



**Annual Message from Rick Howes
President and Chief Executive Officer
Dundee Precious Metals
Annual Report 2015
March 23, 2016**

In this day and age it takes patience, perseverance, hard work and a diverse set of skills and talent to build a successful international mining company. In a year where the prices of gold and other metals continued to decline, and our share price reached lows that defied logic, we never wavered as we continued to execute our strategy to be a progressive gold mining company that unlocks and delivers superior value through innovation and strong partnerships with stakeholders. Despite the many challenges faced in 2015, we have good progress to report on all fronts. We are enthusiastic about the prospects of our smelter in Namibia, after five years of significant investment and hard work, and we are excited to see our Krumovgrad project finally nearing construction stage.

Despite challenging market conditions in 2015, we continued to make good progress advancing our strategic initiatives. We achieved our best safety performance since we began as a producer in 2003 and we achieved record gold production. We successfully built and commissioned our new acid plant in Namibia and began delivering acid to our customers. We also continued to advance the permitting of our Krumovgrad open pit gold project in Bulgaria and to optimize performance and extend the life of the Chelopech mine through exploration success.

2015 Operating Highlights and Growth Progress

In the face of challenging gold and copper markets, we remained focused on maintaining our financial strength and flexibility, reducing our costs and optimizing the costs and performance of our operations.

In 2015, we continued to see a weakening of many of the base and precious metal commodity prices as global growth continued to slow. 2015 was the third consecutive year of declining gold prices following the 10 year bull market. Gold fell 8% in 2015 and has fallen 30% since 2012. Copper prices also fell sharply in 2015, down 20% from 2014.

2015 Operating Highlights

Our focus on being a consistent and reliable producer has paid off as we met or exceeded all of our guidance for the year. We achieved record production of 195,000 ounces of gold contained in all concentrates, and copper production of 42.4 million pounds from our two operating mines. As a low cost gold producer, our consolidated all-in sustaining cost per ounce of gold was US\$620, a 10% decrease from 2014. We continued to reduce our cash costs per tonne of ore processed at our Chelopech and Kapan mines, each of which declined by 9% year over year. Our cost reduction efforts also contributed to a year over year reduction in general and administrative expenses of US\$10.7 million.

We are coming to the end of our major multi-year investment program to transform our Tsumeb smelter into a unique sustainable stand-alone specialty complex copper concentrate tolling smelter. We successfully commissioned our new acid plant in the third quarter, with first commercial production of 37,000 tonnes of acid in the fourth quarter. In the first quarter of 2016, the commissioning of our two new converters is expected to be completed and will enable higher levels of production. In 2015, we processed 196,000 tonnes of complex copper concentrates and generated adjusted EBITDA of US\$8.6 million, the vast majority of which was earned in the fourth quarter, demonstrating the potential cash flow generating capability that is expected to be realized when the full capacity is reached, following the successful operation of the new converters in the second quarter of 2016. With the major smelter capital program now coming to an end, we expect to start generating positive free cash flow, net of all capital, from this business.

2015 Growth Progress

We continued to advance our near term growth project, the Krumovgrad open pit gold development project in southern Bulgaria, through the final construction permitting phase with the approval of the detailed development plan in November 2015. The remaining construction-related permits are expected to be secured by mid-2016.

In 2015, we also completed a prefeasibility study on an expansion of the smelter throughput up to 370,000 tonnes per year through the addition of a holding furnace. The study demonstrated potential for a quick payback on a relatively small incremental capital investment and has now advanced to the feasibility stage.

Our in-mine exploration programs continue to replace the reserves mined each year. In addition, regional brownfields exploration programs around our existing mines and our planned Krumovgrad mine have identified promising new targets that will be further tested in 2016.

Business and Market Outlook

The worst may be over for gold prices following three years of decline. Gold ended the year at US\$1,060 per ounce and has climbed 15% to US\$1,220 year-to-date on strong physical and speculative demand in response to a number of global developments that are supportive for gold. Copper has also rebounded 8% year-to-date in response to continued government stimulus and slower than expected tightening by the U.S. Federal Reserve. We remain bullish on future gold prices, however we continue to base our business plans on more conservative price assumptions.

