

On behalf of the Administrators

A J Manson

Fifth witness statement

17 August 2022

Exhibit AJM5

Case number: CR-2022-002121

Company Registered No. 04343841

**IN THE HIGH COURT OF JUSTICE**  
**BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES**  
**INSOLVENCY AND COMPANIES LIST (ChD)**

**IN THE MATTER OF PETROPAVLOVSK PLC**  
**AND IN THE MATTER OF THE INSOLVENCY ACT 1986**

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# EXHIBIT AJM5

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This is the Exhibit marked “**AJM5**” referred to in the fifth witness statement of Allister Jonathan Manson dated 17 August 2022.

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**From:** [ChanceryJudgesListing](#)  
**Sent:** 12 August 2022 17:07  
**To:** [Michelle Duncan](#); [Ian McKim](#); [Dara Barkhordar](#); [Natasha Tociapski](#)  
**Subject:** FW: CR-2022-002121

---

Dear All,

Please see email below from Ms Edwards.

Deputy Judge Jonathan Hilliard QC has asked that this be forwarded to you for any comments.

Kind regards

Charlotte Brice  
Chancery Listing Officer  
Chancery Judges Listing

Telephone: 020 7947 6176  
Address: Rolls Building, 7 Rolls Buildings, London EC4A 1NL  
DX: 160040 Strand 4

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-----Original Message-----

From: Caroline Edwards <caroline101@live.com>  
Sent: 10 August 2022 10:42  
To: ChanceryJudgesListing <ChanceryJudgesListing@Justice.gov.uk>  
Subject: Fwd: CR-2022-002121

Apologies for re-sending but did not get an automatic response, so concerned it did not get through. See below.  
Thank you

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> Hello,

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> Reference case number CR-2022-002121

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> In the matter of Petropavlovsk plc (In Administration) and The

> Insolvency Act 1986

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> Dated 1st August 2022

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> I am a shareholder in Petropavlovsk plc and would like access to the supporting documentation provided in support of the above case? I have the witness statements but note there is reference within those statements to

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> Many thanks for your help

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> Kind regards

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> Caroline Edwards

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> Sent from my iPhone

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**Jonathan Hilliard QC**  
Barrister

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F: +44 (0)20 7306 0095  
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**From:** [Dara Barkhordar](#)  
**Sent:** 15 August 2022 15:01  
**To:** [ChanceryJudgesListing](#); [Michelle Duncan](#); [Ian McKim](#); [Natasha Tociapski](#)  
**Cc:** Joe Wigley  
**Subject:** RE: CR-2022-002121

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Dear Charlotte

Thank you for the email below.

The Administrators intend shortly to make an application under rule 12.39(9) of the Insolvency (England and Wales) Rules 2016 seeking a direction that a limited number of documents (or parts of documents) in the exhibits should not for the time being be made available for inspection, including by creditors or members of the Company, without the permission of the Court. This is because, among other things, third parties may have rights of confidentiality in relation to that material, as will be explained fully in the evidence in support of the application. We anticipate that application will be made early this week and respectfully ask the Court not to provide copies of the exhibits to any non-party in the meantime.

Kind regards

Dara

**Dara Barkhordar**  
Associate | Joseph Hage Aaronson LLP

M: +44 (0)7753 466 777  
T: +44 (0)20 7851 8888

---

**From:** ChanceryJudgesListing <ChanceryJudgesListing@Justice.gov.uk>  
**Sent:** 12 August 2022 17:07  
**To:** Michelle Duncan <MDuncan@jha.com>; Ian McKim <IMcKim@jha.com>; Dara Barkhordar <DBarkhordar@jha.com>; Natasha Tociapski <NTociapski@jha.com>  
**Subject:** FW: CR-2022-002121

Dear All,

Please see email below from Ms Edwards.

Deputy Judge Jonathan Hilliard QC has asked that this be forwarded to you for any comments.

Kind regards

Charlotte Brice  
Chancery Listing Officer  
Chancery Judges Listing

Telephone: 020 7947 6176  
Address: Rolls Building, 7 Rolls Buildings, London EC4A 1NL  
DX: 160040 Strand 4

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<https://www.gov.uk/government/organisations/hm-courts-and-tribunals-service/about/personal-information-charter>

-----Original Message-----

From: Caroline Edwards <[caroline101@live.com](mailto:caroline101@live.com)>

Sent: 10 August 2022 10:42

To: ChanceryJudgesListing <[ChanceryJudgesListing@Justice.gov.uk](mailto:ChanceryJudgesListing@Justice.gov.uk)>

Subject: Fwd: CR-2022-002121

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**Jonathan Hilliard QC**  
Barrister



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**From:** [ChanceryJudgesListing](#)  
**Sent:** 16 August 2022 13:44  
**To:** [Caroline Edwards](#); [Dara Barkhordar](#)  
**Cc:** Joe Wigley; [Michelle Duncan](#); [Ian McKim](#); [Natasha Tociapski](#)  
**Subject:** RE: CR-2022-002121 Petropavlovsk Sale

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Dear Sirs,

Please see the following from Jonathan Hillard QC:

The Administrators state they are shortly going to make an application seeking a direction that some of the documents filed at court or parts of them should not be available for inspection, and Ms Edwards wishes to obtain information from the administrators and have asked what avenues are available to do so. It seems to me that given the administrators' objections to disclosing the full exhibit, any request needs to be dealt by an application to the Court and by a vacation judge.

