Petra Diamonds US$ Treasury Plc
(Registration number 09518557)
Financial statements
for the year ended 30 June 2022

# 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<br>R N Duffy |
| **Registered office** | 15–17 Heddon Street, Third Floor<br>London<br>W1B 4BF |
| **Auditors** | BDO LLP<br>55 Baker Street<br>London<br>W1U 7EU |
| **Secretary** | R Rowland-Clark |

# Strategic report

The directors present the Strategic report for the period from 1 July 2021 to 30 June 2022. 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").

**FY2021: Restructuring of the US$650 million Loan Notes (2022 Notes) and issue of US$336.7 million Senior secured second lien notes (New Notes)**

In the prior year, the company's ultimate parent company, Petra Diamonds Limited ("PDL" or "the Petra Group") announced it had completed the implementation of the Debt Restructuring (Restructuring) project with the company's 2022 Noteholders and the Petra Group's South African Lender Group. The key features of the Restructuring of the 2022 Notes and the Senior secured lender debt facilities of ZAR1.6 billion are as follows:

- conversion of 2022 Notes debt valued at US$415.0 million into equity, which resulted in the Noteholder group holding 91% of the enlarged share capital of PDL (refer to notes 13 and 14);
- the remainder of the 2022 Notes exchanged for the issue of US$295.0 million new Notes (New Notes) and the contribution by holders of the existing Notes of US$30.0 million in new money, each to take the form of US$336.7 million senior secured second lien notes (New Notes); and
- restructuring of the first lien facilities to provide for a Term Loan of ZAR1.2 billion and a Revolving Credit Facility ("RCF") of ZAR560 million provided by the South African Lender Group.

For further detail on the Restructuring refer to note 14.

**Principal risks and uncertainties**

This financial statements 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:

- significant global economic uncertainties resulting from the war in Ukraine;
- 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;
- foreign exchange risk where transactional currency is not US Dollars; and
- the potential impact on supply chain disruptions given the recent international sanctions imposed on Russia.

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 PDL.

# Strategic report

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

As at 30 June 2022, the company holds total assets of US$575 184 202 (2021: US$532 378 918) comprising its investment in subsidiary, debtors due from Petra Group companies and cash at bank, and had net assets of US$208 937 100 (2021: US$194 579 175). The company recorded a profit after tax of US$14 357 925 (2021: US$386 262 998) primarily due to the net interest incurred on the existing bond and impairment reversals amounting to US$25 358 522 (2021: net profit after tax primarily due to US$213 349 503 gain on extinguishment (net of restructuring costs) of the 2022 Notes (refer note 14) and impairment reversals amounting to US$198 903 254).

The company is dependent on the operational performance of the diamond mining operations within the Petra Group. The Petra Group, for the year ended 30 June 2022 was able to improve upon existing safety measures, production, and operations, which enabled it to take advantage of the buoyancy of the diamond market. Petra Group revenue for the year increased 44% to US$585.2 million, buoyed by the strong jewellery sales over the holiday period, the contraction in the global supply of rough diamonds and a 16% increase in rough diamond prices compared to the preceding six months to 30 June 2022. This, coupled with the revenue contribution from Exceptional Stones amounting to US$89.1 million, more than offset the 7% reduction in sales volumes which was the result of a deferral of post-pandemic outbreak sales to July 2020, within the comparative period. The Group's Adjusted EBITDA rose 103% to US$264.9 million with an Adjusted EBITDA margin of 45% (2021: 32%) supported by the sales of Exceptional Stones. Post Period end, the Group released results of Tender 1 for FY2023, at which 520,011 carats were sold for a total of US$102.9 million, supported by a high proportion of high-value gem-quality single stones particularly from the Cullinan Mine. This has resulted in a 21% increase in the Group's average realised price against Tender 6 in FY 2022, more than offsetting the 4.5% softening of like-for-like prices.

Diamond production at the Petra Group's South African operations was marginally up against the comparative period and in line with guidance. Production resumed at the Williamson mine in Tanzania during H1 FY 2022.

