Petra Diamonds US$ Treasury Plc
(Registration number 09518557)
Financial statements
for the year ended 30 June 2020

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(Registration number 09518557)
Report and financial statements for the year ended 30 June 2020

Index

The reports and statements set out below comprise the financial statements presented to the shareholder:

Company information

Country of incorporation and domicile	United Kingdom	
Directors	J Breytenbach	
	R N Duffy	(Appointed 30 November 2020)
Registered office	Suite 31, Second Floor 107 Cheapside London EC2V 6DN	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Secretary	St James's Corporate Services Limited	

Strategic report

The directors present the Strategic report for the period from 1 July 2019 to 30 June 2020. 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" or "the Group").

Capital restructuring

In May 2020, to maintain liquidity and in order to meet anticipated conditions associated with the drawdown of ZAR400 million of revolving credit facilities, the company's holding company, the Petra Group decided not to make payment of the interest due on its US$650 million 7.25% Senior Second Lien Notes due 2022. The Petra Group entered into a Forbearance Agreement with an ad-hoc group of Noteholders ("AHG") of the Notes under which the AHG agreed not to exercise its rights to accelerate payment of the Notes notwithstanding the continuing event of default whilst the Forbearance Agreement was in place. Additionally, the Group entered into amendments to its South African Lender Group facilities and BEE Facilities which reset the maturity of the revolving credit facility and BEE Facilities to July 2021, although the South African Lender Group reserved the right to demand repayment in the event of the Forbearance Agreement ceasing to apply.

The Petra Group therefore launched a strategic review, in conjunction with a set of independent advisers, to evaluate an optimal long-term capital structure for the Group. The key focus of this review was to bring down the Group's leverage to a manageable level and it therefore involved extensive consultations with the AHG as well as with the South African Lender Group, which provides the Group's first lien bank facilities.

The Consensual Restructuring, which is expected to complete imminently, remains subject to certain conditions precedent. At the estimated time of the envisaged restructure becoming effective, the Group's gross debt under the existing facilities is estimated to be US$815.8 million, being US$708.5 under the loan Notes (US$650 million capital plus accrued interest of ca. US$ 58.5 million to date of settlement), plus ZAR1,609 million (ca. US$107.3 million at ZAR15/US$1) owed under the Group's banking facilities, including the BEE guarantees. The envisaged Restructuring will also impact the Group's equity shareholders as it entails a debt for equity swap approved by the shareholders at a SGM on 13 January 2021.

The approval by the shareholders will result in the allotment of 8,844,657,929 Ordinary shares in Petra Diamonds Limited (PDL) to the Noteholders on or around the effective date of the Restructuring. The Restructuring effective date occurs following the satisfaction of certain conditions precedent, including obtaining regulatory approval from the Financial Surveillance Department of the South African Reserve Bank.

In the unlikely event that the Restructuring does not complete, it is likely that the Group, or one or more of the Group members, would file for insolvency (in the relevant jurisdiction(s)). It may in these circumstances be possible to effect a restructuring through a structured insolvency process. However, this would be reliant on the Group obtaining additional funding to fund trading as a going concern for a period of time before such restructuring could be effected, the obtaining (or waiving) of certain regulatory consents, support from the South African Lender Group and agreement from the Noteholders (potentially through a second scheme of arrangement or restructuring plan pursuant to the UK Companies Act 2006). Refer to notes 16 and 17 for further detail.

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 Notes"), with a maturity date of 01 May 2022 (refer to note 14 for further detail). The proceeds from the 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 Notes, together with future drawdowns from the Petra Group's bank loan facilities, were used to further the Petra Group's expansion projects.

Strategic report

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 which may impact the company either directly, or through their impact on the wider Petra Group in turn affecting the company's financial performance and position including its ability to meet payments under the existing Notes:

- envisaged debt restructuring not being implemented in line with the provisions of the Consensual Restructuring (see Director's report - Going concern);
- COVID-19 pandemic and related Government-imposed restrictions;
- 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 manage these risks, where possible, the directors closely monitor the performance and prospects of the Petra Group that may impact the company, noting that the directors are also directors of Petra Diamonds Limited. Refer to note 17 for details of the proposed Restructuring which represents a critical measure to manage liquidity risk.

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 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. On 1 May 2020, the company deferred the coupon repayment due on the Notes to preserve liquidity within the Group which led to an event of default under the Notes. On 29 May 2020, the Petra Group entered into a Forbearance Agreement with an ad-hoc group of Noteholders (AHG). Pursuant to the Forbearance Agreement, as a result of the event of default due to the non-payment of the coupon, the AHG agreed to forbear from the exercise of certain rights and remedies that they have under the Notes indenture, including agreeing not to accelerate the Notes obligations as a result of the missed interest payment. Under the terms of the indenture, the failure by the Petra Group to pay the coupon on the Notes created an event of default. The extension of the Forbearance Agreement is at the discretion of the AHG and thus the company does not have the unconditional right to defer the coupon repayment beyond a period of 12 months. Accordingly as at 30 June 2020, the company recorded the outstanding obligation of US$676.8 million in the Balance sheet under current loans and borrowings. For further detail regarding the negotiations with the AHG refer to note 17.

As at 30 June 2020, the company holds total assets of US$325 183 091 (2019: US$592 060 920) comprising its investment in subsidiary, debtors due from Petra Group companies and cash at bank and had net liabilities of US$385 709 500 (2019: US$97 758 214). The company recorded a loss after tax of US$287 951 286 (2019: US$26 218 013) primarily due to impairment charges amounting to US$262 055 110 (2019:US$nil) and finance costs of US$49 762 919 (2019: US$49 626 955) on the 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 16. The principal key performance indicator for the company is profit. The loss after tax for the period ended 30 June 2020 was US$287 951 286 (2019: US$26 218 013).

The company is a guarantor for the Senior Lender Facilities as set out in note 16. 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.

Strategic report

Refer to the Directors' report on page 6 for details of the Petra Group's liquidity including the proposed Restructuring being implemented impacting the Senior Lender facilities and the company's 2022 Notes.

Section 172 (1) Statement

The directors are mindful of their duty to promote the success of the company in accordance with S 172 of the Companies Act for the benefit of its members as a whole and in doing so to have regard for the matters set out in S 172 (1) (a)-(f).

The company raised capital financing in the global debt markets in April 2017 in order to fund future capital expenditure for running operations, pay down bank debt and for strategic corporate expenditure within the Petra Diamonds Limited group ("the Petra Group" or "the Group"). The directors have always applied a structured decision-making process supported by detailed information relevant to any decision. This information has, where appropriate, expressly addressed the interests of the company's shareholders and other stakeholders.

Clear, transparent and balanced communications are important to enable a good understanding of the company's strategy, business model and performance, as well as our industry. The directors are mindful that their strategic decisions can have long term implications for the company and its stakeholders, and these implications are carefully assessed. During the year, a multi-stakeholder process was undertaken to evaluate an optimised capital structure for the Petra Group, with the need to reach alignment between the company and its financial stakeholders, resulting in a debt restructuring agreement reached in principle with the Noteholders of the company's US$650 million Notes and the Petra Group's South African Lender Group. Progress in respect of the debt restructuring is further discussed in note 17.

All board decisions are recorded in writing and maintained as part of the company's minutes. This process aims to ensure that all relevant issues are identified and considered by the directors whilst coming to a decision on any issue.

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 03 March 2021.

By order of the board.

J Breytenbach
Director

03 March 2021

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 2020.

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 througout the year were as follows:

Directors	
J Breytenbach	
A G K Hamilton	Resigned 30 November 2020
R N Duffy	Appointed 30 November 2020

Events after balance sheet date

The directors are not aware of any material event which occured after the reporting date and up to the date of this report other than those disclosed in note 17.

