90,000                   | Yes                                       | Yes                                   |
| Preston Haskell                                | 51,563,892   | 0                        | No  | No                                    |
| Patrik Perenius                                | 0  | 0                        | Yes                                       | Yes                                   |
| James Provoost Smith Jr. (deputy Board member) | 0  | 0                        | Yes                                       | No                                    |

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

## BOARD MEMBERS' ATTENDANCE AT BOARD MEETINGS IN 2018

| Name                                  | Position            | Present           |
|---------------------------------------|---------------------|-------------------|
| Peter Daresbury                       | Chair               | 8/9               |
| Ingmar Haga                           | Member              | 9/9               |
| Preston Haskell                       | Member              | 8 <sup>1</sup> /9 |
| Patrik Perenius <sup>1</sup>          | Member              | 9/9               |
| James Provoost Smith Jr. <sup>2</sup> | Deputy Board Member | 6/9               |

<sup>1</sup> Mr. Haskell refrained from participating in one Board meeting due to conflict of interest

<sup>2</sup> Mr. Smith participated in one Board meeting as deputy for Lord Daresbury. In addition Mr. Smith attended 5 Board meetings without participating in the decisions taken at those meetings.

## THE BOARD'S WORK IN 2018

The Board held 9 meetings in 2018, including 5 ordinary meetings with personal attendance and 4 meetings by telephone. In addition, the Board passed 22 resolutions per capsulam, i.e. by correspondence. The important issues dealt with by the Board in 2018, in addition to the approval of the annual financial statements and the interim reports, and approval of the budgets, were as follows:

- The Company's financial position and liquidity
- Strategic decision-making
- Allotment of shares subscribed for by exercising warrants of series 2017/2018
- Extension of the term of the shareholder's loan
- A bridge loan facility from Golden Impala Limited
- A new credit facility from VTB bank
- Approval of other major contracts in accordance with the Chart of Authority, in particular, agreements with contractors and suppliers of the main equipment for the new CIL plant at Tardan
- Preparation for the Annual General Meeting.

The Board has conducted an evaluation of its work under the guidance of the Chairman of the Board. The evaluation is carried out on the basis of a self-assessment questionnaire. The questionnaire is circulated to the Board in the beginning of the year. Each ordinary Board member and deputy Board member is to complete the questionnaire independently. Responses are collated by the Chairman of the Board who then leads a discussion of the key points arising from the questionnaire, especially those areas that require improvement. This usually takes place at the last Board meeting in person prior to the AGM. Copies of completed questionnaires are also to be provided to the Nomination Committee. The evaluation ensures that the basic stipulations of the Code of Corporate Governance are complied with.

## BOARD COMMITTEES

### Remuneration Committee

In 2018, the Remuneration Committee was comprised of Peter Daresbury and Preston Haskell. The Committee was chaired by Preston Haskell. The Remuneration Committee submits proposals for resolution by the Board regarding salary and other terms of employment of the CEO. The Committee also approves proposals regarding salaries and other terms of employment of the Group's management, according to the CEO's proposal.

In 2018, the Remuneration Committee held two meetings. Each member of the Committee attended both meetings.

### Finance and Audit Committee

In 2018, the Finance and Audit Committee was comprised of JP Smith and Peter Daresbury. Mr. JP Smith continued to serve as Chairman of the Committee. The members of the Committee have the necessary compe-

tence and experience in accounting matters.

In 2018, the Finance and Audit Committee held two meetings by telephone. Each member of the Committee attended all three meetings.

### Technical Committee

In 2018, the Technical Committee was comprised of Ingmar Haga and Patrik Perenius. Mr. Haga continued to serve as Chairman of the Committee. The Committee's task is to advise the remainder of the Board on mining and technical issues.

In 2018, the Technical Committee held three meetings. Each member of the Committee attended all three meetings.

The Committees report to the Board on their work on a regular basis.