1. Any further correspondence should just be sent to the Court **not** to the Judge direct.
2. In response to Ms Edwards e-mail, the Judge is on leave and therefore not available to deal with any application but has read the e-mails. The Judge considers that in light of
  - (i) the request for documentation on the Court file,
  - (ii) the Administrators' response that they consider that certain documentation should not be made available, and
  - (iii) the Administrators' intention to make an application for a direction in relation to (ii),any request for documentation should be dealt with by an application to a Judge, who can consider the application and the Administrators' response to it, together with- if made in time- the Administrators' application.
3. Ms Edwards, the Court cannot provide you with legal advice but any applications you have can be made to the Court in the vacation (giving your details), and that any application should be copied to the Administrators so that they have the chance to respond." Any applications should be accompanied by a certificate for urgent vacation business.

Kind Regards  
**Nikki Pierce**  
**Chancery Listing Officer**  
The Business and Property Courts of England and Wales  
Rolls Building  
7 Rolls Buildings  
Royal Courts of Justice  
Fetter Lane  
London  
EC4A 1NL  
Tel: 0207 947 7717  
DX: 160040 Strand 4

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**From:** Caroline Edwards <caroline101@live.com>  
**Sent:** 16 August 2022 12:11  
**To:** ChanceryJudgesListing <ChanceryJudgesListing@Justice.gov.uk>  
**Cc:** jhilliard@wilberforce.co.uk  
**Subject:** Re: CR-2022-002121 Petropavlovsk Sale

Dear Charlotte,

Thank you for your reply and for forwarding my request on to the Administrators. Unfortunately, the reason I directed the request to this address was because the Administrators had been unforthcoming with requested information.

I emailed Opus on the 5<sup>th</sup> August requesting, among other things, a copy of the valuation and an up to date list of assets and liabilities for the Company and the Group (items I understood to be on hand). I sent a chasing email on the 8<sup>th</sup> August as I had received no response.

On the 9<sup>th</sup> August, following the release of the witness statements, I requested a bundle of documents referenced therein, CBEP/AJM1, as this contained both the valuation and management accounts for June 2022 as well as other documents of interest.

On the 10<sup>th</sup> August at 5pm, I received the following response from Nick Hood at Opus:

*"The situation is that the Administrators are not currently able to provide a full copy of the exhibit to which you refer because certain documents therein are subject to confidentiality restrictions.*

*Nevertheless, the Administrators will provide further updates and publish any relevant documents when appropriate. Where possible, they will try to communicate them to all stakeholders at the same time via publication on the Company's website."*

I sent a further email on 12<sup>th</sup> August requesting clarification and release of those documents that could be released. I have received no meaningful response other than an acknowledgement of the email.

I also asked the following questions on 12<sup>th</sup> August and have to date received no response other than an acknowledgement of receipt.

1. "With regards to Sanctions and the company's predicament. Please could you confirm, from February 2022, what petitions / requests the Company / Group / any relevant director or employee made to the British Government, OFSI or any other relevant party with regards to seeking a waiver, exception or challenge to the sanctions and what response was received?

Essentially, for the avoidance of doubt any communication regarding the sanctions if effects thereof with any relevant authority."

2. "Another element I would like to understand is the extent to which the Administrators have assessed and are comfortable with the Company's corporate governance and the directors' performance of their fiduciary duties, particularly in the period from February 2022 to present."

Please could you let me know if there is any other avenue to receive responses to these reasonable questions and requests? My understanding is that time is of the essence, and that everything I have requested is either already held or the Administrators should be in a response to answer quickly having completed due diligence of the Company's situation.

I am grateful for any assistance you can provide

Kind regards

Caroline Edwards

Sent from my iPhone

On 12 Aug 2022, at 17:08, ChanceryJudgesListing <ChanceryJudgesListing@justice.gov.uk> wrote:

Dear Ms Edwards,

Thank you for your email. This has been forwarded to the administrators for any comments.

Should the Judge give any further directions, we will contact you.

Kind regards

Charlotte Brice  
Chancery Listing Officer  
Chancery Judges Listing

Telephone: 020 7947 6176  
Address: Rolls Building, 7 Rolls Buildings, London EC4A 1NL  
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Barrister

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**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](mailto:nick.hood@opusllp.com)

M: 07967 658 296

**Allister Manson**

E: [allister.manson@opusllp.com](mailto:allister.manson@opusllp.com)

M: 07775 570 017



**3 August 2022**

## **PETROPAVLOVSK PLC (in Administration)**

### **Hand-Down of Judgment on Administrators' Application**

On 27 July 2022, the Administrators of Petropavlovsk PLC (the "Company") issued an application in the High Court of Justice for directions, including for a direction that the Administrators should be at liberty to enter into, perform and procure the Company to perform, a draft share sale and purchase agreement with UMMC-Invest ("UMMC") for the sale and purchase of the principal assets of the Company ("SPA").

If and when completed, the sale to UMMC is for a total consideration of more than US\$600m. The Administrators anticipate that the sale proceeds will be sufficient to pay the creditors in full but without any return for shareholders.

The application was heard on 29 July 2022 before Mr Jonathan Hilliard QC sitting as a Deputy Judge of the High Court (the "Judge"). On 1 August 2022 the Judge made an order giving the Administrators liberty to enter into and perform an SPA with UMMC and to cause the Company to enter into and perform the SPA. In a short initial judgment accompanying the order, the Judge indicated that he would hand down a more detailed written judgment later this week, at which any consequential matters arising in relation to the order could be considered. The initial judgment and the accompanying order are available at the following link: <https://www.bailii.org/ew/cases/EWHC/Ch/2022/2074.html>

The Judge has now confirmed that the further written judgment setting out his reasons will be handed down by email on Friday 5 August 2022 at 10.30am. A remote hearing (with a time estimate of 30 mins) has been scheduled for Friday 5 August 2022 at 10.30am in case there are any consequential matters. Any interested party who wishes to attend this hearing should contact either the Administrators using the contact details below, or the Chancery Division of the High Court directly at [ChanceryJudgesListing@justice.gov.uk](mailto:ChanceryJudgesListing@justice.gov.uk).

