

## **CORPORATE GOVERNANCE**

The Chairman of the Board of Directors of Kavango Resources plc ('Kavango' or 'the Company') has a responsibility to ensure that Kavango has a sound corporate governance policy and an effective Board.

As a Company listed on the Standard Segment of the Official List of the UK Listing Authority, the Company is not required to comply with the provisions of the UK Corporate Governance Code. However, the Board is committed to maintaining high standards of corporate governance and so far, as appropriate given the Company's size and the constitution of the Board, complies and intends to comply with The Corporate Governance Guidelines for Small and Mid-Sized Companies (the "QCA Code").

In light of the Company's size and recent history, the Company has deviated from the QCA Code in the following respects:

- The provisions relating to the composition of the Board and the division of responsibilities are not being complied with as the Board feels these provisions to be inapplicable, given the size of the Company and the limited scope of its activities
- The Board do not consider an internal audit function to be applicable due to the limited number of transactions.
- A diversity policy as applied to the Company's administrative management and supervisory bodies has not yet been developed but biographies of directors and senior management and their relevant experiences are set out on page 8.

The Directors are responsible for internal control in the Company and for reviewing effectiveness. Due to the size of the Company, all key decisions are made by the Board. The Directors have reviewed the effectiveness of the Company's systems during the period under review and consider that there have been no material losses, contingencies or uncertainties due to weaknesses in the controls.

Details of the Company's business model and strategy are included in the Chairman's Statement, the Chief Executive Officer's Report and the Strategic Report.

The Company will provide updates on our compliance with the Code. The Board considers that the Company complies with the QCA code so far as is practicable having regard to the size, nature and current stage of development of the Company.

The sections below set out how the Group applies the principles of the QCA Code and sets out areas of non-compliance.

### **Strategy and business model which promotes long-term value for shareholders**

The Company is involved with base metal exploration in Botswana. Our goal is to deliver long term value for our shareholders. We aim to do this by identifying good quality grassroots and early-stage exploration projects. Consequently we:

- use our expertise to identify those areas with potential for economically feasible deposits,
- assess the business environment of Botswana and its attractiveness for prospecting and eventual mining operation,
- understand existing interests in a prospecting licence area in order to ensure we can earn-in to existing interests on terms favourable to our shareholders.

Early stage mineral exploration is by its nature speculative and we aim to reduce the risks inherent in the industry by careful application of funds throughout individual projects. We do that by:

- Reviewing existing exploration data;
- Establishing close in-country partnerships and financing for our projects;
- Applying the most appropriate cost-effective exploration techniques in order to determine whether further work, using increasingly expensive exploration techniques, is justified; and
- Appreciating the likely realisation routes that will be available to us as the project moves towards development.

## **Shareholder communications**

The Company is committed to engaging with its shareholders to ensure that its strategy, operational results and financial performance are clearly understood. We engage with our shareholders via roadshows, attending investor conferences and through our regular reporting on the London Stock Exchange. Roadshows are typically timed to follow the release of interim and final results. The Company regularly takes part in investor conferences, both in the UK and internationally. LSE announcements include details of the website, Twitter page and include phone numbers to contact the Company and its professional advisors.

### *Private shareholders*

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. All Directors attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are announced via the London Stock Exchange. In addition, the Executive Director regularly attends investor forums specific to the mining industry and engage with shareholders at those events. Investors can contact us via our website ([www.Kavangoresources.com](http://www.Kavangoresources.com)) or by email ([mfoster@Kavangoresources.com](mailto:mfoster@Kavangoresources.com)).

Retail shareholders also regularly attend investor evenings held by our brokers or other industry bodies and we publicise our attendance via LSE announcements and Twitter. In addition, our up to date Corporate presentation is made available on our website.

### *Institutional shareholders*

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed primarily by the Directors. The Directors make presentations to institutional shareholders and analysts throughout the year, mainly in London and Cape Town through events such as Mines and Money, Indaba and 121 Group. We also have ad-hoc meetings with our shareholders via conference call and email. The Board as a whole is kept informed of the views and concerns of major shareholders by the Chief Executive Officer. Any significant investment reports from analysts are also circulated to the Board. The Non-Executive Chairman and Non-Executive Director are available to meet with major shareholders if required to discuss issues of importance to them and are considered to be Independent from the executive management of the Company.

