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14 December 2018

**Chaarat Gold Holdings Limited**

**("Chaarat" or the "Company")**

**Publication of Admission Document, Restoration of Trading on AIM, Notice of General Meeting, Update on Agreement to acquire Kapan, Board Changes and Executive Appointment, Revolving Loan Facility and Change to Concert Party**

Chaarat (AIM: CGH), the AIM-quoted exploration and development company with assets in the Kyrgyz Republic, is pleased to announce the publication of its admission document (the "Admission Document") relating to the proposed acquisition of Kapan Mining and Processing Company CJSC ("Kapan") (the "Kapan Acquisition") and to the Re-Admission of the Company's ordinary shares ("Ordinary Shares") to trading on the AIM market operated by the London Stock Exchange plc ("Readmission"). The Admission Document can be viewed at [www.chaarat.com](http://www.chaarat.com) and selected sections are set out in the appendix of this announcement.

Defined terms used in this announcement have the meanings ascribed in the Admission Document.

At 12.00pm on 14 December 2018 Chaarat's management will host a webcast to update investors on the Company's strategy.

**Webcast details**

Dial in: UK - 020 3059 5868 / All other locations - +44 20 3059 5868

PIN: Chaarat Gold

<https://secure.emincote.com/event/default1.php?eventid=1647&media=flash>

**Restoration of Trading on AIM**

Following publication of the Admission Document, the temporary suspension of trading in the Company's Ordinary Shares is expected to be lifted today.

## Notice of General Meeting

The Company gives notice that a General Meeting of shareholders will be held to consider, and if thought fit, approve the Kapan Acquisition. This will take place at 11:00am on 31 December 2018 at the offices of Watson Farley & Williams LLP, 15 Appold Street, London, EC2A 2HB.

## Kapan Acquisition update

The Company announces that it has secured further improved terms on the agreed acquisition of Kapan by the Company's subsidiary Chaarat Gold International Limited ("CGIL"). Kapan's vendor, PTML Holding Ltd ("Polymetal"), a subsidiary of Polymetal International Plc, has agreed to accept \$10 million of the \$55 million total consideration for Kapan in convertible notes of the Company, rather than \$5 million as previously announced. This change strengthens Chaarat's financial position. It also demonstrates the ability of the Company to reach favourable terms in transactions, as well as the attractiveness of its investment proposition. This change is conditional on closing the Kapan Acquisition not later than 15 January 2019, otherwise the terms of the Kapan Acquisition will revert to those set out on 30 October 2018. Polymetal has also agreed that its right to require CGIL to purchase such loan notes will apply only after 19 months from the date of completion of the Kapan Acquisition. In addition, certain changes have been made to the working capital adjustments.

If the Kapan Acquisition is approved by shareholders, Re-Admission will follow a significant period of transformation for the Company, as it pursues its vision of becoming the leading emerging markets gold company, focused initially on Central Asia and the former Soviet Union.

The Kapan Acquisition was announced after trading in the Ordinary Shares was suspended in April 2018. Subject to shareholder approval, the Kapan Acquisition is expected to be a key milestone in the Company's development, turning Chaarat from developer to producer in a single step. It has been achieved under the stewardship of a new CEO and senior management team, supported by an augmented Board. Additionally, the Company continues to develop (subject to funding) two standalone projects (Tulkubash and Kyzyltash) with significant growth potential. This period of change has involved significant and global investor marketing and engagement, which the Board believes sets Chaarat up well for future capital market activities. Chaarat is pleased that the capital market activities thus far have resulted in minimal dilution to shareholders, a key strategic objective for the Company.

Chaarat will continue to pursue its strategy of organic growth from its existing exploration programme, and transformative M&A and add-on acquisitions.

## Board Changes and Executive Appointment

The Company announces the following changes to its board of directors ("Board") as it passes new milestones in its development:

(i) **Hussein Barma** has joined the Board as an independent non-executive director with effect from today's date;

Further details of Hussein's experience are set out below and in the Admission Document. He has significant FTSE senior executive experience, having spent 16 years at Antofagasta plc between 1998 and 2014 where he held the position of Chief Financial Officer (UK). Hussein brings deep knowledge and experience of the global mining industry and governance, regulations, strategy, finance, audit, accounting and investor relations.

(ii) **Gordon Wylie**, already a board member, has been appointed as deputy Chairman and senior independent director of the Company;

**Gordon** has worked for more than four decades in the global mining industry, for explorers and producers, and was formerly a senior executive at AngloGold Ashanti.

(iii) **Dorian (Dusty) Nicol** currently Technical Director and Head of Exploration at Chaarat, is stepping down from the Board with effect from 12 December 2018.

**Dusty** will join the executive team as **Senior Vice President, Exploration** with immediate effect. Dusty has more than 40 years' experience in the mining sector and has been instrumental in supporting the exploration and construction of the Tulkubash Project and subsequent development of the Chaarat deposit. His switch to a full-time executive team member reflects the demands for his expertise across Chaarat's growing portfolio of assets and prospects.

(iv) **Richard Rae**, current Senior Independent Non-Executive Director and the Company's longest-serving Board member, has resigned as a non-executive director of the Company with effect from yesterday.

(v) **Sergei Zhukov** will also join the Company as Head of Legal and Company Secretary. Sergei was previously responsible for legal and compliance matters at the Moscow subsidiary of Credit Suisse covering operations in Russia, Ukraine and Kazakhstan. He later advised on numerous project finance transactions at Gazprombank and at New Development Bank in Shanghai.

