

## Chaarat Gold Holdings Limited

### Corporate Governance

#### Chairman's Introduction

As chair of the board of directors (the "**Board**") of Chaarat Gold Holdings Limited ("**Chaarat**" or the "**Company**") and its subsidiaries (together the "**Group**"), it is my responsibility to ensure that the Group has both sound corporate governance and an effective board.

The Board has adopted the Quoted Companies Alliance Corporate Governance Code (the "**QCA Code**") as the basis of the Group's governance framework.

Governance standards are a high priority for the Company and the Board acknowledges the importance of the 10 principles of the QCA Code which focus on the pursuit of medium to long-term value creation for shareholders without stifling the entrepreneurial spirit in which the Company was created.

There have been no changes to the Company's key corporate governance arrangements over the past year, save for the appointment of a further independent non-executive director to the Board on 21 March 2019 and the creation of a below-board level disclosure committee to assist in the design and implementation of disclosure controls and procedures and to determine whether any information is price sensitive or inside information.

The following explains how Chaarat applies the 10 principles of the QCA Code.

#### 1. **Establish a strategy and business model which promote long-term value for shareholders**

The Board seeks to maximise value for all our shareholders whilst ensuring continuity and consistency through sustainable and responsible exploration and mining. The Group's strategy is to become a leading mid-tier gold producer focused in Central Asia and the Former Soviet Union through a mixture of organic growth and selective acquisitions.

The CIS region has a highly fragmented gold industry comprising both world class assets and smaller, profitable producers. Due to perceived risk, most of the assets in this region trade at a significant discount compared to equivalent assets in other emerging market locations. This presents an opportunity for industry consolidation, which Chaarat intends to lead.

Ultimately, a diversified portfolio of producing and developing mines will generate the cashflow to fund ongoing organic growth and deliver a strong equity return to investors. By maintaining a focus on active engagement with host communities, the benefits of this strategy will flow to all stakeholders, helping to manage ongoing risks.

The Group intends to unlock the long-term potential of its primary asset, the Chaarat Gold Project in the Kyrgyz Republic (the "**Chaarat Project**") and the Kapan Mine in Armenia. The Chaarat Project comprises two distinct mineralised zones: the Tulkubash ore body ("**Tulkubash**") and the neighbouring Kyzyltash sulphide ore body ("**Kyzyltash**"). The mining licence granted to Chaarat Zaav CJSC ("**Chaarat Zaav**") in respect of the Chaarat Project is valid until 25 June 2032.

The first stage of development of the Chaarat Project is the development of Tulkubash as a heap leach project. Tulkubash forms part of the prolific Tien Shan Gold Belt located in the Kyrgyz Republic, with declared resources of 23 million tonnes at 1.22gpt gold and a completed

bankable feasibility study. It is anticipated to pour first gold in Q3 2022 with a long-run production target of 94,000 ounces per annum.

The Group expects that organic growth will follow from Kyzyltash, which is capable of producing 200,000-300,000 ounces of gold per annum, and the ongoing exploration of Chaarat Zaav's licence area in the Kyrgyz Republic, which comprises an emerging gold district.

Located in southern Armenia, the Kapan mine has been producing copper and zinc concentrate from its underground mine since 2003. It is currently expected to produce in excess of 55,000 ounces of gold per year over the next decade.

Future M&A will be judged on its ability to deliver accretive value to Chaarat shareholders in both the short term and through longer-term exploration potential to extend and enhance production profiles.

## 2. **Seek to understand and meet shareholder needs and expectations**

The Board is committed to maintaining good communication with its shareholders by providing effective communication through the Company's annual and interim reports together with Regulatory News Service announcements.

The Company also uses its website, [www.chaarat.com](http://www.chaarat.com), for news which shareholders might be interested in.

The executive directors meet shareholders and other investors and potential investors at regular intervals and host broker and analyst meetings and calls from time to time.

The Chairman, Martin Andersson, can be contacted by shareholders on matters of governance, as can the Company's nominated adviser, Numis Securities Limited ("**Numis**"). Contact details are provided within every Company announcement.

Numis is briefed regularly and periodically updates the Company on shareholder views and expectations.

