

Petra Diamonds US\$ Treasury Plc
(Registration number 09518557)
Report and financial statements
for the year ended 30 June 2019



Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

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Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

Company information

Country of incorporation and domicile	United Kingdom
Directors	J Breytenbach A G K Hamilton
Registered office	165 Fleet Street London EC4A 2DY
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Secretary	St James's Corporate Services Limited

Petra Diamonds US\$ Treasury Plc

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Strategic report

The directors present the Strategic report for the period from 1 July 2018 to 30 June 2019. The directors in preparing this Strategic report have complied with Section 414C of the Companies Act 2006 ("the Act") providing insight to the member as to how the directors have performed their duty to promote the success of the company.

Set out below are the applicable reporting requirements under the Act for the purposes of the Strategic report.

Fair review of the business

The company was incorporated on 31 March 2015. The company's principal activity is to raise capital in the global debt markets. The proceeds from the capital raising are used to provide funding for future capital expenditure, pay down bank debt and for strategic corporate expenditure within the Petra Diamonds Limited group ("the Petra Group").

Rights Issue

On 24 May 2018, Petra Diamonds Limited announced a 5 for 8 Rights Issue to raise net proceeds of ca. US\$170 million via the issuance of 332,821,725 Rights Issue Shares at an Issue Price of 40 pence per share. The main driver for the fundraise was to accelerate a reduction in leverage to a more sustainable level, with the Board setting a target of Consolidated Net Debt to Consolidated EBITDA of 2x or less by the end of FY 2020, and to enable management to focus on ongoing operational delivery and optimisation, as well as to assist in mitigating short-term issues relating to currency volatility and other ongoing business challenges.

On 09 July 2018 ca. US\$107 million of the funds received from the Rights Issue was utilised to fully pay down outstanding drawn indebtedness with the Petra Group's South African Lending Group (refer to note 15 for further detail), for which the company is a guarantor, thereby realising cash interest savings of ca. US\$10 – 12 million per annum, whilst retaining both of these facilities.

Senior Secured Second Lien Loan Notes

During April 2017, the company issued debt securities consisting of US\$650 million five-year senior secured second lien loan notes ("the 2022 Notes"), with a maturity date of 01 May 2022 (refer to note 14 for further detail). The proceeds from the 2022 Notes were used to repay debt securities comprising US\$300 million senior secured second lien notes (principal amount, plus the applicable premium and accrued and unpaid interest) of US\$324.1 million and amounts outstanding under certain of the Petra Group's existing bank loan facilities.

The balance of the funds from the 2022 Notes, together with future drawdowns from the Petra Group's bank loan facilities, were used to further the Petra Group's expansion projects.

Principal risks and uncertainties

This annual report contains certain forward looking statements. These statements are made by the directors in good faith, based on the information available to them up to the time of approval of this report. Actual results may differ to those expressed in such statements depending on a variety of factors. These factors include variability in the levels of demand in the debt market, restrictions to market access, the appetite for corporate debt and the overall economic conditions.

The company faces the following principal risks:

- the ability to raise future capital within the global debt markets;
- the price of rough diamonds and the diamond market;
- the delivery of future capital expansion projects within the Petra Group;
- The operational performance of the various diamond mining operations within the Petra Group; and
- foreign exchange risk where functional currency is not US Dollars.

To mitigate these risks, the directors constantly review the developments within the global debt and rough diamond markets. This includes regular monitoring of the group's credit rating and monitoring of diamond prices and trends in pricing.

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Strategic report

Analysis of the development and performance of the business and analysis of the position of the business

As noted in the section, 'Senior Secured Second Lien Loan Notes', during April 2017, the company successfully issued US\$650 million of debt securities to provide funding to further the Petra Group's expansion projects and to repay amounts outstanding under certain existing Petra Group debt facilities. As at 30 June 2019, the company holds total assets of US\$592 060 920 (2018: US\$576 548 205) comprising its investment in subsidiary, debtors due from Petra Group companies and cash at bank and had net liabilities of US\$97 758 214 (2018: US\$71 540 201). The directors will continue to assess the funding requirements of the Petra Group and carefully consider any future capital raising should the need arise. The company recorded a loss after tax of US\$26 218 013 (2018: US\$36 622 394) primarily due to the finance costs of US\$49 626 955 (2018: US\$49 596 111) on the 2022 Notes, offset by interest received and other income.

Analysis using key financial performance indicators and analysis using other key performance indicators

The results are set out on page 14. The principal key performance indicator for the company is profit. The directors monitor the forecast cash flows of the Petra Group to assess the ability to settle the 2022 Notes at maturity or refinance the debt. The loss after tax for the period ended 30 June 2019 was US\$26 218 013 (2018: US\$36 622 394).

The company is a guarantor for the Senior Lender Facilities as set out in note 15. The Petra Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in diamond prices, exchange rates and expected production from the Petra Group's mines, including total carats and mix.

