



8 August 2022

PETROPAVLOVSK PLC (in Administration) (the “Company”)

Update from Administrators

1. As explained in previous announcements:
 - a. On 18 July 2022, Allister Manson, Trevor Binyon and Joanne Rolls (the “Administrators”) of Opus LLP (“Opus”) were appointed joint administrators of the Company by order of HHJ Milwyn Jarman QC sitting as a Judge of the High Court.
 - b. On 1 August 2022, HHJ Jonathan Hilliard QC sitting as a Judge of the High Court made an order including a direction that the Administrators should be at liberty to enter into, perform and procure the Company to perform a sale and purchase agreement with UMMC-Invest (“UMMC”) for the principal assets of the Company (the “SPA”). In a short accompanying judgment, the Judge indicated that he would hand down a longer written judgment separately. A copy of the order and judgment dated 1 August 2022 is available at <https://www.bailii.org/ew/cases/EWHC/Ch/2022/2074.html>.
 - c. Following the making of the order dated 1 August 2022, the SPA deed was executed by the Company (acting through the Administrators) and UMMC. Under the SPA, UMMC will pay total cash and non-cash consideration of US\$ 619 million for the Company’s operating assets.
 - d. On 5 August 2022, HHJ Hilliard QC handed down his substantive judgment. A copy of that judgment is available at <https://www.bailii.org/ew/cases/EWHC/Ch/2022/2097.html>.
2. In this announcement, the Administrators wish to provide further information to interested parties regarding our work to date.

Evidence filed at court by the Company and the Administrators

3. The background to the Administrators' appointment, our work to date and our conclusions is set out in detail in the evidence filed in support of: (i) the application for the appointment of administrators over the Company dated 11 July 2022; and (ii) the Administrators' application for directions dated 27 July 2022. These are:
 - a. The first witness statement of Charlotte Philipps, a director of the Company, dated 11 July 2022.
 - b. The first witness statement of Allister Manson, one of the Administrators, dated 11 July 2022.
 - c. The second witness statement of Charlotte Philipps dated 14 July 2022.
 - d. The second witness statement of Allister Manson dated 19 July 2022.
 - e. The third witness statement of Allister Manson dated 27 July 2022.
 - f. The fourth witness statement of Allister Manson dated 30 July 2020.
4. These witness statements are available at <https://petropavlovskplc.com/administration-news/>

SIP16 report

5. In addition, the Administrators have today published our report under Statement of Insolvency Practice 16, which provides details regarding the sale to UMMC and the events leading up to it. This is available at <https://petropavlovskplc.com/wp-content/uploads/2022/08/SIP16-Disclosure.pdf>.

Summary of the Administrators' work

6. The Administrators invite interested parties to read the evidence and SIP 16 report in full. What follows is a short summary of the matters explained in detail in those documents.

Background to appointment of Administrators

7. The Company is the parent company of a group of gold mining and exploration companies operating in the far east of Russia. As a result of international sanctions and other restrictions relating to the Russian Federation's invasion of Ukraine in 2022, the Group's ability to operate its business has been seriously impaired and the Company is now unable to pay its debts as they fall due. This is because:
 - a. Until recently, the Company's main lender was Bank GPB (JSC) ("**GPB**"), one of Russia's largest commercial banks. GPB provided a US\$ 200 million term loan to the Company (the "**Term Loan**") and credit facilities of c. US\$ 86.7 million to certain of its subsidiaries in Russia (the "**Facilities**"). The Company

also had a significant commercial relationship with GPB and its subsidiaries, who were major buyers of the Group's gold.

- b. On 24 March 2022 the UK government announced the imposition of 65 new sanctions targeting strategic industries, banks and business elites. GPB was one of six Russian banks which became subject to asset-freezing measures under the Regulations. As a result, the Company and its subsidiaries were unable to make payments to GPB and so defaulted on the Term Loan and the Facilities, which were in turn accelerated by GPB on 18 April 2022. The Group was also unable to sell gold to GPB (with which it had a contractual relationship of exclusivity).
 - c. In addition, the Company is the guarantor of a US\$ 500 million note due in November 2022 (the "**2022 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.
 - d. During the course of April and May 2022 GPB assigned the Term Loan to UMMC and the Facilities to Nordic LLC, which are not sanctioned persons. Consequently, the Group has no current financial or commercial connection with any entity which is a designated person under the Regulations. However, ongoing sanctions and banking restrictions (as well as a general reluctance on the part of Western financial institutions to accept Russia-related business) have made it difficult for the Company's Russian subsidiaries to move funds to the Company to enable the Company to service its debts, such that it remains practically unable to meet its obligations to its creditors. The Term Loan and the Facilities have been accelerated by their respective Lenders and the amounts outstanding thereunder are accordingly now due and payable in full.
8. Opus was engaged by the Company on 17 June 2022 to provide restructuring advice and to act as proposed administrators of the Company should the Company be placed into administration.
 9. At the time of our engagement, it was clear that the Company was insolvent. It had defaulted on debt obligations in respect of which it was either the borrower or guarantor, and its ability to conduct its business had been seriously impaired by sanctions and other financial restrictions relating to Russia, where the Company's operating subsidiaries are based.
 10. Although the Company and its subsidiaries were not themselves sanctioned, sanctions had restricted the ability of the Company's subsidiaries to transfer cash to the Company, had made it impossible for the Company to access at least some of its own

