



PRESS RELEASE

15 February 2019

Petrovavlovsk PLC
("Petrovavlovsk" or the "Company")

THE RECOMMENDED PROPOSAL TO GUARANTEE THE OBLIGATIONS OF K&S, A WHOLLY OWNED SUBSIDIARY OF IRC LIMITED, UNDER TWO FACILITY AGREEMENTS WITH JSC GAZPROMBANK

As announced on 19 December 2018, Kimkano-Sutarsky Mining and Beneficiation Plant LLC ("K&S"), a wholly owned subsidiary of IRC Limited ("IRC"), signed two new broadly identical facility agreements with Gazprombank (the "Facility Agreements"), whereby Gazprombank will provide K&S with a US\$240 million facility, for the purposes of, *inter alia*, repaying in full the outstanding project finance facility K&S has with Industrial and Commercial Bank of China Ltd ("ICBC") (the "ICBC Facility") and repaying the bridge loans provided by Petrovavlovsk to IRC in June 2018 and December 2018 (the "Gazprombank Facility").

Pursuant to the Facility Agreements, the Company is to guarantee the obligations of K&S up to an initial amount of approximately US\$160 million through a series of five guarantees over the life of the Gazprombank Facility (the "Proposed Guarantees"). The Proposed Guarantees were entered into by the Company and Gazprombank on 15 February 2019 and the effectiveness of each of the Proposed Guarantees, in accordance with their respective terms, is conditional upon Shareholder approval being obtained at the General Meeting to be held on 12 March 2019. A further announcement will be made later today in respect of the publication and posting of a shareholder circular convening the General Meeting.

Overall, the Facility Agreements are on terms more favourable to Petrovavlovsk, IRC and K&S compared to the ICBC Facility, for which the Company currently acts as guarantor. In particular, the repayment schedule pursuant to the Facility Agreements aligns with the proposed ramp up of the Kimkano-Sutarsky Mining and Beneficiation Plant (the "K&S Mine") and the revenues that are anticipated to be generated by it.

The Board of Petrovavlovsk believes that the Proposed Guarantees, which are subject to approval by Petrovavlovsk Shareholders, are in the best interests of the Company and its stakeholders for the following reasons:

- the Gazprombank Facility terms are more favourable to Petrovavlovsk, IRC Group and K&S, compared to the ICBC Facility, because the Gazprombank Facility extends the maturity of K&S's debt obligations, thereby reducing the scheduled repayment amounts for K&S and allowing the repayment of those obligations to be over an extended period of time;
- the Gazprombank Facility repayment schedule better aligns with the proposed ramp up of K&S and the revenues IRC anticipate it to generate as a result; and
- the Gazprombank Facility will provide a US\$63 million aggregate cash flow benefit to Petrovavlovsk via the repayment by IRC to Petrovavlovsk of approximately US\$57 million as full repayment of the two Bridge Loans and the payment by IRC to Petrovavlovsk of the outstanding US\$6 million guarantee. These payments will be made following the repayment of the ICBC Facility in full.

The Gazprombank Facility will be used, *inter alia*:

- to repay in full the sum of approximately US\$169 million outstanding under the ICBC Facility;
- to repay Petrovavlovsk, by 21 March 2019, the Rouble equivalent of approximately US\$57 million, in addition to any accrued interest and fees, as full repayment of the two Bridge Loans; and
- for the payment of approximately US\$6 million which is owed by K&S and IRC to Petrovavlovsk in respect of the guarantee provided under the ICBC Facility.

The Proposed Guarantees to be provided by the Company will comprise of:

- a corporate guarantee with a maximum liability for the Company of US\$120 million (the “Corporate Guarantee”). The Company’s liability under this guarantee will be reduced to zero on the satisfaction of the Corporate Guarantee Conditions, as summarised in the Circular;
- three two-year fixed term guarantees with a maximum liability for the Company of US\$40 million under each guarantee, and which come in to force consecutively, starting on the date on which Shareholder approval is obtained at the General Meeting (“Fixed Term Guarantee A, Fixed Term Guarantee B and Fixed Term Guarantee C”); and
- a two-year fixed term guarantee with a maximum liability for the Company of US\$120 million which comes in to force on 21 December 2024 (“Fixed Term Guarantee D” and together with Fixed Term Guarantee A, Fixed Term Guarantee B and Fixed Term Guarantee C, the “Fixed Term Guarantees”).

The provision of the Corporate Guarantee and Fixed Term Guarantee D, each constitute a “class 1 transaction” for the Company under the Listing Rules and the Proposed Guarantees in aggregate constitute a “class 1 transaction” for the Company under the Listing Rules and therefore the Proposed Guarantees require Shareholders’ approval. This approval will be sought at the General Meeting of the Company to be held at 10.30 a.m. on 12 March 2019 at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN.

RECOMMENDATION

The Board considers that the Proposed Guarantees are in the best interests of Shareholders as a whole. Accordingly, the Board has unanimously agreed to recommend the Proposed Guarantees and the Directors that hold shares intend to vote in favour of the resolution in respect of the Proposed Guarantees at the General Meeting in respect of their own shares to which they are legally and beneficially entitled as at the record date for the General Meeting.

The attention of the Shareholders is drawn to the “Importance of Vote” section in the appendix to this Announcement.

This summary should be read together with the more detailed information in the longer announcement following the Important Notices below. To the extent not otherwise defined, capitalised terms used in this announcement have the meaning given to them in the Definitions section at the end of this announcement.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014

CEO’s statement – Dr Pavel Maslovskiy

“I am pleased to announce that in signing the Proposed Guarantees we have reached an important step in concluding the refinancing that the new Board and Senior Management have been working hard on for many months. Subject to Shareholder approval and the Proposed Guarantees becoming effective in accordance with their terms, the new facility signed with Gazprombank not only represents a significant de-risking milestone in the Petropavlovsk investment case but will also serve as a step forward in delivering on our strategy of shareholder value creation.”

