

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 CAG 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 and with business operations in eastern Siberia, Russia. CAG was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005. Since July 19, 2010 the CAG's 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 "comply or explain", 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 for CAG are divided between the shareholders at the Annual General Meeting of Shareholders, 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 Annual General Meeting of shareholders ("AGM"), which is a company's highest decision-making body.

2011 AGM

CAG's 2011 AGM was held on Monday, May 31, 2011 in Stockholm. The minutes from this meeting are available on www.centralasiagold.se.

The following principal resolutions were adopted:

- The Board of Directors and the Chief Executive Officer were discharged from liability for the past financial year.

- The Board members Lars Guldstrand, Preston Haskell were re-elected to the Board for 2011 and Gordon Wylie, Nick Harwood, Niclas Eriksson and Tom Baring were elected.
- Lars Guldstrand was re-elected Chairman of the Board.
- The Board fees were established for Gordon Wylie, Nick Harwood, Tom Baring at TSEK 200 each and TSEK 250 to the Chairman of the Board Lars Guldstrand. The Board member and the CEO Preston Haskell will not receive any 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 on adoption of the guidelines for remuneration to the executive management executives.
- The AGM resolved to amend the articles of association in accordance with the Board of Directors' proposal.
- The AGM authorized, for the period until the next Annual General Meeting on one or more occasions, with or without preferential rights for shareholders, issue new shares, warrants and/or convertibles. Decisions related to the authorization could result in increase of the capital by a maximum of 18,000,000 SEK, representing a maximum of 1,600,000 shares of the company, upon full exercise of the warrants and convertible bonds issued under the authorization and prior to any conversion in accordance to its terms. The share issue was authorized for financing of acquisitions of a company, part of it or assets, which the board deems to be of value for the company, as payment substitution for the company's strategic partnerships, raise of the capital either for such acquisitions, partnerships or other investments or for strengthening of the company's financial position, if necessary, and for the implementation of financial restructuring, such as a loan repayment.

2012 AGM

The Annual General Meeting of the Shareholders will be held on Tuesday May 24, 2012 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 10:00 am, and the doors will be open at

9:30 am. The annual report for 2011 will be available on the Company's website as of April 26, 2011.

Nomination Committee

The principles for the appointment of the Nomination Committee were approved by the AGM of May 31, 2011. 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, 2011. 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' 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 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 2012 AGM has consisted of: Lars Guldstrand, James Smith representing Bertil Holdings Ltd, Roger Hassanov representing GKL Growth Capital, Martin Diggle representing Vulpes Investment Management Ltd, and Per Vasilis representing Niclas Eriksson and the family.

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, 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 2011, 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 2011, Central Asia Gold's Board was comprised of six 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 2011/2012

After the election of the board on the AGM in 2011, the Board held 17 meetings, 8 of which were by correspondence and 4 were held by telephone. The 5 other meetings were physical meetings. The important issues dealt with by the Board in 2011, 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 the management team

Members of the Board during the 2011/2012

Lars Guldstrand

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 and KMW Energi AB.

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

Preston Haskell

(See presentation under group management below)

Niclas Eriksson

Niclas Eriksson is a director of the Net Entertainment, King City Real Estate AB, Vasastaden Holding AB, Vassholmen AB and Isogenica Ltd. Niclas holds a Master degree in Finance. Niclas is a Swedish citizen, born 1964.

Tom Baring

Tom Baring has over 10 years of experience within the alternative investment management industry, the last 4 of which were spent focused on the Russian market. Tom is resident in Moscow and currently manages the investment arm of a large family office PHH Group. Tom Baring, a British citizen, born in 1979.

Nick Harwood

Nick is currently a Sloan Fellow at the MIT Sloan School of Management. Prior to this he was a partner and Deputy Head of Troika Dialog's Global Markets Business based in Moscow. He has previously held several senior positions at Citigroup Global Markets in London and Johannesburg, ING Barings in New York, NatWest Markets and Fleming Martin in London. Nick is a non-executive Director of the Red Fort Partnership, a specialist mining investment fund. Nick Harwood holds a Bachelor of Business Science (Finance) from the University of Cape Town in South Africa. Nick is a British citizen, born in 1968.

Gordon Wylie

Gordon has 35 years' experience in the Gold Mining Industry in both mining and exploration geology. Between 1997 and 2005 Gordon was part of AngloGold Ashanti's senior management team where he was responsible for the company's glob-

Board members' independence and shares in CAG

Board member	Shares in CAG	Warrants in CAG	Independent of the company and management*	Independent of the major shareholders*
Lars Guldstrand	1,166,819**	0	Yes	No
Preston Haskell	9,314,968**	0	No	No
Niclas Eriksson	780,000	0	Yes	Yes
Tom Baring	0	0	No	No
Nick Harwood	48,130	0	Yes	Yes
Gordon Wylie	0	0	Yes	Yes

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

**Shares owned via companies.

Board members' attendance at Board meetings

Name	Position	Present
Lars Guldstrand	Chairman of the Board	17/17
Preston Haskell	Member	17/17
Niclas Eriksson	Member	16/17
Tom Baring	Member	17/17
Nick Harwood	Member	16/17
Gordon Wylie	Member	16/17

al exploration programs covering some 23 countries and 5 continents worldwide. Gordon has previous experience as a non-executive director with the AIM listed Trans Siberian Gold and OxusGold. He was until the end of 2009 vice chairman of Continental Gold. He is a founder and still non-executive chairman of Lydian International having gold assets in Armenia and base metal assets in Kosovo, and which listed on the TSX in 2007. He is also a non-executive director of Avocet Mining Plc. a LSE and Oslo Stock Exchange listed company and Llave de Oro a private company with assets in Colombia. Born in Glasgow, Scotland in 1952, he holds a Bachelor's degree with Honours in Geology from the University of Glasgow (1975), a Management Diploma from UNISA South Africa (1989) and a Postgraduate Diploma in Mining Engineering from Wits University South Africa (1999).