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 counter party credit worthiness. As detailed in note 8 to the financial statements, the company has recorded a U$182 883 702 expected credit loss provision in respect of its receivables.

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

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 the 2022 Notes exposes the company to USD/ ZAR volatility as PDUKT's assets which support future dividends are loans denominated in South African Rand whereas the 2022 Notes are denominated in US dollars. The company is also exposed to foreign exchange risk on its foreign currency bank accounts.

Liquidity risk

The company's liquidity and ability to meet payments due under the 2022 Notes is dependent upon the Petra Group. Refer to the Going concern discussion below which highlights the material uncertainty that exists regarding the company's ability to continue as a going concern.

Going concern

The company is a wholly owned subsidiary of Petra Diamonds Limited, is a guarantor under the South African Lender Facilities held by the Petra Group and holds the 2022 Notes.

Background

In FY2020 the Petra Group (the Group) operations delivered a strong performance for the first nine months of the year, further to throughput improvements driven by Project 2022. However, the outbreak of the COVID-19 pandemic during Q3 FY 2020 presented unprecedented challenges to the Group's operations and the industry as a whole. This, in combination with the resultant weakness in the diamond market, placed further strain upon the Group's balance sheet.

The COVID-19 pandemic has placed additional emphasis on optimisation of the business, though this was already well underway via Project 2022. The Group acted quickly to put in place comprehensive systems and strategies to address COVID-19, to both limit the threat to the Group's employees, contractors and local stakeholders, and to protect the ongoing viability of our the Group's operations.

In H1 FY 2021 the Group's operations delivered largely in line with expectations, with revenues bolstered by the sale of the Letlapa Tala Collection, and US$-reported costs positively impacted by a weaker ZAR:USD1 rate for the 6 months to December 2020. Project 2022 continued to deliver both on throughout, as well as cost performance. However, the outbreak of the COVID-19 pandemic during the preceding period, coupled with the uncertainty which remains still presents unprecedented challenges to our operations and the industry as a whole.

Capital restructuring

In May 2020, to maintain liquidity and in order to meet anticipated conditions associated with the drawdown of ZAR400 million of revolving credit facilities, the Group and company decided not to make payment of the interest due on the company's US$650 million 7.25% Senior Second Lien Notes due 2022. The Group and company entered into a Forbearance Agreement with the AHG of the Notes under which the AHG agreed not to exercise its rights to accelerate payment of the Notes notwithstanding the continuing event of default whilst the Forbearance Agreement was in place. Additionally, the Group entered into amendments to its South African Lender Group facilities and BEE Facilities which reset the maturity of the revolving credit facility and BEE Facilities to July 2021, although the South African Lender Group reserved the right to demand repayment in the event of the Forbearance Agreement ceasing to apply.

Petra therefore launched a strategic review, in conjunction with a set of independent advisers, to evaluate an optimal long-term capital structure for the Group. The key focus of this review was to bring down the Group's leverage to a manageable level and it therefore involved extensive consultations with the AHG as well as with the South African Lender Group, which provides the Group's first lien bank facilities.

The Consensual Restructuring, which is expected to complete imminently, remains subject to certain conditions precedent. At the estimated time of the envisaged restructure becoming effective, the Group's gross debt under the existing facilities is estimated to be US$815.8 million, being US$708.5 under the loan Notes (US$650 million capital plus accrued interest of ca. US$ 58.5 million to date of settlement), plus ZAR1,609 million (ca. US$107.3 million at ZAR15/US$1) owed under the Group's banking facilities, including the BEE guarantees. The envisaged Restructuring will also impact the Group's equity shareholders as it entails a debt for equity swap approved by the shareholders at a SGM on 13 January 2021.

Directors' report

The approval by the shareholders will result in the allotment of 8,844,657,929 Ordinary shares in Petra Diamonds Limited (PDL) to the Noteholders on or around the effective date of the Restructuring. The Restructuring effective date occurs following the satisfaction of certain conditions precedent, including obtaining regulatory approval from the Financial Surveillance Department of the South African Reserve Bank.

In the unlikely event that the Restructuring does not complete, it is likely that the Group, or one or more of the Group members, would file for insolvency (in the relevant jurisdiction(s)). It may in these circumstances be possible to effect a restructuring through a structured insolvency process. However, this would be reliant on the Group obtaining additional funding to fund trading as a going concern for a period of time before such restructuring could be effected, the obtaining (or waiving) of certain regulatory consents, support from the South African Lender Group and agreement from the Noteholders (potentially through a second scheme of arrangement or restructuring plan pursuant to the UK Companies Act 2006).

COVID-19

Uncertainty exists around the ongoing impact of COVID-19 on the Group. Although the South African Government declared mining operations able to continue during previous lockdown periods, the required social distancing measures which had to be implemented initially resulted in some operational disruptions, but these measures now put the Group in good stead to curtail the impact of any further possible lockdowns in South Africa. The more pronounced impact was seen on the Group's rough diamond sales, with the usual May 2020 tender having to be cancelled due to the inability of a majority of international clients to travel to the Group's sales offices in both Johannesburg and Antwerp. In addition, prices of rough diamonds reduced by ca. 27% for sales immediately after the outbreak. At these price levels, the South African operations continued to generate sufficient cashflow to warrant ongoing operations, while the Williamson mine in Tanzania was placed on care and maintenance with effect from April 2020.

At the Group's tenders post year end, held in September, October 2020 and January 2021, rough diamond prices improved returning to pre-COVID-19 levels. An additional wave of outbreak and possible further restrictions on international travel may negatively impact the Group's short- and medium-term liquidity profile due to the potential impact on production, ability to hold tenders and market pricing, as set out below, notwithstanding the proposed Restructuring.

Williamson mine, Tanzania

As mentioned above, the Williamson mine is currently on care and maintenance and the likely timing of a recommencement of production remains subject to improving market conditions and the mine's liquidity position. In addition, the Group remains in discussions with the Government of Tanzania ("GoT") around various issues including, inter alia, the sharing of economic benefit, the recoverability of VAT receivables, and the potential release of the blocked diamond parcel. Due to the Group's current financial position, Petra is not in a position to provide any financial assistance to the Williamson mine. Williamson's liquidity position is reliant on its ability to generate cash through operations (which is not possible during care and maintenance); and/or its ability to reach agreement with the GoT allowing it to sell the blocked diamond parcel and around potential recoupment of VAT receivables; and/or its ability to procure funding via borrowings from local financial institutions. Notwithstanding receiving approval from the GoT to proceed with arranging a US$25 million working capital facility from a local Tanzanian bank, while pledging its own assets as security, the mine has not yet been able to secure such funding. Discussions with a local bank for a possible reduced facility of some US$ 5 million is currently ongoing. Should an agreement with the local bank not be reached within the next month, Williamson is likely to face a liquidity shortfall. Under the terms of the in-principle agreements with the South African Lender Group any additional funding by Petra would require its approval and if not provided may result in Williamson's insolvent liquidation.

Forecast liquidity and covenants

The Petra Board has reviewed the Group's forecasts and sensitivities for a period of at least 18 months from year end, including both forecast liquidity and covenants. The forecasts assume that the envisaged Restructuring will be implemented in line with the provisions of the in-principle term sheet. In doing so, careful consideration was given to potential risks to the forecasts under the review period. The Petra Board carefully considered risks associated with COVID-19 which were considered to focus primarily on the potential for further production disruption, deferral of tenders due to travel restrictions and adverse impacts on diamond pricing.

In light of both normal trading risks and elevated risks associated with the potential impact of the COVID-19 pandemic, the following have been key considerations for the Petra Board in assessing the Group's ability to operate as a going concern at the date of this report:

- an unforeseen disruption to operations at its South African mines due to either COVID-19 restrictions or otherwise;

Directors' report

- an unforeseen deferral of two consecutive rough diamond tenders, due to COVID-19 restrictions, coupled with a significant price decline at an assumed subsequent private sale (in line with a similar process followed in FY 2020);
- a sustained 5% decrease in forecast rough diamond prices throughout the forecast period; and
- an increase in forecast operating cost.

