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## **ECUADORIAN BUSINESS INTERNAL INVESTIGATION**

In early 2021 SolGold's Board of Directors commissioned a special audit by KPMG LLP to help identify where the control environment needed enhancing as part of the Board's focus on strengthening internal controls and good corporate governance. As a consequence, the Company started to strengthen its internal financial capabilities and internal control framework. Immediate needs identified were the recruitment of a group financial controller in Brisbane and a group General Counsel in London, who were appointed in February and March 2021 respectively. A group Internal Audit function was also established, reporting to the Audit and Risk Committee ("ARC"). The ARC agreed on an annual audit plan focusing on enterprise risks. Increased scrutiny and analysis by the Group finance team throughout 2021 led to cost reductions, but also the discovery of the misappropriation of funds in Ecuador in late 2021.

In December 2021, in immediate response to the discovery, the Company instructed EY Ecuador to commence a forensic investigation into the alleged misappropriation of funds. SolGold's Internal Audit function was engaged to provide independent oversight of the investigation, reporting directly to both the Chair of the Audit & Risk Committee and the group CFO.

The forensic investigation revealed that during the years 2017 to 2021 US\$4.6 million was misappropriated. The investigation brought to light the material misstatement of exploration assets as a result of false expenses being capitalised. The investigation brought to light additional controls and failures in the risk management framework, which need further investigation. Part of the investigation is to identify if there was a material weakness in the company's Internal Controls over Financial Reporting ("ICFR") relating to design, which has not yet been determined.

This misappropriation resulted in the overstatement of our exploration assets by US\$4.6 million, with the associated false expenses having been capitalised in-line with SolGold's accounting policy. SolGold concluded that it was appropriate to write-down the value of these assets accordingly and restate our accounts. The profit and loss impact for the 9-month period 1<sup>st</sup> July 2021 to 31<sup>st</sup> March 2022 amounted to US\$228k, reflecting the fact that most losses were incurred in prior years and that increased diligence by the group finance function had had an impact. Though the misstatements are material to the quantum of exploration assets, the Company does not consider the misstatements to be material to the financial statements as a whole, either on an individual or cumulative basis. The overstatement of the exploration assets is cumulative and is made up of smaller annual misstatements that were not material in their respective years.

Our corporate culture is designed to encourage transparency and professionalism, protect our shareholders' funds and inspire confidence in our workforce. SolGold recognises there is more to do and the Company will continue to take steps to improve its control, governance and risk management environment and processes. These steps include increasing the resources and improving the capabilities of senior management and the Finance function.

This behaviour is an extremely serious matter and it has no place in SolGold. SolGold management is enhancing its risk, governance and controls environment and is acting on both the recommendations of KPMG (special audit) and EY (forensic audit) and our own observations.

SolGold's immediate response includes:

- Commissioning of a forensic audit by Ernst & Young Ecuador EY Cía. Ltda. ("EY Ecuador")
- The investigation was supervised by the SolGold Internal Audit function and supported by our General Counsel, both based in the UK
- Hiring of three new employees into the Finance function since 1<sup>st</sup> January 2022, including a Senior Accountant and new Finance Director in Ecuador, the latter reporting directly to the group CFO

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SolGold's ongoing actions include:

- Restructuring the Finance organisation in Quito and hiring several roles locally that will help us strengthen our processes and improve our control culture
- Recruitment of an in-house lawyer and a procurement manager in Ecuador, which is on-going
- Commissioning an independent Anti-Bribery and Anti-Corruption assessment in Ecuador, to be followed up with a tailored training programme
- Improvement and tightening of payment controls, enhancing controls and improving procure-to-pay processes
- Internal Audit analysing further specific processes in relating to the Ecuadorian entity

### **UPDATE STATEMENT ON 2021 AGM VOTING OUTCOME**

The Board of Directors of SolGold recognises that at the 2021 Annual General Meeting ("AGM") convened on 15 December 2021, a meaningful proportion of shareholders did not support certain resolutions.

In accordance with Provision 4 of the Financial Reporting Council's ("FRC") 2018 UK Corporate Governance Code (the "Code"), the Board is providing an update in response to the six (6) of the thirteen (13) resolutions put to the 2021 AGM that received less than 80% of votes in favour. These resolutions related to the re-election of Messrs Ward, Moller and Marshall, the ability of the Company to raise fresh capital via the allotment of shares, and the disapplication and further disapplication of pre-emptive rights.

The Board, via Chair Mr Twigger and MD & CEO Mr Cuzzubbo have consulted with a range of the Company's corporate and institutional shareholders over the past months in relation to the 2021 AGM to understand and discuss their concerns with respect to these resolutions.

#### Director re-election

The total votes for resolutions 5, 6 and 7, to re-appoint Mr Ward, Mr Moller and Mr Marshall were below 80% (at 56.46%, 36.81% and 71.55%, respectively).

Feedback was received that the votes received against resolutions 5 and 6 were influenced by an expectation by certain shareholders of more independence at SolGold's Board of Directors. In relation to resolution 6, votes received against were also influenced by a recommended against vote by proxy advisors citing potential overcommitment and related party transactions. As a result of receiving less than 50% of votes in favour, Mr Moller stepped down from the Board following the AGM on 15 December 2021.

SolGold's Board adheres to Principle 11 of the Code that at least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent. The Board is comprised of four independent Non-Executive Directors out of a total of seven, excluding the independent Chair.

Votes received against resolution 7 were influenced by shareholder frustration from delays to the publication of the Cascabel pre-feasibility study. The Company has on 20 April announced the results of the PFS that confirms the Cascabel project's world class, Tier 1 potential to be a large, low-cost, and long-life mining operation.

#### Allotment of shares

Resolution 10 to allot shares at the 2021 AGM received 77.98% votes in favour. Feedback received indicates that the votes received were influenced by certain shareholders objecting to part (b) of the resolution that grants authority to allot shares representing approximately two-thirds of the Company's existing issued ordinary share capital. The Company has not generated revenues from operations and in common with many exploration companies the Company raises capital for its exploration and appraisal activities in discrete tranches. As such, the ability of the Group to continue as a going concern depends on its ability to secure additional financing.