The Facility Agreements provide an improvement on the terms previously agreed with ICBC, removing financial uncertainty whilst simultaneously retaining a significant upside for Petropavlovsk with the ongoing ramp up of iron ore production from the K&S mine. Under the Gazprombank facility, the extension of the repayment terms, the reduction in scheduled repayments, as well as the cash injection of US\$63m onto the Company’s balance sheet, will further strengthen our financial position as we continue to increase production from our assets, including refractory gold ounces from the successfully commissioned Pressure Oxidation Hub.”

Enquiries

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Important Notices

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Copies of the Circular when published will be available from the registered office of the Company and on the Company's website. The Circular will give further details of the Proposed Guarantees.

This announcement is for information purposes only and is not intended to and does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of an offer to purchase, subscribe for or otherwise acquire, any securities in any jurisdiction. Overseas Shareholders may be affected by the laws of other jurisdictions in relation to the distribution of this announcement. Persons who are not resident in the United Kingdom and into whose possession this document comes should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the transaction and the distribution of this document. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

Peel Hunt LLP ("Peel Hunt"), which is authorised by the Financial Conduct Authority (the "FCA"), is acting for the Company and for no one else in connection with the transaction, the content of this announcement, publication of the Circular and other matters described in this announcement and will not regard any other person as a client and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients, nor for providing advice in connection with the transaction, the content of this announcement publication of the Circular or any other matter, transaction or arrangement referred to in this announcement.

Save for the responsibilities and liabilities, if any, of Peel Hunt under the Financial Services and Markets Act 2000, as amended, or the regulatory regime established thereunder, Peel Hunt assumes no responsibility whatsoever and makes no representations or warranties, express or implied, in relation to the contents of this announcement, including its accuracy, completeness or verification or for any other statement made or purported to be made by the Company, or on the Company's behalf, or by Peel Hunt or on Peel Hunt's behalf and nothing contained in this announcement is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with the Company or the transaction. Peel Hunt disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this announcement or any such statement.

No person has been authorised to give any information or to make any representations other than those contained in this announcement and, when published, the Circular and, if given or made, such information or representations must not be relied on as having been authorised by the Company or Peel Hunt. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules of the FCA, the issue of this announcement shall not, in any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this announcement or that the information in it is correct as at any subsequent date.

This announcement contains certain forecasts, projections and other forward-looking statements (i.e., all statements other than statements of historical fact) in relation to, or in respect of the financial condition, operations or businesses of the Group and/or Petropavlovsk. Statements containing the words "expect", "anticipate", "intends", "plan", "estimate", "aim", "forecast", "project" and similar expressions (or their negative) identify certain of these forward-looking statements. Any such statements involve risk and uncertainty because they relate to future events and circumstances and are based on current assumptions and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements, including, but not limited to, matters of a political, economic, business, competitive or reputational nature. Past performance should not be taken as an indication or guarantee

of future results, and no representation or warranty, express or implied, is made regarding future performance. No statement in this announcement should be construed as a profit estimate or profit forecast. Neither the Company nor any other person undertakes any obligation to update or revise any forward looking statement to reflect any change in circumstances or expectations.

Capitalised terms used in this Important Notices section and not otherwise defined in this announcement shall be ascribed the meaning given thereto in the Circular.

PROPOSAL TO GUARANTEE THE OBLIGATIONS OF KIMKANO-SUTARSKY MINING AND BENEFICIATION PLANT LLC UNDER TWO FACILITY AGREEMENTS WITH GAZPROMBANK (JOINT STOCK COMPANY)

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and/or Date
Publication of and posting of the Circular, the Notice of General Meeting and the Form of Proxy	15 February 2019
Latest time and date for receipt of Forms of Proxy or CREST Proxy Instructions for the General Meeting ⁽¹⁾	10.30 a.m. on 8 March 2019
General Meeting	10.30 a.m. on 12 March 2019
Announcement of the results of the General Meeting	12 March 2019

(1) It is requested that Forms of Proxy for the General Meeting are returned before 10.30 a.m. on 8 March 2019 or, if the General Meeting is adjourned, no later than 48 hours before the time and date set for the holding of the adjourned meeting

These dates are provided by way of indicative guidance only and are subject to change. If any of the above times and / or dates change, the Company will give notice by issuing an announcement through a Regulatory Information Service.

References to a time of day are to London time.

INTRODUCTION

As announced by the Company on 24 September 2018, IRC is proposing to refinance the project finance facility K&S has with ICBC (the "**ICBC Facility**"). K&S is a wholly owned subsidiary of IRC and as at 20 December 2018, approximately US\$169 million was outstanding under the ICBC Facility. The Company has a 31.1 per cent. interest in the issued share capital of IRC and acts as guarantor under the ICBC Facility.

As further announced on 19 December 2018, K&S has signed two new broadly identical facility agreements with Gazprombank (the "**Facility Agreements**"), whereby Gazprombank will provide K&S with a US\$240 million facility, in aggregate, for the purposes of, *inter alia*, repaying the ICBC Facility in full and repaying the bridge loans provided by the Company to IRC in June 2018 and December 2018 (the "**Gazprombank Facility**"). Pursuant to the Facility Agreements, the Company is to guarantee the obligations of K&S up to an initial amount of approximately US\$160 million through a series of five guarantees over the life of the Gazprombank Facility (the "**Proposed Guarantees**"). The Proposed Guarantees were entered into by the Company and Gazprombank on 15 February 2019 and the effectiveness of each of the Proposed Guarantees, in accordance with their respective terms, is conditional upon Shareholder approval being obtained at the General Meeting.

The provision of the Corporate Guarantee and Fixed Term Guarantee D (both as defined below), each constitute a "class 1 transaction" for the Company under the Listing Rules and the Proposed Guarantees in aggregate constitute a "class 1 transaction" for the Company under the Listing Rules and therefore to become effective in accordance with their respective terms, the Proposed Guarantees require Shareholders' approval. This approval will be sought at the General Meeting of the Company to be held at 10.30 a.m. on 12 March 2019 at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN.

