



PRESS RELEASE

28 April 2016

Petropavlovsk signs agreement with GMD Gold to finance the completion of the Pressure Oxidation Project

Petropavlovsk PLC ("Petropavlovsk" or the "Company" and, together with its subsidiaries, the "Group") today announces that it has entered into a conditional agreement to create a joint venture ("JV") with Limited Liability Company GMD Gold ("GMD Gold"). The JV is being created in order to finance the completion of the construction and commissioning of the Company's Pressure Oxidation Hub Project ("POX Hub" or "the Project") at its Pokrovskiy mine in the Amur Region of the Russian Federation. The POX Hub will be capable of processing refractory gold concentrates sourced from the Company's Malomir and Pioneer mines and concentrates produced at GMD Gold affiliates' operations, as well as third parties' gold bearing concentrates.

Petropavlovsk commenced development of the POX Hub in 2011 but, following the fall in gold price in 2013, development was suspended at a time when the Project was more than 50% completed. This joint venture agreement provides the Group with an opportunity to complete the POX Hub and to monetise the Group's refractory gold reserves and increase Petropavlovsk's total gold production.

The Group will contribute the Project to the JV in its current state of construction whilst GMD Gold will contribute US\$120 million which is the estimated cost required to bring the Project to completion and commissioning. Commissioning of the POX Hub will enable the start of processing of the Group's refractory ores and the commencement of gold production from refractory reserves starting in 2018.

Highlights:

- JV with GMD Gold to enable completion of the POX Hub for processing refractory gold ores and concentrates;
- The POX Hub will unlock the value of the Group's refractory resources, currently 9.31Moz including 3.95Moz of reserves at Malomir and Pioneer;
- Estimated annual gold production attributable to Petropavlovsk through the POX Hub of 200,000oz - 300,000oz when fully operational;
- Targeting processing costs of Malomir and Pioneer refractory concentrates of approximately US\$65-75 per tonne, resulting in total cash costs of production of approximately US\$700/oz of gold;
- Once the POX Hub is operational, Petropavlovsk will supply to GMD Gold an amount of concentrate for processing constituting at least 25% of the POX Hub throughput capacity, the cost of processing of which shall be agreed on market terms;

- Petropavlovsk will contribute such of its existing assets and property rights as are required to establish the POX Hub, in return for a 49% equity stake in the JV (following the reduction of its equity in the Project from 100% to 49% upon full investment by GMD Gold);
- GMD Gold will contribute a cash amount of US\$120 million, being the estimated capital expenditure necessary to complete construction, in return for a 51% equity stake in the JV once they have made their full investment;
- JV to be governed by its own board of directors, 3 of which will be appointed by Petropavlovsk and 4 of which will be appointed by GMD Gold, with customary reserved matters;
- Construction estimated to take approximately 18 months from the date of commencement with first production currently expected in 2018;
- Each party will have the right to 50% of the POX Hub's capacity and profits, with treatment of concentrates to be carried out on a tolling basis with a margin of up to 5%;
- The agreement is conditional on approval by Petropavlovsk's shareholders and its lenders, including Sberbank and VTB.

Commenting on the transaction, Peter Hambro, Chairman of Petropavlovsk, said:

"Since the 2015 refinancing our overall mission has been to restore shareholder value. To achieve this, we have developed a number of strategic objectives. One of these is accessing the value of the Group's refractory reserve base by accelerating the POX Hub project's development, under the critical condition that this will not be funded by the Group.

The POX JV, which is a game-changer for Petropavlovsk because it helps to unlock the considerable value in our refractory ores, could potentially boost our gold production in two years' time with little or no financial outlay from our balance sheet, thus fitting perfectly with our strategy.

To understand the importance of this transaction, one must remember that almost half of the Group's mineral reserve and resource base is in refractory ores, located mainly at our active Malomir and Pioneer mines. Whilst using existing facilities Pioneer still has great long-term production potential, the Malomir mine is approaching the end of its oxide life. We have always known that processing its vast mineral resource base requires autoclave treatment and only the sudden fall in the gold price in 2013 prevented us from completing the project.

The refractory gold deposit at Malomir, flat-lying with a low-stripping-ratio, is an essential part of Petropavlovsk's long-term future. It contains some 7.0Moz of gold resources, including 2.46Moz of reserves. However, without the POX Hub their value to shareholders cannot be realised. As such, I am very pleased that in GMD Gold we have found a partner with whom to complete the POX Hub. Once fully operational, Petropavlovsk's share of the POX Hub's production is estimated at 200,000oz - 300,000oz of gold per annum at a cost not dissimilar to that of Pioneer's non-refractory processing.

Initially the refractory concentrate feed will come from Malomir, where we have almost completed the construction of the flotation plant required for the process and then, in later years from Pioneer, which is expected to produce gold from oxide ore using its current processing facilities for at least 7 years from now.

The Board and I strongly believe that the JV will enhance the longer term financial profile of the group for limited capital expenditure, and has the potential to generate significant value for our shareholders."

