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Polymetal International plc

Polymetal has entered into an agreement to increase its stake in the Prognoz silver property to 50%

Polymetal International plc (LSE, MOEX: POLY; ADR: AUCOY) (together with its subsidiaries – “Polymetal”, the “Company”, or the “Group”) has entered into a legally binding agreement to increase its stake in the Prognoz silver property to 50% through the acquisition of a further 45% ownership in the asset for a total consideration of US\$ 72 million to be paid in Polymetal shares.

INFORMATION ON THE PROPERTY

Prognoz is the largest undeveloped primary silver deposit in Eurasia with JORC-compliant Indicated and Inferred Resources (estimated by Micon in 2009) of 292 Moz at 586 g/t silver.

The Prognoz licence covers the area of 56 km² and is located in the Verkhoyansk municipal district in the Republic of Sakha (Yakutia), in Far Eastern Russia. The site is remote with seasonal access by winter road.

In 2017, Polymetal completed 37 km of diamond drilling to confirm historical results and established basic remote-site infrastructure on the property. Exploration results fully confirmed the extent, width, and grade of two centrally located veins at Prognoz, namely Main and Swamp.

TRANSACTION DETAILS

Currently, Polymetal holds a 5% indirect stake in Prognoz, with an option to acquire an additional 45% from Polar Acquisition Limited (“Polar”). The other 50% of Prognoz is owned by Garden Ring Capital, a Russian private equity group.

Polymetal has agreed with Polar to accelerate the exercise of the option in order to acquire a further 45% ownership stake in Prognoz, on the following terms:

- Polymetal will acquire Polar’s 45% stake in Prognoz for a total consideration of US\$ 72 million payable in Polymetal shares. 90% of the consideration shares will be subject to a lock-up period of 180 days;
- Polymetal also commits to pay Polar a net smelter return (“NSR”) royalty of between 2 and 4% (pro rated by the 45% stake being acquired), which will be dependent on the applicable statutory mineral extraction tax rate at the time when the asset enters commercial production. The royalty agreement is subject to an agreed cap.

The transaction is expected to close in Q1 2018, subject to receipt of the required regulatory approvals.

The value of the Prognoz gross assets subject to the transaction (on a 100% share basis) is US\$ 43 million, with an attributable reported pre-tax loss of US\$ 1.4 million based on FY2017 unaudited financial accounts.

STRATEGIC RATIONALE FOR THE TRANSACTION

Prognoz is a world-class deposit that fits well with Polymetal’s strategy:

- Very large resource with consistently high grades;
- Outstanding exploration upside (only 40% of known vein outcrop has been tested by drilling);
- Relatively wide veins (3m on average) with direct surface outcrop that enable open-pit mining for the significant part of mineralization;
- Conventional sulfide composition of mineralization with no deleterious elements ensures relatively simple processing options are feasible.

PROJECT DEVELOPMENT

- Project activities for 2018 include 46 km of diamond drilling and extensive in-house metallurgical test work. The updated JORC-compliant resource estimate is expected in Q4;
- PFS and JORC-compliant reserve estimate in Q4 2019;
- FS and Reserve update in Q4 2020 paving the way for potential investment decision in H1 2021;
- Subject to the positive investment decision, full run-rate of production can be achieved in 2024.

“I believe Prognoz will in due course replace Dukat as one of the top three primary silver mines of the world”, said Vitaly Nesis, Group CEO of Polymetal. “I am very excited about increasing our ownership of this asset which will underpin our long-term growth in production and cash flows.”

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