**Martin Andersson, Executive Chairman of Chaarat, said:** "I am pleased to welcome Hussein to the Chaarat Board. As I have stated in the past, a key priority at this important time for the Company has been to add independent non-executive directors with significant mining experience and track-record. Hussein's appointment strengthens Chaarat's expertise in compliance, audit and governance, which are essential for our long-term plans to create value for current and future investors. Our intention is to appoint another independent non-executive director in due course.

"I would like to thank Richard for his contribution to the Chaarat Board over the past five years. He has served Chaarat with integrity and great skill in its ongoing journey from a single-asset, founder-led business to the company we aim to become, namely an institutionally-backed, multi-asset mining group. We wish him all the best in his future endeavours. I am very pleased that Gordon is adding to his valuable work for Chaarat and taking the Senior Independent Director and Deputy Chair roles.

"I'd also like to thank Dusty for his time on the Board and look forward to seeing him continue his excellent work in the Kyrgyz Republic and elsewhere."

**Artem Volynets, CEO of Chaarat, added:** "We are very pleased to be issuing an admission document in respect of the Kapan acquisition, and look forward to bringing a new Chaarat back to the AIM market. Since the suspension of the shares in April, the Company has been transformed with a new Board and Management, and is successfully executing on its new strategy. We expect to close on our first major M&A deal and become a producer very soon. Chaarat is fully funded on a steady-state basis, including the acquisition of Kapan, as we pursue our ambitious plans in our target regions."

### **Labro Loan Agreement and Related Matters**

The Company announces that it has entered into a committed revolving term loan facility agreement with Labro Investments Limited ("Labro") for a total amount of US\$15,000,000 (or such other aggregate amount as may be agreed between the parties from time to time) (the "Labro Loan Agreement"). The facility is for the general corporate purposes of the Group.

A summary of the terms of the Labro Loan Agreement is set out in the Admission Document and in the Appendix of this announcement, however it is noted that pursuant to the terms of the Labro Loan Agreement the Company will issue 543,888 Ordinary Shares to Labro, and further Ordinary Shares will be issued to Labro from time to time thereunder.

*Waiver of obligation to make a mandatory offer*

It is also noted that the Labro Loan Agreement requires the Board to exercise its discretion under Article 19 of the Company's Articles of Association ("Articles") so as not to require a mandatory offer to be made in connection with the issue to any member of the Concert Party of any Ordinary Shares pursuant to the Labro Loan Agreement or as a result of any redemption or purchase by the Company of its own voting shares at any time in the future, but not in respect of any other purchase of Ordinary Shares or any interest therein by any member of the Concert Party or any other person acting in concert with them (the "Waiver"). The Board has resolved to grant the Waiver.

*Related Party Transaction Opinion*

It is noted that the Executive Chairman, Martin Andersson, has an interest in Labro, and that he and Martin Wiwen-Nilsson (a non-executive director of the Company) are members of the Concert Party (as defined below).

The Labro Loan Agreement constitutes a related party transaction under Rule 13 of the AIM Rules for Companies (the "AIM Rules") because of the quantum of the loan and that Labro is a "substantial shareholder" for the purposes of the AIM Rules.

A summary of the terms of the Labro Loan Agreement is set out in the Admission Document and in the Appendix of this announcement.

The Directors (other than Martin Andersson and Martin Wiwen-Nilsson) consider, having consulted with the Company's nominated adviser, that the terms of the transaction are fair and reasonable insofar as its shareholders are concerned.

## **Issue of Equity**

As previously announced, on 27 April 2018, the Company issued 225,000 Ordinary Shares pursuant to an exercise of Options at a price of 15 pence per share. On 11 September 2018 the Company converted US\$8,150,000 of Previous Notes and US\$939,369.86 of interest into 22,991,251 Ordinary Shares (after rounding and after cancellation of 1,076,555 Ordinary Shares issued in error).

On 14 December 2018, the Company issued 543,888 Ordinary Shares pursuant to the Labro Loan Agreement.

Application will shortly be made to the London Stock Exchange for the Shares to be admitted to trading on AIM, and it is expected that admission will become effective and trading will commence at 8.00am on 20 December 2018.

Following admission of these 23,760,139 Ordinary Shares the Company's enlarged issued share capital will comprise 395,167,015 Ordinary Shares. The Company does not hold any Ordinary Shares in treasury. Therefore the total number of Ordinary Shares in the Company will be 395,167,105. This figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in, the share capital of the Company under the FCA's Disclosure Guidance and Transparency Rules.

## Change to Concert Party

The Board has determined that Saraastro Group Limited is no longer a member of the Concert Party last referred to on 16 October 2018. As a result, the Concert party now consists of Labro, Martin Wiwen-Nilsson (who is also a Director of Chaarat) and Willem De Geer who owns some of his Ordinary Shares directly and some through his investment vehicle, Deer Invest AB. The Concert Party collectively hold, as at the date of this announcement, 149,773,966 Ordinary Shares representing approximately 37.9 per cent. of Chaarat's issued share capital.

As noted above, there is a provision in the Articles (Article 19) which states that the Board has the right to require any holder of more than 20% of the Ordinary Shares to make a mandatory offer to all the Company's shareholders to acquire their Ordinary Shares if they acquire an additional interest in any Ordinary Shares. The Board has previously exercised its discretion to waive the requirement for a mandatory offer when the Concert Party acquired Ordinary Shares in excess of a 20% holding.