## BOARD FEES

The Board of Directors' fees are decided by the shareholders' meeting. The following Board fees were approved by the shareholders' meeting in 2018: for the Chairman of the Board Lord Peter Daresbury, SEK 400,000, and SEK 250,000 to each of the other ordinary Board members and to the deputy Board member. It was decided that remuneration amounting to SEK 25,000 per year and member shall be paid for participation in each Committee established by the Board.

## GROUP MANAGEMENT

As of the end of 2018, the Group's management was comprised of the CEO, deputy CEO, Acting CFO, Chief Geologist, Head of HR and Group General Counsel. The management of the Company as at the date of this report is presented on pages 40-41 of the annual report.

The Chief Executive Officer is responsible for the on-going management of the Company. The CEO's work is evaluated once a year. Sergey Ustimenko is the Chief Executive Officer of Auriant Mining AB since January 2016.

In the event that the CEO becomes unable to fulfill CEO's duties, the deputy CEO shall substitute for the CEO until a new CEO is appointed. Such events are specified in the written instructions to the CEO, adopted by the Board. Maria Carrasco is the Deputy CEO of the Company since October 2016.

## REMUNERATION OF EXECUTIVE MANAGEMENT

The AGM on May 14, 2018 approved the following guidelines for remuneration of executive management

### Guidelines

The guidelines shall apply to all employment contracts which are entered into after the meeting's resolution and, in those cases where amendments are made to the existing terms and conditions, after that point in time. The Company shall aim to offer total remuneration, which is reasonable and competitive, based on the circumstances in the country in question and shall also be allowed to offer a so-called "Sign on" bonus in order to

recruit the best personnel. The remuneration shall vary in relation to the performance of the individual and the Group. The total remuneration to the Group Management shall consist of the components stated below.

### **Fixed salary**

The fixed salary ("Base Salary") shall be adjusted to the market and shall be based on responsibility, competence and performance. The fixed salary shall be reviewed every year..

### **Variable salary**

Variable remuneration may include:

- a) monthly variable remuneration, which shall depend on the executive's individual performance;
- b) bonuses, including annual bonuses and one-time bonuses, which shall relate to the Company's return on production results, reserves and production goals, and specific goals within each executive's area of responsibility; and
- c) share and share-price related incentive programs.

The maximum amount of variable remuneration paid in cash shall not exceed one annual Base Salary of the executive in question.

### **Long-term incentives**

The Board of Directors intends to assess, on a regular basis, the need of long-term incentive programs that are to be proposed to the general meeting.

### **Insurable benefits**

Old-age pension, healthcare benefits and medical benefits shall, if applicable, be prepared in a manner that reflects the regulations and practices in the home country. If possible, pension plans shall be defined contribution plans. In individual cases, depending on the tax and/or social insurance laws which apply to the individual in question, other adjusted pension plans or pension solutions may be approved.

### **Other benefits**

The company shall be able to provide individual members of the Group Management, or the entire Group Management, with other benefits. These benefits shall not constitute a substantial portion of the total remuneration. The benefits shall, in addition, correspond to normal benefits provided on the market.

### **Termination and severance pay**

Notice of termination of employment shall be no more than twelve months upon termination initiated by the Group and no more than six months upon termination initiated by a member of the management. Severance pay may only be paid out upon termination by the Group or when a member of the Group Management resigns due to a significant change of his/her working conditions, which means the he/she cannot perform adequately.

### **Derogation from the guidelines**

The Board shall be entitled to derogate from these guidelines if special reasons exist in an individual case.

For more information regarding remuneration to the Chief Executive Officer, senior executives and other employees, please see Note 4 on page 85 of the annual report.