Refer to the Directors' report on page 6 for details of the Petra Group's liquidity.

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 17 to the financial statements.

Approval of the Board

This Strategic report was approved and authorised for issue by the board of directors on 17 FEBRUARY 2020.

By order of the board.



J Breytenbach
Director

Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

Directors' report

The directors present their report on the affairs of the company, together with the financial statements and auditor's report of Petra Diamonds US\$ Treasury Plc for the year ended 30 June 2019.

The following information is included within the Strategic report:

- Fair review of the business;
- Principal risks and uncertainties;
- Analysis of the development and performance of the business and an analysis of the position of the business;
- Analysis using key financial performance indicators and analysis using other key performance indicators; and
- Events after the balance sheet date.

Nature of business

The company is focused on the raising of capital in the debt markets to provide funding to related group companies.

Directors

The directors, who served throughout the year were as follows:

Directors

J Breytenbach
A G K Hamilton

Events after balance sheet date

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

Financial instruments

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including credit risk, interest risk, cash flow risk, foreign exchange risk and liquidity risk.

Cash flow risk and interest rate risk

The company's activities expose it primarily to the financial risks of changes in interest rates.

Interest bearing liabilities are held at a fixed interest rate to ensure certainty of cash flows.

Interest bearing assets accrue interest at a variable interest rate.

Credit risk

The company's principal financial assets are cash at bank and in hand, amounts due from group undertakings and other debtors and investments.

The company's credit risk is primarily attributable to its amounts due from group undertakings. The company manages this risk by assessing counterparty credit worthiness.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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Directors' report

Foreign exchange risk

The company capitalised its wholly owned subsidiary Petra Diamonds UK Treasury Limited ("PDUKT"), with proceeds from the issue of the original US\$300 million senior secured second lien notes at a rate of R 11.9204/\$1. The receipt of dividends and future repayment of equity from PDUKT to service the coupon and capital settlement on maturity of the 2022 Notes on 01 May 2022 exposes the company to USD/ ZAR volatility. The company is also exposed to foreign exchange risk on its foreign currency bank accounts.

Liquidity risk

To maintain the liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the company maintains flexibility through the Petra Group negotiated credit lines and the review of future cash flows from counter party receivables. In May 2022 the 2022 Notes mature and the directors monitor the forecast cash generation of the Petra Group and the credit markets to assess the ability to settle or otherwise refinance the 2022 Notes at maturity.

Going concern

The company has written confirmation of financial support from its ultimate holding company and is dependent on the Petra Group ("the Group") continuing as a going concern.

Background

Production results for H2 FY 2020 ("the Period") exceeded management expectations. However, product mix and rough diamond market conditions negatively impacted rough diamond pricing and, as a result, revenue and cash flow results. As a result of the above, revenue for the Period decreased 6% compared to H1 FY 2019.

The Group's covenants related to its South African banking facilities are as outlined below:

Covenant	31 December 2019	30 June 2020	31 December 2020	30 June 2021
Consolidated Net Debt to Consolidated EBITDA				
- Required covenant ratio:	Not more than 4.25x	Not more than 3.5x	Not more than 3.25x	Not more than 3.0x
Consolidated EBITDA to Consolidated Net Finance Charges				
- Required covenant ratio:	Not less than 2.5x	Not less than 2.75x	Not less than 3.0x	Not less than 3.25x
Consolidated Net Senior Debt to Book Equity				
- Required covenant ratio:	Not more than 0.4x	Not more than 0.4x	Not more than 0.4x	Not more than 0.4x

The implementation of Project 2022, as announced in July 2019, aims to identify and drive efficiencies and improvements across all aspects of the business. Project 2022's focus is on enhancing cashflow generation and reducing net debt. The increase in production for the Period is mainly as result of certain initiatives identified through Project 2022 starting to deliver. In light of the continued weakness in the diamond market, coupled with the impact of adverse product mix, the delivery of Project 2022's cumulative cash flow target is expected to be delayed, resulting in the US\$150 – 200 million being revised to US\$100 – 150 million by June 2022, to achieve annualised cash flow generation of US\$50 – 80 million.

Forecasts and associated risks

In light of the above, coupled with recent market commentary about continued weakness in the diamond market, the following have been key considerations for the Petra Board ("the Board") in assessing the Group's ability to operate as a going concern at the date of this report:

- risks of further market weakness reducing diamond prices;
- the impact on pricing due to product mix volatility;
- risks of general production disruptions;

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Directors' report

- risks of increased operating costs;
- volatility in the South African Rand; and
- the impact of reduced revenue on earnings, cashflow projections and associated covenant measurements.

Base case forecasts (which incorporate current diamond market conditions) assume an average exchange rate of ZAR14.50:US\$1, continued advances to BEE partners to enable them to meet their loan obligations to the BEE Lenders, and specifically excludes the proceeds from the sale of exceptional stones, the sale of the blocked Williamson parcel and the recovery of historical and current VAT during the forecast period.