## Enquiries

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## About Chaarat Gold

Chaarat Gold is an exploration and development company operating in the Kyrgyz Republic with a large, high grade resource - the Chaarat Gold Project. The Company's key objective is to become a low-cost gold producer generating significant production from the development of the Chaarat Gold Project.

On 30 October 2018, Chaarat announced that it had entered into a binding sale and purchase agreement to acquire the Kapan mine in Armenia from Polymetal, for a consideration of US\$55 million, subject to adjustments.

Chaarat is engaged in an active community engagement programme to optimise the value of the Chaarat investment proposition.

Chaarat aims to create value for its shareholders, employees and communities from its high-quality gold and mineral deposits in the Kyrgyz Republic by building relationships based on trust and operating to the best environmental, social and employment standards.

Further information is available at [www.chaarat.com](http://www.chaarat.com)

## **Appendix I**

### **Further information relating to the Director appointment**

Mr Hussein Barma (aged 53) has confirmed that other than the information disclosed below there are no matters to be disclosed under Rule 17 and paragraph (g) of Schedule 2 of the AIM Rules.

Mr Barma worked at Antofagasta plc between 1998 and 2014, including as Chief Financial Officer (UK). Previously an auditor at Price Waterhouse (now PwC). Until May 2018, he was a steering group member of the UK Financial Reporting Council's Financial Reporting Lab.

He is currently an independent Non-Executive Director of Atalaya Mining plc, where he is the chair of the audit committee and a member of the corporate governance, nomination and compensation committee. Hussein also has his own advisory practice, Barma Advisory, where he has worked with clients across a range of sectors. He is a chartered accountant (ICAEW) and a barrister (Middle Temple), as well as having a doctorate in corporate law from the University of Oxford.

#### Current directorships:

Atalaya Mining Plc

Museum of Modern Art Limited

Oxford Islamic Finance Limited

Carlton Hill Management (No.70) Company Limited

#### Previous directorships held in the last 5 years:

Antofagasta Services Limited

Antofagasta (Chili) and Bolivia Railway Company Limited

Antofagasta Copper Limited

Antofagasta Gold Limited

Antofagasta Holdings Limited

Antofagasta Metals Limited

Antofagasta Minerals Limited

Antofagasta Mining Limited

Antofagasta Nickel Limited

#### Shareholding in the Company:

None

## **Appendix II**

**Excerpts from the Admission Document to be published today.**

### **I. INTRODUCTION**

The Company announced on 30 October 2018 that it and one of its wholly-owned subsidiaries, CGIL, had entered into a binding conditional sale and purchase agreement (being the Kapan Acquisition Agreement) with PMTL, a subsidiary of Polymetal International plc, to acquire Kapan, which owns the medium-sized polymetallic Kapan Mine in the Republic of Armenia.

As the Acquisition constitutes a “reverse takeover” under the AIM Rules, it is conditional upon, among other things, the approval of Shareholders at a general meeting. A reverse takeover also involves the cancellation of existing ordinary shares from trading on AIM and a new application for the enlarged share capital to be admitted to trading on AIM. Under the terms of the Kapan Acquisition Agreement, the Company has agreed to acquire the entire issued share capital of Kapan for a total consideration of US\$55 million (subject to net debt, working capital and other adjustments). The consideration for the Kapan Acquisition is payable in cash, save that US\$10 million (or, if completion is after 15 January 2019, US\$5 million) of the consideration may be satisfied by way of the issue by the Company of such amount of Convertible Loan Notes. As required by the AIM Rules, the Company is publishing an Admission Document, which describes the Kapan Acquisition and contains notice of the General Meeting to approve the Resolution which is required to enable the Company to complete the Kapan Acquisition.

## 2. HISTORY OF THE GROUP AND BACKGROUND TO THE KAPAN ACQUISITION

### History of the Group

Chaarat Gold Holdings Limited is an AIM-quoted company that was founded for the purpose of exploring and developing the Chaarat Gold Project in the Tien Shan Gold Belt, in the North West of the Kyrgyz Republic.

Chaarat currently has a Mining Licence to develop the Tulkubash oxide zone and an Exploration Licence in respect of the parallel Kyzyltash refractory sulphide mineralisation zone.

The entire issued and to be issued ordinary share capital of the Company was admitted to trading on AIM on 8 November 2007.

The Kapan Acquisition represents an important milestone for Chaarat in executing on its consolidation strategy for the regional gold sector. Chaarat continues to pursue other selected M&A targets and the Directors believe the Company is well positioned to be a driver of consolidation in Central Asia and the former Soviet Union.

The Group’s principal assets will, following completion of the Kapan Acquisition, comprise the Chaarat Gold Project and the Kapan Mine.

### Chaarat Gold Project

The Group currently has two projects in the Kyrgyz Republic, details of which are as follows:

Asset	Holder	Interest (%)	Status	Licence Expiry Date	Licence Area (Km2)
Mining Licence no. 3117AE in the Kyrgyz Republic	CZ	100	Development of subsurface mineral resources	25 June 2032	7.0003
Exploration Licence no. 3319AP in the Kyrgyz Republic	CZ	100	Subsoil use and geological exploration	7 October 2023	67.7600

The Mining Licence was granted by the SCIESM to CZ on 22 January 2014 and is valid until 25 June 2032. The Mining Licence covers the development of subsurface gold resources in the Chaarat Deposit Area.