Under the base case, which itself is dependent upon the successful completion of the proposed Restructuring and continued availability of the South African banking facilities in line with the in-principle agreement above, the forecasts indicate that the Group will be able to operate within the covenants set out in the in-principle agreement and maintain sufficient liquidity.

However, the proposed first lien covenants were set with limited headroom to base case. As such, although adequate liquidity is maintained throughout the review period under each of the individual scenarios, subject to continued availability of the South African Lender Group facilities, results of the stress testing indicate that in the event of deferral to the tenders outlined above or a combination of scenarios such as sustained reduced pricing and production disruption, possible covenant breaches associated with the South African banking facilities may occur in December 2021 and June 2022. Whilst reasonably available mitigating actions, which include cost savings and capital deferrals, are foreseen to address the risk of such a covenant breach, the delivery of such mitigating actions remains uncertain. In the event of a breach of covenant, the Group would be dependent on the South African Lender Group continuing to make the facilities available and under certain of the scenarios there would be insufficient liquidity to settle the outstanding South African Lender Group facilities if required. Whilst the South African Lender Group has indicated its support in recent discussions and ongoing dialogue with the South African Lender Group will be important during this period, there can be no guarantee that the facilities would continue to remain available in the event of a covenant breach.

Conclusion

The Petra Board is of the view that the longer-term fundamentals of the diamond market remain sound and that the Group will continue to benefit from Project 2022 (which includes increased production and reduced spend) throughout the review period and beyond.

Based on its assessment of the forecasts, principal risks and uncertainties and mitigating actions considered available to the Group in the event of downside scenarios, assuming a successful Restructuring the Board confirms that it is satisfied that the Group will be able to continue to operate and meet its liabilities as they fall due over the review period. However, the Group is reliant on the successful conclusion of the Restructuring to continue as a going concern. Additionally, as set out above, in the event of a successful Restructuring, the Group's forecasts remain sensitive to trading conditions and the ongoing COVID-19 pandemic may have a further material impact on the Group's ability to operate within its covenants such that continued South African Lender Group support may be required and, if unavailable, additional funding may be required, specifically for the December 2021 and June 2022 periods.

These factors indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Accordingly, and having updated their inquiries of the Petra Board and their own assessments to date, the directors have concluded that the going concern basis of preparation remains appropriate for the company. However, as the issuer of the 2022 Notes and a guarantor to the Group's South African Lender facilities (and BEE Facilities) the circumstances outlined above indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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.

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

Directors' report

- 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 03 March 2021 and signed on its behalf by:

J Breytenbach
Director

03 March 2021

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 2020 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, 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 2020 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, 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.

Material uncertainty relating to going concern

We draw attention to note 1 to the Financial Statements concerning the Company's ability to continue as a going concern. The matters explained in note 1 indicate that as the holder of the 2022 Notes and a guarantor to certain banking facilities held by entities in the Petra Diamonds Limited group ("the Petra Group") the Company is reliant on the successful conclusion of the proposed Petra Group capital Restructuring to continue as a going concern

Additionally, as set out in note 1, in the event of a successful capital Restructuring, the Petra Group's forecasts remain sensitive to both trading conditions and the potential impact of COVID-19, which may have a material impact on the Petra Group's ability to operate within its covenants such that continued South African Lender Group support may be required for the proposed lending facilities to remain available and, if unavailable, additional funding may be required.

As stated in note 1 these events or conditions, along with the other matters disclosed in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the conditions and uncertainties noted above, we considered going concern to be a key audit matter. Our audit procedures in response to this key audit matter included the following:

- We made enquiries of Management and the Board regarding the status and form of the proposed capital Restructuring together with the steps required for completion of the transaction. We reviewed the Lock-Up Agreement in respect of the proposed Restructuring to obtain a detailed understanding of the proposed terms.

- We discussed the potential further impact of COVID-19 with Management including their assessment of risks and uncertainties associated with areas such as the Petra Group's tenders, production and diamond prices that are relevant to the Petra Group's business model and operations. We formed our own assessment of risks and uncertainties based on our understanding of the business and mining sector and the impact of COVID-19 to date.

- We obtained Management's sensitivity and reverse stress test analysis, which was performed to determine the point at which covenants and liquidity breaks, and considered whether such scenarios were possible given both normal trading risks and the potential impacts of COVID-19 and continued level of uncertainty.

- We critically reviewed the Petra Group's base case forecasts and challenged Management's 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 FY 2021 and external market data. We specifically confirmed that the forecast period excluded receipts associated with Parcel 1 and outstanding VAT receivables at Williamson.

- We compared the debt service cash flows to the terms of the Lock-Up agreement. We recalculated Management's forecast covenant compliance and assessed the consistency of such calculations with the ratios stated in the Lock-Up agreement.

- We reviewed the disclosures in note 1 to the Financial Statements in respect of going concern.

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. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Recoverability of the Company's Receivables and Investments

Matter identified

As at 30 June 2020, the Group held total receivables of US$174,349,176 million due from a subsidiary of the Petra Group as set out in Notes 8 and 9 and an investment in subsidiary of US$139,539,622 million as set out in Note 7, the recoverability of which are dependent on cashflows generated from the Group's mines.

Management performed an expected credit loss assessment on the recoverability of the receivable balance and recorded an expected credit loss provision of US$182,883,702 million, which required judgement and estimation by management. Management performed an impairment test on the carrying value of the investment and recorded an impairment provision of US$79,171,408 million, which required judgment and estimation by management.

How we addressed the matter

- We have obtained and reviewed management's assessment of the expected credit loss (ECL) provision against the receivables and impairment test on the investment and considered whether these are in line with the requirements of IFRS.

- We considered and challenged management's assessment of the ECL provision. In doing so we evaluated the methodology used and scenarios applied against our understanding of the business. We evaluated management's judgment that the future receipts associated with the existing receivable would be limited to the expected principal amount of the Notes post restructuring, given the default on the existing bond coupon at that date and proposed restructuring terms. We confirmed that the underlying cash flow forecasts of the relevant mines demonstrated that these amounts could be paid, compared the forecasts to the Petra Group's long term viability models, considered the appropriateness of the underlying cash flow assumptions and performed sensitivity analysis.

- We evaluated management's assumptions in the impairment test. In doing so we compared the investment to the net assets of the subsidiary and evaluated the appropriateness of ECL provisions recorded by the investee through procedures equivalent to those detailed above, as the recoverable value of the investee is substantially based on recovery of such receivables.

- We reviewed the disclosures in the Financial Statements.

Observations

We found management's assessment of the recoverability of the Company's Receivables and Investments to be acceptable and appropriately disclosed

Our application of materiality

We determined materiality for the financial statements as a whole to be US$3,000,000 (2019: US$5,700,000) based on approximately 1% of total assets (2019: 1%). We consider total assets to be an appropriate basis for materiality given the Company issues 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$60,000 (2019: 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.

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% (2019: 75%) of the above materiality levels, being US$2,250,000 (2019: US$4,275,000).

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.

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 LLP

Scott Knight (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
03 March 2021

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

Profit and loss account

Figures in American Dollar	Notes	2020	2019
Foreign exchange (losses) / gains	2	6 645	(36 297)
Impairment of investment in subsidiary	7	(79 171 408)	-
Impairment losses	8	(182 883 702)	-
Administrative expenses		(237 307)	(116 122)
Interest receivable	3	24 097 405	23 561 361
Finance costs	4	(49 762 919)	(49 626 955)
Loss before taxation		**(287 951 286)**	**(26 218 013)**
Taxation	6	-	-
Retained loss for the year		**(287 951 286)**	**(26 218 013)**

The above results were derived from continuing operations.