BACKGROUND TO AND REASONS FOR THE PROPOSED GUARANTEES

IRC is a vertically integrated iron ore producer and developer in the Russian Far East and North Eastern China, which is listed on the Hong Kong Stock Exchange (Ticker: 1029.HK). The Company has a non-controlling 31.1 per cent. interest in IRC, and pursuant to the ICBC Facility, the Company has provided a guarantee to ICBC in respect of the full US\$340 million project loan facility provided to K&S. The provision of the guarantee by the

Company was given when the Company had approximately a 65 per cent. interest in IRC. The principal purpose of the ICBC Facility was to fund the construction of IRC's iron ore mining operation at the K&S Mine and as at 20 December 2018, the outstanding principal amount of the loan was approximately US\$169 million.

The K&S Mine comprises of a processing plant, infrastructure facilities and two licenced deposits of iron ore – Kimkan and Sutara. Construction of the processing plant and infrastructure facilities at the K&S Mine have been completed and the mine is operating. Currently, only the Kimkan deposit is being mined to provide iron ore feed to the processing plant at the K&S Mine for the production of iron ore concentrate and K&S is in the process of ramping up to its phase 1 design production capacity.

It had been envisaged that repayments under the ICBC Facility would be made from the cash flow of the K&S Mine, however due to a four-year delay in the commissioning of the K&S Mine and iron ore price volatility, it has been unable to generate sufficient cash flow to make such repayments.

This led to the Company providing two bridge loans in June 2018 and December 2018 of a Rouble equivalent of approximately US\$57 million in aggregate to the IRC Group during its recent period of financial difficulty (the "**Bridge Loans**").

IRC used the proceeds of the June Bridge Loan to provide an intercompany loan to its trading subsidiary Ariti HK Limited, who in turn made an advance payment under an iron ore sale contract for an amount equivalent to the June Bridge Loan to K&S. K&S then used the proceeds of the advance from Ariti HK Limited, equivalent to the full amount of the June Bridge Loan, for the purposes of making the June 2018 instalment payment to ICBC. The June Bridge Loan carries an interest rate of 12 per cent. per annum and as announced by the Company on 19 December 2018, the repayment of the June Bridge Loan by IRC has been postponed until the Gazprombank Facility has been drawn down.

The December Bridge Loan was then made to Ariti HK Limited at an interest rate of 16 per cent. per annum which is due monthly. Following this, Ariti HK Limited made another advance payment under an iron ore sale contract for an amount equivalent to the December Bridge Loan to K&S. K&S then used the proceeds of this advance, together with IRC's cash resources to make the December 2018 instalment repayment to ICBC. The principal amount under the December Bridge Loan is repayable in full on or before 21 March 2019 and IRC has provided a guarantee for this repayment.

Due to the difficulties K&S has had in making repayments under ICBC Facility, K&S and the Company obtained a waiver from ICBC on 17 December 2018 (the "**ICBC Waiver**") pursuant to which:

- (a) the obligation for K&S to fund and maintain US\$27.25 million in the DSRA has been waived until the earlier of (i) the date on which security in respect of the ICBC Facility has been released or (ii) 21 March 2019; and
- (b) various financial covenants to which the Company and K&S are subject to under the ICBC Facility have been waived such that they were not tested in December 2018 nor will they be tested on or before the end of the waiver period (this being the period from 29 December 2018, which was the date on which the conditions precedent under the ICBC Waiver were fulfilled, and the earlier of (i) the date on which the security in respect of the ICBC Facility is released or (ii) 21 March 2019).

In order for the security granted pursuant to the ICBC Facility to be released, the full amount outstanding under the ICBC Facility must be repaid in full, which following the repayment of the 20 December 2018 instalment is approximately US\$169 million. If the ICBC Facility is not repaid in full on or before 21 March 2019 and a further waiver cannot be obtained from ICBC, K&S will be under an obligation to maintain the DSRA; a number of the financial covenants will be tested in June 2019; and K&S will continue to have to make its scheduled repayments under the ICBC Facility, the next repayment date being on 20 June 2019. In this event, K&S will not be able to fund and maintain the DSRA without further bridge financing from the Company; K&S will not be able to make the June 2019 repayment; and the Company will not, absent any alternative funding, be able to make further advances to the IRC Group to make the June 2019 repayment.

Therefore, following the grant of the ICBC Waiver K&S entered into the Facility Agreements with Gazprombank for the provision of the Gazprombank Facility on 18 December 2018 so that, *inter alia*, the ICBC Facility can be

repaid in full. The Gazprombank Facility will mature in 2026 and it consists of two tranches. The principal under the first tranche amounts to US\$160 million with interest being charged at 5.7 per cent. above LIBOR per annum and is repayable in equal quarterly instalments during the term of the Gazprombank Facility. The principal under the second tranche amounts to US\$80 million with interest being charged at 7.7 per cent. above LIBOR per annum and is repayable at the end of the term of the Gazprombank Facility.

The draw down of the Gazprombank Facility is conditional upon a number of conditions which are typical for a financing transaction of the size and nature of the Gazprombank Facility. The conditions relate to the delivery of various documents, for example legal opinions which are routinely given on financing transactions, the constitutional documents of K&S, the Proposed Guarantees which have become effective in accordance with their respective terms following Shareholder approval being obtained at the General Meeting, security documents and certain reports from the Technical Adviser in respect of the K&S Mine, the latter of which have already been prepared and delivered to Gazprombank.

The Facility Agreements also provide for certain conditions subsequent which are typical for a financing transaction of the size and nature of the Gazprombank Facility. The conditions subsequent relate to the implementation of certain security arrangements over assets relating to the Object and the delivery by the Company of the certificate of operational acceptance in respect of the Hydrometallurgical Complex at the POX Hub and a letter signed by the Company representing the production output of the POX Hub during the year ending on 31 December 2019. The Company is in the process of liaising with the relevant regulatory authorities in order to collate the necessary documents to obtain the certificate before the end of 2019.

Moreover, the Company is required to enter into a share retention agreement with Gazprombank pursuant to which the Company will agree not to reduce its shareholding in IRC to less than 20 per cent. during the term of the Facility Agreements (the "**Share Retention Agreement**"). Entry into the Share Retention Agreement is a condition subsequent to the Facility Agreements and Proposed Guarantees and the Company is currently in negotiations in respect of this agreement with Gazprombank.