cash, and had made it more difficult for the operating subsidiaries to maintain their production operations or to sell the gold that they produced.

11. From March 2022, when it became clear that its position was likely to be unsustainable, the Company explored refinancing its debt and marketed its assets for sale. It was unable to identify any banks willing to lend to it. Kroll produced a valuation of the Company's operating assets dated 2 May 2022, which valued those assets (at that date) at between US\$ 458 million and US\$ 621 million.
12. The marketing process, run with the assistance of Hannam & Partners and AlixPartners, resulted in several indicative bids for the Company's assets. Ultimately only one of these, from UMMC, was expressed as a binding offer. UMMC is part of one of Russia's largest metals and mining groups, which had first expressed an interest in purchasing the Company's assets in late 2021. It is also the Company's largest creditor, following its purchase in April 2022 of the US\$ 200 million term loan in respect of which the Company is borrower from the original lender, GPB.
13. Since late April 2022, the Company has sought to negotiate the terms of an SPA with UMMC. We have been closely involved in those discussions since our engagement.
14. On 7 July 2022, UGC, the Company's largest shareholder, UGC, made a preliminary non-binding offer to purchase the Company's shares, procure repayment of the Term Loan and Facilities, and restructure the Group's other debt. The Company and the Administrators invited UGC to discuss this offer but UGC did not pursue it.

Our work since our appointment

15. On 18 July 2022, the Administrators were appointed.
16. Since our engagement by the Company, and continuing after our appointment as Administrators, we have carried out independent analysis with the assistance of our advisers to determine:
 - a. The financial position and solvency of the Company;
 - b. The value of the Company's assets; and
 - c. The options potentially available to the Company, including debt refinancing, an asset sale to UMMC or another party, and insolvent liquidation.

Financial position of the Company

17. We have concluded that the Company is clearly insolvent on a cashflow and balance sheet basis:

- a. The Company is clearly unable to pay its debts as they fall due and is already in default of its obligations under the Term Loan and the Facilities.
 - b. We estimate that the Company's liabilities are US\$ 604,954,125 exclusive of VAT and US\$ 618,675,979 inclusive of VAT. The Company's only material assets are its shares in its operating subsidiaries and sub-subsidiaries, which own three operational mines and pressure oxidization hub. As noted above, Kroll's 2 May 2022 report valued those assets at between US\$ 458 million and US\$ 621 million.
18. As explained in detail in the evidence referred to above, the Company's major creditors (including UMMC as the Lender under the Term Loan) have also taken steps to enforce against the Group's operating assets in Russia.
19. The financial position of the Company's assets is continuing to deteriorate due to:
- a. Continuing deterioration of trading conditions due to the fall in value of the Russian rouble, the depressed gold price on the Russian domestic market (where the Company is effectively restricted to selling its gold as a result of international sanctions), difficulties in obtaining spare parts from outside of Russia which, together with the inflation of parts within Russia, have led to a significant increase in production costs, and the withdrawal of operational credit by the Group's suppliers. Taken together, these factors have led to a projected cash deficit for the Group of approximately US\$ 30 million for July-August 2022 (US\$ 13 million in operating cashflow deficit plus US\$ 17 million in cash requirements to fund required capital expenditure). The resulting pressure on the Group's working capital makes further steady operations untenable.
 - b. The Group's two largest creditors, UMMC (as lender under the Term Loan) and Nordic LLC (as lender under the Facilities) have called on the operating subsidiaries (as guarantors under the Term Loan and borrowers under the Facilities) to repay the debts immediately.
 - c. UMMC and Nordic LLC have also given notice of their intention to initiate bankruptcy proceedings against the operating subsidiaries, relying on the unsatisfied debts described above. This has resulted in suppliers becoming (even more) reluctant to deal with the Group and in buyers of the Group's gold (including the largest buyer, Lentabank) stopping purchases due to the risk that any sale is subsequently challenged in an insolvency process.