## **Wider stakeholder and social responsibilities and their implications for long term success.**

Aside from our shareholders, our most important stakeholder groups are our employees, local partners and those local communities that may be impacted by our exploration activities. The Board is regularly updated on stakeholder issues and their potential impact on our business to enable the Board to understand and consider these issues in decision-making. The Board understands that maintaining the support of all its stakeholders is paramount for the long-term success of the Company.

### *Employees*

We maintain only a small permanent staff in the UK and Botswana and as such employee engagement with the Directors is frequent with a scheduled weekly team call as well as daily meetings and discussions.

### *Local partners and communities*

Our operations provide employment in remote areas of Botswana. Essential to our success is the establishment of close working relationships with local partners. We seek local partners who have a good understanding of the local exploration and mining industry and regulations within the country, and with the capacity and capability to assist with the management and maintenance of the project.

We are mindful of our obligations to the local environment and operate to high levels of health and safety in respect of both our local workers and the local community. Employee training focuses on operating safely and considerately in these communities. Engagement with local communities is dependent on jurisdiction and the stage of exploration but is typically by public forum or with local or regional leaders, including site visits and workshops. Social projects in the local communities are dependent on local need and also the stage of exploration/level of project investment. Examples of our social projects will include drilling boreholes for water, provision of medical clinics, supply of equipment to a local school and building a new road.

As projects move forward, towards potential mining activities, we seek to bring in partners who can credibly make the investments to move towards mine production. In doing so we have regard for their ability and desire to move projects forward, their industry reputation and their commitment to treating the local communities fairly and protecting the environment. We enter agreements that allow us to monitor their activities and have monthly updates on project progress.

## **Risk management and mitigation**

### *Audit, risk and internal control*

#### *Financial controls*

The Company has a framework of internal financial controls, the effectiveness of which is regularly reviewed by the Directors and the Audit Committee. The key financial controls are:

- The Board is responsible for reviewing and approving overall Company strategy, approving new exploration projects and budgets, and for determining the financial

structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and cash flow forecasts are reported to the Board;

- The Audit Committee, comprising the two Non-executive Directors, assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls;
- Regular budgeting and forecasting is performed to monitor the Company's ongoing cash requirements and cash flow forecasts are circulated to the Board on a monthly basis;
- Actual results are reported against budget and prior year and are circulated to the Board;
- The Company has an investment appraisal system that considers expected costs against a range of potential outcomes arising from the exploration opportunities that we are invited to participate in;
- Regular reviews of exploration results are performed as the basis for decisions regarding future expenditure commitment;
- Due to the international nature of the business there are, at times, significant foreign exchange rate movement exposures. Cash flow forecasting is done at the 'required currency' level and foreign currency balances are maintained to meet expected requirements; and
- We manage exploration risk of failure to find economic deposits by low cost early stage exploration techniques, with detailed analysis of results. Moving projects to more expensive exploration techniques requires a rigorous review of results data prior to deciding whether to proceed with further work.

#### *Non-financial controls*

The Board has ultimate responsibility for the Company's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Company. The principal elements of the Company's internal control system include:

- Close management of the day-to-day activities of the Company by the Executive Director
- An organisational structure with defined levels of responsibility, which promotes entrepreneurial decision-making and rapid implementation while minimising risks; and
- Central control over key areas such as capital expenditure authorisation and banking facilities.

The Company reviews at least annually the effectiveness of its system of internal control, whilst also having regard to its size and the resources available. As part of the Company's plans we continue to review a number of non-financial controls covering areas such as regulatory compliance, business integrity, health and safety, and corporate social responsibility. All employees are aware of their obligations under anti-bribery and corruption legislation.

#### **Maintaining the Board as a well-functioning, balanced team led by the Chairman**

The Board comprises the Non-Executive Chairman, one Executive Director and one Non-Executive Director. During the current financial year, Douglas Wright acted as Non-Executive Chairman. Mike Moles was appointed as a Non-Executive Director. Both Non-executive Directors have extensive experience in the mining industry, are qualified financier and geologist, respectively, and have considerable experience of serving on the Board of public companies.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company and industry on the other, to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational.