The Petra Group's improving cash flow generation is being enabled by Project 2022, which has now concluded. Since commencement Project 2022 has delivered US$265 million in net free cash flow benefits, exceeding its net free cash flow targets of US$100 million to US$150 million over the three year period to June 2022, supported by 41.5% increase in like-for-like diamond prices and a record recovery of Exceptional Stones. This has contributed to the Group being able to further reduce its net debt from US$228.2 million as at 30 June 2021 to US$40.6 million at 30 June 2022.

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

The results are set out on page 17. The principal key performance indicator for the company is profit. The profit after tax for the period ended 30 June 2022 was US$14 357 925 (2021: US$386 262 998).

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.

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

**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 stakeholders 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"). During March 2021, the company completed the implementation of the Restructuring project with its 2022 Noteholders. Further detail in respect of the Restructuring is discussed in notes 14 and 16.

Given the nature of the company there are very few suppliers and the directors are the only employees of the company. None of the directors are paid remuneration or emoluments by the company. The remuneration of the directors for services to the Petra Group is disclosed in the Annual Report of the Petra Group.

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 considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive value creation in the long term. During FY 2022 and in the midst of recovering from the Covid-19 pandemic, balancing the needs and expectations of our stakeholders has been an even more

## Strategic report

important task.

The board regularly considers the steps needed to provide investors and stakeholders with a compelling value proposition and resilient business in the medium to long term, recognising the evolving environment in which Petra Group operates.

**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 25 October 2022.

By order of the board.

**J Breytenbach**
**Director**

**25 October 2022**

# 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 2022.

The following information is included within the Strategic report:

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

**Nature of business**

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

**Directors**

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

**Directors**
J Breytenbach
R N Duffy

**Events after balance sheet date**

The directors are not aware of any other material event which occurred 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 a US$14 408 000 (2021: US$25 080 448) 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. The receipt of dividends and future repayment of equity from PDUKT to service the coupon and capital settlement on the New 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 New 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 New Notes is dependent upon the Petra Group. The company has written confirmation of financial support from its ultimate holding company and is dependent on the Petra Group ("the Group") continuing as a going concern.

### Going concern

### Background

The company is a wholly owned subsidiary of Petra Diamonds Limited (PDL), is a guarantor under the South African Lender Facilities held by the Petra Group and is the issuer of the US$336.7 million Notes (the Notes). The company has written confirmation of financial support from its ultimate holding company and is reliant on the Petra Group ("the Group") to continue as a going concern. The Petra Group's 12-month period to 30 June 2022 delivered US$264.9 million in EBITDA and US$230.0 million in operational free cashflow, while the Group's consolidated net debt reduced from $228.2 million as at 30 June 2021 to US$40.6 million at 30 June 2022.

The South African Lender Facilities of the Petra Group are secured by the assets of the company together with the assets of other companies within the Petra Group. The company's liquidity and ability to meet payments due as they arise is dependent upon the Petra Group's mining operations ability to generate sufficient operational free cash flow in order to settle all of the Group's obligations. Given the above and the letter of financial support, the company's going concern assessment is dependent on the Petra Group continuing as a going concern. Therefore, as part of its going concern assessment, the directors of the company have considered various factors, as set out below, which may impact the Petra Group to continue as a going concern.

### Production

Production at the Group's Cullinan and Finsch mines were generally in line with guidance. The Petra Group's overall production also benefited with the restart of operations at Williamson during Q1 FY2022 following an 18-month period of care and maintenance, with Williamson ramping up towards steady-state operations. During the year, the Group also announced expansion capital projects at both its Cullinan and Finsch Mines, which will extend their Life of Mine (LOM) plans to 2031 and 2030 respectively. The expansion project at Cullinan Mine is progressing well, while the expansion project at Finsch is slightly behind schedule on account of delay in delivery of long-lead items given the global disruption in supply chains experienced over the past 6 months. Both projects, however, remain within guidance for cost and schedule, as mitigation steps have been identified and being implemented to catch-up on the schedule delays at Finsch.