The Exploration Licence was granted by the SCIESM to CZ on 7 October 2013 and is valid until 7 October 2023. The Exploration Licence covers subsoil use and geological exploration for gold, molybdenum, copper and tungsten in the Exploration License Area.

The Chaarat Deposit Area has two ore bodies parallel to each other: the Tulkubash oxide zone and the Kyzyltash refractory sulphide mineralisation zone.

Further details regarding the Chaarat Gold Project and the Kyrgyz Republic mining regime are set out in the Admission Document.

### **Kapan Mine**

The Company has agreed to purchase Kapan pursuant to the Kapan Acquisition Agreement. Kapan is the owner of the Kapan Mine (also known as Shahumyan). Details of the Kapan Licence are set out below:

<b>Asset</b>	<b>Permit Holder</b>	<b>Interest (%)</b>	<b>Status</b>	<b>Licence Expiry Date</b>	<b>Licence Area, (km2)</b>
Mining Permit - ՀԱ.Թ.Վ. 29/183, Subsoil Use Contract N ՊՎ.183, Land Mass Allotment Act N ԼՎ-183 and relevant mining project	Kapan	100	Mining right on extraction of natural resources in Shahumyan underground mine	01 April 2050	3.786

The Kapan Licence was granted to Kapan on 27 November 2012 and is valid until 1 April 2050. The Kapan Licence covers the extraction of gold, copper, silver and zinc in the Kapan Licence Area.

Further details regarding the Kapan Mine and the Armenian mining regime are set out in the Admission Document.

### **Rationale for the Kapan Acquisition**

The consideration for the Kapan Acquisition is US\$55 million, subject to net debt, working capital and other adjustments, and is payable in cash, save that US\$10 million (or, if completion is after 15 January 2019, US\$5 million) of the consideration may be satisfied by way of the issue by the Company of such amount of Convertible Loan Notes. Chaarat expects to fund the cash portion of the consideration through the Kapan Acquisition Financing, its existing cash resources, and the proceeds of the previous issues of Convertible Loan Notes. Further details of the principal terms of the Kapan Acquisition are set out in the Admission Document.

The Kapan Acquisition is an important step in achieving Chaarat's goal of building a leading emerging markets gold company with an initial focus on Central Asia and the FSU through organic growth and selective M&A. In particular, the Kapan Acquisition:

- accelerates Chaarat's transformation from a developer to a producer
- provides a catalyst for a potential re-rating
- strengthens the Company's portfolio of assets, with an anticipated group production of approximately 65 Koz Au Eq in 2019 (based on Chaarat management's analysis)
- significantly improves the Company's financial strength for the development of Tulkubash and Kyzyltash at the Chaarat Gold Project
- advances Chaarat's ability to implement future mergers and acquisitions
- transforms Chaarat into a cashflow generating company with a significant growth profile
- has a valuation which the Directors believe is attractive; anticipated to imply a P/ NPV 10 of 0.37x (based on Polymetal's analysis) and 0.78x (based on Chaarat management's analysis).

Chaarat is well placed to take advantage of the opportunities presented by this cash generative asset, which, following significant investment in the asset over the last two years, is estimated to grow production by approximately 30 per cent. per annum in 2019 versus 2017 (based on Chaarat management's analysis).

Production at the Kapan Mine commenced in 2003 and the current reserve life extends to 2023; however, the Company believes that conversion of current inferred resources to reserves and new exploration success is likely to extend the mine life. Indeed, the Company's internal modelling assumes production will continue until 2029. For the year ended December 2017, the Kapan Mine produced around 50 Koz of gold equivalent, generating a PBT of US\$2.155 million, and had gross assets of US\$95.445 million (based on the reporting accountant's audited historical financial information report). Meanwhile, 2019 production guidance is currently 65 Koz of gold equivalent (based on Chaarat management's analysis).

During the due diligence process, Chaarat Management reviewed the mine plan and economic analysis for the Kapan Mine prepared by Polymetal, and with assistance from CSA, have developed a more conservative model which, amongst other things, results in an NPV of US\$70.2 million. The NPV is based only on JORC-compliant reserves and mine production through to 2023 with average annual production of around 65 Koz of gold equivalent. This implies the acquisition of Kapan at what the Chaarat Directors consider an attractive P/NAV of 0.78x. Chaarat management is confident in the potential of Kapan to extend production beyond 2023.

PMTL has made significant investment into the mine in recent years (approximately US\$35 million), with throughput increased from mechanised mine operations and increased mill capacity. The increased throughput capacity provides operating cost efficiencies and the historical high ratio of resource to reserve conversion is expected to continue. Applying conservative resource to reserve conversion ratios based on historical ratios achieved, the asset is anticipated by Chaarat management to deliver an additional 6 years of mine life from current resources (although there is no assurance that this will be the case). Identified resources within the Kapan Mine footprint are anticipated to be converted into reserves without extensive underground development. In addition, there are multiple walk-up targets and favourable structures/identified mineralization within hundreds of metres of existing workings.

As noted in the Admission Document, Chaarat management's view differs in certain respects from the various views expressed in the Kapan CPR in relation to project financial results and the proposed mining plan. The Kapan CPR identifies project financial results that are higher than Chaarat management's and Chaarat management additionally believes that the PMTL mining plan detailed in the Kapan CPR is overly optimistic.