The Board aims to meet at least quarterly. The agenda is set by the Chief Executive in consultation with the Chairman. The standard agenda points include:

- Review of previous meeting minutes and actions arising there from;
- A report by the CEO covering all operational matters;
- A report from the CFO covering all financial matters;
- Any other business including update of Register of Conflicts

#### *Directors' conflict of interest*

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board. A Register of Conflicts is maintained and is a standard agenda item at each Board Meeting. The Directors have access to the Company's advisers, its brokers and its lawyers. The advisers do not typically provide materials for Board meetings except if requested to do so for the purposes of discussing upcoming regulations and other issues.

Board meetings are deemed quorate if two Board members are present and providing 7 days' notice of such meeting has been given and waived by the non-attending Directors.

Directors and Officers Liability insurance is maintained for all Directors.

The table below sets out the attendance statistics for all current Board members through 2018:

	Meetings attended	Meetings held since appointment as a Director
Douglas Wright	6	6
Michael Foster	6	6
Mike Moles	6	6
John Forrest (CoSec)	6	6

#### **Directors experience, skills and capabilities**

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, particularly so in the area of base metal exploration and development. All Directors receive regular and timely information on the Company's

operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. Contracts are available for inspection at the Company's registered office and at the Annual General Meeting ("AGM").

New Directors will be selected having regards to the Company's needs for a balance of operational, industry, legal and financial skills. Experience of the Mining industry and in particular the exploration sector is important but not critical, as is experience of running a public company.

All Directors retire by rotation at regular intervals in accordance with the Company's Articles of Association.

#### *Appointment, removal and re-election of Directors*

##### Policy for new appointments

Base salary levels will take into account market data for the relevant role, internal relativities, the individual's experience and their current base salary. Where an individual is recruited at below market norms, they may be re-aligned over time (e.g. two to three years), subject to performance in the role. Benefits will generally be in accordance with the approved policy.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

##### Policy on payment for loss of office

Payment for loss of office would be determined by the Remuneration Committee, taking into account contractual obligations.

#### *Independent advice*

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense from lawyers, brokers and other professional advisors that they deem relevant. In addition, the Directors have direct access to the advice and services of the Company Secretary and Chief Financial Officer.

#### **Board performance based on clear and relevant objectives**

Over the next 12 months we intend to review the performance of the team as a unit to ensure that the members of the Board collectively function in an efficient and productive manner. Over the same period the Non-Executive Directors will be seeking to set clear and relevant objectives for the Executive Director, and for the Board as a whole.

#### **A culture that is based on ethical values and behaviours**

The Board aims to lead by example and do what is in the best interests of the Company. We operate in remote and under-developed areas and ensure our employees understand their obligations towards the environment and in respect of anti-bribery and corruption.

A weekly call attended by all senior employees serves to refresh and re-iterate the Company's ethical standards as they apply to the operational issues that are discussed on that call.

## **Maintain governance structures and committees that allow good decision-making by the Board**

### *Board programme*

The Board aims to meet quarterly and as and when required. The Board sets direction for the Company through a formal schedule of matters reserved for its decision. During the year to December 2018 the Board met six times. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting and Board and Committee papers are distributed by the Chief Executive several days before meetings take place. Any Director may challenge Company proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and are then followed up by the Company's management.

### *Roles of the Board, Chairman and Chief Executive Officer*

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Company strategy; approval of exploration projects; approval of the annual and interim results; annual budgets; dividend policy; and Board structure. It monitors the exposure to key business risks. There is a clear division of responsibility at the head of the Company. The Chairman is responsible for running the business of the Board and for ensuring appropriate strategic focus and direction.

The Chief Executive Officer is responsible for proposing the strategic focus to the Board, implementing it once it has been approved and overseeing the management of the Company. Together with the Chief Financial Officer and other senior employees, he is responsible for establishing and enforcing systems and controls, and liaison with external advisors. He has responsibility for communicating with shareholders, assisted by the CFO and other senior employees.

All Directors receive regular and timely information on the Company's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Senior executives below Board level attend Board meetings when deemed appropriate by the Chief Executive or Chairman, to present business updates.