### Diamond prices and diamonds market

Diamond prices strengthened over FY 2022, with a 41.5% increase on a like-for-like basis compared to the preceding twelve-month period. In addition, Cullinan's run of Exceptional Stone recovery and sales continued with a total of US$75.2 million realised in the year. Williamson also benefited from the sale of an exceptional pink diamond at its first tender after restarting operations, yielding US$13.8 million and significantly de-risking Williamson's own liquidity profile.

The market experienced robust price recovery and prices are now close to prices last seen during pre-COVID-19 levels. In general, the market is supported by a fundamental supply deficit, with robust demand recovery experienced post COVID-19. While some of the price recovery may have been helped by sanctions on Russian goods, it appears that these goods have continued to flow into the market. From a demand perspective, the Chinese lockdown has moderated demand for certain categories of polished goods, while the rising inflation and interest rate cycles may impact disposable income and therefore further moderate/reduce short-term demand for diamonds. This may lead to some short-term price volatility, but the medium-long term supply/demand fundamentals are expected to support the diamond price outlook.

### Russian invasion of Ukraine

Since the invasion of Ukraine by Russia in late February, there has been increasing macroeconomic uncertainty. The global economy has been severely affected by rising inflation owing to the increase in commodity and oil prices as a result of the war.

## Directors' report

This has been compounded by Pandemic-induced constraints on supply and the lockdown in China. Despite the significant global economic uncertainties resulting from the war in Ukraine, like-for-like rough diamond prices increased 41.5% during the period. Whilst the long-term fundamentals of the diamond market remain positive, some volatility in rough diamond pricing may be experienced whilst macroeconomic uncertainties remain. The directors are closely monitoring the war in Ukraine and sanctions on Russian companies and its impact on the global diamond market.

**COVID-19**

The Group's approach to managing COVID-19 has seen the Group not experiencing any interruptions to day-to-day operational/business activities specifically related to COVID-19 during the year. During FY2022, the Group successfully reverted to hosting all of its tenders for the South African goods in South Africa, while the Williamson goods continue to be auctioned in Belgium (as per its normal tender process for Williamson goods).

**South African banking facilities**

During the year, the South African banking facilities held with the Group's previous consortium of South African lenders were settled and cancelled, comprising of the revolving credit facility of ZAR404.6 million (capital plus interest) and the term loan of ZAR893.2 million (capital plus interest).

The Group entered into a new First Lien ZAR1.0 billion senior Revolving Credit Facility (RCF) facility with ABSA in June 2022. The Group will benefit from reduced interest rates compared to the previous facilities coupled with more appropriate leverage-based covenants (Net Debt : EBITDA, Interest Cover Ratio (ICR) and minimum liquidity). This new facility has a longer tenure, with the facility expiring on 7 January 2026. As at 30 June 2022, the RCF remains undrawn, with the Group having access to the full ZAR1.0 billion.

The factors above, coupled with the further significant progress towards stabilising the Group's balance sheet and strengthening cash reserves as at the date of this report positions the Group and company favourably for the Going Concern period.

**Forecast liquidity and covenants**

The Petra Board has reviewed the Group's forecasts with various sensitivities applied for the 18 months to December 2023, including both forecast liquidity and covenant measurements. As per the First Lien agreements entered into with ABSA, the liquidity and covenant measurements exclude contributions from Williamson's trading results and only recognises cash distributions payable to Petra upon forecasted receipt, or Petra's funding obligations towards Williamson upon payment.