### **3. STRATEGY AND EXPLORATION PLANS**

## **Group Strategy**

The Company's strategic objective is to become a leading mid-tier low cost gold producer focused in Central Asia and the FSU through a mixture of organic growth and selective acquisitions.

Due to perceived risk, most of the assets in the Commonwealth of Independent States region trade at a significant discount compared to equivalent assets in other emerging market locations. This delivers the opportunity for industry consolidation, which the Company intends to lead. Ultimately, the Company believes that a diversified portfolio of producing and developing mines will generate the cash flow to fund ongoing organic growth and deliver a strong equity return to investors. By maintaining a focus on active engagement with host communities, the Company believes that the benefits of this strategy will flow to all stakeholders, helping to manage ongoing risks.

The Company's criteria for merger and acquisition candidates are:

- Gold production or near-term gold production at a competitive cash cost;
- Geographic/operational synergies;
- Exploration upside;
- Potential for extended mine life; and
- Value accretive to shareholders.

The Tien Shan Gold Belt hosts numerous world class ore bodies, however, the Central Asia and FSU gold industry is highly fragmented. The Company intends to lead the consolidation of the industry focusing on projects within the relevant geographical clusters. The Kapan Acquisition is an important milestone for Chaarat in executing on its consolidation strategy for the regional gold sector.

## **Tulkubash Exploration and Development**

The Company's strategy in the Kyrgyz Republic is focussed on the development of the Tulkubash heap leach project, with an initial reserve comprising 16 million tonnes of ore with an average gold grade of 0.91 grams per tonne for 470,000 ounces of contained gold. A feasibility study was completed in April 2018 which sets out a blueprint for the development of the Chaarat Gold Project (the "**Feasibility Study**"). The design is based on processing 13,500 tonnes of ore per day to produce over 100,000 ounces of gold per annum during steady state operations with an average post tax free annual cash flow of US\$58.6 million for an initial four year mine life. The Company is currently completing an approximately 20,500 metre drilling programme at Tulkubash. The results of this drilling are expected to be incorporated into an updated year-end resource update to be completed in the first quarter of 2019. This resource update is intended to be the basis for an updated reserve estimate and financial model also to be completed in the first quarter of 2019.

In September 2018, the Company released results of an interim resource for Tulkubash, based on the first 10,500 metres of the year's drilling. This resource update demonstrated an increase in contained in Measured and Indicated Resource of 46 per cent. (relative to the prior resource estimate on which the feasibility study was based) to over 1.4 million ounces of gold. The resource grade also increased by 57 per cent. to 1.35 g/t Au. Drilling since then has continued to add new mineralisation, which is expected to be included in the year-end resource and reserve updates. Dependent upon raising sufficient additional funds, significant ongoing exploration is planned for 2019 (25,000 to 30,000 metres of drilling) and thereafter (15,000 to 20,000 metres per year). This is expected to focus initially on defining the extent of mineralisation within the six-kilometre long mining license and later on extending mineralisation along strike into the adjoining exploration license. To date, only about 3.5 kilometres of the prospective 24-kilometre strike length of favourable geology within the Company's licenses have been drilled. Substantial gold-in-soil geochemical anomalies, at or above the reserve grade, have already been defined in this area. The Company is confident it can add significantly to the Tulkubash reserve base and hence mine life ahead of first gold production which is anticipated in 2020 (following completion of the financing required to develop the mine).

Organic growth should follow from the neighbouring Kyzyltash deposit. The Kyzyltash project has a large, higher grade defined resource comprising 46.1 million tonnes of ore at a gold grade of 3.75 grammes per tonne for 5.4 million ounces of contained gold. Whilst this is a substantial ore body, it remains open both along strike and down-dip. Based on the work performed by China Nerin Engineering Co. Ltd., Kyzyltash has the potential to produce 200,000-300,000 ounces of gold per annum at low operating cash costs. The Company plans to develop the Kyzyltash project once the Tulkubash project is in operation, but plans to have both projects in production in parallel in the medium term, producing up to 400,000 ounces of gold per annum from the Charat Gold Project.

### **Kapan Mine Near Term Actions**

In respect of the Kapan Mine, the Company is currently planning several near term actions.

In relation to environment and health and safety, the Company intends to replace the existing safety system based on rules and punishment and to establish a behaviour-based safety culture that emphasises personal responsibility and accountability. The Company additionally aims to ensure that environmental management is independent of production.

In relation to the mine, the Company aims to get exploratory development out ahead of production mining and to improve the short and medium term accuracy of the reserve model, with mine bottom up planning being positioned to reduce dilution. The Company intends to increase the mining fleet availability, reduce waiting time for parts and to complete activities in-house as far as possible at a lower cost.

The Company additionally intends to improve the mill, with planned upgrades to enhance throughput, improve crushing efficiency and reduce primary grinding feed size. The Company aims to stabilise flotation and process recovery and is considering dewatering options to stabilise the dam while sourcing material for buttress.

As regards management, the Company aims to reduce reliance on corporate decision making, promoting teamwork and interdepartmental efficiency. The Company plans to educate the workforce in cost and budget management and to introduce effective reporting and variance analysis.

In respect of capital management, the Company intends to ensure timely payment for finished goods and to monetise obsolete inventory. The Company also plans to rationalise buying to ensure inventory does not exceed operational requirements and to contract out mine development to reduce capital equipment replacement.