In general, the Facility Agreements are on terms more favourable to the Company, the IRC Group and K&S compared to the ICBC Facility. In particular, the repayment schedule pursuant to the Facility Agreements aligns with the proposed ramp up of the K&S Mine and the revenues that are anticipated to be generated by it. The Gazprombank Facility will be used:

- (a) to repay, in full, the amount which is outstanding under the ICBC Facility – which following the 20 December 2018 repayment is approximately US\$169 million;
- (b) to repay to the Company by 21 March 2019, the Rouble equivalent of approximately US\$57 million, in addition to any accrued interest and fees payable to the Company, as full repayment of the Bridge Loans;
- (c) for the payment of approximately US\$6 million which is owed by K&S and IRC to the Company in respect of the guarantee provided under the ICBC Facility under a recourse agreement dated 13 December 2010 (the "**Arrangement Fee**"); and
- (d) after the full utilisation of (a), to refinance K&S's own working capital to cover any expenses incurred by K&S in discharging its obligations under paragraphs (a) to (c) above.

The Proposed Guarantees to be provided by the Company will comprise of:

- (a) a corporate guarantee with a maximum liability for the Company of US\$120 million (the "**Corporate Guarantee**") with a commencement date being on the date on which Shareholder approval is obtained at the General Meeting (the "**Approval Date**"). The Company's liability under this guarantee will be reduced to zero on the satisfaction of the Corporate Guarantee Conditions, summarised below;
- (b) three two-year fixed term guarantees with a maximum liability for the Company of US\$40 million under each guarantee, where the commencement date for such fixed term guarantees will commence consecutively, starting on the Approval Date ("**Fixed Term Guarantee A, Fixed Term Guarantee B and Fixed Term Guarantee C**"); and

- (c) a two-year fixed term guarantee with a maximum liability for the Company of US\$120 million with a commencement date of 21 December 2024 ("**Fixed Term Guarantee D**") and together with the guarantees referred to in (b) above, the "**Fixed Term Guarantees**").

INFORMATION ON K&S AND THE K&S MINE

The K&S Mine is an iron ore project, 100 per cent. owned by K&S (which is a wholly owned subsidiary of IRC), and is located in the Jewish Autonomous Region (JAO) of the Russian Far East. Construction of the processing plant, which produces the iron ore concentrate product, and infrastructure facilities at the K&S Mine completed in 2016. In 2017, IRC reported that 1,563Kt of iron ore concentrate was produced at the K&S Mine.

The first phase of the K&S Mine is to process 10 million tonnes per annum of iron ore and produce 3.2 million tonnes per annum of iron ore concentrate with 65 per cent. Fe grade. There is an option for a phase two expansion at the processing plant to produce a total of 6.3 million tonnes of 65 per cent. iron ore concentrate per annum and as an interim development between the two phases, IRC and K&S are assessing an option to upgrade the processing plant to increase the production capacity to approximately 4.6 million tonnes per annum. However, no additional expansion is anticipated to be implemented in the immediate future and will not be pursued until K&S has raised or generated the appropriate capital to fund such expansion, for which there are no current plans.

The K&S Mine has been generating revenue since the third quarter of 2016. In 2017, the K&S Mine generated EBITDA of US\$32.9 million, which has reduced in the first half of 2018 to US\$14.6 million. This reduction was in part due to the low market price of iron ore. K&S is working towards reducing the current level of total cash cost of approximately US\$50 per tonne by ensuring that the processing plant at the K&S Mine is producing at full capacity of 3.2Mtpa. In addition the Amur River Bridge is expected to be commissioned in mid-2019 and will help reduce the transportation costs of K&S by approximately US\$5 per tonne which will also assist in the reduction of the total cash cost.

As part of K&S and IRC's discussions with banks for a refinancing solution, a technical and economic report of the K&S Mine was carried out by Wardell Armstrong International Limited, an independent mining consultancy firm, in March 2018. The report confirmed that the estimated resources of the Kimkan and Sutara deposits are sufficient for the mining operations planned by K&S and the report has subsequently allowed a repayment schedule in respect of the Gazprombank Facility to be agreed with Gazprombank, in line with the production plan of the K&S Mine set out in the report. Accordingly, the revenue that is generated from the K&S Mine will be used by K&S to make the scheduled repayments under the Facility Agreements.

In order to produce its products at the K&S Mine, K&S requires two licences to mine at the two principal iron ore deposits – Kimkan and Sutara. K&S holds a separate licence for each deposit which are both valid until 30 December 2025, but are expected to be extended, subject to the terms being further complied with:

- (a) in respect of the Kimkan deposit, the licence covers iron ore at the Kimkan iron ore deposit over an area of 22.4 km²; and
- (b) in respect of the Sutara deposit, the licence covers the exploration and mining of iron ore at the Sutara iron ore deposit over an area of 27.0 km².

K&S has also been granted temporary permits until the end of October 2019, to operate the processing plant at the K&S Mine. The permits cover the commissioning works and production at the processing plant. The temporary nature of the current permits is normal market practice in the mining industry in Russia to allow for the development of mines before final state approval. K&S has commenced the process to meet the regulatory requirements in Russia to obtain permanent permits, and it expects these will be formalised before the end of 2019. In the meantime, K&S is able to, and has in the past, extended its temporary permits to ensure that they continue in force whilst the formal commissioning works continue such that the permanent permit process can then be undertaken and completed.

