



## PRESS RELEASE

23 July 2019

### Petropavlovsk PLC

#### 2019 Half Year Trading Update

Petropavlovsk PLC ("Petropavlovsk" or the "Company" or, together with its subsidiaries, the "Group") today issues its trading update for the period from 1 January 2019 through to 30 June 2019 ("the Period" or "H1 2019") in advance of its 2019 Half-Year Interim Results which are expected to be published on 10 September 2019.

#### H1 2019 Highlights

##### Gold sales

- A 12% increase in total gold sales to 225.1koz (H1 2018: 201.4koz), including 61.3koz from the processing of refractory gold concentrate at the new POX Hub
- Average realised gold price of US\$1,286/oz (H1 2018: US\$1,285/oz), including a US\$(26)/oz effect from hedging
- On track to meet full-year target of c.450koz – 500koz including the processing of 2018 Malomir stockpiles but excluding upside from 3<sup>rd</sup> party concentrate purchases. It is expected that Group production in H2 2019 will be higher compared to H1 2019

##### Gold sales '000oz

Asset	Q2 2019	Q2 2018	H1 2019	H1 2018
Pioneer	30.8	37.7	52.7	78.7
Albyn	37.9	30.9	79.2	70.3
Malomir incl. POX <sup>1</sup>	48.6	18.8	93.1	46.8
Pokrovskiy	0.2	1.4	0.2	5.6
<b>Total</b>	<b>117.5</b>	88.8	<b>225.1</b>	201.4

<sup>1</sup>Sales at Malomir includes 34.6koz produced via the POX Hub in Q2 2019 and 61.3koz produced in H1 2019

##### Pokrovskiy Pressure Oxidation (POX) Hub

- A total of 61.3koz were produced from 76kt of Malomir refractory concentrates
- Further improvements were made to the POX process, achieving stable recoveries of up to 93%-94% across the plant earlier in July
- All four autoclaves tested and proven to be fully functional. Each autoclave can treat both 3<sup>rd</sup> party and the Company's own concentrates

##### Update on 3<sup>rd</sup> party refractory concentrates

- Two batches of 3<sup>rd</sup> party material have been secured, including 20kt grading 40-60g/t and 17kt of material grading 65-75g/t, with ongoing deliveries to site

- The Company began processing an initial batch of 40-60g/t material in early July

### **New US\$125m convertible bond offering and redemption of US\$100m convertible bonds due 2020**

- On 20 June 2019, the Company announced the redemption of its US\$100m convertible bonds maturing 2020 and successful placement of new 5-year US\$125m convertible bonds maturing 2024
- The new convertible bonds are an important step for the Company in rescheduling its debt maturities while it continues to advance the POX project to full capacity. Furthermore, the increase in the issue amount is being used to fund construction of a new flotation facility at Pioneer to unlock the value of its refractory ores and more fully utilise existing capacity at the POX Hub
- The new convertible issue carries a lower coupon of 8.25% and was significantly oversubscribed, with high demand from international blue-chip institutional investors

### **Construction of a new flotation facility at Pioneer**

- The construction of a new flotation facility at Pioneer will double the Company's refractory ore processing capacity from 3.6Mtpa to 7.2Mtpa
- Significant existing infrastructure at Pioneer has resulted in a low capital cost estimate for the new flotation facility (US\$25m to US\$30m), making it both a strategic and high-return project for the Group
- Initial construction activities commenced in June, with an estimated construction period of 12-14 months and commissioning expected to commence in Q4 2020

### **Full year 2019 outlook**

- Gold sales of c.450 – 500koz remains unchanged given a seasonally stronger H2, with upside from the processing of 3rd party refractory concentrates
- Capex of US\$45m - US\$55m remains unchanged; however, construction of a new flotation facility at Pioneer will require additional spending of US\$25m – US\$30m over a 12 - 14 month period, a portion of which will fall into 2019
- As at 30 June 2019, forward gold sales contracts totaling 130koz at an average price of US\$1,281/oz were outstanding

### **Capital markets day**

- Petropavlovsk management will be hosting a Capital Markets Day alongside its H1 2019 financial results on 10 September 2019
- This will be held at the London offices of Buchanan Communications, commencing 9.00am BST. Full details of the agenda, together with details of conferencing and webcast facilities will be available on the Company's website closer to the date

### **IRC update**

- The K&S mine successfully operated at 97% of capacity during the first half of May 2019 following which an issue emerged in the crusher feeder that has since been resolved, enabling the mine to post a record monthly rate of 93% of capacity in June 2019 as the ramp up to full production resumed
- The benchmark 65% Fe Platts price increased to c.US\$123/t by the end of June, averaging c.US\$105/t during H1 2019
- IRC has maintained its policy of hedging iron ore prices for up to half of its production, with the remaining volume left unhedged