The Company's annual general meeting (the "**AGM**") is an opportunity to meet and listen to both institutional and private investors. The Board supports the use of the AGM to communicate with both institutional and private investors. All shareholders in attendance are given the opportunity to ask questions and raise issues; this can be done formally during the meeting or informally with the directors afterwards.

At the AGM, separate resolutions are proposed on each substantially separate issue. For each resolution, proxy appointment forms are issued alongside the release of the annual report for that year, which provide voting shareholders with the option to vote in advance of the AGM if they are unable to attend in person. All valid proxy votes received for the AGM are properly recorded and counted by Link Market Services (Guernsey) Limited, our registrars.

As soon as practicable after the AGM has finished, the results of the meeting are released via RNS and a copy of the announcement is posted on the Company's website at [www.chaarat.com/investors/regulatory-news-filings](http://www.chaarat.com/investors/regulatory-news-filings). At last year's AGM, all resolutions were duly passed.

The Board is mindful of the need to protect the interests of minority shareholders. More than 40% of the Company is owned by the management and the Chairman with an incentive programme entirely paid in locked-in shares and options.

One of the Company's substantial shareholders (as defined in the AIM Rules) is Labro Investments Limited ("**Labro**"). The Chairman, Martin Andersson, is indirectly beneficially

interested in the majority of the shares in Labro. As at 9 April 2020, Labro, together with Mr Andersson hold:

- 168,514,295 ordinary shares of US\$0.01 par value in the capital of the Company (“**Ordinary Shares**”) representing approximately 35.84% of the Company’s share capital; and
- US\$1,000,000 of secured convertible loan notes with a final repayment date of 31 October 2021. The number of Ordinary Share arising on conversion, assuming full conversion of principal and interest to maturity, is 2,849,330.

As the Company is incorporated in the British Virgin Islands, it is not subject to the UK City Code on Takeovers and Mergers. The articles of association of the Company (the “**Articles**”) contain a regulation which provides that where any person (i) acquires interests in shares which (taken together with interests in shares held or acquired by persons acting in concert with him) carry 20% or more of the voting rights of the Company; or (ii) holds (together with persons acting in concert with him) interests in shares representing not less than 20% but not more than 50% of the voting rights and such person (or any person acting in concert with him) acquires an interest in additional shares which increases his percentage of voting rights, the Board shall be entitled, but not obliged, to require that person to extend a mandatory offer to all of the Company’s shareholders to acquire their Ordinary Shares.

To date, the Board has exercised its discretion under the Articles so as not to require a mandatory offer to be made in connection with the issue of securities (including any conversion of such securities) to Labro and Martin Andersson or as a result of any redemption or purchase by the Company of its own voting shares at any time in the future.

The Company entered into a relationship agreement (the “**Relationship Agreement**”) with Labro on 27 September 2016 in order to manage the relationship between them to ensure, amongst other things, that the Company would at all times be capable of carrying on the business of the Company independently of Labro and its associates and so that all transactions and arrangements between the Company, Labro and its associates would be at arm’s length and on normal commercial terms. The principal terms of the Relationship Agreement are summarised in the appendix.

### 3. **Take into account wider stakeholder and social responsibilities and their implication for long-term success**

The Board recognises that the long-term success of the Company is reliant upon the efforts of employees of the Group and its contractors, suppliers, and the communities in which it operates along with other stakeholders and the need to maintain effective working relationships with all of them. The Group’s operations and working methodologies take into account the need to balance the needs of all of these stakeholder groups while maintaining focus on the Board’s primary responsibility to promote the success of the Group for the benefit of its members as a whole. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. Stakeholder feedback is gathered via meetings and conversations. The Group endeavours to take account of feedback received from stakeholders, making amendments to working arrangements and operational plans where appropriate and where such amendments are consistent with the Group’s longer-term strategy.

The Company has a dedicated health, safety, environment and community committee (the “**HSEC Committee**”) comprised solely of non-executive directors. More about the work of this committee can be found in section 9 below.

Chaarat is committed to meeting the expectations of good international industry practice, including recommendations set out by the IFC Performance Standards on Environmental and Social Sustainability. Chaarat strives to ensure that it maintains the highest standards of health and safety, as well as taking all precautions for the protection of the environment, and at the same time respecting local culture. Chaarat is committed to the highest international environmental, social, and governance (“ESG”) standards and provides ongoing support to local communities through community services and infrastructure, healthcare, education and skill building, job creation, community facilities, and micro-finance.