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5 August 2022

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

### **Update from Administrators**

HHJ Jonathan Hilliard QC (the “**Judge**”), sitting as a Deputy Judge of the High Court, has today handed down his reasoned judgment, following the order and initial judgment dated 1 August 2022, in relation to the Administrators’ application for directions dated 27 July 2022. A copy of that judgment is available at <https://www.bailii.org/ew/cases/EWHC/Ch/2022/2097.html>.

The order sought by the Administrators, and made by the Court, included 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**”).

On 1 August 2022, the Judge made an order giving the Administrators liberty to enter into the SPA. In a short accompanying judgment, the Judge indicated that he would hand down a longer written judgment later this week. A copy of that judgment and order is available at <https://www.bailii.org/ew/cases/EWHC/Ch/2022/2074.html>.

Following the granting of the order on 1 August 2022, the SPA 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.

Since then, 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).

The Administrators anticipate that the sale proceeds will be sufficient to pay the Company’s creditors (including bondholders and noteholders) in full, but will not be sufficient for any return to be made to shareholders. While this is undoubtedly an unwelcome outcome for shareholders, the Administrators have given careful consideration to the financial position of, and options available to, the Company and have concluded that it is the best outcome achievable for the stakeholders as a whole, under the circumstances. The reasons for that,

and the evidence in support of the Administrators' application to the Court, are summarised in today's judgment.

The Administrators intend to publish further details regarding the terms of the transaction with UMMC and the Administrators' work, analysis and conclusions to date on Monday 8 August 2022. This will include the Administrators' report under Statement of Insolvency Practice 16.

Thereafter, the Administrators will issue press releases following major events in the Administration and will issue the following reports and notices via the Company's and Opus' website:

<b>Reports</b>	<b>Approximate date or timescale (from commencement of Administration)</b>
Statement of Administrators' Proposals (within max. 8 weeks)	19 August 2022
Notice of Creditors' Decision or of Deemed Approval of the Proposals	9 September 2022
Progress Report	7 months
Request for an Extension to the Administration (where necessary)	11 months
Notice of Extension of Period of Administration (where granted)	12 months
Final Progress Report (where no extension has been granted)	12 months
Progress Reports (where an extension has been granted)	13 and 19 months
Final Progress Report (unless a further extension is granted by the court)	24 months

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**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](http://petropavlovskplc.com).

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8 August 2022

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**To All Known Creditors and Members**

✉ londonhq@opusllp.com

Dear Sir / Madam

**Petropavlovsk PLC - In Administration ("the Company")**

As you are aware, Trevor Binyon, Joanne Rolls and I were appointed Joint Administrators of the Company on 18 July 2022. I refer to our initial letter to creditors and shareholders dated 4 August 2022 which should be read in conjunction with this disclosure.

**PRE-PACKAGED SALE**

An agreement for the sale of the Company's shares in its main subsidiaries to joint stock company UMMC-Invest ("UMMC") was signed on 1 August 2022 ("the Sale").

The Administrators have conducted an assessment of the Sale based on the principles set out in Statement of Insolvency Practice 16 ("SIP 16") in respect of pre-packaged sales by administrators and have prepared this disclosure in this regard. Although a SIP 16 disclosure may not strictly be required in respect of the Sale, we have prepared one on the footing that it may be helpful to interested parties. This statement is intended to provide details regarding the Sale and the events leading up to the Sale.

The primary function of an administrator is to achieve one of the objectives set out in the Insolvency Act. In this case, the statutory purpose being pursued is to achieve a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration). This transaction should enable the statutory purpose to be achieved and, in my view, is the best available outcome as a whole in all the circumstances.

**THE ROLES OF THE INSOLVENCY PRACTITIONERS**

In most cases involving a pre-packaged sale, an insolvency practitioner's firm is initially engaged by the insolvent company to help its board of directors to consider the Company's options for resolving its financial difficulties and/or for arranging an orderly winding up of its affairs. If it is decided that an Administration is appropriate, the Company may then instruct the insolvency practitioner's firm to assist the Company or its directors to issue an application to the High Court to commence the

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process and to assist the Company to take steps towards selling its assets to achieve the best available outcome as a whole in all the circumstances.

Once appointed as Joint Administrators, the role of the insolvency practitioners is to manage the Company's affairs, business and assets with the objective of achieving a statutory purpose of an Administration. In the event of a pre-packaged sale, this involves concluding a sale of the business and/or assets shortly after the Administration has begun. When either assisting the Company before Administration or acting as Administrators, the insolvency practitioners' role is not to advise the directors personally or any parties connected with any potential purchaser, who are usually encouraged to take independent advice.

Prior to commencement of the Administration, Opus Restructuring LLP ("Opus") acted as restructuring advisors to the Company and its Board of Directors ("the Board"), having been engaged by the Company on 17 June 2022. For the avoidance of doubt, neither Opus nor its insolvency practitioners advised the directors personally or any parties connected with the purchaser, who were encouraged to take independent advice. At all times prior to Administration, the Board remained responsible for and in control of the Company's affairs.

In this instance, the Company had first engaged Alix Partners ("Alix") in April 2022 and then BDO LLP ("BDO") on May 2022, to consider the options available. In both cases, it was decided that an Administration with an immediate sale of assets was the most appropriate option. The Company then began the process of valuing and marketing its assets, with the assistance of other professional firms. Our role prior to being appointed as Administrators included reviewing and verifying the work previously carried out to satisfy ourselves that it remained appropriate to conclude a sale of the Company's assets. We have, where appropriate, obtained independent advice to confirm the conclusions drawn by prior advisors.