## **Board committees and Policies**

### **Audit and Risk Committee**

The Audit and Risk Committee, which comprises Douglas Wright and Mike Moles, is responsible, amongst other things, for monitoring the Group's financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and half yearly financial statements, reviewing and monitoring the extent of non-audit work undertaken by external auditors, advising on the appointment of external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process and reviewing the effectiveness of the Group's internal control review function. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board. The Audit and Risk Committee gives due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

Specific risks are set out in the Strategic Report.

#### The Remuneration Committee

The Remuneration Committee, which comprises Douglas Wright and Mike Moles, is responsible, amongst other things, for assisting the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, including setting the parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Executive Directors and the Group. It is also responsible for approving the rules and basis for participation in any performance related pay-schemes, share incentive schemes and obtaining reliable and up-to-date information about remuneration in other companies. The Remuneration Committee shall meet at least two times a year.

#### Nomination Committee

The Nomination Committee, which comprises Douglas Wright and Mike Moles, will identify and nominate, for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee will meet as required.

#### Share dealing policy

The Company has adopted a share dealing policy which sets out the requirements and procedures for dealings in any of its listed securities. The share dealing policy applies widely to all Directors of the Company and its subsidiaries, certain employees' and person closely associated with them.

The policy complies with the Market Abuse Regulations, which came into effect on 10 July 2016.

#### Dividend policy

The Company has never declared or paid any dividends on the Ordinary Shares. The Company currently intends to pay dividends on future earnings, if any, when it is commercially appropriate to do so. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Company's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board may consider relevant. The Company's current intention is to retain any earnings for use in its business



operations and the Company does not anticipate declaring any dividends in the foreseeable future.

#### Anti-bribery and corruption policy

The Company is adopting an Anti-Corruption and Bribery Policy which applies to the Directors and all employees of the Company. The Board believes that the Group, through its internal controls, has appropriate procedures in place to reduce the risk of bribery and that all employees, agents, consultants and associated persons are made fully aware of the Group's policies and procedures with respect to ethical behaviour, business conduct and transparency.

#### Health and safety

The safety of the Group's employees and contractors is critical to its operations.

Kavango aims to prevent all incidents and accidents at its operations and in a reasonably practicable manner and strives to minimise hazards inherent in the working environment.

The Company is committed to providing a working environment that is conducive to good health and safety; managing risks in the workplace and surveillance of workplaces and employees; complying with applicable legal requirements; ensuring that appropriate resources, training and personal protective equipment are provided to improve occupational health and safety; ensuring that employees and contractors have the relevant skills to perform work-related tasks in a safe manner and that they are aware of their individual health and safety obligations and rights.

#### Environmental policy

Kavango plans to undertake its exploration activities in a manner that strives to minimize or eliminate negative impacts and maximize positive impacts of an environmental or socio-economic nature. The Company is committed to responsible stewardship of natural resources and the ecological environment.

The Company aims to continually improve its environmental performance and the prevention of pollution, reduce or control the creation, emission or discharge of any type of pollutant or waste and to reduce adverse environmental impacts; the integration of environmental management into management practices throughout the company; rehabilitate disturbed land as much as possible and protect environmental biodiversity; protect cultural heritage resources; comply with applicable legal requirements; and train and educate employees in environmental responsibilities.

#### Social policy

Kavango aims to minimise potential negative social impacts while promoting opportunities and benefits for host communities.

The Company is committed to continually improving community development and community investment programmes through monitoring, measuring and managing our social and economic impacts; placing local people at the centre of development by helping to build their capacity to control their own development. The Company is adopting a Social Media Policy to minimise the risks to the Group's business through use of social media.

## **Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year results announcements, the Annual General Meeting (AGM) and one-to-one meetings with large existing or potential new shareholders. The Company regularly posts LSE announcements covering operational and corporate matters, such as drilling results and significant changes in ownership positions across historic projects in which it still retains an investment. A range of corporate information (including all Company announcements and a corporate presentation) is also available to shareholders, investors and the public on the Company's corporate website, [www.kavangoresources.com](http://www.kavangoresources.com) and also on its Twitter feed @KAV.

The Board receives regular updates on the views of shareholders through briefings and reports from Investor Relations, the CEO, CFO and the Company's brokers. The Company communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.

April 2019