## **LONG-TERM INCENTIVE PROGRAMS**

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

- the long-term incentive program for the members of management and a number of other employees, adopted at the Annual General Meeting on May 13, 2014;
- the long-term incentive program for the Company's Board of Directors, adopted at the Annual General Meeting on May 13, 2014 upon the proposal of the major shareholder.
- the long-term incentive program for the members of management and a number of other employees, adopted at the Annual General Meeting on May 12, 2015;
- the long-term incentive program for the Company's Board of Directors, adopted at the Annual General Meeting on May 12, 2015 upon the proposal of the major shareholder.

No new long-term incentive programs were established in 2018.

## **AUDITOR**

The AGM appoints the auditor of the Company. The auditor's task is to examine the Company's annual financial statements and accounts, as well as the administration and management by the Board and the Chief Executive Officer. The AGM of May 14, 2018 re-elected, for a period until the 2019 AGM, the auditing firm Öhrlings PricewaterhouseCoopers AB as the Company's auditors. Since May 2018, the auditor-in-charge at PwC is Authorized Public Accountant Anna Rozhdestvenskaya, who succeeded Martin Johansson in this role.

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 February to April in the year following the financial year in question, and also includes a review of the nine-month bookclosing in November of the financial year in question.

## **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 established and 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**

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 written instructions to the Chief Executive Officer and the Chart of Authority. The CEO can 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/her normal business activities, is also entitled to sign on behalf of the Company.

**Risk assessment**

A structured risk assessment makes it possible to identify 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, by assessing the preventative measures needed 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. Targets for the expected volume of gold production for the full year are initially set during the budgeting process at the end of the previous year. Normally, these targets are, again, reviewed and revised if necessary in the summer months when production has begun in earnest.

The Board receives weekly production updates and monthly operational reports, including plan-to actual analysis, of the Group. Financial reports of the Group, including profit and loss statements, cash flows, and statements of financial position, are analyzed by the Board on a quarterly basis. The Board continuously evaluates the information provided by the management.

Given its size, the Company has chosen not to estab-

lish 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 reviewed annually by the Board and will be discussed again in 2019.

**AURIANT DID NOT COMPLY WITH THE FOLLOWING RULES OF THE SWEDISH CORPORATE GOVERNANCE CODE IN 2018: :**

*Code rule 4.2 provides that deputies for directors elected by the shareholders’ meeting are not to be appointed.*

The Annual General Meeting 2018 re-elected James Provoost Smith Jr. as Deputy Board Member, in accordance with the Nomination Committee’s proposal. The Nomination Committee considered that the Board composition with 4 ordinary board members and 1 deputy board member was appropriate for the Company’s operations and phase of development.

*Code rule 9.2 provides that, except for the Chairman of the Board who may chair the Remuneration Committee, the other members of the Committee elected by the shareholders meeting are to be independent of the Company and its executive management.*

The Board member Mr. Preston Haskell, who is not independent in relation to the Company and executive management in accordance with the criteria set out in Code rule 4.4, was a member and Chairman of the Remuneration Committee in 2018. Mr. Haskell’s involvement in the Remuneration Committee is considered to be in the best interests of all of the shareholders of the Company for the following reasons. Mr. Haskell is, himself, the largest owner in the Company, indirectly owning, through companies, 52.27% of the shares, and, furthermore, he has significant knowledge and experience of executive remuneration issues. Mr. Haskell has not been a member of the executive management of the Company since May 2012.

**PROPOSAL FOR LOSS DISTRIBUTION**

The Group’s equity at year-end 2018 amounted to MSEK – 235.8 (US\$ -23.2 mln), of which share capital is MSEK 11.098 (US\$ 1.436 mln).

In the Parent Company the unrestricted shareholders equity amounts to:

|                           | SEK          |
|---------------------------|--------------|
| Share premium reserve     | 780,425,622  |
| Retained earnings         | -636,194,388 |
| Net income for the year   | -48,022,000  |
| Total unrestricted equity | 96,209,234   |

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

**Auditor’s Report on the Corporate Governance Report**

The auditor’s report on this Corporate Governance Report is included in the Auditor’s Report, presented on page 113-114 of the annual report.