The Group takes due account of any impact that its activities may have on the environment and seeks to minimise this impact wherever possible. Through the various procedures, policies, and systems which it operates, the Group ensures full compliance with health and safety and environmental legislation relevant to its activities.

As an example, the Group’s behavioural change safety programmes are designed to ensure that employees return home to their families, unharmed, every day. Our Tulkubash leach facility will bring proven industry-leading design, construction, and technology standards to the region.

The Group also works with local communities to ensure that its legacy is positive. Chaarat has provided training and support to multiple business start-ups in the Chatkal region of the Kyrgyz Republic where it is building the Tulkubash mine. The Company directly employs over 100 nationals with many more employed via our partner and via the companies from which we purchase goods and services. We also create employment for specialised professionals such as doctors, nurses and engineers allowing them to find positive employment in their home communities. Through our social engagement programmes, we provide educational support and sponsorships.

Alongside the European Bank for Reconstruction and Development (“EBRD”), Chaarat is continuing its sponsorship of the annual Kyrgyz UK Forum in London promoting the benefits of doing business in the Kyrgyz Republic. This forms part of the Company’s ongoing work with the EBRD and others to promote responsible foreign direct investment in the Kyrgyz Republic.

**4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The Board has overall responsibility for the Group’s systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can only provide reasonable and not absolute assurance against material misstatement or loss.

The board recognises the need for an effective and well-defined risk management process and, whilst it oversees and regularly reviews the current risk management and internal control mechanisms, it has delegated this responsibility primarily to the audit committee of the Board and senior management.

The Board confirms that there are ongoing procedures for identifying, evaluating and managing significant risks faced by the Group, and reviews these with management before the financial year end (as well as the ongoing review of risks which emerge throughout the year).

**MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK**

**5. Maintain the board as a well-functioning, balanced team led by the chair**

The Board comprises two executive directors and five non-executive directors. The Chairman

of the Board is not defined as independent according to the QCA Code, due to his executive status and significant beneficial interest in the Company. Gordon Wylie is the Senior Independent Non-Executive Director and Deputy Chairman of the Board.

Four non-executive directors, namely Hussein Barma, Robert Edwards, Warren Gilman and Gordon Wylie, are considered by the Board to be independent in character and judgement. The remaining non-executive director, Robert Benbow, is a former executive of the Company and is therefore not considered by the Board to be independent. The Board believes this to be an appropriate composition to maintain effective corporate governance.

Each director is expected to commit such time as is necessary to perform his duties as an officer of the Company and is expected to attend all Board meetings.

Board meetings are open and constructive, with every director participating fully. Senior management are frequently invited to meetings, providing the Board with a thorough overview of the Group.

The Board and its committees regularly receive information regarding the operations of the Group.

Pursuant to the Articles, at every AGM, one-third of the directors (other than alternate directors and any managing director/chief executive officer) for the time being, or, if their number is not a multiple of three, then such number as is appropriate to ensure that no director other than alternate directors and any managing director/chief executive officer holds office for more than three years, shall retire from office. The directors to retire at an AGM are those who have been longest in office since their last election, but, as between persons who became directors on the same day, those to retire shall (unless they otherwise agreed among themselves) be determined by drawing lots. A retiring director is eligible for re-election.

A biography of each of the directors is included on the Company's website at [www.chaarat.com/the-board-of-directors](http://www.chaarat.com/the-board-of-directors).

**6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**

The Board has a breadth and depth of skills and experience to discharge its duties. The Board periodically reviews its composition to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Group. The current balance of skills of the Board as a whole reflect a range of commercial and professional skills across mining, accounting, banking and finance. Biographies of each Board member are available on the Company's corporate website at: [www.chaarat.com/the-board-of-directors](http://www.chaarat.com/the-board-of-directors).

The Board is kept informed on an ongoing basis by the Company Secretary about their duties and corporate governance requirements. Training is provided to the Board as required. During 2019 refresher training on the AIM Rules and anti-bribery and corruption was provided to the board and senior management.