At present, only the Kimkan deposit is being mined to provide iron ore feedstock to the processing plant at the K&S Mine. K&S and IRC estimate that the Kimkan deposit has a maximum life of ten years and there will be a decline in the annual volumes of iron ore that is mined from it after 2020. To support the ongoing production of

the K&S Mine, K&S is planning to develop the Sutara deposit for mining between 2018 to 2021 at an approximate cost of US\$29 million. The iron ore mined from the Sutara deposit will then be processed at the processing plant at the K&S Mine to produce iron ore concentrate. In order to commence mining at the Sutara deposit, the following developments are required:

- (a) construction of road access to the mining area, including a bridge crossing the River Sutara for which construction works have already commenced;
- (b) general infrastructure facilities, such as power supply, in-pit roads and areas for re-handling or storage purposes;
- (c) implementation of drainage facilities, including the main river diversion channel and dewatering boreholes, supplemented with drainage and diversion trenches; and
- (d) an intermediate processing facility at Sutara, in order to minimise unnecessary transportation of the iron ore feed stock. K&S and IRC are considering the use of a mobile crusher and a dense medium separator to be deployed in order to produce a sub 300mm, higher grade product.

It is anticipated that mining of the Sutara deposit shall commence by 2021. No external financing will be required for the development of the deposit for mining and the capital expenditure for this will be funded by the cash flow from the K&S Mine. The proceeds of the Gazprombank Facility, as outlined above, will not be used in the development of the Sutara deposit mining programme.

SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSED GUARANTEES

The purpose of the Proposed Guarantees is to secure the obligation of K&S to repay the Gazprombank Facility in accordance with the Facility Agreements. The Company will provide five guarantees to Gazprombank over the life of the Gazprombank Facility, all five of which were entered into by the Company and Gazprombank on 15 February 2019.

Each Proposed Guarantee will become effective in accordance with their respective terms upon:

- (a) Shareholder approval being obtained at the General Meeting; and
- (b) Gazprombank's legal adviser's releasing an agreed form legal opinion in respect the Company's capacity to enter into the Proposed Guarantees and the enforceability of the Proposed Guarantees.

The agreed form legal opinion will be automatically released once the Company delivers to Gazprombank's legal advisers: (i) a copy of the minutes of a meeting of the Board held on 14 February 2019 at which the Proposed Guarantees were considered and approved subject to Shareholder approval; (ii) a copy of the Resolution duly passed by the Shareholders; and (iii) a certificate from the Directors confirming, *inter alia*, the Company is solvent and who the authorised signatories of the Company are. Subject to the Resolution being passed at the General Meeting, the delivery of all such documents to trigger the release of the agreed form legal opinion are within the control of the Company.

The commencement date of each of the Proposed Guarantees is then staged as follows:

Proposed Guarantee	Level of maximum liability amount	Commencement date	End date for the maximum liability amount
Corporate Guarantee	US\$120 million	Approval Date	Project Completion Date (when the Corporate Guarantee Conditions are satisfied and as defined in the Corporate Guarantee)
Fixed Term Guarantee A	US\$40 million	Approval Date	20 December 2020
Fixed Term Guarantee B	US\$40 million	21 December 2020	20 December 2022
Fixed Term Guarantee C	US\$40 million	21 December 2022	20 December 2024
Fixed Term Guarantee D	US\$120 million	21 December 2024	The on which Gazprombank Facility has been repaid in full

The level of liability of the Company under each of the staged Proposed Guarantees reflects the repayment schedule of the Gazprombank Facility whereby the first tranche of US\$160 million will be repaid over the full life of the Facility Agreement to which it relates and the second tranche of US\$80 million will be repaid in full in the final year of the Facility Agreement to which it relates.

As shown in the table above, from the Approval Date, the obligations of the Company under the Proposed Guarantees will initially be for a maximum amount of US\$160 million – comprising of the US\$120 million Corporate Guarantee and the US\$40 million Fixed Term Guarantee A. The guarantee obligations in respect of the three remaining Fixed Term Guarantees will then commence consecutively and will be effective for two years each.

The liability of the Company under the Corporate Guarantee will be reduced to zero if the Corporate Guarantee Conditions are satisfied. The Corporate Guarantee Conditions mainly relate to the business, operations and development projects of K&S and IRC.

In addition, the terms of the Proposed Guarantees provide that if any of the Springing Recourse Events occur, the commencement date of each of Fixed Term Guarantee B, Fixed Term Guarantee C and Fixed Term Guarantee D will be brought forward (assuming that their respective commencement dates have not already occurred) and thereby increase the Company's liability to a potential maximum amount of US\$360 million (although, notwithstanding the maximum liability, Gazprombank can never recover more than the amount outstanding under the Gazprombank Facility). However, as explained below, the likelihood of the Springing Recourse Events occurring is remote given the gravity of such events occurring to the Company and K&S.

CORPORATE GUARANTEE CONDITIONS

The amount being guaranteed by the Company under the Corporate Guarantee will be reduced to zero on the satisfaction of the Corporate Guarantee Conditions. At such time as the Corporate Guarantee Conditions listed below are fulfilled, K&S must also confirm to Gazprombank that it is not in default under any of the Finance Documents (as defined in the Facility Agreements). Gazprombank will then notify the Company through a formal release letter that it is satisfied: (i) with the documents delivered to it in respect of the fulfilment of the Corporate Guarantee Conditions; and (ii) that there is no breach or event of default under any of the Finance Documents (as defined in the Facility Agreements) and the Company will then be released from its obligations under the Corporate Guarantee.

The Company, IRC and K&S have entered into an agreement pursuant to which, amongst other things, IRC will undertake to use its reasonable endeavours to ensure that each of the Corporate Guarantee Conditions are actioned, pursued and completed as soon as reasonably practicable.

To summarise the Corporate Guarantee Conditions:

- (a) evidence that the act of commissioning in respect of the Object has occurred;
- (b) delivery to Gazprombank of a certificate from K&S and countersigned by the Technical Adviser confirming that:
 - (i) the Object has been commissioned and is operating;
 - (ii) the relevant permission for the exploitation of the deposit and other documents required for the mining of the Sutara deposit have been obtained;
 - (iii) the Sutara deposit has been commissioned and is operating;
 - (iv) the volume of iron ore concentrate produced is not less than 250,000 tonnes per month for the 6 months preceding the delivery of the certificate; and
 - (v) the production level at the Sutara deposit has been at least 200,000 tonnes of raw ore per month for the 6 months preceding the delivery of the certificate;
- (c) delivery to Gazprombank of each of the security documents entered into in accordance with clause 3.12 of each of the Facility Agreements;
- (d) documentary evidence regarding the commissioning of the Sutara deposit and production at the Sutara deposit;
- (e) delivery to Gazprombank of a compliance certificate confirming that the ratio of Net Debt to EBITDA (each as defined in the Facility Agreements) of the Borrower for the last 12 months is no more than 3.0 times; and
- (f) delivery to Gazprombank of a certificate from K&S confirming that no breach of, or any default under, any Finance Documents (as defined in the Facility Agreements) have occurred and are continuing.