The Board has reviewed the Group's forecasts and sensitivities for a period of at least 12 months from the date of this report, including both forecast liquidity and covenants. In doing so, careful consideration was given to potential risks to the forecasts as listed above.

Under the base case, and cases adjusted for sensitivities on an individual basis, the Group's forecasted liquidity is likely to require temporary utilisation of the South African banking facilities should the ongoing weakness in the diamond market persist during the period under review, and therefore the Group's base case forecasts are anticipated to be dependent upon the continued availability of the South African banking facilities. The impact of the recent weakness in the diamond market on the Group's operating results and cash flow position has been discussed with the Lender Group, including likely breaches of its EBITDA-related covenants for the December 2019 (measured in March 2020), June 2020 and December 2020 reporting periods. The Lender Group have re-affirmed their ongoing support of the Group and have waived the EBITDA related covenant ratios associated with its banking facilities for the December 2019 measurement period (measured in March 2020).

The Group and the Lender Group will hold further discussions with regards to covenants for the June 2020 reporting period in H2 FY 2020 following completion of at least two of the four tenders to be held during H2 FY 2020 to gauge short term rough diamond prices, and resultant forward looking full year results and cash flow projections. This may include covenant resets and/or waivers for the June 2020 measurement period and potentially for subsequent measurement periods. All future covenant waivers or resets will be subject to the approval from respective credit committees of the Lender Group and, although the Group recognises the ongoing support from the Lender Group and the track record of achieving waivers or resets historically, there is no guarantee that future waivers or resets will be received.

Conclusion

The Board is of the view that the longer term fundamentals of the diamond market remain sound notwithstanding the current weakness in the pricing of rough diamonds. The forecast benefits of Project 2022 are expected to optimise production and maximise cash flow, while having access to some of the largest diamond resources globally will continue to provide organic growth opportunities well beyond 2030.

The Board recognises the significant debt levels within the Group and despite the operations now delivering production results in line with guidance, with all major capital expansion programmes having been delivered on, the current weakness in the diamond market has heightened the need to continue to optimise production and associated cash margins across all operations by continually focusing on key deliverables as currently envisaged to be addressed via Project 2022.

Ongoing engagement with the Lender Group is key to ensuring facilities remain available to the Group. Cash management and preservation will continue to be of the highest importance via the management of working capital, specifically diamond inventory control, deferring of non-essential cash payments, maintaining very tight control over costs and overheads, and deferral of certain elements of its capital expenditure that are not essential.

Considering the recent positive engagements with the Lender Group, alongside the Group's existing cash resources and the expected continuing availability of current facilities, the Board assessed the liquidity headroom to be adequate under the Group's current base case and reasonable sensitivities.

Accordingly, and having updated their inquiries of the Board and their own assessment to date, based on the above and the company's continued dependence on the Group's mining operations, the directors have concluded that the going concern basis in the preparation of the annual financial statements remains appropriate and that there are no material uncertainties that would cast doubt on that basis of preparation.

Directors' indemnities

The company has arranged qualifying third party indemnity insurance for the benefit of its directors which were in office during the period and the indemnity remains in force at the date of this report.

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Directors' report


Auditors

Each of the persons who is a director at the date of approval of the report confirm that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Approved by the board on 17 FEBRUARY 2020 and signed on its behalf by:



J Breytenbach
Director

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Directors' responsibilities and approval

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether all accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the members of Petra Diamonds US\$ Treasury Plc

Opinion

We have audited the financial statements of Petra Diamonds US\$ Treasury Plc ("the Company") for the year ended 30 June 2019 which comprise the Balance sheet, the Profit and loss account, the Statement of Comprehensive Income, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern including guarantees for the Petra Group Senior Secured Lender Debt Facilities

Matters identified

The Petra Diamonds Limited group ("the Petra Group") held US\$650 million of secured senior second lien loan notes and had US\$107 million of undrawn, but available secured senior lender facilities as at 30 June 2019 and 31 December 2019, the latter being subject to covenant measurements. The Company is a guarantor for the secured senior lender facilities as detailed in note 14.

The Petra Group's results for the period to 30 June 2019 and 31 December 2019 had been adversely impacted by the weakening of the rough diamond market as set out in Petra Diamond Limited's Financial Statements ("the Petra Group financial statements") and Petra Diamond Limited's Interim Financial Statements ("the Petra Group interim financial statements") such that the Petra Group is forecasting a likely breach of its EBITDA-related covenants at 31 December 2019 and (measured 31 March 2020) and possible breaches for June 2020 and December 2021.