The Petra Board has given careful consideration to potential risks identified in meeting the forecasts under the review period. The following sensitivities have been performed in assessing the Group's ability to operate as a going concern (in addition to the Base Case) at the date of this report:

- a 10% decrease in forecast rough diamond prices from July 2022 to December 2023
- a 10% strengthening in the forecast South African Rand (ZAR) exchange rate from July 2022 to December 2023
- a 10% increase in Operating Costs from July 2022 to December 2023
- a US$15.0 million reduction in revenue contribution from Exceptional Stones
- a production disruption sensitivity assuming no carat production across the Group's operations for a period of two weeks in February 2023 (could be due to extreme weather conditions or supply chain events or any other unexpected event)
- Combined sensitivity: Prices down 10% and ZAR stronger by 10% and Exceptional Stones contributions reduced by US$15.0 million and Operating Costs up 5%

Under all the cases, the forecasts indicate the Group's liquidity outlook over the 18-month period to December 2023 remains strong, even when applying the above sensitivities to the base case forecast.

The forward-looking covenant measurements associated with the new First Lien facility do not indicate any breaches during the 18-month review period for the base case as well as all the above sensitivities, except for the worse case combined sensitivity, which shows a covenant breach for the required interest cover ratio in the December 2023. While the ICR is projected to be breached in this combined sensitivity, both the Consolidated Net Debt to EBITDA covenant and the liquidity covenant remain healthy, while the RCF remains undrawn. It is therefore assumed that the RCF remains available, with the First Lien lender

# Directors' report

assumed to agree to an ICR covenant waiver, given that the Group does not expect to utilise the RCF for servicing of its interest obligations on its Senior Secured Second lien notes. Furthermore, the potential ICR breach may be mitigated by means of reducing the Group's gross debt by utilising existing cash reserves and/or marginally increasing the EBITDA for the preceding 12-month period.

**Debt tender offer**

In September 2022, the company launched a tender offer to its bondholders to purchase US$150 million of the Senior Secured Second Lien Notes due in 2026 in line with its stated intent to further optimise its capital structure through a reduction of gross debt. As at the date of this report, the company has, through this tender offer, reduced gross debt by US$144.6 million. As per the company's strategy, it will continue to consider opportunities to further optimise its debt structure. The tender offer transaction will see the company saving at least US$14 million (and up to US$17 million) per annum in interest expenses.

**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 the recently embedded new operating model 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, the Petra Board confirms that it is satisfied that the Petra Group will be able to continue to operate and meet its liabilities as they fall due over the going concern period to December 2023. Accordingly, the Petra Board have concluded that the going concern basis in the preparation of the Group's financial statements is appropriate and that there are no material uncertainties that would cast doubt on the going concern basis of preparation.

Accordingly, and having updated their inquiries of the Petra Board and their own assessments to date, based on the above, the letter of support obtained from its ultimate holding company, and the company's underlying dependence on the Petra Group's mining operations, the directors have concluded that the going concern basis of preparation remains appropriate for the company.

**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
- 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 25 October 2022 and signed on its behalf by:

**J Breytenbach**
Director

**25 October 2022**

## 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) including FRS 101. 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 on the financial statements**

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its profit 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.

We have audited the financial statements of Petra Diamonds US$ Treasury Plc ("the Company") for the year ended 30 June 2022 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).*

**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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remain 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.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We have reviewed the financial support letter provided by the Petra Group to the Company, as set out in the going concern accounting policy, the Company is a guarantor under the South African Lender Facilities held by the Petra Group and holds the new US$336.7 million Notes. The South African Lender Facilities of the Petra Group are secured by the assets of the Company together with the assets of other companies within the Petra Group. The company's liquidity and ability to meet payments due as they arise is dependent upon the Petra Group's mining operations ability to generate sufficient operational free cash flow in order to settle all of the Group's obligations. Given the above and the letter of financial support, the company's going concern assessment is dependent on the Petra Group continuing as a going concern.
- We have assessed the Petra Group's cashflow forecast and the ability of the Petra Group to provide such support to the Company. As set out below, we performed procedures on Petra Group's cash flow forecasts to determine whether they supported management's conclusion that the Petra Group will have sufficient cash to honour the financial support letter if called upon.
- We have critically reviewed the Petra Group's base case cashflow and covenant forecasts and evaluated the Petra Group Directors' assumptions in respect of diamond prices, sales of exceptional stones, production, operating costs, foreign exchange rates and capital expenditure. In doing so, we considered historic performance, trading to date in Q1 FY 2023 and external market data but also the extent to which risks, and uncertainties have been appropriately considered and reflected in the forecasts. Additionally, we benchmarked each material cash flow in the Petra Group's base case cashflow forecast to the life of mine models.
- We have obtained an understanding of the impact of COVID 19 and the Russia / Ukrainian conflict to date, together with potential future risks and uncertainties, considering the impact on the labour force, energy prices (fuel and electricity), supply chain, tenders, diamond prices and access to finance.
- We have obtained and reviewed the Petra Group's stress test scenarios in respect of strengthening of the South African Rand exchange rate from July 2022 to December 2023, increasing in operating costs from July 2022 to December 2023, US$ 15.0 million reduction in revenue contribution from exceptional stones; production disruption and a combination scenario and confirmed that liquidity was maintained under such scenarios.

