

# Corporate governance report

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 governance of Central Asia Gold AB (publ), referred to below as Central Asia Gold, CAG or the Company, is based on the Swedish Companies Act, the Swedish Corporate Governance Code, the Articles of Association and other applicable laws and rules. Central Asia Gold AB (publ) is a Swedish public limited company with its registered office in Stockholm, Sweden. CAG is a Swedish mining company with business operations in eastern Siberia, Russia. Central Asia Gold AB was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005. Since July 19, 2010 the CAG AB share is listed at the Swedish stock exchange NASDAQ OMX First North. The shares are traded under the abbreviation, "CAG". CAG has applied the Swedish Corporate Governance Code (the Code) since July 1, 2008, except for the deviations detailed below. The Code is based on the principle of "follow or explain," which concept implies that companies applying the Code can deviate from specific rules, but they must provide an explanation for such deviation.

Governance, management and control responsibilities for CAG are divided between the shareholders at the AGM, the Board of Directors and the Chief Executive Officer.

## Annual General Meeting of the Shareholders

The shareholders' right to decide on CAG's business is exercised at the AGM, which is a company's highest decision-making body.

### 2010 AGM

CAG's 2010 AGM was held on Monday, June 28, 2010 in Stockholm. The minutes from this meeting are available on [www.centralasiagold.se](http://www.centralasiagold.se).

The following principal resolutions were adopted:

- Discharge from liability for the previous financial year was granted in respect of the Directors Lars Guldstrand,

Patric Perenius, Mike Nunn and Alice Volgina. Discharge for the previous financial year was not granted in respect of the Director Maxim Kondratyukin and the Director and Chief Executive Officer, Preston Haskell, as regards both his role as a Director and as Chief Executive Officer.

- The number of members of the Board for 2010 was determined at 5, without deputies.
- The following members were re-elected to the 2010 Board: Preston Haskell, Lars Guldstrand, Mike Nunn, Patric Perenius and Alice Volgina.
- Lars Guldstrand was re-elected as Chairman of the Board.
- The Board fees were established for Patric Perenius and Mike Nunn at TSEK 40 each. The other three Board members will receive no compensation.
- Remuneration to the Company's auditor is paid according to the invoiced amount according to agreement.
- The AGM approved the shareholders' proposal for the establishment of principles for appointing the Nomination Committee.
- The AGM approved the Board's proposal for guidelines for the remuneration of senior executives.
- The AGM resolved, in accordance with the Board's proposal, to issue 10,650,000 warrants, with deviation from the shareholders' preferential rights, to the subsidiary LLC Tardan Gold, for further transfer to a limited number of the Group's employees.
- The AGM resolved, in accordance with the Board's proposal, to increase the share capital of the Company, on the basis of the rights issue with preferential right for existing shareholders, by a maximum of SEK 158,878,125 up to a total of 141,225,000 shares.
- The AGM resolved to authorise the Board, provided that the offer is fully subscribed, for the period until August 31, 2010, to issue, with deviation from the shareholders' preferential rights, an additional maximum 25,000,000 shares in case the offer is over subscribed. Furthermore, it was resolved to authorise the Board to determine on the rights issue with deviation from the shareholders preferential right, in order to allow for strategic acquisitions and pay for the fees charged by the underwriters of the rights issue.

### 2011 AGM

The Annual General Meeting of the Shareholders will be held on Tuesday May 31, 2011 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 3:00 pm, and the doors will be open at 2:30 pm. The annual report for 2010 will be available on the Company's website as of May 11, 2011.

### Nomination Committee

The principles for the appointment of the Nomination Committee were approved by the AGM of June 28, 2010.

The principal owners propose that the AGM establish the following principles: The Company shall have a Nomination Committee comprised of the Chairman of the Board and four other members representing each of the four owners holding the largest number of voting rights. Those shareholders with the largest number of voting rights will be contacted on the basis of the Company's record – provided by the Swedish Central Securities Depository – of registered shareholders (by owner group) as at October 31, 2009. Those shareholders who are not registered with the Swedish Central Securities Depository, and who wish to exercise their voting rights, should apply to the Chairman of the Board and must be able to evidence ownership of shares. 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 most voting rights shall be provided with the opportunity to appoint a member. The names of the owner representatives and the names of the shareholders they represent shall be made public no less than six months prior to the AGM. 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 largest shareholder. If a member resigns from the Nomination Committee prior to the work for that mandate being 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 shall 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) the Board's 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 names of the owner representatives shall be published on the Company's website at the earliest convenience after the appointment. Proposals may be sent to [valberedning@centralasiagold.se](mailto:valberedning@centralasiagold.se) or sent by post to Central Asia Gold AB at: Nomination Committee, Engelbrektsplan 2, 4 fl, 114 34 Stockholm. The election committee up to the 2011 AGM has consisted of: Lars Guldstrand, Tom Baring representing Bertil Holdings Ltd, Thomas Falck representing Ellge Kapital i Stockholm AB, Martin Diggle representing Artradis Fund Management PTE Ltd, and Mats Löfgren representing Commodity Quest AB.