Commenting on the transaction, Mr Dzgoev, one of the founders of GMD Gold and CEO of affiliated OJSC Gorevsky GOK, said:

"We are delighted to have the opportunity to share in the construction and long term benefits of the POX Hub. We are excited to be partnering with Petropavlovsk and its experienced management team and see this as a compelling opportunity that aligns with our portfolio of assets and overall strategy."

Binding POX joint venture agreement with GMD Gold

As previously announced in the Group's full year and fourth quarter trading update on 25th January 2016, Petropavlovsk has been investigating partnership options to jointly develop the POX Hub at the Company's Pokrovskiy mine site, which was suspended in 2013 as the Group refocused on deleveraging and rebalancing its debt maturity profile in the lower gold price environment.

Under the terms of the agreement, the JV would receive, from GMD Gold, the financing required to complete the work necessary to commence production at the POX Hub in 2018.

After completion of the POX Hub, the JV will, on a tolling basis, process refractory concentrate from the Group deposits and deposits owned by affiliated companies of GMD Gold. The Group will initially provide feedstock from its Malomir deposit whilst GMD Gold will provide both concentrates provided by its affiliated companies and concentrate purchased from third parties together with concentrate acquired on commercial terms from Petropavlovsk to fill its share of POX Hub capacity. Petropavlovsk has agreed to supply to GMD Gold an amount of concentrate constituting at least 25% of POX Hub capacity in order to help fully utilise GMD Gold's 50% of processing capacity entitlement. The processing of this ore will be priced in accordance with market rates at the time. Production capacity of the POX Hub will be shared on a 50:50 basis. The POX Hub has been designed to have significant flexibility to allow the processing of refractory concentrates with a wide range of metallurgical properties.

The POX Hub has four separate autoclave vessels, permitting separate and simultaneous processing of different concentrates under optimal conditions. The Group believes this will enable significant processing recoveries and boost productivity; there may also be potential to sell the Hub's capacity to third parties on a toll treatment basis.

GMD Gold is affiliated with the Novoangarsky metallurgical plant and Gorevsky GOK OJSC, which are established enterprises in Russia. The plants are involved in the treatment of lead-zinc ores from the Gorevsky deposit, one of the world's largest polymetallic deposits, are the owners of licences for the gold and antimony deposit Udeiskoie in the Krasnoyarsk region, and own licenses for refractory gold deposits Babgora and Bogolubovskoye and Malomurozhinskoie.

Under the terms of the agreement, Petropavlovsk's wholly-owned subsidiary JSC Pokrovskiy Mine (the "Pokrovskiy Mine") will incorporate the JV vehicle. It is intended that the Pokrovskiy Mine will contribute such existing assets and property rights as are required to establish the POX Hub and incorporate it into the JV.

GMD Gold will contribute a cash amount of US\$120 million equivalent in RUB. GMD Gold's holding in the JV will increase to 51% according to its contributions to the JV, the schedule for which will be agreed between the parties prior to the first investment by GMD Gold. In the event that US\$120 million received from GMD Gold is insufficient for the purpose, Petropavlovsk will fund the remainder but the relative shareholdings will not change. Implementation of the agreement constitutes a Class 1 transaction for the Company under the Listing Rules and is conditional on shareholder approval. Accordingly a shareholder Circular will be prepared by the Company in due course for the purposes of seeking shareholder approval for the transaction.

Neither party will contribute any ore reserves or resources to the JV. The business will be a toll-treatment joint venture and will share its profitability between its shareholders equally.

Financial effects of the transaction

In order to process its own refractory concentrate at the POX Hub, Petropavlovsk will need to complete the flotation and concentration circuit at the Malomir mine. The construction of the Malomir flotation is advanced and the Group estimates further funding of c.US\$30 million of capex is required to complete and expand the Malomir's flotation plant. The Group anticipates this expenditure will be incurred during 2017 and 2018 ahead of first POX Hub production in 2018.

The Group's assets being contributed into the JV include construction work in progress, equipment, materials as well as property rights required to finalise the POX Hub. These are carried at approximately US\$200 million on the Group's balance sheet as at 31 December 2015. There were no profits attributable to the assets being contributed into the JV in the year to 31 December 2015.

Conditions

The agreement is subject to a number of conditions which include, inter alia, the approval of Petropavlovsk's existing lenders, including Sberbank and VTB, the preparation of a Circular, its approval by the UKLA and the approval of the transaction by the Company's shareholders.

Terms of the Framework Agreement and Joint Venture Agreement

The framework agreement was entered into on 27 April 2016 between Pokrovskiy Mine and GMD Gold. It provides for the JV to be established as a Russian limited liability company.

Pokrovskiy Mine will establish the JV and contribute its POX Hub assets to it, subject to having received any necessary consents for this process. Subject, inter alia, to the approval of the Company's shareholders and the necessary Russian regulatory consents having been obtained, the parties will agree a schedule for investment of the US\$120 million by GMD Gold. The Group's

share in the JV will be reduced from 100% to 49% as GMD Gold invests up to the US\$120 million which is its investment commitment. In the event that the actual construction and completion costs exceed US\$120 million, the additional funding will be provided by the Group. In addition, Pokrovskiy Mine undertakes to contribute into the JV certain other assets ancillary to the POX Hub as may be unanimously required by the parties to the JV agreement.