SPRINGING RECOURSE EVENTS

In respect of each of the Fixed Term Guarantee B, the Fixed Term Guarantee C and the Fixed Term Guarantee D, their commencement dates will be brought forward resulting in the maximum liability amount of zero increasing for the Fixed Term Guarantee D to US\$120 million and for the Fixed Term Guarantee B to US\$40 million and the Fixed Term Guarantee C to US\$40 million, if any of the Springing Recourse Events occur. However the commencement date will only be accelerated if the commencement date for the maximum liability under the relevant Proposed Guarantee has not already commenced. Please refer to the table under *Summary Of The Principal Terms And Conditions Of The Proposed Guarantees above*.

The Springing Recourse Events relate to the solvency, constitutional and financial position of the Company and K&S and cover:

- (a) non-payment by the Company of amounts demanded under any of the Proposed Guarantees within a prescribed time period;
- (b) the sale of more than 20 per cent. of the total assets of the Group or a divestment of at least a majority share in any of the Principal Subsidiaries;
- (c) the occurrence of an acceleration event under the Existing Notes and the Existing Bonds;
- (d) the insolvency of the Company and K&S;
- (e) transfers and terminations of any of K&S' subsoil licences;
- (f) K&S or the Company becoming a sanctions target such that:
 - (i) it is then illegal for Gazprombank to maintain a relationship with the Company or K&S (as appropriate); or
 - (ii) it becomes reasonably likely that, if Gazprombank maintains such a relationship, Gazprombank will then become a target of sanctions;
- (g) where there are changes to the sanctions regime applicable to K&S or the Company, it being reasonably likely that Gazprombank (or any of its affiliates) will have sanctions imposed on them because they maintain their relationship with K&S or the Company (as appropriate);
- (h) changes to the articles of association or capital structure relating to K&S that would prejudice certain rights of Gazprombank; and
- (i) the invalidity or illegality of the Proposed Guarantees against the Company.

There are further events that are qualified and would constitute a Springing Recourse Event to the extent that they might reasonably be expected to have a material adverse effect on either (i) the Company's ability to pay under any of the Proposed Guarantees or (ii) the ability of K&S and the Company taken together to meet their then due and payable payment obligations under the Finance Documents (as defined in the Facility Agreements) taken together. These events include litigation decisions against the Company or K&S, amendments to any of K&S' subsoil licences, any reorganisation of K&S or the incurrence of additional debt not permitted by the Finance Documents (as defined in the Facility Agreements).

The nature of each of the Springing Recourse Events is such that they should only occur if there is a fundamental change to the business and financial position of the Company or K&S. There are correlations between the Springing Recourse Events and the events of default under the Existing Notes and the Existing Bonds meaning that if any of the Springing Recourse Events occurred, there would likely be wider implications to the Company than just the increase in its liability under the Proposed Guarantees. Accordingly, the Springing Recourse Events have been extensively negotiated with Gazprombank on the basis that the likelihood of any of the events occurring is remote and so that the provisions of the Springing Recourse Events do not outweigh the benefits of the Gazprombank Facility as a whole.

In addition, the Company, IRC and K&S have entered into an agreement pursuant to which, amongst other things, IRC undertakes that it shall not take any action, step or decision which does lead to, or might reasonably be expected to lead to, the occurrence of any Springing Recourse Event.

IMPORTANCE OF VOTE

As described in the Circular:

- (a) K&S has a US\$340 million project finance facility with ICBC, pursuant to which the Company has provided a guarantee in respect of K&S's obligations under it. In 2018 K&S has been unable to meet the scheduled repayments under the ICBC Facility, and as a result the Company provided the Bridge Loans to IRC for the repayment of the June 2018 and December 2018 instalments;
- (b) the Company, IRC and K&S have obtained a waiver from ICBC pursuant to which the December 2018 test date for various financial covenants was waived and in particular K&S's obligation to fund and maintain the DSRA has been waived until the earlier of the date on which the security under the ICBC Facility has been released or 21 March 2019;
- (c) K&S has entered into the Facility Agreements for the provision of the Gazprombank Facility and to be able to draw down on the Gazprombank Facility, K&S is required to satisfy various market standard conditions under the Facility Agreements which relate to the delivery of various documents, for example legal opinions which are routinely given on financing transactions, the constitutional documents of K&S, the Proposed Guarantees which have become effective in accordance with their respective terms following Shareholder approval being obtained at the General Meeting, security documents and certain reports from the Technical Adviser in respect of the K&S Mine, the latter of which have already been prepared and delivered to Gazprombank. K&S is also required to satisfy certain conditions subsequent, namely, the implementation of certain security arrangements over assets relating to the Object and the delivery by the Company of the certificate of operational acceptance in respect of the Hydrometallurgical Complex at the POX Hub and a letter signed by the Company representing the production output of the POX Hub during the year ending on 31 December 2019; and
- (d) the Proposed Guarantees will only become effective in accordance with their respective terms if the Resolution is passed.

If the Resolution is not passed and the Proposed Guarantees are not approved, or if any of the other conditions under the Facility Agreements referred to above are not met and Gazprombank does not waive the requirement for such conditions, K&S will not be able to draw down on the Gazprombank Facility.