The Petra Group's base case cashflow forecast indicates that it is sensitive to economic assumptions and certain sensitivities would require the temporary utilisation of its banking facilities, to meet its liabilities as they fall due for a period of at least the next twelve months from the date of approval of the financial statements. Based on ongoing discussions with the Lender Group, the Petra Diamonds Limited Board ("the Petra Board") has concluded that if a forecast breach occurs it remains confident that the existing facilities will remain available to the Group.

Independent Auditor's Report to the members of Petra Diamonds US\$ Treasury Plc

The Petra Group Board's assessment that the going concern basis of preparation remains appropriate and that there are no circumstances which represent a material uncertainty that may cast doubt on the Petra Group's use of that basis for a period of at least 12 months from the date of approval of the Financial Statements represented a significant risk for our audit.

How we addressed the matter

The below testing was carried out in conjunction with our audit of the Petra Group financial statements and where specified the challenges and assessments were made to the Group's Management or the Petra Board and on the information provided by them.

- We critically reviewed the Petra Group's forecasts and challenged management of the Petra Group on their assumptions in respect of diamond prices, production, operating costs, foreign exchange rates and capital expenditure. In doing so, we considered factors such as empirical performance, trading to date in H1 FY 2020 and external market data. We specifically confirmed that the forecast period excluded receipts associated with Parcel 1 and VAT receivables at Williamson.
- We agreed debt service payments associated with the secured senior second lien loan notes to the terms of the loan notes. We confirmed that the forecasts included advances to the Petra Group's BEE partners to enable the BEE partners to meet their obligations under the BEE Lender Facilities.
- We assessed management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts and assessed the level of facility utilisation under such sensitivities. We performed our own sensitivities in respect of diamond pricing, production and foreign exchange rates.
- We recalculated management's covenant compliance calculations and forecast covenant compliance calculations and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements.
- Given the forecasts indicate a likely breach of covenants we critically assessed the Petra Board's judgement that, should a breach occur, the banking facilities would remain available to the Petra Group. We reviewed and considered management reports reviewed by the Petra Board in respect of going concern and associated disclosures. We made specific inquiries of management and the Petra Board regarding the nature of discussions held with the Lender Group and how those discussions had been considered in the Petra Board's conclusion.
- We held independent discussions with representatives of the Lender Group regarding the nature of the Lender Group's discussions with management and received written confirmation from the Lender Group which, whilst non-binding, was consistent with the Petra Board's conclusion. In addition, we considered the Petra Board's assessment of factors such as the historical covenant resets, the extent of the forecast facility requirement and the underlying operating cash profile which formed part of the Petra Board's conclusion.
- We obtained correspondence from the lender Group confirming the covenant test for 31 December 2019 had been waived.
- We reviewed the disclosures in note 1 to the Financial Statements in respect of going concern.

Key observations

We found management's forecasts indicated that the Petra Group would likely breach its banking covenant ratios as at 30 June 2020 and 31 December 2020. We found the key underlying assumptions to be within an acceptable range.

We found the Petra Board's judgement that, in the event of a breach under the Petra Group's forecasts, the Petra Group would expect to be able retain access to its banking facilities, and therefore that the Company would have sufficient liquidity, to be acceptable.

We found the disclosures included in the Company's Financial Statements in respect of going concern to be appropriate.

Our application of materiality

We determined materiality for the financial statements as a whole to be US\$5,900,000 (2018: US\$5,700,000) based on approximately 1% of total assets (2018: 1%). We consider total assets to be an appropriate basis for materiality given the Company is focused on raising debt for onward lending to the wider Petra Diamonds Limited group. We agreed to report to those charged with governance all individual audit differences identified during the course of our audit in excess of US\$118,000 (2018: US\$114,000). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements, importantly, misstatements below, these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent Auditor's Report to the members of Petra Diamonds US\$ Treasury Plc

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2018: 75%) of the above materiality levels, being US\$4,425,000 (2018: US\$4,425,000).

An overview of the scope of our audit

We performed a full scope audit of the Company's financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the members of Petra Diamonds US\$ Treasury Plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO UK

**Ryan Ferguson (senior statutory auditor)
for and on behalf of BDO LLP
statutory auditor
London**

17.2.2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Profit and loss account

	Notes	2019 US\$	2018 US\$
Interest income	3	23 409 359	12 587 869
Foreign exchange (losses) / gains		(36 297)	27 576
Administrative expenses		(116 122)	(307 088)
Operating profit	2	23 256 940	12 308 357
Interest receivable	3	152 002	665 360
Finance costs	4	(49 626 955)	(49 596 111)
Loss before taxation		(26 218 013)	(36 622 394)
Taxation	6	-	-
Retained loss for the year		(26 218 013)	(36 622 394)

The above results were derived from continuing operations.

The accounting policies on pages 18 to 22 and the notes on pages 23 to 29 form an integral part of these report and financial statements.

