



OPUS
BUSINESS ADVISORY GROUP

19 July 2022

PETROPAVLOVSK PLC

Appointment of Administrators & Potential Sale of Assets

Following an application to Court, Allister Manson, Trevor Binyon and Jo Rolls of Opus Business Advisory Group were yesterday appointed as Administrators of Petropavlovsk PLC (the 'Company'), a London-listed UK company with mining subsidiaries in Russia that became insolvent due to unsustainable debt repayment obligations.

The Company is the parent company of a group of Russian-based gold mining and exploration companies whose shares trade on the London Stock Exchange. The Company and its corporate group is not the target of any sanctions. However, serious and ongoing disruption to its business due to the imposition of Russia-related sanctions has forced it to seek the appointment of Administrators after efforts to secure refinancing of the Group's debt proved unsuccessful.

The Company's board of directors has been exploring a potential asset sale since March 2022, and in April-May 2022 it conducted a marketing exercise with the assistance of professional advisers to find a buyer for its Russian operations and assets. The marketing process was managed by Hannam & Partners, an independent investment bank based in London. Kroll, a global investigation and risk consulting firm, produced an independent valuation of the assets offered for sale.

In the marketing process, 46 prospective purchasers were approached, resulting in the submission of three indicative offers of which one, from UMMC-Invest ('UMMC'), was then expressed as a final binding offer. Negotiations with UMMC-Invest are ongoing.

Initial discussions in relation to a potential sale have also taken place between the Company's board of directors and 'Uzhuralzoloto Group of Companies' JSC ('UGC'), a shareholder of the Company. This party's interest was first expressed after the completion of the marketing process.

The Administrators hope that a timely sale to one of these parties can be completed, although there is currently no certain outcome.

As a consequence of this Administration and potential asset sale, it is unlikely that there will be any return to the Company's shareholders, but not impossible.

The Administrators urge any parties who might be interested in making an offer for the Company, its assets, or to provide refinancing, to do so at the earliest opportunity.

Allister Manson, partner at Opus Business Advisory Group, said:

“Petrodavlovsk has been caught squarely in the middle of a geo-political battle which has unfortunately led to its insolvency. Through this Administration and potential sale of assets, the Company’s board has fulfilled its duty to deliver the best outcome for UK creditors and western bond holders. We are pleased that Opus will be able to assist in this obviously difficult situation”.

Background

The Company signed a term loan agreement with Gazprombank (GPB) in July 2021 under which approximately US\$201m remains outstanding (the ‘Term Loan’). The amounts outstanding in respect of the Term Loan are guaranteed by four of the Company’s principal operating subsidiaries in Russia.

On 14 April 2022 the Company announced certain implications of the inclusion of GPB on the UK Sanctions List and the designation of GPB for the purposes of an asset freeze under the Russian (Sanctions) (EU Exit) Regulations 2019, including the non-payment by the Company of sums due under the Term Loan and non-payment by its subsidiaries of certain debts due to GPB under facilities advanced by GPB to those entities (the ‘Russian GPB Debt’).

On 20 April 2022, the Company announced that it had received notice of acceleration from GPB requiring the immediate repayment of the Term Loan and the repayment of the Russian GPB Debt, and notice from UMMC that GPB had assigned its rights in respect of the Term Loan to UMMC.

On 29 April 2022 the Company announced that that the demand for immediate repayment of the Term Loan and for payment of the Russian GPB Debt had resulted in one or more events of default under certain convertible bonds and guaranteed unsecured notes issued by subsidiaries of the Company and guaranteed by the Company.

As a result of the demand for repayment referred to above, the Company has become unable to pay its debts as they fall due and are demanded for payment and is therefore insolvent. An estimate of the financial position as at May 2022 also indicates that the Company has a shortfall of assets against its liabilities of some US\$84m, so that it is also insolvent on a balance sheet basis.

The Company is also the guarantor of a US\$500 million note due in November 2022 (the ‘Notes’) and US\$ 125 million in convertible bonds due in 2024 (the ‘Convertible Bonds’) issued by one of its subsidiaries. Default under the Term Loan and Facilities triggered cross-defaults under the terms of those instruments.

As part of its offer to purchase certain assets of the Company, UMMC has indicated its intention to approach the noteholders to acquire the outstanding Notes where legally permissible to do so or to provide for their repayment via the Administrators, but that outcome remains uncertain at this time. Since the Notes are in some instances held in the names of nominees, it may not be possible to identify all of the holders. To the extent that any bondholders are found to be sanctioned entities or individuals, it may not be permissible to repay the bonds they hold.

The intentions of UGC as regards the holders of the Company's debt are unknown at this time.

The Company is not subject to any sanctions, and nor are UMMC or UGC. Nevertheless, the Administrators have notified the Office of Financial Sanctions Implementation of their appointment and the potential sale of the Company's assets in Russia.

Media Contacts:

Nick Hood

E: nick.hood@opusllp.com

M: 07967 658 296

Allister Manson

E: allister.manson@opusllp.com

M: 07775 570 017