**Dr Pavel Maslovskiy, CEO, comments:**

*“Following the management and Board-led turnaround in the second half of 2018, momentum in our operations has been maintained with gold sales up 12% on the first half of 2018. As such, I am pleased to report we remain firmly on track to deliver on 2019 guidance for gold sales of between 450,000oz and 500,000oz in 2019.*

*Together, the successful commissioning of the POX Hub and ramp-up of concentrate production from Malomir are transforming our business, with 27% of sales in the first half coming from our significant refractory ore reserves. POX has seen a steady increase in throughput, reaching its design capacity in record time. The diligent planning of the design engineering team has meant that autoclave recoveries reached 98% within the first few months of commissioning. As such, the focus of the engineering team during ramp-up has been to minimise gold losses in processing stages which follow the autoclaves (thickening, conditioning and filtration), and several adjustments and improvements have been introduced at each stage. As a result, recovery rates through the entire circuit have been increasing and achieved stable design rates earlier in July. POX throughput will increase further as the remaining autoclaves come online with increased processing of third-party concentrates.*

*Malomir has enjoyed one of its strongest performances for several years with the successful commissioning of two flotation circuits in 2018 delivering a steady source of refractory concentrates to the POX Hub at above design grades. With refractory gold reserves of c.3Moz and resources of close to 7Moz, Malomir has a mine-life of up to 18 years. Non-refractory production also improved in the first half with a strong performance from the underground operations at Quartzitovoye.*

*Albyn delivered a strong performance during the six-month period, with sales of c.79koz gold from non-refractory ore. Albyn benefitted from higher grades as we approach the bottom of the designed pit. The preparation of the Elginskoye mine for commissioning in 2020 as well as Unglichikanskoye in 2022 has progressed well. These two sites should provide Albyn with a significant mine-life exceeding 18 years.*

*Operations at Pioneer were impacted by water ingress issues during the first quarter and the second quarter saw production improve to a more normal rate. To date, the focus at Pioneer has been the extraction of predominantly non-refractory ores from three open pits and one underground operation. I am; however, delighted the Board has approved construction of two new flotation circuits and that work is now underway. This will result in the production profile of Pioneer changing significantly from 2020 as abundant and accessible refractory ore reserves are mined for processing at the POX Hub.*

*I am pleased to witness that the stabilisation of our business in 2018 and re-establishment of our growth plans have been recognised in the performance of both our shares and bonds which have increased by 55% and 23%, respectively, in the first half of 2019. The redemption and reissue of the Company's convertible bonds saw considerable demand and is an important step for the Company in rescheduling debt maturities at a lower cost while it continues to bring the POX Hub up to full capacity. Furthermore, I am delighted to welcome a new major shareholder. With most of the major capital expenditure on POX now behind us, we look forward to working with all stakeholders to deliver the next phase of our growth strategy.*

*Finally, I would like to extend my thanks and appreciation to all our employees who have worked tirelessly during a period of considerable change to place Petropavlovsk firmly on a growth path, to meet our targets and ensure we remain on track to deliver value for all our shareholders and stakeholders.”*

## Operations Report

### Pioneer

<b>PIONEER</b>	<i>Units</i>	<b>Q2 2019</b>	Q2 2018	<b>H1 2019</b>	H1 2018
<b>Mining operations</b>					
Total material moved	<i>m3 '000</i>	<b>5,431</b>	5,362	<b>10,490</b>	9,449
Ore mined	<i>t '000</i>	<b>865</b>	1,189	<b>1,196</b>	2,531
Average grade	<i>g/t</i>	<b>0.97</b>	1.32	<b>0.97</b>	1.11
Gold content	<i>oz. '000</i>	<b>27.0</b>	50.4	<b>37.1</b>	90.6
<b>Processing operations (RIP plant)</b>					
Total milled	<i>t '000</i>	<b>1,412</b>	1,670	<b>2,819</b>	3,267
Average grade	<i>g/t</i>	<b>0.83</b>	0.83	<b>0.72</b>	0.84
Gold content	<i>oz. '000</i>	<b>37.7</b>	44.3	<b>65.0</b>	88.8
Recovery	<i>%</i>	<b>80.0</b>	80.7	<b>80.5</b>	78.9
Gold recovered	<i>oz. '000</i>	<b>30.1</b>	35.8	<b>52.4</b>	70.0
<b>Heap leach operations</b>					
Total stacked	<i>t '000</i>	-	325	-	325
Average grade	<i>g/t</i>	-	0.50	-	0.50
Gold content	<i>oz. '000</i>	-	5.2	-	5.2
Recovery	<i>%</i>	-	19.8	-	19.8
Gold recovered	<i>oz. '000</i>	<b>1.1</b>	1.0	<b>1.1</b>	1.0
<b>Pioneer gold production (doré)<sup>1</sup></b>	<b><i>oz. '000</i></b>	<b>30.8</b>	37.7	<b>52.7</b>	78.7