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Report and financial statements for the year ended 30 June 2019

Statement of comprehensive income

	Notes	2019 US\$	2018 US\$
Loss for the year		(26 218 013)	(36 622 394)
Other comprehensive income		-	-
Total comprehensive loss		(26 218 013)	(36 622 394)

The above results were derived from continuing operations.

The accounting policies on pages 18 to 22 and the notes on pages 23 to 29 form an integral part of these report and financial statements.

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Balance sheet as at 30 June 2019

	Notes	2019 US\$	2018 US\$
Assets			
Non-Current Assets			
Investments in subsidiaries	7	230 000 000	230 000 000
Debtors: amounts falling due after one year	8	300 000 000	172 000 000
		530 000 000	402 000 000
Current Assets			
Debtors: amounts falling due within one year	9	60 862 496	149 821 743
Cash and cash equivalents	11	1 098 424	24 726 462
		62 060 920	174 548 205
Total Assets		592 060 920	576 548 205
Liabilities			
Creditors: amounts falling due within one year			
Other creditors and accruals	10	39 228 773	-
Loans and borrowings	14	47 254 761	46 932 308
		86 483 534	46 932 308
Net current (liabilities) assets		(24 422 614)	127 615 897
Creditors: amounts falling due after one year			
Loans and borrowings	14	603 335 600	601 156 098
Total Liabilities		689 819 134	648 088 406
Net liabilities		(97 758 214)	(71 540 201)
Capital and reserves			
Called-up share capital	12	73 805	73 805
Profit and loss account		(97 832 019)	(71 614 006)
Total shareholders' deficit		(97 758 214)	(71 540 201)

The report and financial statements of Petra Diamonds US\$ Treasury Plc were approved by the board of directors and authorised for issue on 17 FEBRUARY 2020

They were signed on its behalf by:


J. Breytenbach
Director

Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

Statement of changes in equity

	Called-up share capital US\$	Accumulated loss US\$	Total equity US\$
Balance at 01 July 2017	73 805	(34 991 612)	(34 917 807)
Loss for the year	-	(36 622 394)	(36 622 394)
Other comprehensive income	-	-	-
Total comprehensive Loss for the year	-	(36 622 394)	(36 622 394)
Balance at 01 July 2018	73 805	(71 614 006)	(71 540 201)
Loss for the year	-	(26 218 013)	(26 218 013)
Other comprehensive income	-	-	-
Total comprehensive Loss for the year	-	(26 218 013)	(26 218 013)
Balance at 30 June 2019	73 805	(97 832 019)	(97 758 214)

The accounting policies on pages 18 to 22 and the notes on pages 23 to 29 form an integral part of the report and financial statements.

Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

Accounting policies

General information

Petra Diamonds US\$ Treasury Plc is a public company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom.

The address of the registered office is 165 Fleet Street, London, EC4A 2DY.

These financial statements are presented in US Dollars because that is the currency of the primary economic environment in which the company operates and the company's share capital and the 2022 Notes are US Dollar denominated.

Basis of preparation

The financial statements have been prepared under the historical cost convention.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied during the periods, unless otherwise stated.

The company has adopted IFRS 9 'Financial Instruments' following the standard becoming effective for accounting periods commencing on or after 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' addresses the classification and measurement of financial assets and financial liabilities and replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39.

Another change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The adoption of IFRS 9 did not result in any material change to the presentation of the results or the results of the company from the beginning of the earliest period presented.

Basis of accounting

The company meets the definition of a qualifying entity under Financial Reporting Standard (FRS) 100 issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Going concern

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Directors' report under 'Going concern' and page of the Strategic report under 'Analysis using key financial performance indicators and analysis using other key performance indicators' which provides details of covenants on the Petra Group's Senior Lender Facilities guaranteed by the company.

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Accounting policies

Basis of accounting (continued)

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to certain financial instruments, capital management, presentation of cash-flow statement, statements not yet effective and related party transactions with wholly owned members of the Petra Group.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Impairment

The carrying amount of the company's investment is reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated and the asset is written down accordingly. The recoverable amount is the higher of its net selling price and its value in use.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable net of the direct costs of issuing the equity instruments.

Financial instruments

Classification

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value and subsequently at amortised cost. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Loans and borrowings

Other financial liabilities, including borrowings, are classified as financial liabilities subsequently measured at amortised cost.

Other financial liabilities are measured at initial recognition, at fair value plus transaction costs, if any.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Petra Diamonds US\$ Treasury Plc

(Registration number 09518557)

Report and financial statements for the year ended 30 June 2019

Accounting policies

Financial instruments (continued)

Loans to / (from) group companies

These include loans to and from holding companies, fellow subsidiaries and subsidiaries and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the company becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any. They are subsequently measured at amortised cost. The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance. Interest income is calculated using the effective interest method, and is included in profit or loss in investment income.