If K&S is unable to draw down on the Gazprombank Facility:

- (a) K&S will not be able to fund and maintain US\$27.25 million in the DSRA from 21 March 2019. Therefore the Company will need to provide another bridge loan to the IRC Group of approximately US\$ 20 million (the "**Additional Bridge Loan**") to fund and maintain the DSRA and prevent a default under the ICBC Facility pursuant to which ICBC has the right to demand immediate repayment of the full outstanding amount of the ICBC Facility, which following the 20 December 2018 repayment is approximately US\$169 million; and
- (b) IRC will not be able to repay the Bridge Loans to the Company on or before 21 March 2019 without an alternative funding solution.

In the event that the Company has to provide the Additional Bridge Loan, absent any new facility arrangements being put in place for the Company or additional capital being raised by the Company, the Company will have a liquidity shortfall of approximately US\$120.5 million from June 2019.

If the Company has to provide the Additional Bridge Loan because the Gazprombank Facility has not been drawn down, on 20 June 2019:

- (a) K&S will not be able to make the next repayment under the ICBC Facility of US\$29.5 million and the Company will be unable provide further bridge financing to assist K&S which such repayment; and
- (b) pursuant to the terms of the ICBC Facility, the financial covenants which K&S and the Company are subject to will be tested and unless further waived by ICBC, neither K&S nor the Company will meet the covenants at this date.

In the above circumstances, ICBC has the right to demand immediate repayment of the full outstanding amount of the ICBC Facility, which following the 20 December 2018 repayment is approximately US\$169million, and call on the Company under the ICBC Guarantee for full repayment of this amount. In the event of ICBC demanding immediate repayment of the full outstanding amount of the ICBC Facility from the Company under the ICBC Guarantee, the Company will not be able to make such payment due to the Company's existing liquidity shortfall of US\$120.5 million from June 2019.

Moreover, due to the nature of the facilities the Company has in place, an event of default under the ICBC Guarantee will, under cross-defaults and/or cross-accelerations of the Existing Facilities, entitle the relevant lenders to demand immediate repayment, which given the liquidity shortfall if the ICBC Guarantee is called upon and that the relevant lenders are unsecured, it is highly probable they will act quickly to make such demands. An event of default under one facility could also result in the termination and close out of the Group's hedging arrangements. In this event, a significant proportion of the Group's borrowings would become immediately repayable in the following amounts:

- (a) US\$500 million in respect of the Existing Notes; and
- (b) US\$100 million in respect of the Existing Bonds.

Consequently, if the relevant lenders exercised their rights under the Existing Facilities to call upon the Company to repay the above amounts, the Company would have a liquidity shortfall of US\$720.5 million from June 2019.

The occurrence of the above events would mean that the Company would cease to be a going concern and in the absence of securing alternative funding and/or substantial proceeds from the realisation of assets, could result in the insolvency and, ultimately, the liquidation of the Company resulting in the Shareholders losing their investment in the Company.

If the Resolution is not passed and the Proposed Guarantees are not approved, or if any of the other conditions under the Facility Agreements referred to above are not met so that K&S is unable to draw down on the Gazprombank Facility, the Group would work to implement various actions to mitigate against the liquidity shortfall.

In the first instance, the Company and IRC would attempt to negotiate with ICBC for a further waiver in respect of the obligations to fund and maintain the DSRA and testing of the financial covenants. The parties could also look to renegotiate the repayment schedule for the ICBC Facility to reduce the instalments to an amount which reflects the free cash flow of K&S. However, whilst in the past ICBC has granted five waivers in respect of the ICBC Facility, when approached for a similar renegotiation on the repayment schedule in 2018, ICBC was not willing to renegotiate the repayment terms. The Directors believe that whilst ICBC is aware of K&S's inability to make the repayments, any negotiations would only be agreed by ICBC, if at all, at a significant cost to both the Company and the IRC Group. This could be in the form of additional fees payable to ICBC or additional restrictions on, or commitments to engage in, certain corporate actions, each of which would adversely affect or delay implementation of both the Company's and the IRC Group's strategies.

In parallel to negotiating the repayment terms with ICBC, the Company and IRC would seek alternative refinancing facilities. The Company is confident that if an alternative refinancing was required, it would be able to reach an agreement with another bank. However it is highly likely that such refinancing will still require a guarantee to be provided by the Company and it will take time for terms to be agreed, legal documents drafted and finalised and another circular to be published for Shareholder approval. This is unlikely to be completed before 21 March 2019 and the Company would be dependent on the consent from ICBC to enter into such new facility agreement. Therefore the liquidity shortfall would still occur from June 2019 if the Company has provided the Additional Bridge Loan to the IRC Group.

Absent any successful renegotiations with ICBC or another bank for a new facility arrangement, the Company could seek funding through the realisation of the Group's assets. However, given the limited timeframe before a liquidity shortfall, such a sale would be difficult to complete in time and the price at which such assets could be realised would be severely impacted. As such there is no guarantee that the Company would be able to dispose of the Group's assets at a price which it believes is reflective of the full value of such assets and there are restrictions under the Existing Facilities for the Company to sell its assets at less than fair market value. In any event, the realisation of assets by the Company alone will not be sufficient to prevent the liquidity shortfall of US\$120.5 million in June 2019.

If the actions listed above were unsuccessful in the event of a liquidity shortfall of the Company, the Company would be forced to commence an insolvency process (be this administration or liquidation), resulting in Shareholders losing their investment in the Company.