The accounting policies on pages 20 to 25 and the notes on pages 26 to 37 form an integral part of these financial statements.

Statement of comprehensive income

Figures in American Dollar	Notes	2020	2019
Loss for the year		**(287 951 286)**	**(26 218 013)**
Other comprehensive income		-	-
Total comprehensive loss		**(287 951 286)**	**(26 218 013)**

The above results were derived from continuing operations.

The accounting policies on pages 20 to 25 and the notes on pages 26 to 37 form an integral part of these financial statements

Petra Diamonds US$ Treasury Plc

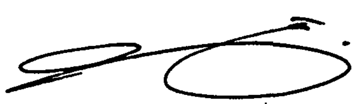
(Registration number 09518557)
Report and financial statements for the year ended 30 June 2020

Balance sheet as at 30 June 2020

Figures in American Dollar	Notes	2020	2019
Assets			
Non-Current Assets			
Investments in subsidiaries	7	150 828 592	230 000 000
Debtors: amounts falling due after one year	8	139 539 622	300 000 000
		290 368 214	**530 000 000**
Current Assets			
Debtors: amounts falling due within one year	9	34 809 554	60 962 496
Cash and cash equivalents	11	5 323	1 098 424
		34 814 877	**62 060 920**
Total Assets		**325 183 091**	**592 060 920**
Liabilities			
Creditors: amounts falling due within one year			
Other creditors and accruals	10	34 101 836	39 228 773
Loans and borrowings	14	676 790 755	47 254 761
		710 892 591	**86 483 534**
Net current liabilities		(676 077 714)	(24 422 614)
Creditors: amounts falling due after one year			
Loans and borrowings	14	-	603 335 600
Total Liabilities		**710 892 591**	**689 819 134**
Net liabilities		**(385 709 500)**	**(97 758 214)**
Capital and reserves			
Called-up share capital	12	73 805	73 805
Profit and loss account		(385 783 305)	(97 832 019)
Total shareholders' deficit		**(385 709 500)**	**(97 758 214)**

The financial statements of Petra Diamonds US$ Treasury Plc were approved by the board of directors and authorised for issue on 03 March 2021.

They were signed on its behalf by:



J Breytenbach
Director

Statement of Changes in Equity

Figures in American Dollar	Called-up share capital	Accumulated loss	Total equity
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 01 July 2019	**73 805**	**(97 832 019)**	**(97 758 214)**
Loss for the year	-	(287 951 286)	(287 951 286)
Other comprehensive income	-	-	-
Total comprehensive Loss for the year	**-**	**(287 951 286)**	**(287 951 286)**
Balance at 30 June 2020	**73 805**	**(385 783 305)**	**(385 709 500)**

The accounting policies on pages 20 to 25 and the notes on pages 26 to 37 form an integral part of the financial statements.

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 16 'Leases' following the standard becoming effective for accounting periods commencing on or after 1 January 2019.

IFRS 16 Leases

The company is required to apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019. IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cashflow statement.

The adoption of the standard has had no impact on the current years financial results.

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 company is a wholly owned subsidiary of Petra Diamonds Limited, is a guarantor under the South African Lender Facilities held by the Petra Group and holds the 2022 Notes.

Background

In FY2020 the Petra Group (the Group) operations delivered a strong performance for the first nine months of the year, further to throughput improvements driven by Project 2022. However, the outbreak of the COVID-19 pandemic during Q3 FY 2020 presented unprecedented challenges to the Group's operations and the industry as a whole. This, in combination with the resultant weakness in the diamond market, placed further strain upon the Group's balance sheet.

The COVID-19 pandemic has placed additional emphasis on optimisation of the business, though this was already well underway via Project 2022. The Group acted quickly to put in place comprehensive systems and strategies to address COVID-19, to both limit the threat to the Group's employees, contractors and local stakeholders, and to protect the ongoing viability of our the Group's operations.

In H1 FY 2021 the Group's operations delivered largely in line with expectations, with revenues bolstered by the sale of the Letlapa Tala Collection, and US$-reported costs positively impacted by a weaker ZAR:USD1 rate for the 6 months to December 2020. Project 2022 continued to deliver both on throughout, as well as cost performance. However, the outbreak of the COVID-19 pandemic during the preceding period, coupled with the uncertainty which remains still presents unprecedented challenges to our operations and the industry as a whole.

Capital restructuring

In May 2020, to maintain liquidity and in order to meet anticipated conditions associated with the drawdown of ZAR400 million

Accounting policies

Going concern (continued)

of revolving credit facilities, the Group and company decided not to make payment of the interest due on the company's US$650 million 7.25% Senior Second Lien Notes due 2022. The Group and company entered into a Forbearance Agreement with the AHG of the Notes under which the AHG agreed not to exercise its rights to accelerate payment of the Notes notwithstanding the continuing event of default whilst the Forbearance Agreement was in place. Additionally, the Group entered into amendments to its South African Lender Group facilities and BEE Facilities which reset the maturity of the revolving credit facility and BEE Facilities to July 2021, although the South African Lender Group reserved the right to demand repayment in the event of the Forbearance Agreement ceasing to apply.

Petra therefore launched a strategic review, in conjunction with a set of independent advisers, to evaluate an optimal long-term capital structure for the Group. The key focus of this review was to bring down the Group's leverage to a manageable level and it therefore involved extensive consultations with the AHG as well as with the South African Lender Group, which provides the Group's first lien bank facilities.

The Consensual Restructuring, which is expected to complete imminently, remains subject to certain conditions precedent. At the estimated time of the envisaged restructure becoming effective, the Group's gross debt under the existing facilities is estimated to be US$815.8 million, being US$708.5 under the loan Notes (US$650 million capital plus accrued interest of ca. US$ 58.5 million to date of settlement), plus ZAR1,609 million (ca. US$107.3 million at ZAR15/US$1) owed under the Group's banking facilities, including the BEE guarantees. The envisaged Restructuring will also impact the Group's equity shareholders as it entails a debt for equity swap approved by the shareholders at a SGM on 13 January 2021.

The approval by the shareholders will result in the allotment of 8,844,657,929 Ordinary shares in Petra Diamonds Limited (PDL) to the Noteholders on or around the effective date of the Restructuring. The Restructuring effective date occurs following the satisfaction of certain conditions precedent, including obtaining regulatory approval from the Financial Surveillance Department of the South African Reserve Bank.

In the unlikely event that the Restructuring does not complete, it is likely that the Group, or one or more of the Group members, would file for insolvency (in the relevant jurisdiction(s)). It may in these circumstances be possible to effect a restructuring through a structured insolvency process. However, this would be reliant on the Group obtaining additional funding to fund trading as a going concern for a period of time before such restructuring could be effected, the obtaining (or waiving) of certain regulatory consents, support from the South African Lender Group and agreement from the Noteholders (potentially through a second scheme of arrangement or restructuring plan pursuant to the UK Companies Act 2006).

COVID-19

Uncertainty exists around the ongoing impact of COVID-19 on the Group. Although the South African Government declared mining operations able to continue during previous lockdown periods, the required social distancing measures which had to be implemented initially resulted in some operational disruptions, but these measures now put the Group in good stead to curtail the impact of any further possible lockdowns in South Africa. The more pronounced impact was seen on the Group's rough diamond sales, with the usual May 2020 tender having to be cancelled due to the inability of a majority of international clients to travel to the Group's sales offices in both Johannesburg and Antwerp. In addition, prices of rough diamonds reduced by ca. 27% for sales immediately after the outbreak. At these price levels, the South African operations continued to generate sufficient cashflow to warrant ongoing operations, while the Williamson mine in Tanzania was placed on care and maintenance with effect from April 2020.