Pioneer is currently focused on mining non-refractory ores from several conventional open pits and underground operations. However, the commencement of new flotation facilities at Pioneer will lead to a transition starting in Q4 2020 from mining non-refractory to mainly refractory ores for processing at the newly commissioned POX Hub.

H1 production rates were below expectation due to a shortfall in underground production rates caused by the ingress of water earlier in the year. Remediation measures included additional pumps and cement backfilling leading to a resumption in planned production rates. In Q2 2019, shortfalls in underground operations were partly offset by higher grade ores from the underground mine.

For 2019, production from Pioneer is expected to be slightly below guidance given at the start of the year due to the impact of water ingress in Q1 2019. These shortfalls are expected to be compensated for by higher production from Albyn and Malomir.

<sup>1</sup> Numbers may not add up since gold recovered and gold produced are affected by changes in the gold in circuit; primarily in resin sorbent, cyanide solution and electrolytic product

## Albyn

<b>ALBYN</b>	<i>Units</i>	<b>Q2 2019</b>	Q2 2018	<b>H1 2019</b>	H1 2018
<b>Mining Operations</b>					
Total material moved	<i>m3 '000</i>	<b>3,124</b>	5,165	<b>6,347</b>	10,107
Ore mined	<i>t '000</i>	<b>1,373</b>	1,010	<b>2,429</b>	1,877
Average grade	<i>g/t</i>	<b>1.11</b>	0.96	<b>1.17</b>	0.97
Gold content	<i>oz. '000</i>	<b>48.9</b>	31.2	<b>91.0</b>	58.3
<b>Processing operations (RIP Plant)</b>					
Total milled	<i>t '000</i>	<b>1,197</b>	1,155	<b>2,333</b>	2,291
Average grade	<i>g/t</i>	<b>1.09</b>	0.94	<b>1.12</b>	1.01
Gold content	<i>oz. '000</i>	<b>41.8</b>	34.9	<b>83.7</b>	74.1
Recovery	<i>%</i>	<b>94.2</b>	94.3	<b>94.0</b>	93.9
Gold recovered	<i>oz. '000</i>	<b>39.4</b>	32.9	<b>78.6</b>	69.6
<b>Albyn gold production (doré)<sup>1</sup></b>	<b><i>oz. '000</i></b>	<b>37.9</b>	30.9	<b>79.2</b>	70.3

Albyn is the Group's principal non-refractory asset and operates as a conventional open pit and RIP circuit. The Elginskoye pit is being developed to replace the Albyn pit as the main source of ore from 2020.

During H1, production at Albyn exceeded expectations due to higher grades and, for 2019, production is expected to be slightly above the guidance given at the start of the year.

## Malomir

<b>MALOMIR</b>	<i>Units</i>	<b>Q2 2019</b>	Q2 2018	<b>H1 2019</b>	H1 2018
<b>Mining Operations</b>					
Total material moved	<i>m3 '000</i>	<b>1,915</b>	2,266	<b>3,838</b>	4,245
Non-refractory ore	<i>t '000</i>	<b>137</b>	674	<b>233</b>	1,309
Average grade	<i>g/t</i>	<b>3.67</b>	1.09	<b>4.70</b>	1.19
Gold content	<i>oz. '000</i>	<b>16.2</b>	23.5	<b>35.2</b>	49.9
Refractory ore	<i>t '000</i>	<b>1,409</b>	-	<b>2,713</b>	-
Average grade	<i>g/t</i>	<b>1.21</b>	-	<b>1.03</b>	-
Gold content	<i>oz. '000</i>	<b>54.8</b>	-	<b>90.0</b>	-
<b>Malomir Processing Operations</b>					
<b>Resin-in-pulp (RIP plant), non-refractory ores</b>					

<sup>1</sup> Numbers may not add up since gold recovered and gold produced are affected by changes in the gold in circuit; primarily in resin sorbent, cyanide solution and electrolytic product