Full details in relation to our initial introduction to the Board as well as the events leading to our appointment as Joint Administrators can be found later in this disclosure.

When we were engaged, it was quickly apparent to us that it was necessary to sell the Company's assets within a short timeframe to avoid further deterioration of the value of the Company's assets (including due to the threat of immediate enforcement action by creditors against the Company's trading subsidiaries).

We considered the most effective method of securing a sale, representing the best outcome for creditors as a whole, and negotiated with parties interested in acquiring the assets of the Company to a point whereby a sale could be concluded shortly after the Administration had commenced.

Immediately on appointment, the Administrators, as officers of the Court and as agents of the Company, took over from the Board the responsibilities of managing the affairs, business and property of the Company. The Administrators have however, reached an agreement to provide certain directors of the Company with specific management powers for a short period, to enable trading to continue without interruption utilising the very particular knowledge and expertise of the Company's employees. For the avoidance of doubt, the Administrators retain overall day to day control. Further details will be provided in the Administrators' Proposals ("the Proposals").

Mindful of the need to achieve a statutory purpose of an Administration, on 1 August 2022, following an order of the High Court of the same date giving the Administrators liberty to enter into the Sale, the Company (acting through the Administrators) executed a Sale and Purchase Agreement with UMMC ("the SPA") to sell the majority of the assets of the Company for total consideration of approximately US\$619 million. Full details of the Sale can be found later in this disclosure.

Insolvency Practitioners are bound by the Insolvency Code of Ethics (“the Code”) when carrying out all professional work relating to an insolvency appointment. The Joint Administrators observed the Code in all their activities both prior to their appointment as set out in our letter dated 4 August 2022. Further detail will be provided in the Proposals which will be issued in due course.

Please note the Joint Administrators act as agents of the Company and contract without personal liability.

## **INITIAL INTRODUCTIONS**

Opus was introduced to the Board on 10 June 2022 by Joseph Hage Aaronson LLP (“JHA”) to provide restructuring advice to the Company.

The first briefing call was held between one of the Directors, Mikhail Irzhevskiy, and Allister Manson on 11 June 2022. Opus provided advice and a proposed engagement strategy between 11-17 June 2022, Opus was formally engaged on 17 June 2022. Between the initial introduction and the formal engagement, Opus was required to tender against other insolvency firms. Since the Administrators’ appointment, they have been involved in advising the Board in relation to the proposed Administration and the transaction. This advice has been provided in conjunction with JHA.

Advice was provided regarding the different options available to the Company and further detail is provided below.

## **PRE-APPOINTMENT**

In addition to advising on the Company’s options, our advice included matters regarding the marketing of the business that had already taken place prior to our instruction, by Hannam & Partners (“Hannam”), which was based on the valuation report that had also taken place prior to our instruction by Kroll LLC (“Kroll”). Further detail of the work completed by Kroll and Hannam is provided further in this disclosure.

Our fee in respect of pre-appointment advice and assistance was agreed in the sum of £425,000 plus VAT. As matters progressed, it became clear that there was potential for exceptional reputational and corporate risks to arise. Opus approached the Insolvency Practitioners Association (“IPA”) to discuss whether the agreement with the Company of an additional fee of £1,000,000 would be appropriate. Prior to our appointment as Administrators on 18 July 2022, the IPA confirmed that, in the circumstances, it considered such a fee to be commercial, fair and reasonable.

Our pre-appointment fee of £425,000 plus VAT was paid by the Company prior to our appointment. Creditors will have the opportunity to approve the enhanced element of our pre-appointment fee when considering the Proposals.

## ***Group and Company Structure***

The Company is a PLC that was listed on the premium listing segment of the Official List of the Financial Conduct Authority (the “FCA”) and admitted to trading on the London Stock Exchange’s (the “LSE”) main market for listed securities.

The Board are:

- James W Cameron Jr, Chairman
- Charlotte Philipps, Senior Independent Director
- Mikhail Irzhevsky, Independent Non-Executive Director
- Evgeny Potapov, Non-Executive Director
- Roman Deniskin, Independent Non-Executive Director

Three of the Company's directors are based in Russia (Mr Deniskin only having been appointed on 11 April 2022). Full anti-money laundering searches and checks have been completed on the Board including sanction checks. The Company also employs seven members of staff.

The following subsidiaries or business units mined and processed gold:

1. Albynskiy Rudnik (or mine) (Amur region, Russia) ("Albynskiy")
2. Pioneer mine (Amur region, Russia) (operated by JSC Pokrovskiy Rudnik ("Pokrovskiy"))
3. Malomyrskiy Rudnik (Amur region, Russia) ("Malomyrskiy")
4. The pressure oxidation or POX hub, processing gold from concentrate, operated by Pokrovskiy (Amur region, Russia)

The remaining subsidiaries and investments of the Company are either dormant, intermediate holding or financing companies or provided support services in Russia to the mining, exploration and processing entities, including management services, aviation, logistics, research, construction and engineering services.

Until a dramatic fall in its share price in March 2022 following Russia's invasion of Ukraine, the Company was also a constituent of the FTSE 250, FTSE 350 and FTSE All Share indices. The Company was removed from all FTSE indices as at 21 March 2022. The Company has a secondary listing on the Moscow Stock Exchange ("MOEX"), which has also been cancelled.

The largest shareholder that we are aware of is Uzhuralzoloto Group of Companies ("UGC") with 29.18%. The second largest shareholder is Prosperity Capital Management, who hold approximately 10% of the Company's shares.

The Company acted as a group holding company, overseeing ownership of its 12 direct subsidiaries. Many of the subsidiaries are Russian companies and, under Russian Law, Atlas Mining LLC ("Atlas") is the corporate managing director with oversight of the Russian based subsidiaries.