- We have assessed the mitigating actions identified by the Petra Group Directors, including operational cash conservation measures, that form part of their assessment of going concern. In doing so, we made inquiries of the Petra Group Directors and the Petra Group Board and obtained supporting evidence in drawing conclusions.
- We have considered adequacy of the going concern disclosures in Note 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

**Overview**

| | | 2022 | 2021 |
|---|---|---|---|
| **Key audit matters** | KAM 1 | The risk that the Company's investments and receivables require impairment | The risk that the Company's investments and receivables require impairment |
| **Materiality** | *Financial statements as a whole*<br>US$2,700,000 (2021: US$2,500,000) based on 1% of total assets (2021: 1% of total assets). | | |

**An overview of the scope of our audit**

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, 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) that 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. This matter was 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 this matter.

| **Key audit matter** | | **How the scope of our audit addressed the key audit matter** |
|---|---|---|
| **The risk that the Company's investment and receivables require impairment**<br><br>*Refer to note 7 and 8 of the Company's Financial Statements* | As at 30 June 2022, the Company held total receivables of US$322,423,324 due from a subsidiary of the Petra Group as set out in Note 8 and an investment in a subsidiary undertaking of US$230,000,000 as set out in Note 7, the recoverable amounts of which are dependent on cashflows generated from the Petra Group's mines. | Management performed an expected credit loss assessment on the recoverability of the receivable balance and recorded a reversal of a previously recorded credit loss of US$10,672,448, which required judgement and estimation by management. Management performed an impairment test on the carrying value of the investment and recorded a reversal of a previously recorded impairment of US$14,686,074.This also required judgement and estimation by management. As such, this was considered to be a key area of focus for our audit.<br><br>• We have obtained and reviewed management's assessment of the expected credit loss ("ECL") provision against receivables. |

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| | | • 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 and in accordance with IFRS 9 requirements. We confirmed the underlying cash flow forecasts to the operating subsidiary of the Petra Group's life of mine models, assessed the appropriateness of the underlying cash flow assumptions and performed sensitivity analyses.<br>• We have obtained and reviewed management's impairment indicator assessment of the investment held in the Petra Diamonds UK Treasury subsidiary, where management had concluded an investment impairment test was required.<br>• We evaluated management's assumptions made in the investment impairment test. In doing so, we compared the carrying amount of 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 amount of the investee is substantially based on recovery of such receivables.<br>• We evaluated the appropriateness of management's assessment of impairment reversal based on the underlying cash flow forecasts.<br>• We have considered adequacy of the expected credit loss and impairment reversal disclosures in Note 7 and 8.<br><br>**Key observations:**<br><br>We found management's assessment of the recorded reversal of a previously recorded credit loss and impairment of the Company's receivables and investments to be reasonable. We found the disclosures in notes 7 and 8 to be appropriate. |