At the Group's tenders post year end, held in September, October 2020 and January 2021, rough diamond prices improved returning to pre-COVID-19 levels. An additional wave of outbreak and possible further restrictions on international travel may negatively impact the Group's short- and medium-term liquidity profile due to the potential impact on production, ability to hold tenders and market pricing, as set out below, notwithstanding the proposed Restructuring.

Williamson mine, Tanzania

As mentioned above, the Williamson mine is currently on care and maintenance and the likely timing of a recommencement of production remains subject to improving market conditions and the mine's liquidity position. In addition, the Group remains in discussions with the Government of Tanzania ("GoT") around various issues including, inter alia, the sharing of economic benefit, the recoverability of VAT receivables, and the potential release of the blocked diamond parcel. Due to the Group's current financial position, Petra is not in a position to provide any financial assistance to the Williamson mine. Williamson's liquidity position is reliant on its ability to generate cash through operations (which is not possible during care and maintenance); and/or its ability to reach agreement with the GoT allowing it to sell the blocked diamond parcel and around potential recoupment of VAT receivables; and/or its ability to procure funding via borrowings from local financial institutions. Notwithstanding receiving approval from the GoT to proceed with arranging a US$25 million working capital facility from a local Tanzanian bank, while pledging its own assets as security, the mine has not yet been able to secure such funding. Discussions

Going concern (continued)

with a local bank for a possible reduced facility of some US$ 5 million is currently ongoing. Should an agreement with the local bank not be reached within the next month, Williamson is likely to face a liquidity shortfall. Under the terms of the in-principle agreements with the South African Lender Group any additional funding by Petra would require its approval and if not provided may result in Williamson's insolvent liquidation.

Forecast liquidity and covenants

The Petra Board has reviewed the Group's forecasts and sensitivities for a period of at least 18 months from year end, including both forecast liquidity and covenants. The forecasts assume that the envisaged Restructuring will be implemented in line with the provisions of the in-principle term sheet. In doing so, careful consideration was given to potential risks to the forecasts under the review period. The Petra Board carefully considered risks associated with COVID-19 which were considered to focus primarily on the potential for further production disruption, deferral of tenders due to travel restrictions and adverse impacts on diamond pricing.

In light of both normal trading risks and elevated risks associated with the potential impact of the COVID-19 pandemic, the following have been key considerations for the Petra Board in assessing the Group's ability to operate as a going concern at the date of this report:

- an unforeseen disruption to operations at its South African mines due to either COVID-19 restrictions or otherwise;
- an unforeseen deferral of two consecutive rough diamond tenders, due to COVID-19 restrictions, coupled with a significant price decline at an assumed subsequent private sale (in line with a similar process followed in FY 2020);
- a sustained 5% decrease in forecast rough diamond prices throughout the forecast period; and
- an increase in forecast operating cost.

Under the base case, which itself is dependent upon the successful completion of the proposed Restructuring and continued availability of the South African banking facilities in line with the in-principle agreement above, the forecasts indicate that the Group will be able to operate within the covenants set out in the in-principle agreement and maintain sufficient liquidity.

However, the proposed first lien covenants were set with limited headroom to base case. As such, although adequate liquidity is maintained throughout the review period under each of the individual scenarios, subject to continued availability of the South African Lender Group facilities, results of the stress testing indicate that in the event of deferral to the tenders outlined above or a combination of scenarios such as sustained reduced pricing and production disruption, possible covenant breaches associated with the South African banking facilities may occur in December 2021 and June 2022. Whilst reasonably available mitigating actions, which include cost savings and capital deferrals, are foreseen to address the risk of such a covenant breach, the delivery of such mitigating actions remains uncertain. In the event of a breach of covenant, the Group would be dependent on the South African Lender Group continuing to make the facilities available and under certain of the scenarios there would be insufficient liquidity to settle the outstanding South African Lender Group facilities if required. Whilst the South African Lender Group has indicated its support in recent discussions and ongoing dialogue with the South African Lender Group will be important during this period, there can be no guarantee that the facilities would continue to remain available in the event of a covenant breach.

Conclusion

The Petra Board is of the view that the longer-term fundamentals of the diamond market remain sound and that the Group will continue to benefit from Project 2022 (which includes increased production and reduced spend) throughout the review period and beyond.

Based on its assessment of the forecasts, principal risks and uncertainties and mitigating actions considered available to the Group in the event of downside scenarios, assuming a successful Restructuring the Board confirms that it is satisfied that the Group will be able to continue to operate and meet its liabilities as they fall due over the review period. However, the Group is reliant on the successful conclusion of the Restructuring to continue as a going concern. Additionally, as set out above, in the event of a successful Restructuring, the Group's forecasts remain sensitive to trading conditions and the ongoing COVID-19 pandemic may have a further material impact on the Group's ability to operate within its covenants such that continued South African Lender Group support may be required and, if unavailable, additional funding may be required, specifically for the December 2021 and June 2022 periods.

These factors indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal

Accounting policies

Going concern (continued)

course of business.

Accordingly, and having updated their inquiries of the Petra Board and their own assessments to date, the directors have concluded that the going concern basis of preparation remains appropriate for the company. However, as the issuer of the 2022 Notes and a guarantor to the Group's South African Lender facilities (and BEE Facilities) the circumstances outlined above indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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.

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.

Accounting policies

Financial instruments (continued)

Loans to / (from) group companies

These include loans to and from holding companies, fellow subsidiaries and subsidiaries.

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

A financial asset shall be measured at amortised cost if both of the following conditions are met:
(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

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.

Accounting policies

Tax

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

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 operation including the level of funds intended to be received following the Restructuring to meet future debt repayments and strategic plans taking into account past history, existing market conditions as well as qualitative and quantitative reasonable and supportable forward looking information.

Figures in American Dollar	2020	2019

2. Loss before tax

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 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 the 2022 Notes exposes the company to USD/ ZAR volatility as PDUKT's assets which support future dividends are loans denominated in South African Rand whereas the 2022 Notes are denominated in US dollars. The company is also exposed to foreign exchange risk on its foreign currency bank accounts. The company generated a gain of US$6 645 (2019: US$36 297 - loss) on translation of its Sterling bank account.

3. Interest receivable

Interest income		
Interest income - Cullinan Diamond Mine (Pty) Ltd (see note 8)	24 092 892	23 409 359
Interest income on bank deposits	4 513	152 002

4. Finance costs

Interest payable on loan notes[1]	49 762 919	49 626 955

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

Notes to the financial statements

Figures in American Dollar	2020	2019

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 (2019: lower than the standard rate of corporation tax in the UK) of 19% (2019: 19%). The differences are explained below:

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

	2020	2019
Accounting loss	(287 951 286)	(26 218 013)
Tax at the applicable tax rate of 19% (2019: 19%)	(54 710 744)	(4 981 422)
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	49 790 470	-
Amortised debt security issuance cost on US$650m Bond	(196 165)	(196 165)
Tax effect of group relief (received) surrendered for no consideration	4 223 284	3 443 030
Tax losses carried forward	893 155	1 734 557
Tax charge for the year	-	-

At balance sheet date, the company has unused tax losses (at the applicable tax rate) of US$9 474 348 (2019: US$10 558 257) 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 2019	230 000 000
At 30 June 2020	**230 000 000**
Impairment provision	
At 1 July 2019	-
Impairment provision	79 171 408
At 30 June 2020	**79 171 408**
Carrying amount	
At 30 June 2020	150 828 592

Impairment assessment on the company's investment in its subsidiary is required whenever there is an indication that the carrying value of the investment is not fully recoverable. When assessing the recoverability of the investment, management considered the investee's ability to recover the carrying value of it loans to fellow Petra Group subsidiaries as well as the following factors: the historical trading performance of the related party, the projected cashflows generated by the underlying operations and resultant payments towards intercompany loans, current downturn in diamond prices and market and the subsidiaries payment history. Based on the afore mentioned factors and investees credit loss allowance recognised in its financial statements, which resulted in the carrying amount of the investment in the company's Balance sheet exceeding the carrying amount of the investee's net assets, and considering the current debt restructuring of the Petra Group, management have raised a impairment of US$79 171 408 (2019: US$nil).