Valuation

20. We have carried out work to estimate the current value of the Company's operating assets. We have concluded that the value of those assets is likely to have decreased since Kroll's valuation of 2 May 2022.

Evaluation of options

21. We have sought to identify banks willing to lend to the Company. We have been unable to do so, and we do not consider that there is any realistic prospect of a financial institution providing finance to the Company at a level sufficient to allow it to restructure its debt and thus avoid insolvency.

22. We concluded that the Proposed Transaction with UMMC was the only viable option available to the Company other than a winding-up, which would result in a very significantly worse return for creditors. We do not consider that any further or better offer is likely to emerge as a result of additional marketing of the Company's assets. The Administrators have since our appointment invited interested parties to make proposals to refinance the Company or to purchase its assets, but we have received none.

23. The time available to conclude a transaction with UMMC was also limited, because:

- a. UMMC had made it clear that its offer would be withdrawn if the transaction could not be completed in the very near future, due in large part to its view that the value of the assets is deteriorating; and,
- b. Closely related to the first point, there was a very real risk that Russian creditors of the Group (most notably UMMC itself) would choose to enforce their rights against the Group's assets in Russia in the near future. We considered that this would result in significant prejudice to non-Russian creditors, who would naturally be at a disadvantage in Russian enforcement or bankruptcy proceedings.

24. We therefore applied to the High Court for directions, including a direction that the Administrators be at liberty to conclude the sale with UMMC. That liberty was granted on 1 August 2022 and the SPA was signed later that day.

Terms of sale to UMMC-Invest

25. In summary, under the SPA the Company will sell and UMMC will purchase the Company's subsidiaries (excluding Petropavlovsk 2010 Limited and Petropavlovsk 2016 Limited) and certain intercompany receivables owed to the Company for total consideration with a value of approximately US\$ 619 million. This sum is sufficient to settle the liabilities of the Company and is intended by the parties to be sufficient

to allow the Company to meet its obligations to all creditors in full. It is not however envisaged that there will be any return for shareholders.

26. The consideration payable by UMMC consists of:

- a. cash consideration of approximately US\$ 380.5 million, to be reduced dollar for dollar at completion against the face value and unpaid interest on any 2022 Notes acquired by UMMC and transferred to the Company, or the amount due on such 2022 Notes, if higher. This, in effect, allows UMMC to be able to either pay cash of US\$ 380 million, or to reduce that amount by the Company being released from the liability to pay bonds at Completion. Put differently, it allows a partial credit bid option for UMMC.
- b. consideration of US\$ 202.5 million, being equal to the amount outstanding on the Term Loan from time-to-time, to be discharged by way of set-off or similar against UMMC's claims under the Term Loan (which is to be subordinated to all other creditors pending the set-off);
- c. "day-1" administration funding of US\$ 20 million to fund the remuneration and expenses of the administration and the estimated amount of contingent and uncertain liabilities, with potential top-up funding of a further US\$10 million if required, with any residual funds being returned to UMMC; and
- d. contingency funding of US\$ 6 million for the purpose of dealing with any challenges brought in relation to the Proposed Transaction, with any residual funds being returned to UMMC.

27. The other material terms of the SPA are summarised in the fourth witness statement of Allister Manson dated 30 July 2022 (at Section E).

Current status, next steps and timings

28. Since the SPA was signed on 1 August, there has been substantial progress towards completing the transaction. Under the terms of the SPA the transaction will not complete until consideration is received in full from UMMC. The parties are working towards substantial completion (at which point beneficial ownership in the shares will be transferred) in two weeks. Even allowing for some slippage, the Administrators envisage that the transaction will complete by no later than the end of August 2022. The longstop date under the SPA, being the latest date by which the transaction can be completed without termination rights being triggered, is 60 days after the date of the deed (i.e. 30 September 2022).

29. The Administrators are aware that on 5 August 2022 the President of the Russian Federation promulgated executive decree no. 520 *“on the application of special economic measures in the financial, fuel and energy spheres in connection with the unfriendly actions of some foreign states and international organisations”* which took effect on the same date and made certain transactions subject to presidential approval. The Administrators and UMMC-Invest are considering the effect of that decree on the completion of the transaction.

30. The Administrators will provide further updates via the Company’s website, petropavlovskplc.com.

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