**Our application of materiality**

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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | 2022 | 2021 |
|---|---|---|
| **Materiality** | US$2,700,000 | US$2,500,000 |
| **Basis for determining materiality** | 1% of total assets which is capped to 50% of Group Materiality of US$2,7m. | 1% of total assets which is capped to 50% of Group Materiality of US$2,5m. |
| **Rationale for the benchmark applied** | We consider total assets to be an appropriate basis for materiality given the Company is focused on raising debt for onward lending to the wider Petra Diamonds Limited group. | We consider total assets to be an appropriate basis for materiality given the Company is focused on raising debt for onward lending to the wider Petra Diamonds Limited group. |
| **Performance materiality** | US$2,025,000 | US$1,875,000 |
| **Basis for determining performance materiality** | 75% of materiality considering factors including the nature of activities and historic audit adjustments. | 75% of materiality considering factors including the nature of activities and historic audit adjustments. |

*Reporting threshold*

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$54,000 (2021: US$125,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

**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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

**Other Companies Act 2006 reporting**

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• 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<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br><br>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. |
| **Matters on which we are required to report by exception** | 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:<br>• adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or<br>• the Company financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

**Responsibilities of Directors**

As explained more fully in the Directors' responsibilities and approval statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

*Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, through discussion with Management and our knowledge of the industry;
- We considered the significant laws and regulations of the UK and Ireland relevant to the Company to be that relating to the industry, financial reporting framework, tax legislation and the listing rules. Procedures to ensure compliance include review of minutes, discussion of those charged with governance and review of correspondence with litigators.
- We held discussions with Management to consider any known or suspected instances of non-compliance with laws and regulations or fraud identified by them;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining an understanding of the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter, or detect fraud. We considered the significant fraud risk area to be management override of controls;
- We addressed the risk of management override of internal controls, including testing a risk based selections of journals and evaluating whether there was evidence of bias in Management's estimates that represented a material misstatement due to fraud. Specifically:
    - We tested the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud;
    - We performed a detailed review of the Company's year-end adjusting entries and investigated any that appear unusual as to nature or amount and agreeing to supporting documentation;
    - For significant and unusual transactions, particularly those occurring at or near year-end, we obtained evidence for the rationale of these transactions and the sources of financial resources supporting the transactions;
    - We assessed whether the judgements made in accounting estimates were indicative of a potential bias (refer to key audit matters above);
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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.

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

**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.

DocuSigned by:
Scott Knight
4EA9C1524263439...

**Scott Knight (Senior Statutory Auditor)**
**For and on behalf of BDO LLP, Statutory Auditor**
**London**
**25 October 2022**

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

# Profit and loss account

| | Notes | 2022 US$ | 2021 US$ |
|---|---|---|---|
| Gain on extinguishment of 2022 Notes net of unamortised costs | 2 | - | 213 349 503 |
| Foreign exchange (losses) gains | 2 | (180) | (3 712) |
| Impairment reversal of investment in subsidiary | 7 | 14 686 074 | 41 100 000 |
| Impairment reversal of intercompany receivable | 8 | 10 672 448 | 157 803 254 |
| Administrative expenses | | (485 431) | (1 023 939) |
| Interest receivable | 3 | 28 448 149 | 23 647 663 |
| Finance costs | 4 | (38 963 135) | (48 609 771) |
| **Profit before taxation** | | **14 357 925** | **386 262 998** |
| Taxation | 6 | - | - |
| **Retained profit for the year** | | **14 357 925** | **386 262 998** |

The above results were derived from continuing operations.

The accounting policies on pages 21 to 26 and the notes on pages 27 to 36 form an integral part of these financial statements.

## Statement of comprehensive income

| | Notes | 2022 US$ | 2021 US$ |
|---|---|---|---|
| **Profit for the year** | | **14 357 925** | **386 262 998** |
| Other comprehensive income | | - | - |
| **Total comprehensive income** | | **14 357 925** | **386 262 998** |

The above results were derived from continuing operations.