DEFINITIONS

The following definitions apply throughout this Announcement unless the context otherwise requires:

Additional Bridge Loan	the loan of approximately US\$20 million to be advanced by the Company to the IRC Group in the event that the Gazprombank Facility is not drawn down on or before 21 March 2019
Approval Date	the date on which the Shareholders approve the Proposed Guarantees at the General Meeting
Arrangement Fee	the fee payable by IRC to the Company pursuant to a recourse agreement dated 13 December 2010 made between the Company, IRC and K&S
Board	the board of Directors of the Company
Bridge Loans	the June Bridge Loan and December Bridge Loan
Circular	the Shareholder circular to be published and posted to Shareholders on 15 February 2019 summarising the Facility Agreements and Proposed Guarantees and containing a notice to convene the General Meeting
Company	Petrol PLC, a public limited company incorporated in England and Wales with registered number 04343841, whose registered office is at 11 Grosvenor Place, Belgravia London, SW1X 7HH
Corporate Guarantee	a corporate guarantee to be provided by the Company pursuant to the Facility Agreements with a maximum liability for the Company of US\$120 million
Corporate Guarantee Conditions	the conditions set out in the Corporate Guarantee for the reduction of the Company's liability under the Corporate Guarantee
CREST	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear is the operator
CREST Manual	the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof
CREST Proxy Instruction	a properly authenticated CREST message appointing and instructing a proxy to attend and vote in place of a Shareholder at the General Meeting and containing the information required to be contained in the CREST Manual
December Bridge Loan	the bridge loan of a Rouble equivalent of US\$27 million provided by the Company to IRC on 19 December 2018
Director	a director of the Company
Disclosure Guidance and Transparency Rules or DTR	and the disclosure guidance and transparency rules made by the FCA under section 73A of FSMA

DSRA	the debt service reserve account required to be maintained by K&S pursuant to the ICBC Facility
EBITDA	earnings before interest, tax, depreciation and amortisation
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Existing Bonds	the Group's US\$100,000,000 9 per cent. guaranteed convertible bonds due 2020 in issue at the date of the Circular
Existing Facilities	the Existing Bonds and the Existing Notes
Existing Notes	US\$500,000,000 8.125 per cent. guaranteed notes due 2022, issued by Petrol 2010 Limited and guaranteed by, amongst others, the Company
Facility Agreements	the facility agreements dated 18 December 2018 between K&S and Gazprombank in respect of the Gazprombank Facility
FCA	the UK Financial Conduct Authority
Finance Documents	those documents listed in the Facility Agreements as finance documents
Fixed Term Guarantees	the four fixed term guarantees to be provided by the Company pursuant to the Facility Agreements, the first three with maximum liability of US\$40 million each and the final with maximum liability of US\$120 million
Form of Proxy	the form of proxy for use at the General Meeting which will accompany the Circular
FSMA	the Financial Services and Markets Act 2000
Gazprombank Facility	the US\$240,000,000 facility to be provided by Gazprombank to K&S pursuant to the Facility Agreements
General Meeting	the general meeting of the Company to be held at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN at 10.30 a.m. on 12 March 2019 (and any adjournment thereof) for the purposes of considering and, if thought fit, approving the Resolution
Group	the Company and its consolidated subsidiaries and subsidiary undertakings, excluding, unless otherwise stated, the IRC Group
ICBC	the Industrial and Commercial Bank of China Ltd.
ICBC Facility	the US\$340,000,000 facility between the Company (as guarantor), K&S (as borrower) and ICBC (as facility agent), dated 13 December 2010, and the guarantee given by the Company in relation thereto (as amended and restated)

ICBC Guarantee	the guarantee provided by the Company to ICBC in respect of K&S's obligations under the ICBC Facility
ICBC Waiver	letter dated 17 December 2018 from ICBC to the Company and K&S in respect of the waiver of certain obligations and financial covenants under the ICBC Facility
IRC	IRC Limited a company incorporated in Hong Kong with registered number 1464973
IRC Group	IRC and its consolidated subsidiaries and subsidiary undertakings
June Bridge Loan	the bridge loan of a Rouble equivalent of US\$29.75 million provided by the Company to IRC on 13 June 2018
K&S	Kimkano-Sutarsky Mining and Beneficiation Plant LLC, a limited liability company established under the laws of the Russian Federation, OGRN 1047796563077, whose registered address is at Russian Federation, 679000, Jewish Autonomous Region, Birobidjan, Prospekt 60-letija of the USSR, 22b
K&S Mine	IRC's iron ore mining operation at Kimkano-Sutarsky and Beneficiation Plant
Listing Rules	the listing rules made by the FCA under section 73A of FSMA
London Stock Exchange	the London Stock Exchange Group plc
Notice of General Meeting or Notice	the notice of the General Meeting contained in the Circular
Object	as described in paragraph 1.2 of 2 of the Circular
Overseas Shareholder	a Shareholder who is a citizen, resident or national of any jurisdiction outside the United Kingdom
POX Hub	the pressure oxidation hub used as part of the Group's business
Proposed Guarantees	the Corporate Guarantee and Fixed Term Guarantees which were each entered into on 15 February 2019 and will become effective in accordance with their respective terms upon Shareholder approval being obtained at the General Meeting
Prospectus Rules	the rules for the purposes of Part IV FSMA in relation to the offers of securities to the public and the admission of securities to trading on a regulated market
Regulatory Information Service	a regulatory information service as defined in the FCA Handbook
Resolution	the ordinary resolution proposed at the General Meeting for Shareholder approval in respect of the Proposed Guarantees (and to be set out in the Notice of General Meeting)
Shareholder	a holder of Shares

Shares	ordinary shares of £0.01 each in the capital of the Company
Sponsor or Peel Hunt	Peel Hunt LLP a limited liability partnership incorporated in England and Wales with registered number OC357088, whose registered office is Moor House, 120 London Wall, London, United Kingdom, EC2Y 5ET
Springing Recourse Event	an event which occurs in respect of the Company and/or K&S which triggers the acceleration of the commencement date of Fixed Term Guarantee B, Fixed Term Guarantee C and Fixed Term Guarantee D (assuming such commencement dates have not already passed)
Technical Adviser	a technical adviser appointed by K&S for the purposes of the Facility Agreements
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
U.S. or United States	the United States of America (including all of the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction

About Petropavlovsk

With a Premium Listing on the London Stock Exchange, Petropavlovsk (LSE: POG) is one of Russia's largest gold producers. The Pioneer, Malomir and Albyn gold mines, as well as the Pokrovskiy and Blagoveschensk processing and R&D facilities, are all located in the Amur Region, the Russian Far East.

With total JORC Resources of almost 21Moz Au and a combined license area of over 3,000km², the Company has produced approximately 7.1Moz of gold since the commencement of its operations. Petropavlovsk is one of the region's largest employers and remains one of the largest contributors to the sustainable development of the local economy.