The Board approve all contracts and expenditure in excess of US\$1m which any of the subsidiaries wish or are required to enter into.

There is a schedule of matters reserved for the Board's approval. This includes, amongst other things, setting strategy, budgets, culture, changes to capital or corporate structure, significant transactions or litigation and related party transactions.

### ***Subsidiaries and Insolvency Events***

The Company is subject to a Term Loan of approximately US\$201m in favour of UMMC. UMMC took assignment of the Term Loan in April 2022 from Gazprombank (“GPB”), during a sanctions licencing window (which enabled entities about to be sanctioned to divest of their assets without penalties).

The amounts outstanding in respect of the Term Loan are guaranteed by Albynskiy, Pokrovskiy, Malomyrskiy and TEMI LLC (a Russian subsidiary engaged primarily in the holding and exploration of gold deposits in the Amur region). On 13 July 2022, UMMC, in its capacity as lender under the Term Loan, wrote to each of the guarantors demanding that the debt be repaid within five days. UMMC also filed a public notice, in Russia, of its intent to pursue bankruptcy proceedings against the guarantors.

In addition to the above, Pokrovskiy, Albynskiy and Malomyrskiy are each also debtors under revolving credit facilities assigned to Nordic LLC (“Nordic”) in April 2022. These facilities are cross-guaranteed by the other Russian subsidiaries. Nordic are owed approximately US\$87m plus interest and penalties. On 15 July 2022, Nordic demanded repayment of the outstanding balances within 30 days and, at the same time, advised that the demand should be treated as a pre-claim demand in accordance with Russian Law. The Company is not a guarantor of the amounts due to Nordic.

The Company is the guarantor of convertible loan notes, issued by Petropavlovsk 2016 Limited, which are due to mature in November 2022. It is estimated that the total amount outstanding is approximately US\$304m, excluding outstanding interest payments, future interest and any options.

The Company is also guarantor of convertible bonds, issued by Petropavlovsk 2010 Limited, which are due to mature in 2024. It is estimated that the total amount outstanding is approximately US\$33m, excluding outstanding interest payments, future interest and any options.

On 29 April 2022 the Company announced that an Event of Default had occurred, but that no acceleration of the notes or bonds had taken place. On 3 July 2022, the Company announced that the quarterly interest payment of 8.25% for both the notes and bonds was due, but could not be paid, thereby providing a further Event of Default.

In July 2022, we were informed by the Group’s CFO that there would be a cash shortfall for July-August 2022 of approximately US\$30m in respect of operating cashflow and the maintenance of capital projects across the Group.

The substantial deterioration of the financial position of the trading subsidiaries is attributed to the following:

- A 30% fall in the USD/RUB exchange rate since February 2022.
- International sanctions on Russian gold have imposed limitations on the ability to export gold, virtually limiting sales to the domestic market where a further 13-15% discount to the global market price is steadily applied.
- Interruption to the import of crucial spare parts and the general domestic price inflation have led to price increases for such things of 10%-20% above budget.
- Domestic suppliers to the Russian market changing payment terms to 100% advance payment.

The Company has not been able to refinance, having exhausted various options for refinancing the Group's debt, none of which are available in the current environment. Since the Russian invasion of Ukraine, the Company's market capitalisation has been diminished and the bonds, that are also listed, are trading at a significant discount to face value. The war in Ukraine has caused the relationship between Russia, the UK and the rest of the World to be unstable, unpredictable and hostile. Overall, trading had become extremely difficult and asset values had been depleted.

The Company approached a number of banks to explore refinancing options but none were willing to lend to the Company. Opus have also approached various financial institutions, including our own bankers, but without success.

The Company issued regular press releases to shareholders between February and July 2022 regarding its financial difficulties and the fact that it was exploring a sale of its assets. A number of shareholders, including UGC and Prosperity, were contacted and included in the marketing process conducted by Hannam.

The invasion of Ukraine by Russia and subsequent Western Sanctions significantly impacted the share value of the Company. This resulted in the share price dropping from 44p to 1.5p.

A review of the Company's cash-flow revealed that there would be insufficient working capital available to allow the Company to continue to trade whilst a purchaser was identified outside of an insolvency event.

Given the threat of enforcement action at both parent and subsidiary levels and the Group's inability to meet its substantial debts as and when they fell due, it was clear that the Company was insolvent on both a cash flow and balance sheet basis.

The Company and the proposed Administrators considered the following options:

#### *Continuing to trade outside insolvency or through a Moratorium*

The Company's cash constraints make it impossible to continue trading. The Company has a cash balance of c. US \$25 million in an account with GPB Luxembourg but the Company has no access to this cash due to sanctions and banking restrictions. It is simply unable to access sufficient cash to pay its liabilities as they fall due.

#### *Company Voluntary Arrangement ("CVA")*

A CVA is a procedure, often lasting between three and five years, which enables an insolvent Company to reach an agreement with its creditors to delay or compromise the payment of all or part of its debts.

Given the fluid sanctions environment and the Company's particular circumstances, we concluded that a CVA is not a viable option.

#### *Liquidation*

The possibility of placing the Company into liquidation was considered. However, it was decided that this was not the best course of action to take, as issuing notices initiating the liquidation process would have damaged the Company's reputation and consequently the value of its assets.



If the Sale does not take place, it is likely that the return to creditors will be very substantially reduced. This is because there are currently no other viable purchasers and there is a very real prospect of the Company's Russian creditors (including UMMC itself) taking steps to enforce against its key operating subsidiaries to the detriment of other creditors.

#### *Compulsory Liquidation ("WUC")*

A WUC is the creditor-led process where the court orders that the Company is wound up. The Official Receiver is initially appointed Liquidator although he may subsequently be replaced by an insolvency practitioner.