## **4. PRINCIPAL TERMS OF THE KAPAN ACQUISITION AND KAPAN ACQUISITION FINANCING**

### **Kapan Acquisition**

The Kapan Acquisition Agreement comprises the purchase of the entire issued share capital of Kapan by CGIL from PMTL. CGIL will also acquire all debt owed by Kapan to members of the PMTL group under intra-group loan agreements. The Company is a guarantor of all of CGIL's obligations under the Kapan Acquisition Agreement.

The consideration for the Kapan Acquisition will be US\$55,000,000 (subject to net debt and working capital adjustments) payable in cash with the option to pay US\$10,000,000 (or, if completion is after 15 January 2019, US\$5,000,000) thereof at completion by the issue by the Company of Convertible Notes equal to that amount.

The Kapan Acquisition Agreement is conditional on (amongst other things): (i) Shareholder approval of the Resolution; (ii) approval by the SCPEC; and (iii) the Company obtaining the Kapan Acquisition

Financing. These conditions are to be satisfied as soon as reasonably practicable and in any case by 15 February 2019.

CGIL paid a deposit of US\$5,000,000 on or around 12 November 2018 (the “**Deposit**”) to PMTL. If the Kapan Acquisition Agreement is terminated: (i) because CGIL fails to satisfy its conditions (including Shareholder approval of the Resolution and obtaining the Kapan Acquisition Financing) or fails to comply with its material completion obligations, PMTL will retain the Deposit and CGIL must pay an additional US\$5,000,000 (or the Company may issue Convertible Notes for that amount to PMTL) by way of a total termination fee of US\$10,000,000 or (ii) because PMTL fails to satisfy its conditions or material completion obligations, PMTL must repay the Deposit and pay US\$5,000,000 to CGIL by way of termination fee; or (iii) for any other reason, PMTL must repay the Deposit to CGIL and no further amounts are payable.

The Kapan Acquisition Agreement also provides for certain arrangements regarding the transfer of the royalty agreement between PMTL, Polymetal and Dundee Precious Metals Inc in relation to Kapan.

PMTL has given certain warranties and other protections to CGIL concerning, among other things, Kapan and its business and operations, subject to certain limitations of liability.

If any Convertible Notes are issued as summarised above, PMTL may require CGIL to purchase those notes at par (including accrued interest) no earlier than 19 months after issue thereof or upon an earlier change of control of the Company.

On completion of the Kapan Acquisition, and pursuant to the ROFR Agreement, PMTL and Polymetal Netherlands B.V., the minority shareholder of Poly Armenia, will also grant the Company: (a) exclusive rights for a period of 6 months from completion of the Kapan Acquisition to negotiate terms in relation to the acquisition of the entire issued share capital of Poly Armenia, together with its two subsidiaries, Lichkvaz and NEC (together, the “**Poly Armenia Companies**”); and (b) a right of first refusal in respect of: (i) the Poly Armenia Companies for a period of 12 months beginning on expiry of the exclusivity period; and (ii) ore concentrate produced by Lichkvaz for a period of 18 months from completion of the Kapan Acquisition. The Poly Armenia Companies comprise Polymetal’s other mining interests in Armenia. Polymetal Armenia is the holding company for Lichkvaz, which is the owner of the Lichkvaz deposit, a gold deposit located approximately 70 km from the town of Kapan. NEC is an exploration company which currently is a dormant company with no material assets.

Further details of the Kapan Acquisition Agreement and ROFR Agreement are set out in the Admission Document.

### **Kapan Acquisition Financing**

As at the date of this announcement, in order to fund the Kapan Acquisition, the Company has signed a definitive term sheet with Ameriabank CJSC for a US\$20 million acquisition financing facility, supported by a letter confirming that the bank will seek to raise a further US\$20 million of financing through syndication with other banks in Armenia (together comprising the Kapan Acquisition Financing). Legally binding documents for the Kapan Acquisition Financing remain to be prepared, negotiated and executed and any and all conditions precedent to drawdown of the financing thereunder will also need to be satisfied. These facilities are required in order to enable the Group to proceed to completion of the Kapan Acquisition and it is therefore anticipated that these facilities will be in place and drawn down by the time of Re-Admission.

Further details of the Kapan Acquisition Financing are set out in the Admission Document.

The Company has also entered into a US\$15 million revolving credit facility with Labro in order to provide further working capital for the Company if and when needed for a period of up to 19 months

from Re-Admission. Further details of the Labro Loan Agreement are set out in the Admission Document and the appendix to this announcement.

## **5. RE-ADMISSION TO AIM**

On Re-Admission, the Company will have 395,167,015 Ordinary Shares in issue.

The Company will also have US\$18,580,000 Convertible Loan Notes in issue (principal value). In addition, the Company has:

- (a) received a short term loan of US\$10 million;
  - (b) agreed to issue US\$10 million (or, if completion is after 15 January 2019, US\$5 million) of Convertible Loan Notes to PMTL;
  - (c) entered into a term sheet and related letter for the Kapan Acquisition Financing; and
  - (d) entered into the Labro Loan Agreement
- as further described in the Admission Document.

## **6. CURRENT TRADING AND PROSPECTS**

The companies that will comprise the Group following Re-Admission, assuming that the Kapan Acquisition is completed, generated combined revenues of US\$29.7 million during the six months ended 30 June 2018, and a combined loss before tax of US\$4.3 million.

The Directors believe that the Group, following completion of the Kapan Acquisition, will have a portfolio of assets that will be immediately cash-generative. The Directors will be focusing the majority of their efforts in integrating the Kapan Mine, raising additional funding to continue developing the Charat Gold Project and identifying further acquisitions in line with the Company's growth strategy.