### 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 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.

The Board's procedural rules and written instructions regarding financial reporting and the division of work between the Board and the Chief Executive Officer.

Each year, CAG's Board establishes procedural rules and written instructions regarding financial reporting and the division of

work between the Board and the Chief Executive Officer. The procedural rules 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, as well as the division of work between the Board and the Chief Executive Officer.

### Chairman of the Board of Directors

During 2010, Central Asia Gold'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 and through his own frequent meetings or discussions with the heads of the subsidiaries.

### Members of the Board of Directors

At year-end 2010, Central Asia Gold's Board was comprised of five members elected by the AGM. The Chief Executive Officer is a member of the Board of Directors. The members of the Board are presented in more detail further on in this report, together with details of the members' independence vis á vis the Company and its management.

### The Board's work in 2010

During 2010, the Board held 37 meetings, 29 of which were by correspondence and 3 were held by telephone. The 5 other meetings were physical meetings.

The important issues dealt with by the Board in 2010, in addition to the approval of the annual report and the interim reports, establishing a business plan and the related budgets, were as follows:

- The Company's financial position and liquidity
- Strategic decision-making
- Cooperation with Centerra Gold Inc.
- Reorganisation of management team

### Board members' attendance at Board meetings

Name	Position	Present
Lars Guldstrand	Chairman of the Board	37/37
Preston Haskell	Member	37/37
Patric Perenius	Member	37/37
Alice Volgina	Member	29/37
Mike Nunn	Member	27/37

### Board's division of work

There was no verbal or written division of work for the members of the Board during the 2010 financial year.

### Board committees

CAG's Board of Directors chose not to establish any special audit or remuneration committees in 2010. The Board found it more appropriate to allow the Board to perform the tasks of the committees with regard to remuneration and audit-related issues. These issues have been dealt with along with the ordinary Board work.

### Board fees

The Board of Directors' fees are decided by the AGM. At the AGM on June 28, 2010 it was decided to determine the Board fees for Patric Perenius and Mike Nunn at TSEK 40 each. No compensation shall be paid to the other Board members.

### Chief Executive Officer and other senior executives

The Chief Executive Officer, who is also the Head of the Group, is responsible for the ongoing management of the Company. The Board's written instructions stipulate the division of work between the Board and the Chief Executive Officer. The CEO's work is evaluated once a year, at latest at the Board meeting in November 2010. Preston Haskell is Chief Executive Officer and Head of Group for Central Asia Gold since September 2009.

### 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 2 in the annual report for 2010.

### Auditor

The AGM appoints an auditor of the Company once every four years. 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 June 12, 2008 appointed, for a period of four years (until the 2012 AGM), Authorised Public Accountant Johan Arpe of PricewaterhouseCoopers. As Johan Arpe chose to resign from his assignment, Martin Johansson was chosen to serve as Auditor in Charge for the remaining period. The audit is conducted in accordance with generally accepted auditing standards in Sweden. The audit of the annual accounts during the period 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.

The Board's description of internal control of financial reporting

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 Central Asia Gold's Board works 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 on the basis of written instructions. 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

#### **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. CAG'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, which involves, for example, ensuring that the Company has appropriate insurance and that the Company has the necessary policies and guidelines in place. These annual financial statements describe the Board's review and assessment of risk factors under the heading Significant Risks and Points of Uncertainty.

#### **Control activities**

Control measures are required to prevent, detect and correct errors and discrepancies. Each quarter, CAG'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 analyzed and commented on. Documented processes exist for the compiling of the information on which the financial reports are based.

#### **Information and communication**

Central Asia Gold has an information policy, comprising guidelines for both internal and external information from the Company. External information is provided in accordance with financial markets and securities legislation, other relevant laws and regulations, the regulations of the Swedish Financial Supervisory Authority and the stock market listing agreement NASDAQ OMX First North. The Company provides the market with information on an on-going basis concerning important events within the Group, including its financial position. Information is provided in the form of interim and annual financial statements. In addition, press releases are issued concerning news and events that are deemed to comprise price-sensitive information. All financial information and other press releases are published via GlobeNewswire to recipients within the financial and daily press, news agencies,

analysts and to the Company's website. Information relevant to CAG's employees is distributed by e-mail. Internal dissemination of price-sensitive information is first carried out after Central Asia Gold has provided the stock market with the information. In addition, all managers are responsible for providing their co-workers with information that is to be distributed within the organisation.

