

15 July 2024

LMS Capital Plc ("LMS" or the "Company")

This announcement contains inside information

Update on Investment

LMS Capital announces changes to the governance and financial structure of its investment in Dacian Petroleum (Dacian), the Romanian oil and gas production company.

Key highlights of the changes are as follows:

- The Company's existing interest in senior loan notes in Dacian, along with the interests of co-investors (together the "**Original Investor Group**"), will convert into equity in Dacian with preferential distribution rights (the "**Equity Swap**");
- Certain of the Original Investor Group, including two of the Company's directors although not the Company (the "**Bridge Lenders**"), will provide financing of \$1 million to Dacian for one year on an unsecured basis (the "**Bridge Loan**") with an entitlement to an equity subscription of 5% of Dacian's issued share capital, at nominal value;
- The Original Investor Group will have increased board representation rights and will be able to appoint a majority of the Dacian board.

The Bridge Loan will take effect immediately but the Equity Swap, the entitlement of the Bridge Lenders to subscribe for equity and the changes to the board rights, remain subject to regulatory clearances in Romania. Further details regarding the changes and the background to the changes are set out below.

The carrying value of the Company's investment in Dacian has been reviewed and, on the assumption that the necessary regulatory clearances are received, and the changes outlined below are implemented, it is estimated that the Net Asset Value (the "NAV") of the Company would be reduced by approximately £1.3 million compared to the last reported NAV as at 31 March 2024.

Chair, Jamie Wilson commented:

"The early period of operations at Dacian has been more challenging than anticipated, but we continue to believe that the company will generate returns for its investors and that the changes agreed will put the company on a sound footing to take advantage of the opportunities open to it"

Background

The Original Investor Group, which included and was led by LMS, invested in Dacian in 2020. LMS, through its wholly owned subsidiaries, invested \$9.1 million as part of a \$14.0 million financing by way of senior loan notes with a coupon of 14% per annum on a compounding basis (the "**Senior Loan Notes**"), and an equity subscription at nominal value giving the Company an equity stake of 32.3% in Dacian (the "**Original Investment**"). The Original Investor Group in total held 50% of the equity and the founding team (the "**Founders**") held 50%.

The Original Investor Group comprises the Company, certain third parties and three of the Company's directors, being Robert Rayne, Jamie Wilson and Nick Friedlos, with the investment in 2020 having been made in accordance with the Company's published Co-Investment Policy.

Until 12 July 2024 the board of Dacian comprised two of the Company's Directors, Robert Rayne and Nick Friedlos, and three Dacian Founders. Effective 12 July 2024, one of the Founders resigned to be replaced by Jamie Wilson, the Chairman of LMS.

Dacian Operations

As previously announced in the Company's 2023 annual report and accounts, Dacian experienced a significant engineering issue in 2023 which impacted gas production levels materially and postponed planned production enhancement projects. Due to this, Dacian has continued to experience lower than target production levels through 2024 and as such, revenues achieved by Dacian in 2023 and so far in 2024 have been significantly below expectations.

Financial position

Dacian currently services third-party debt, which was put in place in 2020, with payments to the third party of approximately \$300,000 per month. The amount currently outstanding is \$1.3 million, which will be fully repaid by late November 2024, following which Dacian's free cashflow is expected to increase significantly. The original amount of the debt was \$6 million.

Dacian is also meeting its obligations under the recently imposed Romanian Solidarity tax of some \$100,000 per month payable until April 2025.

Whilst Dacian has been continuing to meet its financial obligations notwithstanding its lower revenues, it has become clear that Dacian would benefit from additional financing in the interim period to ensure it has sufficient working capital. In addition, as it currently stands, due to the total value of the Senior Loan Notes as at 30 June 2024 (with interest compounded) being \$22.1 million, Dacian's capital structure is in a deficit position which, under Romanian Law should be rectified.

Following consideration of a number of options, it has been concluded that the best route forward for Dacian and for all of the Original Investor Group (including the Company) is for additional financing of \$1 million by way of a bridge loan to be made and for the existing Senior Loan Notes to convert into equity in Dacian (the "**Equity Swap**") (together the "**Restructuring**") as further described below.