The parties to the JV cannot dispose of their interests in the JV for five calendar years from the creation of the JV without the prior written agreement of the other party. Moreover, the shareholders of the participants in the JV cannot dispose of shares in the JV participants without the prior written agreement of the other party.

Three of the directors of the JV will be provided by the Group and four will be provided by GMD Gold. GMD Gold will be entitled to nominate the general director, and the Group will be entitled to nominate the chief accountant, who, in accordance with Russian regulations, has important signatory rights on all financial documentation. The duties of the office holders will, however, remain owed to the owners of the JV.

Upon the first US\$1 million investment by GMD Gold, the parties will enter into a shareholders agreement ("SHA") which is now in agreed form. The SHA provides for the ongoing operation of the JV once GMD Gold has become a participant. It contains detailed corporate governance arrangements providing for an allocation of responsibilities between the general meeting of members, the board of directors and the sole executive body (being the general director), together with minority protections including requiring that approval for certain defined key decisions must be unanimous. There is also an audit committee comprising representatives of each participant and the JV board.

The agreement provides formalities for the implementation of the capital increases. Profits earned by JV will be shared equally between the participants. Each party has the right to use 50% of the processing capacity and the tolling charges will have a maximum profit margin of 5%. The parties will seek to maximise utilisation of the plant and Pokrovskiy Mine will provide to GMD Gold, on market terms, ore amounting to not less than 25% of the throughput capacity.

If GMD Gold has failed to pay within 6 months after the due date any tranche of its investment commitment, Pokrovskiy Mine shall be entitled but not obliged to acquire GMD Gold's interest in the JV for a price to be determined as a portion of the JV's net assets pro rata to GMD Gold's interest.

The agreements are governed by Russian law with disputes not otherwise resolved to be submitted to the Moscow Arbitration Court for resolution.

About the POX Hub

The Company currently has nearly 3.9Moz of JORC refractory reserves as at 31 December 2015 at its Malomir and Pioneer mines. The POX Hub is based at and uses the facilities and infrastructure of the Pokrovskiy mine 40 km from Pioneer and 670 km from Malomir.

The current plan provides for Malomir and Pioneer refractory ore to be converted into high-grade concentrate at on-site flotation plants at Malomir and Pioneer, in order to remove approximately 95% of waste minerals. The resulting high-grade flotation concentrate will then be trucked on existing roads to the POX Hub. Once there, it will be subjected to high pressure and temperatures in one of four pressurised autoclaves. After autoclave treatment, gold will be leached and smelted into doré bars using the Pokrovskiy mine's current facilities.

The construction of the POX Hub, which is more than two-thirds completed, is expected to take approximately 18 months to complete from the commencement of construction. The flotation plant at Malomir is more than 90% complete and is expected to be commissioned before the POX Hub, in order to generate a sufficient quantity of the concentrate for a sustainable start up. First gold production from the POX Hub is expected in 2018.

According to an internal feasibility study, Petropavlovsk's share of production through the POX Hub, once constructed, is expected to be between 200,000oz - 300,000oz of gold per annum depending on the grade of concentrate. The Group expects processing costs of Malomir and Pioneer refractory concentrates to be around c.US\$65-75 per tonne, resulting in total cash costs of production of approximately US\$700/oz of gold. This is broadly in line with average cash costs for non-refractory ounces currently produced by the Group. The Group's current refractory reserves and resources base of 9.31Moz provides a project life of at least 13 years. The resource base of companies affiliated with GMD Gold is expected to further extend this. Work will be carried out during the construction phase to reappraise optimal production schedules as well as updated project costs. As mentioned and in line with the agreement, the POX Hub could be used as a processing base for third parties on a toll treatment or an off-take agreements basis.

About GMD GOLD

LLC "GMD GOLD" was registered on March 9, 2016 with Mr Vladimir Guriev, Mr Tamerlan Dzgoev and Ms Larisa Magaeva being the founders and the final beneficiaries of the company. The company is affiliated to LLC "Novoangarsky metallurgical plant" and OJSC "Gorevsky mining and metallurgical complex".

LLC "Novoangarsky metallurgical plant" was registered on August 15, 2003 and its company's business profiles cover the processing of lead and zinc ores from the Gorevsky deposit, which is mined by "Gorevsky mining and metallurgical complex", with the latter being a part of the LLC "Novoangarsky metallurgical plant".

Additionally, LLC "Novoangarsky metallurgical plant" is the holder of the exploration and development license for antimony and gold at Udeiskoie deposit, located in Krasnoyarsk region. Currently the deposit is under active development. LLC "Bogolyubovskoie" is a subsidiary to the company and the owner of the exploration licenses for Babgora, Bogolyubovskoie and Malomurozhinskoie deposits.

Enquiries

Petropavlovsk PLC

Alya Samokhvalova

Grace Hanratty

+44 (0) 20 7201 8900

Maitland

Neil Bennett

James Isola

+44 (0) 20 7379 5151