Notes to the financial statements

Figures in American Dollar		2020	2019

7. Investments in subsidiary (continued)

Details of the company's subsidiary as at 30 June 2020 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 UK Treasury Limited's registered office is 44 Southampton Buildings, London, WC2A 1AP.

8. Debtors: amounts falling due after one year

		2020	2019
Amounts due by group undertakings - Cullinan Diamond Mine (Proprietary) Limited An expected credit loss allowance of R182 883 702 (2019: Rnil) was provided for against the loan owing to the company. See below for further details.	i	300 000 000	300 000 000
Amounts due by group undertakings - other related parties[1]		22 423 324	-
Expected credit loss allowance (see below)		(182 883 702)	-
		139 539 622	**300 000 000**

1. Refer to note 15.

i. The loan accrues interest at the prevailing South African prime interest rate and is not expected to be repaid within 12 months from period end.

The debtors rank on a second-priority basis in favour of the Lender Group, to satisfy the contingent obligations disclosed in note 16.

Credit risk

The company applied IFRS 9 to measuring expected credit losses which uses a lifetime expected credit loss allowance for all amounts due from group undertakings as they are considered to be in Stage 3 'credit impaired' status under IFRS 9. When assessing the recoverability of the loan, management considered the following factors: the historical trading performance of the related party, the projected cashflows generated by the underlying operations and resultant payments towards intercompany loans, current downturn in diamond prices and market and the related party's payment history. Based on the afore mentioned factors and considering the current debt restructuring of the Petra Group, management have raised a credit loss allowance of US$182 883 702 (2019: US$nil) representing a provision against the receivable as current projections indicate a low likelihood of the full recovery of the loan owing to the company given the state of the rough diamond market and the impact of COVID-19 on Cullinan Diamond Mine's projected cash flow generation. This is further evidenced by asset-level impairments recognised by the Cullinan Diamond Mine during FY 2020 in addition to impairments passed in FY 2019.

9. Debtors: amounts falling due within one year

	2020	2019
Amounts due by group undertakings - other related parties[1]	34 687 411	60 830 207
VAT receivable	1 169	14 200
Prepayments and accrued income	120 974	118 089
Balance at the end of the year	**34 809 554**	**60 962 496**

1. Refer to note 15.

The debtors rank on a second-priority basis in favour of the Lender Group, to satisfy the contingent obligations disclosed in note 16.

Notes to the financial statements

Figures in American Dollar	2020	2019

9. Debtors: amounts falling due within one year (continued)

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 and note 8.

10. Other creditors and accruals

Accruals	68 793	-
Amounts due to group undertakings - Petra Diamonds Limited	34 033 043	39 228 773
	34 101 836	**39 228 773**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	5 323	1 098 424

12. Share capital

Issued		
Equity: 50 000 Ordinary shares of US$1.4761 each	73 805	73 805

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, 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)	676 790 755	47 254 761
Loans and borrowings due after one year		
Loan notes (US$650m - senior secured second lien notes)	-	603 335 600

On 12 April 2017, the company issued debt securities consisting of US$650 million five-year senior secured second lien loan notes ("the Notes"), with a maturity date of 01 May 2022. The 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; an amount of US$4.6 million remains unamortised as at 30 June 2020. The 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.

On 12 April 2017, proceeds from the 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 Notes, together with future drawdowns from the Petra Group's bank loan facilities, were used to further the Petra Group's expansion projects.

The Notes are secured on a second priority basis to the Lenders facilities (referred to in note 16) by:

Notes to the financial statements

14. Loans and borrowings (continued)

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

On or after 1 May 2019, the company has the right to redeem all or part of the 2022 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	101,8125 %
Period of 12 months from 01 May 2021	100,0000 %

On 1 May 2020, the company deferred the coupon repayment due on the Notes to preserve liquidity within the Petra Group which led to an event of default under the Notes. On 29 May 2020, the Petra Group entered into a Forbearance Agreement with an ad-hoc group of Noteholders. Pursuant to the Forbearance Agreement, as a result of the event of default due to the non-payment of the coupon, the AHG agreed to forbear from the exercise of certain rights and remedies that they have under the Notes indenture, including agreeing not to accelerate the Notes obligations as a result of the missed interest payment. Under the terms of the indenture, the failure by the Petra Group to pay the coupon on the Notes created an event of default. The extension of the Forbearance Agreement is at the discretion of the AHG and thus the company does not have the unconditional right to defer the coupon repayment beyond a period of 12 months. Accordingly as at 30 June 2020, the company recorded the outstanding obligation of US$676.8 million in the Balance sheet under current loans and borrowings. For further detail regarding the negotiations with the AHG refer to notes 16 and 17.

15. Other related party transactions

Other related party - amounts due from group undertakings	**2020**	**2019**
Cullinan Diamond Mine (Proprietary) Ltd**	48 064 631	51 784 101
Finsch Diamond Mine ((Proprietary)) Ltd**	9 042 022	9 042 022
Petra Diamonds UK Treasury Limited	4 082	-
	57 110 735	**60 826 123**

**The outstanding balance is unsecured, interest free with no fixed terms of repayment. Included in this balance is an amount of US$22 423 324 which is not expected to be repaid within 12 months from period end.

Current assets	34 687 411	60 826 123
Non-current assets	22 423 324	-
	57 110 735	**60 826 123**

Notes to the financial statements

16. Contingencies

(a) Senior secured lender debt facilities

The Petra Group's South African Lender Group is Absa Corporate and Investment Banking ("Absa"), FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB") and Nedbank Limited.

Due to the deferment of the Notes coupon on 1 May 2020, explained in (a) above, an event of default occurred under the terms of the debt facilities held with the South African Lender Group. On 29 May 2020, the Petra Group entered into an Amendment Agreement with the South African Lender Group amending the terms of the RCF, WCF and BEE Facilities. The extension of the Amendment Agreement is at the discretion of the South African Lender Group and thus Petra Diamonds US$ Treasury Plc does not have the unconditional right to defer the coupon repayment beyond a period of 12 months and shall remain in default until the default is remedied. Accordingly as at 30 June 2020, the Petra Group recorded the outstanding obligation of US$52.1 million in the Statement of Financial Position under current loans and borrowings. For further detail regarding the terms agreed with the South African Lender Group post year-end refer to note 17.

The amendments to the RCF, WCF and BEE Facilities are:

- resetting the maturity date of the RCF and the BEE Facilities to 31 July 2021 (from 20 October 2021 and 20 November 2021, respectively);
- increasing the margin on the WCF provided by Absa and RMB by 100 bps to match the South African prime lending rate;
- the margin on the RCF increasing to 9% above SA JIBAR (5% above SA JIBAR);
- re-profiling the capital payments under the BEE Facilities due on May 2020 and November 2020 to a single bullet payment on the maturity date (31 July 2021); and
- the margin on the BEE Facilities increasing to 9% above SA JIBAR (5,5% above SA JIBAR).

The RCF, as amended in the Amendment Agreement of ZAR400.0 million (US$23.1 million) and WCF of ZAR500 million (US$28.9 million) were fully drawn at year end.

The Petra Group's debt and hedging facilities for which the company is a guarantor, are detailed in the table below:

Amended Senior Lender Debt Facilities	30 June 2020 Facility amount	30 June 2019 Facility amount
ZAR Debt Facilities		
Revolving credit facility (RCF)	R400 million*	R1 000 million
Working capital facility (WCF)	R500 million*	R500 million
Foreign exchange hedging facilities	R300 million	R300 million

*At 30 June 2020, the RCF and WCF were fully drawn down.