Total milled	<i>t '000</i>	<b>179</b>	772	<b>347</b>	1,645
Average grade	<i>g/t</i>	<b>3.26</b>	1.05	<b>3.61</b>	1.15
Gold content	<i>oz. '000</i>	<b>18.7</b>	26.0	<b>40.2</b>	60.7
Recovery	<i>%</i>	<b>76.0</b>	68.7	<b>79.4</b>	72.4
<b>Gold recovered</b>	<b><i>oz. '000</i></b>	<b>14.2</b>	17.9	<b>31.9</b>	44.0
<b>Flotation Plant, refractory ores</b>					
Ore	<i>t '000</i>	<b>917</b>	98	<b>1,812</b>	98
Grade	<i>g/t</i>	<b>1.19</b>	0.98	<b>0.97</b>	0.98
Gold content	<i>oz. '000</i>	<b>35.1</b>	3.1	<b>56.3</b>	3.1
Recovery	<i>%</i>	<b>87.0</b>	86.5	<b>87.0</b>	86.5
Yield	<i>%</i>	<b>3.7</b>	2.2	<b>3.3</b>	2.2
Concentrate produced	<i>t '000</i>	<b>34</b>	2.1	<b>59</b>	2.1
Grade	<i>g/t</i>	<b>28.1</b>	39.0	<b>25.8</b>	39.0
Gold content	<i>oz. '000</i>	<b>30.6</b>	2.7	<b>48.9</b>	2.7
<b>POX Plant</b>					
Concentrate treated	<i>t '000</i>	<b>44</b>	-	<b>76</b>	-
Grade	<i>g/t</i>	<b>27.8</b>	-	<b>29.7</b>	-
Gold in concentrate	<i>oz. '000</i>	<b>39.0</b>	-	<b>72.1</b>	-
Recovery	<i>%</i>	<b>87.8</b>	-	<b>86.0</b>	-
<b>Gold recovered</b>	<b><i>oz. '000</i></b>	<b>34.2</b>	-	<b>62.0</b>	-
<b>Malomir total gold production (doré)<sup>1</sup></b>	<b><i>oz. '000</i></b>	<b>48.6</b>	18.8	<b>93.1</b>	46.8

Malomir is a conventional open-pit and underground operation transitioning towards mainly refractory ore processing at the Company's newly commissioned POX Hub. Malomir has extensive refractory reserves and resources and both near-mine and surrounding areas are considered highly prospective for the discovery of further refractory gold ounces.

During H1 a total of 233kt of non-refractory ore was mined (H1 2018: 1,309kt) at an average grade of 4.7g/t (H1 2018: 1.19g/t) resulting in gold recovered of 31.9koz of gold (H1 2018: 44.0koz). This was higher than expected due to a strong performance at the Quarzitovoye underground mine. RIP recovery improved from 68.7% in Q2 2018 to 76.0% in Q2 2019 due to higher head grade and less refractory nature of the feed.

During H1 a total of 2,713kt of refractory ore was mined (H1 2018: nil) at an average grade of 1.03g/t (H1 2018: nil), in-line with expectations. The flotation plant continued to deliver strong results, with recoveries averaging 87%. The total gold content for H1 2019 in flotation concentrates was 48.9koz (H1 2018: 2.7koz).

<sup>1</sup> Numbers may not add up since gold recovered and gold produced are affected by changes in the gold in circuit; primarily in resin sorbent, cyanide solution and electrolytic product



For 2019, production from Malomir is expected to remain in-line or slightly exceed the guidance given at the start of the year.

## **Pokrovskiy**

The Pokrovskiy mine and processing facilities ceased operations in Q1 2018. The site has been rehabilitated and is now the site of the new POX Hub. As such, there were no mining activities in H1 2019 with only a small amount of gold produced from the re-circulation of residual tailing solutions.

### **The Pokrovskiy Pressure Oxidation (POX) Hub**

The POX Hub is a state-of-the-art centralised facility for processing refractory concentrates from the Company's own mines and/or from third parties.

In H1 2019, the POX Hub treated a total of 76kt of concentrates grading 29.7g/t from Malomir, including 29kt grading 28.2g/t which was mined and stockpiled in 2018. In total, 61.3koz of gold was produced at an average recovery of 86%, slightly below the design rate of 93% (for Malomir concentrates) caused by losses of gold into tailings in the filtration unit – a portion of which the Company did succeed in recovering through the recirculation of tailings solution.

Autoclave throughput successfully achieved its design capacity of 11.5tph (for Malomir concentrate) and the focus has been on achieving stable recovery rates through the whole process. New filter tissues have been installed in the filtration unit to resolve the issue of gold losses, resulting in recovery rates improving up to 93%-94% across the plant earlier in July.