Further information on current trading and prospects at the Charat Gold Project and the Kapan Mine are set out below.

### **The Charat Group**

Currently, the Charat Group's main priority is continued exploration drilling at Tulkubash. Drilling in the second half of this year has focused on developing resources in Segment I and Segment IV that could have the potential to add reserves to the project. Drilling in Segment I is targeting oxide mineralization on the footwall and hanging wall of the main pit that has the potential to expand the pit design. At the end of the season, two drill rigs were in operation on site and the programme has been completed with approximately 20,500 metres drilled. The drilling was impacted by adverse weather and logistical issues (drill water shortages). The drill water shortages were caused by an abnormally dry spring and summer during the year. Steps are being taken to engineer a water delivery system to preclude reoccurrence of this during future drill campaigns. This year's exploration in Segment V has confirmed that the Tulkubash oxide mineralization continues to the northeast and represents an attractive target for follow-up drilling in the 2019 season. In addition, construction of site infrastructure and detailed engineering are underway in order to accelerate fast track development with the mobilization of the mining/earthworks contractor at the site. Subject to funding, the Company expects full-scale construction of the Tulkubash heap leach project to begin in the second quarter of 2019 and sees the potential to increase the existing Tulkubash resources and reserves prior to the planned first gold pour in 2020.

### **The Kapan Mine**

During the 6 months to 30 June 2018, the Kapan Mine generated revenue of approximately US\$29.7 million, an operating profit of approximately US\$1.5m and total comprehensive income of US\$811,000. During that period, the Kapan Mine experienced two production interruptions; the first related to the mine ventilation failure in March which sadly resulted in a fatality, and the second a strike by employees which was precipitated by a nation-wide protest for higher wages. The area of

the mine where the fatality occurred remains closed at this time and Kapan agreed a pay rise of 10 per cent. in order to end the strike.

During the year, several improvements and expansions have been completed at the mine, including an increase of ventilation capacity from 380 cubic meters per second to 450 cubic meters per second, achieved by the installation of new vent fans at Adits 6 and 12. The mill has been improved and benefits are expected to be seen from early 2019.

Despite the temporary closures of the mine, tonnes mined and milled during the year to date are slightly ahead of the budget.

## **7. SHARE OPTIONS**

As at the date of this announcement, there are in issue 23,704,609 Options. Details of such Options are included in the Admission Document.

The Directors intend to implement an incentive scheme to reward Directors and certain employees. It is intended that the proposed incentive scheme if approved will provide for three main elements:

(i) conversion of existing Option plans into a new uniform scheme; (ii) a one-off grant of equity equal to around 5 per cent. of the outstanding share capital at the date of Re-Admission; and (iii) Options equal to around 3 times of equity granted under the scheme at a strike price of 42p per Ordinary Share to the Board and senior managers which will be subject to a vesting schedule.

The first element of the scheme will require conversion of vested and unvested Options into Ordinary Shares based on a price of 33p per Ordinary Share; these will have a three year vesting period and if an employee leaves during this period the unvested Options will lapse. This first element will also require consent from the existing Option holders to join the new incentive plan and, if all holders consent, would result in around 6,471,873 new Ordinary Shares.

The second element of the scheme is expected to comprise a one-off grant of 19,731,156 new Ordinary Shares forming part of future remuneration packages.

The third element of the Scheme is expected to comprise 59,193,469 Options which will have a similar three year vesting period with the same consequences if an employee leaves. Delivery of vested Ordinary Shares will be made on the basis of 50 per cent. of the entitlement at the date of vesting with the remaining part of the entitlement to be delivered at the end of year three, whether or not in employment at such time.

Conversion of the existing Options into Ordinary Shares and full grant of new Options and new equity is expected to represent approximately 14 per cent. of the Company's fully diluted share capital as at Re-Admission, assuming implementation of the new incentive scheme described in the Admission Document and full exercise or conversion of all Options, Warrants and Convertible Loan Notes.

The board will have full discretion to amend the incentive scheme or adjust unvested Ordinary Shares and options. The senior managers of the Company that will participate in the new incentive scheme will not be entitled to cash bonuses during the three year vesting period. The scheme will make provision for future employees.

The Company intends to propose a special resolution in the near future to increase or remove its current authorised share capital limit of 600,000,000 Ordinary Shares in order to enable it, among other things, to implement this incentive scheme in full.

Please also refer to the Admission Document regarding potential issues of Ordinary Shares to Artem Volynets and Dmitry Yudin.

## **8. LABRO LOAN AGREEMENT**

On 14 December 2018, the Company entered into a committed revolving term loan facility agreement with Labro for a total amount of US\$15,000,000 (or such other aggregate amount as may be agreed between the parties from time to time). The facility is for the general corporate purposes of the Group.

The term of the facility is from the date of the loan agreement until the date that is 19 months after Re-Admission (the "Term").

The facility bears interest at a rate of 10% per annum.

In respect of each loan borrowed pursuant to the facility under the loan agreement, all accrued and outstanding interest, together with the aggregate outstanding principal amount, is payable on the earlier of:

- (i) the last business day of the Term;
- (ii) the date on which the aggregate outstanding amount of the corresponding loan is fully prepaid or repaid in accordance with the terms of the loan agreement; or
- (iii) the termination date, being the earlier of: (A) the business day on or immediately prior to the Term of the facility; and (B) where it has become unlawful in any applicable jurisdiction for Labro to perform its obligations as lender, and where such illegality cannot be remedied, the date falling 10 business days after the date on which Labro notifies the Company of such illegality event (the "Termination Date").