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.
- If a loan is purchased or originated as credit-impaired, then a credit-adjusted effective interest rate is applied to the amortised cost in the determination of interest. This treatment does not change over the life of the loan, even if it is no longer credit-impaired.
- If a loan was not purchased or originally credit-impaired, but it has subsequently become credit-impaired, then the effective interest rate is applied to the amortised cost of the loan in the determination of interest. If, in subsequent periods, the loan is no longer credit impaired, then the interest calculation reverts to applying the effective interest rate to the gross carrying amount.

Impairment

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Trade and other payables

Trade and other payables are classified as financial liabilities subsequently measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Accounting policies

Tax (continued)

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax law and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the company expects at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting, estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The judgement is based upon factors including post-tax cashflows over the remaining LOM the life of mine ("LOM") plans of underlying operations and strategic plans taking into account past history, existing market conditions as well as qualitative and quantitative reasonable and supportable forward looking information.

Life of mine and ore reserves/resources

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Accounting policies

Critical accounting judgements and key sources of estimation uncertainty (continued)

There are numerous risks inherent in estimating ore reserves and resources and the associated current LOM plan. The LOM plan for each mine is the current approved management plan for ore extraction that considers specific ore reserves and resources and associated capital expenditure. The LOM plan frequently includes fewer tonnes than the total reserves and resources that are set out in the Petra Group's Resource Statement and which management may consider to be economically viable and capable of future extraction.

Management must make a number of assumptions when making estimates of reserves and resources, including assumptions as to exchange rates, rough diamond and other commodity prices, extraction costs and recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, rough diamond and commodity prices, extraction and recovery costs and production rates may change the economic viability of ore reserves and resources and may ultimately result in the restatement of the ore reserves and resources and potential impairment to the carrying value of the mining assets and LOM.

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

	2019 US\$	2018 US\$
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2. Operating profit

Operating profit for the year is stated after taking into account the following:

Dividend income	-	-
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Auditor's remuneration

The auditors' remuneration for the performance of the annual audit function is borne by the ultimate parent company, Petra Diamonds Limited.

Director's remuneration

The directors are the only employees of the company. None of the directors have been paid remuneration or emoluments by the company during the current, or prior period. The remuneration of the directors for services to the group is disclosed in the Annual Report of Petra Diamonds Limited.

Foreign exchange gains and losses

The receipt of dividends and future repayment of equity from PDUKT to service the 2022 Notes and capital settlement on maturity of the 2022 Notes on 01 May 2022 exposes the company to USD/ZAR volatility and a potential gain/loss on translation. The company is also exposed to foreign exchange risk on its foreign currency bank accounts. The company incurred a loss of US\$36 297 (2018: US\$27 576 - gain) on translation of its Sterling bank account.

3. Interest receivable

Interest income

Interest income - Cullinan Diamond Mine (Pty) Ltd (see note 8)	23 409 359	12 587 869
Interest income on bank deposits	152 002	665 360

4. Finance costs

Interest payable on loan notes ¹	49 626 955	49 596 111
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1. Refer to note 14.

5. Staff numbers

The average number of persons employed by the company (including directors) during the year was as follows:

Number of employees

Administration	2	2
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Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

	2019 US\$	2018 US\$
6. Taxation		
Analysis of tax charge in the year		
Current		
UK corporation tax on result for the year	-	-

Reconciliation of the tax expense

The tax charge on loss before tax for the year is lower than the standard rate of corporation tax in the UK (2018: lower than the standard rate of corporation tax in the UK) of 19% (2018: 19%). The differences are explained below:

The tax charge for the year can be reconciled as follows:

Accounting loss	(26 218 013)	(36 622 394)
Tax at the applicable tax rate of 19% (2018: 19%)	(4 981 422)	(6 958 255)
Tax effect of adjustments on taxable income		
Amortised debt security issuance cost on US\$650m Bond	(196 165)	(196 165)
Tax effect of group relief (received) surrendered for no consideration	3 443 030	4 579 448
Tax losses carried forward	1 734 557	2 574 972
Tax charge for the year	-	-

At balance sheet date, the company has unused tax losses (at the applicable tax rate) of US\$10 558 257 (2018: US\$8 823 699) available for offset against future profits. Carried forward losses will be available to shelter profits in other UK companies (subject to potential restriction to 80% of the amount of profit for groups with profits in excess of US\$5m). Based on the operational challenges currently facing the Petra Group (refer to Directors' report - Going concern), no deferred tax asset has been recognised in respect of these losses as it is not considered probable that there will be future taxable profits in the near future. The company will assess its position on an annual basis.

7. Investments in subsidiary

Cost	US\$
At 1 July 2018	230 000 000
At 30 June 2019	230 000 000
Impairment provision	
At 1 July 2018	-
At 30 June 2019	-
Carrying amount	
At 30 June 2019	230 000 000

Details of the company's subsidiary as at 30 June 2019 is as follows:

Name of subsidiary	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held
Petra Diamonds UK Treasury Limited	Treasury company	United Kingdom	100%

The investment in subsidiary is stated at cost less provision for impairment.

Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

	2019 US\$	2018 US\$
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7. Investments in subsidiary (continued)

Petra Diamonds UK Treasury Limited's registered office is 44 Southampton Buildings, London, WC2A 1AP.

8. Debtors: amounts falling due after one year

Fellow subsidiaries

Amounts due by group undertakings - Cullinan Diamond Mine (Proprietary) Limited	i	300 000 000	172 000 000
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- i. The loan accrues interest at the prevailing South African prime interest rate and is not repayable within 12 months from period end under agreements with the counterparties.

The debtors rank on a second-priority basis in favour of the Lender Group, to satisfy the contingent obligations disclosed in note 15.

Credit risk

Based on the operational free cash flow of the company's fellow subsidiary, management have assessed that such operational free cash flow will be sufficient for Cullinan Diamond Mine (Pty) Ltd to repay the loan owing to the company.

9. Debtors: amounts falling due within one year

Amounts due by group undertakings - Petra Diamonds Limited	i	-	112 326 163
Amounts due by group undertakings - other related parties ¹		60 830 207	37 420 848
VAT receivable		14 200	13 600
Prepayments and accrued income		118 089	61 132
Balance at the end of the year		60 962 496	149 821 743

1. Refer to note 16.

- i. The loan is interest free and repayable on demand.

The debtors rank on a second-priority basis in favour of the Lender Group, to satisfy the contingent obligations disclosed in note 15.

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to amounts due by group undertakings and other receivables is disclosed in the financial risk management objectives and policies as detailed in the Directors' report.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and the 12-month approach, unless a specific risk exists, for other receivables.

There was no impact on the company from the adoption of IFRS 9.

Based on the managements extensive knowledge of the related party's performance and historical payment behaviour, management believe that the intercompany receivables at year end are collectible in full.

10. Other creditors and accruals

Amounts due to group undertakings - Petra Diamonds Limited	39 228 773	-
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Petra Diamonds US\$ Treasury Plc

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

	2019 US\$	2018 US\$
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11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1 098 424	24 726 462
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12. Share capital

Issued

Equity: 50 000 Ordinary shares of US\$1.4761 each	73 805	73 805
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The company has one class of ordinary shares which carry no right to fixed income.

Called-up share capital represents the nominal value of shares that have been issued.

13. Reserves

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

14. Loans and borrowings

Loans and borrowings due within one year

Loan notes (US\$650m - senior secured second lien notes)	47 254 761	46 932 308
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Loans and borrowings due after one year

Loan notes (US\$650m - senior secured second lien notes)	603 335 600	601 156 098
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The directors consider that the above loan notes classified as financial instrument loans and borrowings approximate to their fair value.

On 12 April 2017, the company issued debt securities consisting of US\$650 million five-year senior secured second lien loan notes ("the 2022 Notes"), with a maturity date of 01 May 2022. The 2022 Notes carry a coupon of 7.25% per annum, which is payable semi-annually in arrears on 01 May and 01 November of each year. The costs associated with issuing the Notes of US\$12.6 million were capitalised against the principal amount. The 2022 Notes are guaranteed by the company and by the Petra Group's material subsidiaries and are secured on a second-priority basis on the assets of the Petra Group's material subsidiaries. The 2022 Notes are listed on the Irish Stock Exchange and traded on the Global Exchange Market. On or after 01 May 2019, the company has the right to redeem all or part of the Notes at the following redemption prices (expressed as percentages of the principal amount), plus any unpaid accrued interest:

	Redemption price
Period of 12 months from 01 May 2019	103,6250 %
Period of 12 months from 01 May 2020	102,8125 %
Period of 12 months from 01 May 2021	100,0000 %

On 12 April 2017, proceeds from the 2022 Notes were used to repay debt securities comprising US\$300 million senior secured second lien notes (principal amount, plus the applicable premium and accrued and unpaid interest) of US\$324.1 million and amounts outstanding under certain of the Petra Group's existing bank loan facilities and to pay fees and expenses associated with the issue of the 2022 Notes. The balance of the funds from the 2022 Notes, together with future drawdowns from the Petra Group's bank loan facilities, were used to further the Petra Group's expansion projects.

The 2022 Notes are secured on a second priority basis to the Lenders facilities (referred to in note 15) by:

- the cession of all claims and shareholdings held by, the company and certain of the Guarantors, within the Petra Group;

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

14. Loans and borrowings (continued)

- the cession of all unsecured cash balances held by the company and certain of the Guarantors;
- the creation of liens over the moveable assets of the company and certain of the Guarantors; and
- the creation of liens over the mining rights and immovable assets held and owned by certain of the Guarantors.