The plant has now operated continuously for nearly seven months by running the autoclaves in pairs and on a rotation basis. All four autoclaves have now been tested and shown to be fully operational.

After the reporting period, on 5 July 2019, the POX plant began treating an initial batch of 3<sup>rd</sup> party concentrates.

### **New US\$125m Convertible Bonds Issue**

On 20 June 2019, the Group successfully placed a new US\$125m convertible bond offering. The offering was met with strong demand - resulting in a significantly oversubscribed book that was supported by a range of investors. Issued at par, the new convertible instrument carries a coupon of 8.25% per annum, payable quarterly in arrears. Unless converted, redeemed or purchased and cancelled, the bonds will be redeemed at par on the maturity date which is expected to be in July 2024. The initial conversion price is US\$0.1350, subject to customary adjustment provisions set out in the terms and conditions of the bond issue.

The new bonds have enabled Petropavlovsk to repurchase the short-dated US\$100m convertible issue, originally scheduled to mature in March 2020, which carried a higher coupon of 9.00%. This both reduces the cost of the Group's debt and significantly de-risks the repayment schedule during the period of the POX Hub ramp-up.

The US\$25 million net proceeds from the issue of the new bonds will be used to advance construction of a new flotation facility at Pioneer to take advantage of the 2.16Moz of refractory reserves at the site.

### **Pioneer Flotation Construction**

The Board of Directors has decided to advance construction of a two-line flotation plant at Pioneer to accelerate the rate at which the Company processes its own refractory concentrate through the POX Hub.

With an estimated capex of US\$25m – US\$30m spread over 12-14 months, pre-construction of the two-line flotation facility commenced during Q2 2019.

First production of concentrates is scheduled for Q4 2020 and, once in full production, the flotation plant will have a capacity of 3.6Mtpa and is expected to deliver up to 110ktpa of additional concentrate grading 20g/t – 30g/t to the POX Hub.

## **FY 2019 Guidance**

FY 2019 guidance remains unchanged, noting that gold production is seasonally stronger in the second half of the year.

### **Gold production**

The Group is targeting FY 2019 sales of 450 – 500Koz, which is significantly above 2018 levels due to increased output from Malomir and the processing of refractory concentrates (including the processing of refractory concentrate stockpiles built up in 2018) at the newly commissioned POX Hub. Further guidance beyond 2020 will be given at the capital markets day on 10 September 2019.

### **Capex**

Total capital expenditure for the year remains unchanged at c.US\$45m-US\$55m. The commencement of development of the Pioneer flotation plant will require additional capex during the balance of 2019.

### **Gold hedging and forward sales**

Forward contracts to sell an aggregate of 130koz of gold at an average price of US\$1,281/oz were outstanding as at 30 June 2019.



## About Petropavlovsk

With a Premium Listing on the London Stock Exchange, Petropavlovsk (LSE: POG) is a major integrated Russian gold producer with JORC Resources of 20.5Moz Au which include Reserves of 8.2Moz Au.

The Company's key operating mines (Pioneer, Malomir and Albyn) are in the Amur Region in the Russian Far East and the Company has produced a total of c.7.3Moz of gold since operations began in 1994. Petropavlovsk has a strong track record of mine development, expansion and asset optimisation.

The Group recently entered a new era of growth following the successful commissioning and start-up of its flagship asset, the Pressure Oxidation (POX) Hub at Pokrovskiy, which enables the processing of the Company's abundant refractory reserves and resources.

Petropavlovsk is one of the region's largest employers and one of the largest contributors to the sustainable development of the local economy.

## For more information

Please visit [www.petropavlovsk.net](http://www.petropavlovsk.net) and [www.ircgroup.com.hk](http://www.ircgroup.com.hk) or contact:

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### **Cautionary note on forward-looking statements**

*This release may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the future price of gold, the Group's results of operations, financial position, liquidity, prospects, growth, estimation of mineral reserves and resources and strategies, and exchange rates and the expectations of the industry. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances [outside the control of the Group. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward- looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause results and/or developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, demand, supply and prices for gold and other long-term commodity price assumptions (and their effect on the timing and feasibility of future projects and developments), trends in the gold mining industry and conditions of the international gold markets, competition, actions and activities of governmental authorities (including changes in laws, regulations or taxation), currency fluctuations (including as between the US Dollar and Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, any litigation, and political and economic uncertainty. Except as required by applicable law, rule or regulation (including the Listing and Disclosure Guidance and Transparency Rules), the Group does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Past performance cannot be relied on as a guide to future performance. The content of websites referred to in this announcement does not form part of this announcement.*