Once appointed, the Liquidator takes control of the Company from the directors and continued trading is highly unlikely as the effect of the winding-up order is to terminate all contracts. Thus, on the granting of the winding-up order (if not earlier), the Company ceases trading and the Liquidator sells its assets to repay the costs of the liquidation with any surplus being paid to creditors in priority set out in the legislation. There would also be a substantial increase in costs due to the statutory fees, as compared to an Administration.

#### **GOING CONCERN SALE**

Immediately prior to appointment, the proposed Administrators had considered whether the first Administration purpose might be achieved by continuing to trade the business within Administration whilst a suitable purchaser was sought. However, it was concluded that due to the Company's inability to raise funding or receive funds from its trading entities, it was not possible to rescue the Company as a going concern.

#### **EFFORTS TO CONSULT CREDITORS**

UMMC, the Company's largest creditor, has of course been fully informed throughout the process as they are the Purchaser.

The Administrators have not considered it necessary to contact other creditors of the Company in relation to the Sale prior to the execution of the SPA because it is anticipated that the sale proceeds received will enable creditors to be paid in full.

To my knowledge, the business and assets sold were not purchased from an insolvent company.

#### **MARKETING OF THE ASSETS**

Prior to our involvement, the Company engaged Hannam, who have expertise and experience in Russian based companies and mining activities, to conduct a marketing exercise to identify potential purchasers of certain assets of the Company. Hannam is authorised and regulated by the FCA and holds valid Professional Indemnity Insurance cover, evidence of which has been obtained.

We have liaised with Hannam to review the marketing undertaken and sought evidence of the same, where appropriate. We understand that the following timetable was followed:

- The marketing process began on 20 April 2022.
- Non-binding Indicative Offers were to be submitted by 29 April 2022.
- Data room granted to bidders between 4 May 2022 and 16 May 2022.

- Cash Confirmation, Offer structuring, SPA negotiation sessions, Q&A sessions between 5 May 2022 and 13 May 2022.
- Submission of Final Binding Offers by 16 May 2022.

Hannam have confirmed that, in order to reach the widest potential market they, together with the Company, identified and contacted 29 potential parties, including some shareholders and other large corporations. In addition to this, Hannam also sent teaser emails to its existing database. Hannam have advised that they focused on non-sanctioned Russian, CIS and emerging market buyers.

In addition to Hannam's activities, on 14 April 2022 and 16 May 2022, the Company issued two press releases which stated that all options were being considered, including "the sale of the Company's entire interests in its operating subsidiaries as soon as practically possible".

The Company's press releases were also published on the LSE, MOEX and, to the extent they relate to the 2022 Notes, the Global Exchange Market. It is clear that the potential sale of the Company's assets was well known in the market. It is also understood that the Company was contacted by interested parties independently of the marketing process that was carried out by Hannam who were then referred to Hannam.

The press release dated 14 April 2022 referred to the prospect of investors receiving no return from the sale.

The widest possible audience was reached by a combination of the Company issuing press releases and Hannam running a targeted sale and marketing process.

On appointment, the Administrators issued a press release requesting that any interested parties urgently contact the Administrators. No expressions of interest were received.

The Administrators are of the opinion that sufficient marketing was undertaken by Hannam and they are not connected to Opus, the Company or the subsidiaries.

The proposed administrators considered the merits of marketing the business for sale a second time. We considered the actions already taken by Hannam and the time constraints on the Company, given creditors were taking action both in the UK and against Russian subsidiaries. In addition to this, the proposed administrators sought guidance from Kroll as to whether the original valuation range could have increased. Kroll confirmed that, if anything, the value of the assets would have decreased during the period between their report and the date of Administration.

Hannam also confirmed that, in their opinion, the current global situation, e.g. G7 Sanctions on gold exports from Russia, meant they felt that the appetite to acquire a Russian gold producer remained low.

UMMC's ownership of the Term Loan is not sufficient for UMMC to be defined as a connected party for the purposes of the Administration. Formal Opinion was sought from Legal Counsel who have confirmed the same.

The marketing campaign resulted in the following offers (the names of bidders other than UMMC have been redacted to comply with confidentiality obligations):

**Bidder 1.** Bidder 1 made an indicative proposal to purchase all outstanding capital stock and other equity interests in the Company in the amount of US\$488m.

**Bidder 2.** Bidder 2 offered between US\$700-730m for all gold mining assets and other subsidiaries of the Company, which was based on net debt of the Company of US\$500m and other various provisions of US\$50m and the equity value of US\$150-US\$180m. Bidder 2 indicated that they felt that this represented up to 72% premium to the current (at the time) market capitalization of the Company on the London Stock Exchange. However, on the binding offer submission deadline date, Bidder 2 advised that they were not able to secure financing for the transaction and withdrew from the process.

**UMMC.** UMMC's initial non-binding offer did not provide a monetary figure but expressed their desire to ensure that creditors are paid in full. In expressing this, UMMC noted that they believed that the underlying assets of the Company do not exceed the total debt of Companies within the Group in the amount of approximately US\$628m.

**Bidder 4.** Bidder 4 expressed an interest in acquiring the assets of the Company but did not provide a monetary value to the expression of interest. It should also be noted that Bidder 4 provided its indicative offer on 16 May 2022, being the date for final binding offers. As a result of this, Bidder 4 confirmed that they would not be in a position to carry out due diligence in the timeframe permitted.

As a result, the best offer received by the date that the application to Court to appoint Administrators, was UMMC's. Accordingly, the proposed administrators began negotiating the precise terms of the transaction and formally drafting an SPA.

On 7 July 2022, UGC, the Company's largest shareholder, 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.