The accounting policies on pages 21 to 26 and the notes on pages 27 to 36 form an integral part of these financial statements

# Balance sheet as at 30 June 2022

| | Notes | 2022 US$ | 2021 US$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Investments in subsidiaries | 7 | 206 614 666 | 191 928 592 |
| Debtors: amounts falling due after one year | 8 | 308 015 324 | 297 342 876 |
| | | **514 629 990** | **489 271 468** |
| **Current Assets** | | | |
| Debtors: amounts falling due within one year | 9 | 41 054 682 | 28 050 062 |
| Cash and cash equivalents | 11 | 19 499 530 | 15 057 388 |
| | | **60 554 212** | **43 107 450** |
| **Total Assets** | | **575 184 202** | **532 378 918** |
| **Liabilities** | | | |
| **Creditors: amounts falling due within one year** | | | |
| Other creditors and accruals | 10 | - | 10 515 777 |
| Loans and borrowings | 14 | 12 262 943 | - |
| | | **12 262 943** | **10 515 777** |
| **Net current assets** | | 48 291 269 | 32 591 673 |
| **Creditors: amounts falling due after one year** | | | |
| Loans and borrowings | 14 | 353 984 159 | 327 283 966 |
| **Total Liabilities** | | **366 247 102** | **337 799 743** |
| **Net assets** | | **208 937 100** | **194 579 175** |
| **Capital and reserves** | | | |
| Called-up share capital | 12 | 73 805 | 73 805 |
| Reserves | 13 | 194 025 677 | 194 025 677 |
| Profit and loss account | | 14 837 618 | 479 693 |
| **Total shareholders' surplus** | | **208 937 100** | **194 579 175** |

The financial statements of Petra Diamonds US$ Treasury Plc were approved by the board of directors and authorised for issue on 25 October 2022.

They were signed on its behalf by:

**J Breytenbach**
Director

## Statement of Changes in Equity

| | Called-up share capital US$ | Other reserves US$ | Retained income US$ | Total equity US$ |
|---|---|---|---|---|
| **Balance at 01 July 2020** | **73 805** | **-** | **(385 783 305)** | **(385 709 500)** |
| Profit for the year | - | - | 386 262 998 | 386 262 998 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **386 262 998** | **386 262 998** |
| Debt restructuring (refer to note 13) | - | 194 025 677 | - | 194 025 677 |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **-** | **194 025 677** | **-** | **194 025 677** |
| **Balance at 01 July 2021** | **73 805** | **194 025 677** | **479 693** | **194 579 175** |
| Profit for the year | - | - | 14 357 925 | 14 357 925 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **14 357 925** | **14 357 925** |
| **Balance at 30 June 2022** | **73 805** | **194 025 677** | **14 837 618** | **208 937 100** |

The accounting policies on pages 21 to 26 and the notes on pages 27 to 36 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 15–17 Heddon Street, Third Floor, London, W1B 4BF.

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 on a going concern basis in accordance with applicable accounting standards and under the historical cost accounting rules.

### 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 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

### Background

The company is a wholly owned subsidiary of Petra Diamonds Limited (PDL), is a guarantor under the South African Lender Facilities held by the Petra Group and is the issuer of the US$336.7 million Notes (the Notes). The company has written confirmation of financial support from its ultimate holding company and is reliant on the Petra Group ("the Group") to continue as a going concern. The Petra Group's 12-month period to 30 June 2022 delivered US$264.9 million in EBITDA and US$230.0 million in operational free cashflow, while the Group's consolidated net debt reduced from $228.2 million as at 30 June 2021 to US$40.6 million at 30 June 2022.

The South African Lender Facilities of the Petra Group are secured by the assets of the company together with the assets of other companies within the Petra Group. The company's liquidity and ability to meet payments due as they arise is dependent upon the Petra Group's mining operations ability to generate sufficient operational free cash flow in order to settle all of the Group's obligations. Given the above and the letter of financial support, the company's going concern assessment is dependent on the Petra Group continuing as a going concern. Therefore, as part of its going concern assessment, the directors of the company have considered various factors, as set out below, which may impact the Petra Group to continue as a going concern.