We anticipate the favourable economic climate will continue with the lower oil prices, a strengthening gold price, and our ability to take advantage of weaker local currencies in Canada, Bulgaria and Namibia. With capital spending declining and strong operating cash flows anticipated from Chelopech and Tsumeb, we expect to generate net free cash flow in 2016.

On March 1, 2016, we announced that we reached an agreement with Polymetal International Plc for the sale of our Kapan Mine in Armenia for US\$25 million in cash and shares and a 2% net smelter return royalty, subject to regulatory and other approvals. The proceeds from the sale will strengthen our balance sheet and reduce future capital requirements, which can be utilized to support the growth of our business, and also allows us to focus on our remaining core assets.

With the sale of Kapan, our gold production in 2016 is forecast to decline to approximately 160,000 ounces, and to remain relatively stable through 2017. We expect to increase production tonnage at Chelopech by 10% to offset some of the grade decline expected in 2016. We are also exploring the potential to expand Chelopech to 2.5 million tonnes per year, which became possible with the 15% increase in 2015 Indicated Mineral Resources related to the old cave zones in the upper part of the mine.

We have near term organic growth from our Krumovgrad open pit gold project in Bulgaria. Although it has been a fairly lengthy period of time since we began our efforts to permit and develop the Krumovgrad project, we expect to receive the remaining permits necessary to begin construction by mid-2016. Krumovgrad represents one of the few attractive high return gold projects in this gold price environment and would add, on average, an additional 85,000 gold ounces per year at a cash cost of US\$389 per ounce, with initial production starting in late 2018. In addition to the capital generated from the Kapan sale, we continue to assess several options that will supplement the existing financing we have in place and ensure our financing plan is capable of withstanding a potentially weaker commodity price environment. Based on our current schedule, a decision by the Board is not expected to be made until the third quarter of 2016.

Krumovgrad will be our first greenfield mining project, and the first mining project in Europe to be built in a designated Natura 2000 protected area. We recognize the importance that local communities, civil society, governments, NGOs and media all play in granting us social license. As a result, our approach has been to work closely with all stakeholders to build a project that will be a leading example of what responsible mining can achieve. This approach has garnered wide recognition and strong stakeholder support, and stands in sharp contrast to most other projects in this region.

2016 will be a year in which we ramp-up and stabilize the Tsumeb smelter performance to a targeted level of throughput up to 250,000 tonnes per year based on the existing installed infrastructure, following a number of environmental and other upgrades made to the smelter over the last five years. We expect to reach full capacity after completing the commissioning of the new converters in the first quarter of 2016, and will undertake a feasibility study to evaluate a potential further expansion to 370,000 tonnes per year. Any such expansion would not be advanced without adequate commercial and funding arrangements in place, including a possible strategic partnership.

I am proud to work at Dundee Precious Metals and proud of our team. Guided by our shared values and a dedicated and experienced Board, we are committed to unlocking the potential value of our current assets and building a reputation for successful execution. As a low cost, diversified gold producer, operating in mining friendly and politically stable jurisdictions, we are well positioned to weather the current economic downturn, have attractive organic growth prospects that we can pace based on market conditions and our available capital resources, and have a strong management team with the capability and track record for gaining stakeholder support and turning around poorly performing assets.

On behalf of our Board, I would like to express our sincere appreciation to Ronald Singer and Derek Buntain who both retired from our Board in 2015, after serving 17 years and 22 years, respectively, and were instrumental in guiding the company through its many challenges and successes over those years. I would also like to thank our more than 2,600 employees around the world for their dedication, hard work and commitment to working safely, and making 2015 our safest and highest producing year ever. We can all take pride in the fact that we are building a successful global mining company that demonstrates care and a commitment to responsible mining in the communities in which we operate.