The Restructuring

Bridge Loan

Pursuant to the above, it has been agreed that the Bridge Loan of \$1 million be made available to Dacian by certain of the Original Investor Group. All Founders and the Original Investor Group were offered the opportunity to participate in the Bridge Loan *pari passu* to their equity holding. The Company is not participating in the Bridge Loan due to its investment in Dacian already exceeding 15% of its NAV and there being an investment restriction in the Company's Investment Policy that no investment should represent greater than 15% of the Company's NAV measured at the time of investment. Three of the Original Investor Group, including Robert Rayne and Jamie Wilson who are Directors of the Company plus one of the Founders are participating (together the "**Bridge Lenders**").

The Bridge Loan will have an interest rate of 14% per annum and shall be repayable in 12 months from drawdown. As part of the Restructuring, the Bridge Lenders will also be granted an entitlement to subscribe for equity representing 5% of Dacian's share capital, as diluted by the Equity Swap, at a subscription price of 10 RON per share (approximately £1.70 per share) being equal to the nominal value of Dacian Shares. The Original Investment was priced on the same basis. Pending completion of the Equity Swap set out below, the Senior Loan Notes will be subordinated to the Bridge Loan. The Bridge Lenders will have the right to require immediate repayment if the Equity swap is not completed by 31 December 2024.

The Equity Swap

In conjunction with the Bridge Loan, it has been agreed that the Original Investment be restructured such that all of the Original Investor Group convert the Senior Loan Notes into equity in Dacian (the "Equity Swap") on the same terms. The purpose of this is to correct the deficiency in Dacian's net assets under Romanian law and to strengthen the company's balance sheet.

Following the Restructuring and taking account of the Equity Swap and the equity subscription by the Bridge Lenders, the Original Investor Group will own 82.5% of Dacian (LMS' holding will be 53.3%), the Bridge Lenders will hold 5% and the Founders 12.5%.

Under the terms of the Equity Swap, the Original Investor Group will have preferential dividend distribution rights in Dacian, in respect of all of the shares held by them, such that all dividends will be payable in proportion 95% to the Original Investor Group and 5% to the Founders and the Bridge Lenders (the "**Preferential Distribution Rights**").

With respect to the shares held by the Founders, the Preferential Distribution Rights in favour of the Original Investor Group will continue to apply until the earlier of (i) receipt by the Original Investor Group of an amount equal to the full amount of principal and compounding interest that would have been due had the Senior Loan Notes continued to their original maturity date; or (ii) Dacian secures an alternative energy project, which could have a material favourable impact on the value of Dacian.

With respect to the equity subscription shares held by the Bridge Lenders, the Preferential Distribution Rights in favour of the Original Investor Group will continue to apply until the earlier of (i) receipt by the Original Investor Group of an amount equal to the amount of the original principal under the Senior Loan Notes; or (ii) Dacian secures an alternative energy project, which could have a material favourable impact on the value of Dacian.

Pursuant to the Equity Swap, the Founders' holding in Dacian will be materially diluted. To incentivise the management team

going forward, it is the intention of the Dacian Board in due course to issue additional equity to management, on terms to be agreed but which would require appropriate performance thresholds to have been met before any such shares acquired material value.

Governance

The Original Investor Group will have increased representation on the board of Dacian by virtue of it having the entitlement to appoint a majority of the directors, subject to regulatory clearance.

Investment agreement, other documentation and regulatory clearances

In order to give effect to the Restructuring, the investment agreement, to which the Original Investor Group (including the Company) and Founders are parties, and which was put in place at the time of the Original Investment, has been amended and restated to reflect the changes outlined above.

Notwithstanding the restatement of the investment agreement, the Restructuring itself will only be fully implemented in due course once the process and documentation prescribed under Romanian law have been prepared and followed and the required regulatory clearances have been obtained.

In accordance with the Company's Articles of Association and its Co Investment policy, the arrangements set out above have been reviewed, in conjunction with external professional advice, and approved by the two LMS independent non-executive directors who have no personal interest in Dacian.

Dacian Outlook

Whilst the production levels have been below expectations for the reasons set out above, the Board considers the prospects for Dacian to be positive in the medium term. The current cashflow projections for Dacian underpinning the Restructuring have been rebased on the production levels currently being achieved and Dacian has also identified cost efficiencies which can be made over the short term which are not expected to impact its maintenance programme or production. Dacian is expected to be able to repay the Bridge Loan during 2025. Beyond 2025, it is expected that Dacian will be sufficiently cash generative to pay dividends to its investors.

Dacian's estate offers opportunities in alternative energy related uses. Whilst any such opportunities are still at a relatively early stage, the Board of the Company are optimistic about the potential additional benefit that this could bring.

The person responsible for arranging the release of this announcement is Nick Friedlos

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