**7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The Board and each of its committees considered and discussed their respective performances during 2019. The Board and each of its committees agreed that there were some additional actions that could be undertaken in order to make the Board more effective, but nevertheless agreed that, overall, the Board functioned effectively during the period under review and that its committees continued to discharge their duties in line with their respective terms of reference. In 2020 the Company intends implementing a more formal process and will utilise

the results of the evaluation process when considering the adequacy of the composition of the Board and for succession planning.

**8. Promote a corporate culture that is based on ethical values and behaviours**

The Board believes that the promotion of a corporate culture based on sound ethical values and behaviours is essential to maximise shareholder value.

The Company's culture is consistent with its objectives, strategy and business model.

To achieve this culture, the Board has established the HSEC Committee, referred to in paragraph 3 above, and the Group has in place various health and safety policies. In addition, Charat has a Group-wide anti-bribery and anti-corruption policy.

**9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

The Board has overall responsibility for promoting the success of the Group. The executive directors have day-to-day responsibility for the operational management of the Group's activities. The non-executive directors are responsible for bringing independent and objective judgement to Board decisions.

All major decisions relating to the Group are made by the Board. Operations of the Group are conducted by the subsidiaries of the Company (principally Charat Zaav) under the direction of the directors of each of the subsidiary companies.

The Board aims to meet at least quarterly and as required from time to time to consider specific issues reserved for decision by the Board. The Board is responsible for setting the Company's strategy, ensuring corporate governance is of an appropriate standard, approves the short and long-term business plans and appoints the Chief Executive Officer. The Board reviews key business risks regularly, including the financial and non-financial risks facing the Group in the operation of its business.

The individual directors of the Board have a wealth of experience from diverse professional and personal backgrounds. The Chairman is responsible for leading the Board, including ensuring that an appropriate level of diversity is maintained to promote distinct perspectives on Group and Company matters, and for implementing a robust governance framework.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman's responsibilities include leading the Board effectively, overseeing the Group's corporate governance model, communicating with shareholders and ensuring that good information flows freely between the executive and non-executive directors in a timely manner. The Chief Executive Officer is responsible for leading the Company in its strategic pursuits and for ensuring that the Company's business model is implemented effectively.

There are five board committees, the roles and responsibilities of which are set out below.

▪ *Audit Committee*

The audit committee is appointed by the Board and comprises three independent non-executive directors of the Company. The committee is chaired by Hussein Barma, who is a chartered accountant. Gordon Wylie and Warren Gilman are the other members of the committee. The committee meets at least twice a year.

The role of the committee is to assist the Board in discharging governance responsibilities in respect of external audit, risk and internal control, compliance activities and to oversee the integrity of the Group's financial and associated narrative statements.

The responsibilities and authorities of the committee are set out in its terms of reference which can be found here: [Audit Committee Terms of Reference](#).

- *Remuneration Committee*

The remuneration committee is appointed by the Board and comprises three independent non-executive directors of the Company. The committee is chaired by Gordon Wylie. Hussein Barma and Warren Gilman are the other members of the committee. The committee meets at least twice a year.

The role of the committee is to review the performance of the executive directors and senior management and to set the scale and structure of their remuneration, having due regard to the interests of shareholders as a whole and the performance of the Group. The committee also oversees the Company's share-based incentive arrangements.

The responsibilities and authorities of the committee are set out in its terms of reference which can be found here: [Remuneration Committee Terms of Reference](#).

- *Nominations Committee*

The nominations committee is chaired by the Executive Chairman and comprises the entire Board.

The Committee is responsible for keeping under review the structure, size and composition of the board, giving consideration to succession planning for directors and other senior executives and identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.

The responsibilities and authorities of the committee are set out in its terms of reference which can be found here: [Nomination Committee Terms of Reference](#).

- *Technical Committee*

The technical committee is appointed by the Board and comprises three non-executive directors of the Company, two of whom are independent. The committee is chaired by Bob Benbow. Rob Edwards and Gordon Wylie are the other members of the committee. The committee meets as and when required.

The role of the committee is to assist the board in discharging governance responsibilities in respect of technical matters including operational aspects, resource and reserve disclosures, technical aspects of mergers and acquisitions and high value and/or technically complex projects.

The responsibilities and authorities of the committee are set out in its terms of reference which can be found here: [Technical Committee Terms of Reference](#).