Board's division of work

There was no verbal or written division of work for the members of the Board during the 2011 financial year.

Board committees

CAG's Board of Directors chose not to establish any special audit or remuneration committees in 2011. 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 May 31, 2011 it was decided to determine the Board fees for Gordon Wylie, Nick Harwood, Tom Baring, Niclas Eriksson at TSEK 200 each and for the Chairman Lars Guldstrand at TSEK 250. No compensation shall be paid to the Board member and the Chief Executive Officer Preston Haskell.

Chief Executive Officer and other senior executives

The Chief Executive Officer, who is also the Head of the Group, is responsible for the on-going 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 February 2011. Preston Haskell is Chief Executive Officer and Head of Group for Central Asia Gold since September 2009.

Group management

Preston Haskell

Chief Executive Officer, Head of Group, and Board member of Central Asia Gold AB since 2009. Preston Haskell is Saint Kitts and Nevis citizen, born 1966, and has been active as a businessman in Russia since the early 1990s. Haskell is a Board member of Fleming Family and Partners Real Estate Development Fund Ltd and is the owner with active operational management in LLC Haskell Group.

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

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

Shares in Central Asia Gold: 9,314,968 (through companies). Warrants in Central Asia Gold: 0

Johan Arpe

Chief Financial Officer, Johan is a Swedish citizen born in 1973. He has a Masters degree in Business and Administration from Uppsala University and has worked as an authorized public accountant at PwC, RSM Ranby Björklund and Deloitte. Johan Arpe is the CFO of Central Asia Gold since spring 2011 and is located at the company's office in Stockholm.

Shares in Central Asia Gold: 23,800. Warrants in Central Asia Gold: 0

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 on page 49 of the annual report.

Long-term incentive programs

The Board regularly evaluates the need for long-term incentive programs. Currently there is a long-term incentive program for key personnel of the company, adopted at the Annual Shareholders Meeting on June 28, 2010. Given changes in the senior management and lower interest than expected from the Company's employees the warrants in the program has not been allocated and it is proposed to the Annual Shareholders meeting to cancel the program.

The Board intends to propose a new compensation program to the employees that is based on the company's objectives and market conditions.

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 June 12, 2008 appointed, for a period of four years (until

the 2012 AGM), Öhrlings PricewaterhouseCoopers AB as the company's auditors. The responsible auditor at Öhrlings PricewaterhouseCoopers AB is Authorized Public Accountant Martin Johansson.

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 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 analysed 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 CEO 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 2012.

Deviations from the Swedish Code of Corporate Governance

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

- 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.

CAG has not complied with the code as regards the following point:

- The Chairman of the Board shall as soon as possible at the end of October contact the four largest shareholders and ask them to appoint a member of the election committee, the Chairman of the Board is the fifth member of the committee.

The deadline was not kept. The information was published on the Company's website first in January 2012, due to the fact that no information on composition of election committee was available earlier.

- The nomination committee's proposals are to be presented in the notice of a shareholder's meeting where the election of Board members or auditor is to be held and on the company's website.

Due to the fact that the Board of Directors has not been informed by the nomination committee on its proposals before May 31, 2011, the nomination committee's proposal could not be included in the notice.

- The company's nomination committee is to propose a chair for the annual general meeting. The proposal is to be presented in the notice of the meeting.

The Board of Directors has not been informed by the nomination committee on its proposal regarding the appointment of the Chairman of the meeting in a timely manner so it could be included in the notice of the meeting. The proposal was announced on May 31, 2011.

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.

As of January 1, 2010, the group changed its policy for reporting exchange rate gains and losses arising on intercompany loans to be reported as a component of other comprehensive income instead of a part of financial items in the income statement due to their character of net investments in foreign operations. The change in the group's accounting policy also affects the accounting in the parent company, hence

the income statement, balance sheet and statement of changes in equity in the parent company has been restated in accordance with note 27.

The operating result for 2011 was TSEK -13,677 (5,490). The difference from last year is mainly due to significant non-recurring operating income in 2010, of TSEK 12,771, where TSEK 7,762 referred to the sale of the subsidiary LLC Kara Beldyr to the JV company Awilia Enterprises Ltd and TSEK 5,009 referred to the retroactive VAT reimbursement. Operating expenses in 2011 amounted to TSEK 13,875 (7,951).

Net financial items amounts to TSEK -228,402 (9,535) for 2011 and includes write down of intercompany loan receivables of TSEK -224,208 (0) relating to the production units Solcocon and Gold Borzya.

Net result for the reporting period amounted to TSEK -242,080 (14,499).

Total cash balance in the parent company was TSEK 8,119 (10,945) at the end of December 2011. The increase in current liabilities relates mainly to loans from the related party, Golden Impala of TSEK 159,931 (0).

Proposal for profit distribution

The Group's equity at year-end 2011 amounted to TSEK 308,031, of which the share capital is TSEK 198,191.

In the Parent Company the unrestricted shareholders equity amounts to:

	SEK
Share premium reserve	580,798,838
Translation difference reserve	-31,917,299
Retained earnings	-48,012,407
Net income for the year	-242,079,516
Total unrestricted equity	258,789,616

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