The debt facilities are secured on a first priority basis to the SA 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;

Notes to the financial statements

16. Contingencies (continued)

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

Covenant ratios

In addition to the covenant ratios in the table below, as part of the Amendment agreement entered into with the South African Lender Group, the Petra Group is required, in addition to its existing covenant ratios (as below), to maintain certain liquidity requirements. The liquidity requirements mean the aggregate of the undrawn amounts available under the RCF and WCF and consolidated cash and cash equivalents (excluding diamond debtors) shall not fall below ZAR200 million (US$11.6 million).

Covenant	30 June 2020	31 December 2020	30 June 2021	Distribution covenants (all periods)
Consolidated Net Debt to Consolidated EBITDA[1,2]				
- New covenant ratio:	Not more than 3.5x	Not more than 3.25x	Not more than 3.0x	Not more than 2.0x
- Previous covenant ratio:	2.5x	2.5x	2.5x	2.0x
Consolidated EBITDA to Consolidated Net Finance Charges				
- New covenant ratio:	Not less than 2.75x	Not less than 3.0x	Not less than 3.25x	Not less than 6.0x
- Previous covenant ratio:	4.0x	4.0x	4.0x	6.0x

1. Fees to the lender group relating to the above mentioned changes in covenants and facilities were in the form of the increased interest rate and commitment fee ratchet mechanism.
2. Consolidated net debt for covenant measurement purposes is bank loans and borrowings plus loan notes, less cash and diamond debtors, and includes the BEE guarantees of US$40.0 million (ZAR692.6 million) (30 June 2019: US$54.2 million (ZAR762.5 million)) issued by the Petra Group to the lenders as part of the BEE financing concluded in December 2014 and which are included in the Petra Group's Consolidated Statement of Financial Position.

17. Events after the reporting period

Long-term restructuring solution for Petra: commercial terms agreed in principle with financial stakeholders

On 20 October 2020, the Petra Group (the Group) announced it had reached agreement in principle on a common set of commercial terms with respect to a long-term solution for the recapitalisation of the Group ("the Restructuring") with each of the AHG and the South African Lender Group. The key features of the proposed Restructuring are as follows:

- partial reinstatement of the Notes debt and the contribution by holders of the existing Notes of US$30.0 million in new money, each to take the form of new senior secured second lien notes ("New Notes"). It is expected that the New Notes will amount to approximately US$337.0 million (including the new money and fees paid as part of the transaction in New Notes);
- conversion of the remainder of the Notes debt into equity, which will result in the Noteholder group holding 91% of the enlarged share capital of Petra Diamonds Limited (PDL);
- restructuring of the first lien facilities provided by the South African Lender Group; and

17. Events after the reporting period (continued)

- new governance arrangements and cashflow controls.

Commercial terms of the Restructuring

1. Reinstatement of Notes debt and New Money

All Noteholders shall have a right to subscribe for a portion of US$30.0 million of new money to be provided by Noteholders to Petra Diamonds US$ Treasury plc ("the New Money"), pro rata to their holdings of the Notes. The New Money will be structured to incentivise participation by Noteholders, including through the treatment of their existing Notes debt (as further described below), and backstopped by certain of the Noteholders.

A portion of the existing Notes debt will be reinstated alongside the New Money notes, each to be reinstated in the form of New Notes. The New Notes will be allocated as follows:

(a) US$30.0 million (reflecting the New Money) allocated only to those Noteholders that contribute New Money, pro rata to their New Money contribution;

(b) US$150.0 million allocated only to those Noteholders that contribute New Money, pro rata to each holder's contribution to the New Money (reflecting a ratio of 5.0:1);

(c) US$145.0 million allocated to all Noteholders, pro rata to their holdings of existing Notes at the close of the Restructuring; and

(d) a further amount of New Notes as consideration to certain Noteholders, including the AHG, for their support and efforts expended in connection with the Restructuring. It is expected that the quantum of New Notes issued for this purpose will be approximately US$12.0 million including, without limitation:

- New Notes to be issued to any Noteholder who executes the Lock-Up Agreement on or within 14 days of the date of the agreement ("the Early Bird Fee"), where the Early Bird Fee will be equal to 1.0% of the aggregate principal amount of such Noteholder's existing Notes as at the date 14 days after the date of the Lock-Up Agreement; and

- New Notes to be issued to certain Noteholders who agree to provide any portion of the New Money that is not otherwise provided by other Noteholders in the form of a pro rata allocation of US$1.5 million of New Notes.

Material terms of the New Notes:

(a) Interest rate (payable every six months) of 10.50%. Payment in kind for the first 24 months and 9.75% cash pay thereafter.

(b) Maturity date: five years from date of completion.

(c) Non-call protection: two-year non-call protection (customary make-whole), and coupon step-down profile thereafter at 104.88, 102.44, then par.

(d) Covenants: customary for financing of this type, including: (i) a change of control provision requiring a change of control offer at 101%; and (ii) a minimum liquidity covenant.

(e) Guarantors, security and ranking: second-ranking guarantees and security to be provided on substantially the same terms as under the existing Notes, with certain amendments to be agreed in line with corporate restructuring steps. Enhancements to security package to be agreed, including, but not limited to, security over intra-group offtake receivables and inventory at all relevant points in supply chain until inventory is sold to third parties (but only to extent of not constraining operations or incurring material additional duties or fees). Any enhancements shall also be included in the first lien security package.

(f) Inter-creditor arrangements: to reflect second-ranking guarantees and security and certain additional inter-creditor arrangements including payment stops (including limitations on paying cash interest) and enforcement limitations, subject to the requirements and covenants of the first lien debt (including compliance with a first lien debt service cover ratio (see Section 3 below for further details), amount drawn under the new Revolving Credit Facility ("RCF") of no more than ZAR400.0 million at the time of and for two weeks following the interest payment and a minimum unrestricted cash covenant of US$20.0 million).

Notes to the financial statements

17. Events after the reporting period (continued)

It is contemplated that the above arrangements with respect to the Notes shall be effected through an English law scheme of arrangement under part 26 of the Companies Act 2006.

2. Equity

The remainder of the existing Notes debt will be exchanged for equity in the Group ("the Debt for Equity"), pursuant to which new Ordinary Shares in Petra Diamonds Limited ("PDL") will be issued to the Noteholders in consideration for the assignment of existing Notes debt. The Debt for Equity will result in the Noteholder group holding 91% of the enlarged share capital of PDL in the following proportions:

(a) 56.0% of the enlarged share capital to be issued to all Noteholders, pro rata to their holdings of existing Notes at the close of the Restructuring (and to the extent any Noteholder does not take up their entitlement, such entitlement will be allocated to the remaining Noteholders who have not opted out of their equity entitlement, on a pro rata basis); and

(b) 35.0% of the enlarged share capital to be issued to those Noteholders that elect to contribute towards the New Money only, pro rata to their contribution of New Money (and to the extent any such Noteholders do not take up their entitlement, such entitlement will be allocated to the remaining Noteholders (that are participating in the New Money and who have not opted-out of their equity entitlement) on a pro rata basis).

As a consequence of the Debt for Equity, at least 9% of the enlarged PDL share capital will remain with the existing PDL shareholders (subject to dilution as a result of standard management equity incentive arrangements). The Debt for Equity as currently constituted is subject to the approval of existing shareholders of the Group at an EGM of the Group. However, the Group is also preparing to implement the agreement in principle reached with its creditors through alternative structures should shareholder approval not be obtained at the relevant time. It is not anticipated that such alternative structures would result in any retention of equity or other interests in the Group by the existing shareholders of the Group.