Under UGC's preliminary non-binding offer:

- UGC would procure full immediate repayment of outstanding sums due under the Term Loan (to UMMC) and the Facilities (to Nordic).
- UGC would buy out the remaining minority shareholders at "a current (preceding to announcement of this proposal) trading price of the Shares".
- The 2022 Notes and the Convertible Bonds should be transferred to a UGC subsidiary "incorporated in [a] jurisdiction outside of UK, EU, US and Russia", with the Company's guarantee terminated. Subsequent to this transfer, this debt would be "restructured and repaid".
- UGC would repay other outstanding indebtedness of the Company immediately.

In consideration of the above, the Company would transfer all material assets to an SPV set up by UGC.

This offer was expressly subject to contract and subject to various "conditions precedent", including that: (a) the current directors of the board who are EU, UK or US nationals resign; (b) the board

appoints three additional independent directors; (c) UGC conducting due diligence; (d) the current CEO being replaced by Mr Deniskin; (e) the agreement of binding documentation; and (f) “approval of the Proposed Restructuring by competent government body of the Company and regulatory authorities”.

Following this proposal, UGC exchanged correspondence with the Board between 11 and 14 July 2022.

On 12 July 2022 (prior to our appointment), we wrote to UGC. Our letter requested further information regarding the UGC Proposal by 4pm on 15 July 2022, including:

- An explanation of how UGC’s proposal to purchase the Company’s shares interacted with UGC’s intention to implement a complete debt restructuring of the Group;
- Detailed proposals as regards the treatment of the Company’s bondholders and shareholders;
- Proof that UGC had funding available to complete any transaction;
- Confirmation that all proposed steps could be carried out without additional regulatory approvals being obtained; and
- Confirmation that no person or entity involved in delivering the UGC Proposal or any transaction resulting from it is subject to any sanctions in the UK or elsewhere.

On 18 July 2022, UGC sent us a holding response stating, amongst other things, that UGC “should be able to revert to you with substantive answers to the queries raised in your letter of 12 July 2022 as soon as possible.... These are expected to be finalised in the course of this week” (i.e. by Friday 22 July 2022).

On 19 July 2022, we responded to UGC. Our letter repeated the requests set out in our 12 July letter and explained that the time available to identify a solution was extremely limited because of (i) the risk of immediate enforcement action by creditors against the Company’s assets in Russia, which would jeopardise any transaction and is likely to result in a far worse outcome for the Company’s stakeholders as a whole; and (ii) the risk that UMMC, which to date was the only party to have provided a binding and funded offer in respect of the Company’s assets, would withdraw that offer. We therefore requested UGC’s substantive response to our queries by 12pm on 22 July 2022, failing which we stated that we would have to conclude that UGC’s proposal was not viable in the time available. No substantive response was received from UGC.

Given the above, we had no further detail on UGC’s proposal beyond the preliminary, high-level and non-binding offer set out in its letter of 7 July 2022, and no proof that UGC has access to sufficient funds to pursue it. We were therefore forced to conclude that the proposal is not viable

On 16 May 2022, UMMC provided a final binding offer to acquire the gold mining assets and other subsidiaries of the Company. This was the only binding offer received.

In our opinion, the marketing strategy adopted, evidence of UMMC being able to complete the transaction and the fact that the other bidders have fallen away, has enabled the Administrators to achieve the best possible outcome for stakeholders, with creditors estimated to receive 100p in the £.

## VALUATION OF ASSETS

The Company carried out a tender process to engage a valuation expert adviser. Kroll Advisory Limited (“Kroll”) and Grant Thornton submitted tenders and, on the advice of Alix, Kroll were selected to carry out the valuation. Alix reasoned that they felt both Kroll and Grant Thornton could do the work, but that Kroll fielded a more experienced team, had recently valued a Russian goldmine, and have extensive experience across the mining sector in general.

Accordingly, the Company instructed Kroll and on 2 May 2022 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.

The information below has been summarised from the valuation report provided by Kroll to the Company.

The Net Asset Value (“NAV”) of the Petropavlovsk Subject Assets of US\$1.8 to US\$2.1 billion reflects the following:

- Life-of-mine projections for Pioneer, Malomir, Albyn and the POX hub (the Subject Assets) prepared by Management prior to the ongoing Russia-Ukraine conflict and without the impact on operations and development from existing and potential new sanctions. The discount attributable to the sanctions is factoring through our NAV multiple.
- Updated consensus long-term gold price projections of US\$1,600/oz.
- Forecasted long-term USD-RUB exchange rate of 87 RUB:1 USD based on IMF projections from April 19, 2022.
- Discount rate of 7% – like the cash flow projections, this discount rate excludes the impact from existing and potential new sanctions.

The NAV multiple (0.25X and 0.30X) reflects the discount applicable to the NAV arising from the impact of ongoing and potential new sanctions that are not factored into the cash flow projections or discount rate, including but not limited to potential discounts to the selling price of gold, operational delays due to lack of supplies, spares or labour, and an inability to repatriate funds outside of Russia.

The above NAV is based on the below breakdown of the Life-of-Mine Projections.

<i>in US\$000s</i>	<u>Low</u>	<u>High</u>
Pioneer	\$ 439,000	\$ 491,000
Malomir	733,000	819,000
Albyn	449,000	539,000
POX Hub	210,000	220,000
Net Asset Value	\$ 1,831,000	\$ 2,069,000

Kroll confirmed to us on 1 July 2022 that an updated valuation would value the assets at significantly less than the previous valuation provided. Kroll also confirmed that, if an updated valuation report was required, then the cost would be £187,500 plus VAT and it would take up to 5 days to undertake additional compliance checks, followed by a further 10 business days to produce the updated report.