The Company shall repay to Labro in full the aggregate outstanding principal amount of all loans borrowed under the facility, together with all accrued and outstanding interest and all other amounts due, on the Termination Date.

The aggregate outstanding principal amount of all loans borrowed under the facility shall be:

- (i) immediately prepaid in whole by the Company to Labro upon the occurrence of an event of default or an illegality event as summarised above (save, in the case of an illegality event, where Labro determines that such event does not require the prepayment of the entire facility and all loans provided thereunder, in which case only a relevant proportion shall be prepaid and cancelled); and (ii) immediately prepaid (either in whole or in part, as the case may be) by the Company to Labro in an amount equal to the aggregate principal amount of all loan facilities, debt instruments, credit agreements, notes or similar instruments or any other financial accommodation made available to the Company after the date of the loan agreement from any person other than the Labro.

The Available Facility shall be automatically and permanently reduced to zero on the Termination Date.

The Company has agreed to pay to Labro a commitment fee, which shall be settled through the issue of Ordinary Shares (the "Commitment Fee"). The Commitment Fee shall be due and payable in advance on each of the following dates (each such date being a "Commitment Fee Payment Date"), provided that the final Commitment Fee Payment Date shall occur on the Termination Date, and shall:

- (i) be equal to 1.5% of the facility made available under the loan agreement and be payable on the date thereof (resulting in 543,888 Ordinary Shares); and

(ii) be equal to 1.5% of the facility made available under the loan agreement and be payable on the first drawdown date, or such other percentage of the facility made available under the loan agreement as may be agreed in writing between the Company and Labro from time to time. The Commitment Fee set out in (i) above is payable on the date of the loan agreement irrespective of whether any amount is drawn down. The Commitment Fee set out in (ii) above is payable on the first drawdown date irrespective of the amount of the loan borrowed on such date.

The Ordinary Shares to be issued to Labro in respect of the Commitment Fee on the Commitment Fee Payment Date shall be calculated (unless otherwise agreed in writing between the Company and Labro from time to time) by converting the facility made available under the loan agreement into pounds sterling at the exchange rate published by the Financial Times on the date falling no earlier than three business days prior to the immediately upcoming Commitment Fee Payment Date, and dividing that number by a price of 33 pence per Ordinary Share.

The Company also agrees to pay a drawdown fee to Labro on each drawdown date, in an amount equal to 3% of the amount of each loan borrowed under the facility, and the Company may elect to pay the same in cash or settle such amount through the issue of Ordinary Shares (in which case, the number of Ordinary Shares to be issued shall be calculated in the same way used to calculate the number of Ordinary Shares issued to settle any Commitment Fee.

The loan agreement contains customary undertakings and events of default for a loan of this nature.

The agreement is governed by English law and any disputes are subject to the exclusive jurisdiction of the English courts.

## **9. ACTION TO BE TAKEN**

Shareholders will not receive a Form of Proxy or Form of Direction for the General Meeting in the post. Instead, Shareholders will receive instructions to enable you to vote electronically and how to register to do so, and Depositary Interest Holders will be able to vote in Crest. Shareholders will still be able to vote in person at the General Meeting, and may request a hard copy Proxy Form directly from the Registrars, Link Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (telephone number: UK – 0871 664 0300 or from overseas +44 (0)371 664 0300). Calls outside the United Kingdom will be charged at the applicable international rate. The Registrars are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

## **10. RECOMMENDATION AND VOTING INTENTIONS**

The Directors consider that the terms of the Kapan Acquisition are in the best interests of the Shareholders and the Company as a whole.

Accordingly, the Directors unanimously recommend that you vote in favour of the Resolution necessary to approve and implement the Kapan Acquisition.

In addition, Labro, Martin Wiwen-Nilsson and Richard Rae have irrevocably undertaken to vote in favour of the Resolution in respect of the Ordinary Shares respectively held by them, totalling 142,820,162 Ordinary Shares (representing 36.14 per cent. of the Ordinary Shares).

## **11. EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of the Admission Document	14 December 2018
General Meeting	31 December 2018
Completion of the Kapan Acquisition	on or before 15 January 2019

Re-Admission effective and dealings in the on or before 15 January 2019  
Ordinary Shares to commence on AIM

All times are London times. If any of the above times or dates should change, the revised times and/or dates will be notified by an announcement on a Regulatory Information Service.

## NOTICE

This announcement includes 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", "envisages", "estimates", "anticipates", "projects", "expects", "intends", "may", "will", "could", "seeks" 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 statements regarding the Company's and the Directors' current intentions, beliefs or expectations concerning, amongst other things, investment strategy, financing strategy, performance, results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Enlarged Group will operate.

By their nature, forward-looking statements involve risks (including unknown risks) and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not an assurance of future performance. The Company's actual performance, results of operations, financial condition, liquidity and dividend policy and the development of the business sector in which the Enlarged Group will operate, may differ materially from those suggested by the forward-looking statements contained in this announcement. In addition, even if the Company's performance, results of operations, financial condition, liquidity and dividend policy and the development of the industry in which the Enlarged Group will operate, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements in this announcement reflect the Company's and the Directors' current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the matters referred to above. Other than in accordance with the Company's obligations under the AIM Rules for Companies, the Company does not undertake to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.