3. Arrangements with the South African Lender Group

The various existing arrangements with the South African Lender Group, including the ZAR500.0 million WCF, the ZAR400.0 million RCF, the financing arrangements in respect of the Group's BEE Partners ("the BEE Facilities") and the Group's general banking facilities will (subject to credit committee approval) be restructured as part of the Restructuring.

The new bank facilities will comprise the following, on a first lien basis and on substantially the same terms (or better for the Group) as under the existing documentation:

(a) Term loan

(i) Available in a principal amount of ZAR1.2 billion (ca. US$69 million), borrowed by existing obligors in the Group (to be agreed) in order to refinance the existing drawn ZAR500 million (ca. US$29 million) WCF and the BEE Facilities (approximately ZAR683 million (ca. US$39 million)).

(ii) Final maturity date: three years from date of completion.

(iii) Scheduled amortisation of 9% of principal per quarter (starting in June 2021) with a final 10% of principal repayment at maturity.

(iv) 1.3x debt service cover ratio tested semi-annually on a rolling 12-month basis, which if breached will give rise to an event of default under the new bank facilities.

(v) Interest rate of JIBAR + 5.25% per annum (with an upfront fee of 1% of the term loan amount to be capitalised).

(b) RCF

(i) Available in a principal amount of ZAR560.0 million (ca. US$32 million) constituted by a rollover of the existing RCF but upsized by ZAR160 million (ca. US$9 million).

(ii) Final maturity date: three years from completion.

(iii) Scheduled reduction in the committed amount under the RCF of 9% of the total initial commitments per quarter (starting in June 2021) with a final 10% reduction at maturity.

17. Events after the reporting period (continued)

(iv) 1.3x debt service cover ratio tested semi-annually on a rolling 12-month basis, which if breached will give rise to an event of default under the new bank facilities.

(v) Interest rate of JIBAR + 5.25% per annum (with an upfront fee of 1% of the RCF amount to be capitalised and a commitment fee based on undrawn balances).

Derivative, guarantee, foreign exchange and intra-day exposure lines up to an agreed amount consistent with current requirements and on substantially the same terms as the Group's existing arrangements. The existing arrangements will be rolled over to provide hedging against foreign exchange risk on the same terms as the Group's existing arrangements.

4. Additional rights for holders of the New Notes

The holders of the New Notes will be granted certain rights, and some ongoing financial oversight, over the business of the Group, including with respect to governance and cashflow controls.

Directors and corporate governance

Up to four Noteholders (in their capacity as shareholders of PDL following the Restructuring) that individually hold at least 10% of the shares in PDL (taking into account the shares issued pursuant to the Debt for Equity) at the closing of the Restructuring shall have a "Nomination Right" to:

- nominate a person for appointment to the Petra Board as a non-independent Non-Executive Director; and
- appoint an observer to the Petra Board (such person shall not have voting rights at Petra Board meetings), it being acknowledged that the Group shall comply with the UK Listing Rules and the UK Corporate Governance Code on the appointment of additional independent Non-Executive directors as applicable. If at any time the Noteholder (shareholder) ceases to hold at least 7% of the shares in PDL (taking into account shares issued under the Debt for Equity), the rights will fall away. These arrangements will be governed by agreements between the relevant Noteholder (in its capacity as shareholder) and the Group.

The Nomination Rights will be allocated to the Noteholders who execute the Lock-Up Agreement on, or within 14 days of, the date of the Lock-Up Agreement ("the Deadline"), provided they satisfy the minimum shareholding requirements mentioned above in (ii). For the avoidance of doubt, only four Noteholders will be entitled to Nomination Rights (and if more than four Noteholders would be so entitled, the top four Noteholders (in terms of projected holdings of PDL shares, based on the Noteholders' holdings of existing Notes as at the Deadline) will have the Nomination Rights).

It is expected that details of these Nomination Rights will be included in the PDL shareholder circular and prospectus to be published in connection with the Debt for Equity. The PDL shareholder circular and prospectus will also disclose the intention that the existing Directors of PDL remain in office following closing of the Restructuring.

The Petra Board will, following closing of the Restructuring, form an advisory investment committee, which will include Directors nominated by the Noteholders (shareholders) in order to monitor significant capital and other investments and recommend their adoption to the full Petra Board.

A cash bonus and/or equity-based management incentive plan will be implemented by the Petra Remuneration Committee post-closing of the Restructuring which shall be designed to incentivise and reward business performance and to achieve or exceed targets set by the Board, which will include targets relating to cash generation and leverage and performance against the PDL business plan. Any such arrangements will be put forward in the normal course for approval by shareholders at the AGM.

Cashflow control enhancement covenants

In addition to various restrictions and the tightening of existing covenants and baskets in relation to the Notes, certain cashflow control protocols will be introduced and debt service waterfalls will be included to reflect the priority and application of payments to the banks as first lien debt providers and to the Noteholders as second lien debt providers.

Notes to the financial statements

17. Events after the reporting period (continued)

Cashflow protocols

All cashflows, whether from operations or otherwise, will be applied in accordance with a cashflow protocol. The protocol will include a transparent and orderly cashflow management in the ordinary course and recording and implementation of the agreed priority of ordinary course payments as between the operating companies, the rest of the Group, the BEE Partners, the South African Lender Group and the Noteholders and restricted payments.

Scheme of Arrangement

Following the signing of the Lock-Up Agreement, the Petra Group announced that the company (Petra Diamonds US$ Treasury Plc) (the "Scheme Company") had launched a scheme of arrangement (the "Scheme") via the issuance of a practice statement letter (the "PSL") addressed to, among others, the Scheme Creditors (as defined in the PSL).

The Scheme Company is proposing the Scheme in order to implement the proposed restructuring (the "Restructuring") of the Petra Group in the manner described and contemplated in the Lock-Up Agreement dated 17 November 2020.

Approval of the Restructuring

On 8 January 2021, the Group obtained approval for the Proposed Scheme of Arrangement of Petra Diamonds US$ Treasury Plc ("the Scheme") by the requisite majority of Scheme Creditors at the Scheme Meeting (being a majority in number, representing at least 75 per cent. in value of the Scheme Creditors present and voting).

On 12 January 2021, the Group obtained approval that the Scheme in connection with the Notes was sanctioned by the High Court of Justice of England and Wales at the Scheme Sanction Hearing which took place before Bacon J at 10.30 a.m. (London time).

On 13 January 2021, a Special Annual General meeting was held whereby ordinary shareholders of the Group voted on to:

- approve the reduction to the authorised share capital of the Group by reducing the nominal value of all Ordinary Shares from 10 pence to 0.001 pence;
- approve the increase to the authorised share capital of the Company by the creation of 8,500,000,000 Ordinary Shares;
- authorise the Directors to allot Ordinary Shares up to an aggregate nominal amount of £88,447, being 8,844,700,000 Ordinary Shares (the "New Ordinary Shares"); and
- approve the issue of the New Ordinary Shares pursuant to the Debt for Equity Conversion, including any discount to the Closing Price as at the Latest Practicable Date.

At the meeting the ordinary shareholders voted in favour of the resolutions and as a result, 8,844,657,929 Ordinary Shares are expected to be allotted to Noteholders, on or around the Proposed Restructuring Effective Date, under the authority granted. The Proposed Restructuring Effective Date will occur following satisfaction of certain conditions precedent to the Restructuring.

Applications will therefore be made in due course to the Financial Conduct Authority for 8,844,657,929 Ordinary Shares to be admitted to listing on the premium listing segment of the Official List of the FCA and to London Stock Exchange plc for 8,844,657,929 Ordinary Shares to be admitted to trading on the London Stock Exchange plc's main market for listed securities.

On 14 January 2021, the Group obtained approval from the the United States Bankruptcy Court approving the US Chapter 15 Bankruptcy application.

On 29 January 2021 the Group received approval from the Financial Surveillance Department of the South African Reserve Bank to implement the Restructuring.

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.