#### **Monitoring**

Financial monitoring is carried out on a quarterly basis for all profit centres and at Group level. In addition, Group management receives operational reports on a weekly and monthly basis. Monitoring is, then, carried out in comparison with budgets. CAG is a mining company that is 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 continuously evaluates the information provided by Company management. Each month the COO reports to the Board on the Company's performance with regard to the targets in the Business Plan. The Company has chosen not to establish a separate internal audit unit. Given its size, the Company finds that it is not viable to have a separate internal audit unit. However, 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 2011.

#### **Members of the Board during the 2010 financial year**

##### *Lars Guldstrand (born 1957)*

Chairman of the Board, elected 2009.

Lars Guldstrand is a Swedish citizen, born 1957, with more than 25 years' experience in international leadership and investment in the telecom, media and technology sectors. He has also worked with corporate turnarounds and reorganisations, and M&A activities in a number of other areas, including the finance and Internet sectors.

During his career Lars Guldstrand has held leading positions in a number of privately-owned and publicly listed companies in Europe and the U.S., including Eniro AB. Lars Guldstrand is a Partner and Chairman in GKL Growth Capital AB, Eco Energy, Scandinavia Centum Finance Services International AB, KMW Energi AB and G-Life AB.

He is also a member of the Board of Lox-system AB and Amari Resources Ltd. Lars Guldstrand holds an MBA from California Coast University, California in the U.S.

Shares in Central Asia Gold: 370,287 via a company

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **No**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

#### **Preston Haskell**

(see under Group Management)

Independent as regards the Company and the Company Management as defined by the Swedish Code of Corporate Governance: **No**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

#### **Alice Volgina (born 1966)**

Board member, elected 2009.

Alice Volgina is a Russian citizen, born 1966. Alice has a degree in English translation from Moscow's State University of Linguistics. Since 1999 she has been a partner in and CFO of Preston Haskell's Colliers International investment group. Between 1996–1999 Alice worked as Vice President of HIB Limited and in 1988–1996 she worked in customs at Moscow's Sheremetyevo Airport.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **No**

#### **Mike Nunn (born 1959)**

Board member, elected 2009

Mike Nunn, a South African mining entrepreneur born in 1959, is the founder of Amari Holdings, a business that drew on his experience and success in the commodities industry and on his African business network.

Mike Nunn is a global pioneer within the Tanzanite segment. Tanzanite is a gemstone. As founder and former CEO of TanzaniteOne Ltd (listed on London's AIM) he developed a local operation into one of the world's foremost producers of and market leaders for tanzanite. Nunn also founded the Tanzanite Foundation, an industry organisation that oversees the global marketing of tanzanite.

Among his other mineral-related activities, Nunn was involved in turning around MDM, a long-established mining engineering company that has since become a leading African mining consulting company whose shares were listed on the AIM in 2008.

In 2005, Nunn founded Xceldiam Ltd, an Angolan diamond prospecting company that was successfully floated on the AIM in 2006 and was later sold to Petra Diamonds.

Nunn consolidated a portion of his mining interests in mid-2006 and created AMARI, an Africa-focused mining and mineral resources investment company with interests in gold, platinum, uranium, manganese, nickel, coal and iron ore.

Nunn is currently the Working Chairman of AMARI and is based in Johannesburg, South Africa.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by

the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **Yes**

#### **Patric Perenius (born 1951)**

Board member, elected 2004

Patric Perenius is a Swedish citizen, born 1951. Patric graduated in 1977 with an M.Sc in mining from the Royal Institute of Technology in Stockholm. After working with oil exploration with Swedish Petroleum Exploration and Norsk Hydro, Patric participated as founder of several oil and mineral exploration companies, such as Secab, Tricorona, Aurex, Gexco, Yield Archelon and Svenska Capital Oil and Geotermica. In addition to Central Asia Gold, Patric Perenius is also member of the boards of Archelon Mineral, Commodity Quest, Nordic Iron Ore and Geotermica.

Shares in Central Asia Gold: 48,130

Warrants in Central Asia Gold: 0

Independent as regards the Company and the Company management as defined by the Swedish Code of Corporate Governance: **Yes**

Independent of major shareholders in the Company as defined by the Swedish Code of Corporate Governance: **Yes**

All Board members, except for Patric Perenius, were elected at the Extraordinary General Meeting March 12, 2009, in connection with the merger with New Mining Company.

#### **Group management**

##### **Preston Haskell (born 1966)**

Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB from 2009.

Preston Haskell is U.S. citizen, born 1966, and has been active as a businessman in Russia since the early 1990s.

Haskell is also a member of the Board of Fleming Family and Partners Real Estate Development Fund Ltd.