- *Health, Safety, Environment and Community Committee*

The health, safety, environment and community ("HSEC") committee is appointed by the Board and comprises three non-executive directors of the Company, two of whom are independent. The committee is chaired by Gordon Wylie. Bob Benbow and Rob Edwards are the other members of the committee.

The committee is responsible for the overall health, safety and environmental performance of the Company and its operations and its relationship with the local communities in the Kyrgyz Republic and Armenia.

The responsibilities and authorities of the committee are set out in its terms of reference which can be found here: [HSEC Committee Terms of Reference](#).

10. **Communicate how the company is governed and is performing by maintaining dialogue with shareholders and other relevant stakeholders**

The Board attaches great importance to providing shareholders and other stakeholders with clear and transparent information on the Company's activities, strategy and financial position. The Group's website is regularly updated.

As part of the Company's AGM process, it releases the results of shareholder votes in a transparent fashion to all of the Company's stakeholders.

In the event that a significant proportion of votes (i.e. 20% and above) have been cast against a resolution at any general meeting of the Company or AGM, the Company will include an explanation as to the actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result.

The Group's financial reports, and notices of general meetings of the Company, can be found here: [www.chaarat.com/for-investors/all-reports](http://www.chaarat.com/for-investors/all-reports).

The Group's annual report contains information about the Board as well as a remuneration report and statement of directors' financial interests in the Group.

In August 2019 Chaarat engaged Tavistock Communications Limited to improve the effectiveness of communication with all stakeholders and support M&A activities.

9 April 2020

## Appendix

### Principal terms of the Labro Relationship Agreement

The Company entered into a relationship agreement (the “**Relationship Agreement**”) with Labro on 27 September 2016. The principal terms of the Relationship Agreement are as follows:

- Labro has agreed that it shall (and, to the extent that it is able, shall procure that its associates/any nominee shall) permit the Company to carry on its business independently of Labro and its associates, including so that: (a) a majority of the revenue generated by the Company’s business is not attributable to business conducted directly or indirectly with Labro or its associates; (b) Labro and its associates are not able to influence the operations of the Company outside of its legal governance structure; and (c) save with the requisite approval of the Company’s shareholders in accordance with the AIM Rules and/or applicable company law, Labro and its associates do not hold or acquire a material shareholding in one or more significant subsidiaries of the Company. For these purposes “Associates” shall have the meaning given to that term in the Listing Rules.
  - Labro has undertaken to the Company that it shall not (and, to the extent that it is able, shall procure that none of its associates/nominees shall) exercise any rights which any of them have from time to time as shareholders of the Company to: (a) enter into any transactions and/or relationships between any member of the Company’s group and Labro or its associates, other than at arm’s length and on normal commercial terms and in accordance with the related party transaction rules set out in the AIM Rules and/or applicable provisions of applicable company law; and (b) propose any resolution or take any action which is intended to circumvent the proper application of the AIM Rules.
  - For so long as the Relationship Agreement remains in force, Labro shall not (and, to the extent that it is able, shall procure that none of its associates/nominees shall) take any action (or omit to take any action) that may: (a) prejudice the suitability of the Ordinary Shares for admission to trading on AIM; or (b) have the effect of preventing the Company from complying with its obligations under the AIM Rules or applicable company law.
  - For so long as Labro (together with its associates) beneficially owns or is interested in 20% or more of the issued share capital of the Company carrying voting rights, Labro shall have the right to nominate one director to the Board, and to remove any such nominated director and appoint a replacement director in his/her place.
  - The Relationship Agreement will automatically terminate and cease to have effect on the earlier of: (a) Labro and any of its associates in aggregate ceasing to beneficially own or be interested in at least 20% of the issued share capital of the Company carrying voting rights; or (b) the Ordinary Shares ceasing to be admitted to trading on AIM.
  - The Company and Labro have agreed that nothing in the Relationship Agreement shall prevent: (a) Labro or any of its associates from exercising any of their voting rights as they, in their discretion, see fit except where to do so would result in a breach of the Relationship Agreement; or (b) Labro or any of its associates from acquiring or disposing of securities of the Company (save to the extent otherwise required by law or regulation and subject always to the Articles, including (without limitation) regulation 19 thereof); or (c) the payment of any fees and/or expenses to any nominee director in respect of his or her services as a director in accordance with his/her appointment agreement as such.
-