15. Contingencies

a) Senior Secured Lender Debt Facilities

Senior Secured Lender Debt Facilities - Revolving credit facility (RCF) and Working capital facility (WCF) settlement

On 09 July 2018, the Petra Group settled its RCF loan (capital plus interest) of R 1 007 135 671 (US\$73.1 million) with its lending group.

On 13 July 2018, the Petra Group settled its WCF loan (capital plus interest) of R 460 817 208 (US\$33.6 million) with its lending group.

The revolving credit and working capital facilities were not cancelled and are still available to the Petra Group for drawdown if required.

Existing bank debt facilities remain unchanged as outlined below:

Amended Senior Lender Debt Facilities	30 June 2019 Facility amount	30 June 2018 Facility amount
ZAR Debt Facilities		
Revolving credit facility (RCF)	R1 000 million	R1 000 million
Working capital facility (WCF)	R500 million	R500 million
Foreign exchange hedging facilities	R300 million	R300 million

The debt facilities are secured on a first priority basis to the Lenders by:

- the cession of all claims and shareholdings held, by the company and certain Petra Group companies, within the Petra Group;
 - the cession of all South African bank accounts and all amount standing to the credit of such bank accounts held by the company and certain Petra Group companies;
 - the cession of all claims against debtors and third parties in South Africa held by the company and certain Petra Group companies;
 - the cession of all insurances including all insurance proceeds from all insurance cover, held by the company and certain Petra Group companies;
 - the registration of notarial bonds over all the moveable assets at the Cullinan, Finsch and Koffiefontein mining operations;
 - the registration of mortgage bonds over all the immovable assets at the Cullinan, Finsch and Koffiefontein mining operations;
 - the registration of mortgage bonds over the mining rights at the Cullinan, Finsch and Koffiefontein mining operations; and
-

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

15. Contingencies (continued)

- the subordination of all claims held by the company against any member of the Petra Group and any other creditor.

Petra Group covenant ratios

On 26 April 2019, an agreement was reached with Petra's Lender Group, including Absa Bank Limited (acting through its Corporate and Investment Banking division), FirstRand Bank Limited (acting through its Rand Merchant Bank division), Investec Asset Management Proprietary Limited and Nedbank Limited (acting through its Corporate and Investment Banking division) (together the "Lender Group"), to amend the EBITDA-related maintenance covenant levels for the respective measurement periods as follows:

Covenant	30 June 2019	31 December 2019	30 June 2020	31 December 2020	30 June 2021
Consolidated Net Debt to Consolidated EBITDA					
- New covenant ratio:	Not more than 4.5x	Not more than 4.25x	Not more than 3.5x	Not more than 3.25x	Not more than 3.0x
- Previous covenant ratio:	2.5x	2.5x	2.5x	2.5x	2.5x
Consolidated EBITDA to Consolidated Net Finance Charges					
- New covenant ratio:	Not less than 2.5x	Not less than 2.5x	Not less than 2.75x	Not less than 3.0x	Not less than 3.25x
- Previous covenant ratio:	4.0x	4.0x	4.0x	4.0x	4.0x

The ZAR Revolving Credit Facility will be subject to new margin and commitment fee ratchet mechanisms contingent on the Consolidated Net Debt to Consolidated EBITDA covenant levels at each measurement date.

The reworked ratchet mechanism is as follows:

Consolidated Net Debt to Consolidated EBITDA	Additional interest rate ratchet	Additional commitment fee ratchet
greater than 2.5x	0.0%	0.0%
greater than 2.5x but less than or equal to 3.0x	+1.0%	0.0%
greater than 3.0x but less than or equal to 3.5x	+2.0%	+0.225%
greater than 3.5x but less than or equal to 4.0x	+3.0%	+0.450%
greater than 4.0x	+4.0%	+0.675%

16. Other related party transactions

Other related party - amounts due from group undertakings	2019	2018
Cullinan Diamond Mine (Pty) Ltd**	51 784 101	28 176 519
Finsch Diamond Mine (Pty) Ltd**	9 042 022	9 240 247
Petra Diamonds UK Treasury Limited	-	4 082
	60 826 123	37 420 848

**The outstanding balance is unsecured, interest free with no fixed terms of repayment.

17. Events after the reporting period

The directors are not aware of any significant matter or circumstance arising since the end of the financial year, not otherwise dealt with in this report or the financial statements, which significantly affect the financial position of the company or the results of its operations to the date of this report.

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Report and financial statements for the year ended 30 June 2019

Notes to the financial statements

18. Controlling party

In the opinion of the directors, the company's ultimate parent company is Petra Diamonds Limited, a company incorporated in Bermuda.

The parent undertaking of the largest group and smallest group, which includes the company and for which group accounts are prepared is Petra Diamonds Limited.

The financial statements are available upon request from the Group Management Office, situated at 52-53 Conduit Street, London W1S 2YX, United Kingdom.

The company's immediate controlling party is Petra Diamonds Limited. Petra Diamonds Limited has no controlling party.