In order to satisfy ourselves that Kroll's methodology and valuation were as accurate as possible, the Administrators instructed Opus Pear Tree Limited ("OPT") to carry out additional work in relation to the valuation. This was not only to establish the validity of its assumptions and methodology, but also to factor in changes to the macro-economic environment, including the price of gold and the value of the rouble. In addition, OPT have done a comparison with other recent mining transactions to demonstrate how asset values are continuing to drop in the Russian mining sector.

OPT audited the valuation methodology employed by Kroll and sought to update the valuation taking account of events which had taken place since the Kroll valuation was provided. OPT advised that their valuation range was US\$394m to US\$614m and concluded that "due to, inter alia, the continuing deterioration of market conditions, the current value of the assets would likely be lower today than as at the date of the Kroll report".

The Administrators considered the basis of the valuations appropriate as they were able to consider offers on a going concern basis but also understand what the assets might realise in the event that sale negotiations deteriorated and a forced sale of the assets was necessary. The final sale consideration reflects the higher end of Kroll's initial valuation and will almost certainly be considerably higher than any new valuation.

In addition to the Kroll valuation, PDS Valuers and Auctioneers were instructed to value the UK based chattel assets of the Company. The valuation report was produced on 11 July 2022. The value of these assets is not material to the outcome of the Administration.

## **THE TRANSACTION**

On 1 August 2022, following a Court Order handed down by HHJ Jonathan Hilliard QC sitting as a Judge of the High Court, which granted the Administrators the liberty to enter in the transaction, the Administrators and UMMC executed the SPA.

There is no connection between the purchaser and the directors or shareholders of the insolvent Company or their associates.

This transaction impacts on the subsidiary companies of the Company as the transaction includes the shares of these subsidiary companies.

No guarantees have been given by any directors for amounts due from the insolvent Company to a prior financier.

## **The Assets**

UMMC will be purchasing the shares in the following companies, which are direct subsidiaries of the Company:

- Cayiron Limited
- LLC Albynskiy Rudnik
- Petropavlovsk (Cyprus) Limited
- JSC Pokrovskiy mine
- Eponymousco Limited
- Victoria Resources Limited

- Petropavlovsk Mining Treasury UK Limited
- Sicinius Limited
- JSC MC Petropavlovsk
- LLC Atlas Mining

### **The Sale Consideration**

The total consideration payable by UMMC is \$619m, broken down as follows:

- the Administration Fund of \$20m
- the Administration Top Up Fund of \$10m
- the Contingency Fund of \$6m
- the Adjusted Cash Consideration being the surplus amount of \$380.5m less the value of any 2022 Bond Notes that are already held by the Purchaser that has been agreed by the seller as clean.
- the 2022 Note Consideration Amount; and the face value of the Buyer 2022 Notes. The Notes held by the Purchaser by completion date that the seller agreed are clean.
- the Term Loan Consideration – an amount equal to any and all outstanding amounts payable in respect of the Term Loan (\$202.5m) from time to time (save for any statutory interest payable in respect of the Term Loan).

If the completion of the sale and transfer of shares cannot complete, the SPA provides for the sale to be unwound if required. This includes termination rights in the event that sanctions prevent the completion of the transaction. Further, under the SPA, the Company is entitled to refuse any 2022 Notes tendered by UMMC if the Administrators have any concerns that the 2022 Notes have been obtained by UMMC from sanctioned persons.

The Adjusted Cash Consideration, Administration Fund and the Contingency Fund will be received from the Purchaser on or prior to the completion date that is to be decided and agreed by both parties, once the shares transfers have been prepared and are in a position to be transferred to the Purchaser.

The 2022 Note Consideration Amount shall become payable and shall be dealt with at least 6 business days prior to the completion date. the Purchaser will provide all details relating to the 2022 Notes to the Company. The Administrators will, within 2 business days of receiving this evidence, confirm if the Notes are agreed and clean. The Purchaser will, within 3 business days of completion, provide the funds due for all the Company's agreed Notes.

Once all other items have been dealt with, the Term Loan will be set off against the sale consideration.

The SPA includes an extended longstop date for the completion of the transaction of 60 days from the date the agreement is signed. This period has been introduced to allow sufficient time to identify the bondholders and complete the various checks to approve the transfers. This period is also in place to allow sufficient time to complete all the subsidiaries' share transfers to the Purchaser.

During the period of 12 months from the date of this deed, the Purchaser agrees that it will disclose to the Seller all material details of any dividends or other distributions made by any Subsidiary,

including the date, amount, and recipient of any such payment. In the event that the total amount of such dividends or distributions exceeds US\$50m, then any portion of that sum that is reasonably attributable to the period preceding the Transfer Success Date shall be paid by UMMC to the Company

#### **FURTHER INFORMATION**

As required by the Insolvency Act 1986, the Joint Administrators will prepare proposals which must be uploaded to the website within eight weeks of the commencement of the Administration. In reality, we intend to issue our proposals as soon as reasonably practicable, if possible, by the end of August.

We intend to convene a decision-making procedure of creditors to take place during September 2022. At that stage, creditors may choose to form a Creditors' Committee. For information on the rights, duties and the functions of Committees, please go to <https://opusllp.com/literature/r3-guide-to-creditors-committees>.

Should you wish to know more about the insolvency process in general, I recommend that you visit [www.creditorinsolvencyguide.co.uk](http://www.creditorinsolvencyguide.co.uk).

Please note, specific email addresses have been set up for creditors and shareholders. Therefore, should you need to contact us, please use the addresses below:

Creditors: [petropavlovsk@opusllp.com](mailto:petropavlovsk@opusllp.com)

Shareholders: [petroshareholders@opusllp.com](mailto:petroshareholders@opusllp.com)

Yours faithfully

For and on behalf of

Petropavlovsk PLC – In Administration



**Alister Manson**

**Joint Administrator**