Preston Haskell has a Degree in Economics from the University of Southern California in the U.S.

Shares in Central Asia Gold: 10,111,500 via company

Warrants in Central Asia Gold: 1,872,500 via company

All of the CEO's significant assignments outside the company are approved by the Board.

#### **Pavel Olishevsky**

Chief Operating Officer (COO)

Pavel is a Russian citizen born 1973. Pavel has a Masters Degree in Chemistry from Georgetown University in Washington, DC, and is a qualified Chartered Financial Analyst (CFA) with extensive experience in the mining sector, most recently responsible for the construction of a mining operation in fluorite mining.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

#### **Stefan Egerstad**

Financial Officer (CFO)

Stefan is a Swedish citizen born in 1969. Stefan has an MBA and has a broad experience from senior positions in business, with a special focus on Russia. Previously, he was CFO at Zodiak Television AB in Sweden, CEO of MEGA Belaya Dacha OOO in Russia, CFO and Vice President of Bonny Allied Industries Ltd in Nigeria and authorised public accountant working at PwC in Sweden. The company has concluded an employment agreement with Stefan Egerstad. It is planned that he starts his employment in spring 2011.

Shares in Central Asia Gold: 0

Warrants in Central Asia Gold: 0

#### **Long-term incentive programs**

The Board regularly evaluates the need for long-term incentive programs. Currently there are no outstanding warrants in the Company. According to the resolution adopted by the Annual Shareholders Meeting on June 28, 2010, a total of 10,650,000 warrants, entitling 1,006,500

shares have been issued to the subsidiary Tardan Gold. The warrants will comprise an incentive program for key personnel.

#### **Deviations from the Swedish Code of Corporate Governance**

Central Asia Gold AB chooses to deviate from the Code as regards the following points:

- The entire Board of Directors performs the duties of the audit and compensation committees. Given the clear ownership structure, Preston Haskell, CEO and majority shareholder participates in the work of these committees.
- In 2010, the Board did not have any meetings with the auditor without the CEO and other members of management attending the meeting. The Board's opinion in this case was that the questions were of a nature that were considered appropriate and effective to let the CEO and senior management participate in meetings with the auditor.

#### **Significant events after the reporting period**

##### **Artelj Lena LLC**

The Board made a decision to investigate strategic value realisation scenarios for Artelj Lena LLC given historic underproduction and the high cash cost of mining in the project and various exit options have been evaluated. A partnership agreement between the specialised alluvial mining company, LLC Sibirskoe Zoloto, and LLC Artelj Lena was signed in February 2011. According to the agreement, the partner has guaranteed a RUR 150 million line of credit to LLC Artelj Lena, part of which will be used for equipment renewal and exploration in 2011. According to the agreement, the partner will be responsible for mining operations and cover production costs in 2011, in exchange for 85% of Lena's revenue.

A share purchase agreement for 3% of the shares in LLC Artelj Lena was signed between Lena Gold LLC and LLC Tardan Gold in August 2010. In March 2011, LLC Tardan Gold repurchased the 3% of shares in LLC Artelj Lena sold in 2010, for the same amount as it was sold in 2010.

A share purchase agreement for 30% of the shares in LLC Artelj Lena for a purchase price of MRUR 30 has been signed

between LLC Tardan Gold and LLC Sibirskoe Zoloto in April 2011.

#### **Credit line from related party**

In April 2011, a Golden Impala Ltd., a company controlled by the largest shareholder, Preston Haskell, launched a credit line of up to MUSD 3,6 with an annual interest rate of 16% to CAG AB. The purpose of the credit line facility was to meet short term requirements of CAG AB. The maturity date of the credit facility is September 2012.

#### **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.

Other operating income of the Parent Company during 2010 amounted to TSEK 13,441 (0) mainly comprised of the profits of the sold subsidiary LLC Kara Beldyr of TSEK 7,762 and a VAT refund of TSEK 5,009. Operating expenses amounted to TSEK 7,951 (10,641). Net income amounted to TSEK -10,187 (-12,281).

The Parent Company invested a total of TSEK 198,447 in its subsidiaries (investments and loans granted) during the year (41,795). Cash flow from share issuances and loans taken during the year amounted to TSEK 196,928 (43,214). Cash at the end of the reporting period amounted to TSEK 10,945 (14,794).

#### **Proposal for profit distribution**

The Group's equity at year-end 2010 amounted to TSEK 405,511, where of the share capital is TSEK 180,191.

In the Parent Company the shareholders unrestricted equity amounts to:

	<b>SEK</b>
Share premium reserve	568,685,251
Retained earnings	-68,917,598
Net income for the year	-10,186,885
<b>Total unrestricted equity</b>	<b>489,580,768</b>

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