### Production

Production at the Group's Cullinan and Finsch mines were generally in line with guidance. The Petra Group's overall production also benefited with the restart of operations at Williamson during Q1 FY2022 following an 18-month period of care and maintenance, with Williamson ramping up towards steady-state operations. During the year, the Group also announced expansion capital projects at both its Cullinan and Finsch Mines, which will extend their Life of Mine (LOM) plans to 2031 and 2030 respectively. The expansion project at Cullinan Mine is progressing well, while the expansion project at Finsch is slightly behind schedule on account of delay in delivery of long-lead items given the global disruption in supply chains experienced over the past 6 months. Both projects, however, remain within guidance for cost and schedule, as mitigation steps have been identified and being implemented to catch-up on the schedule delays at Finsch.

### Diamond prices and diamonds market

Diamond prices strengthened over FY 2022, with a 41.5% increase on a like-for-like basis compared to the preceding twelve-month period. In addition, Cullinan's run of Exceptional Stone recovery and sales continued with a total of US$75.2 million realised in the year. Williamson also benefited from the sale of an exceptional pink diamond at its first tender after restarting operations, yielding US$13.8 million and significantly de-risking Williamson's own liquidity profile.

The market experienced robust price recovery and prices are now close to prices last seen during pre-COVID-19 levels. In

# Accounting policies

**Going concern (continued)**

general, the market is supported by a fundamental supply deficit, with robust demand recovery experienced post COVID-19. While some of the price recovery may have been helped by sanctions on Russian goods, it appears that these goods have continued to flow into the market. From a demand perspective, the Chinese lockdown has moderated demand for certain categories of polished goods, while the rising inflation and interest rate cycles may impact disposable income and therefore further moderate/reduce short-term demand for diamonds. This may lead to some short-term price volatility, but the medium-long term supply/demand fundamentals are expected to support the diamond price outlook.

Russian invasion of Ukraine

Since the invasion of Ukraine by Russia in late February, there has been increasing macroeconomic uncertainty. The global economy has been severely affected by rising inflation owing to the increase in commodity and oil prices as a result of the war. This has been compounded by Pandemic-induced constraints on supply and the lockdown in China. Despite the significant global economic uncertainties resulting from the war in Ukraine, like-for-like rough diamond prices increased 41.5% during the period. Whilst the long-term fundamentals of the diamond market remain positive, some volatility in rough diamond pricing may be experienced whilst macroeconomic uncertainties remain. The directors are closely monitoring the war in Ukraine and sanctions on Russian companies and its impact on the global diamond market.

**COVID-19**

The Group's approach to managing COVID-19 has seen the Group not experiencing any interruptions to day-to-day operational/business activities specifically related to COVID-19 during the year. During FY2022, the Group successfully reverted to hosting all of its tenders for the South African goods in South Africa, while the Williamson goods continue to be auctioned in Belgium (as per its normal tender process for Williamson goods).

**South African banking facilities**

During the year, the South African banking facilities held with the Group's previous consortium of South African lenders were settled and cancelled, comprising of the revolving credit facility of ZAR404.6 million (capital plus interest) and the term loan of ZAR893.2 million (capital plus interest).

The Group entered into a new First Lien ZAR1.0 billion senior Revolving Credit Facility (RCF) facility with ABSA in June 2022. The Group will benefit from reduced interest rates compared to the previous facilities coupled with more appropriate leverage-based covenants (Net Debt : EBITDA, Interest Cover Ratio (ICR) and minimum liquidity). This new facility has a longer tenure, with the facility expiring on 7 January 2026. As at 30 June 2022, the RCF remains undrawn, with the Group having access to the full ZAR1.0 billion.

The factors above, coupled with the further significant progress towards stabilising the Group's balance sheet and strengthening cash reserves as at the date of this report positions the Group and company favourably for the Going Concern period.

**Forecast liquidity and covenants**

The Petra Board has reviewed the Group's forecasts with various sensitivities applied for the 18 months to December 2023, including both forecast liquidity and covenant measurements. As per the First Lien agreements entered into with ABSA, the liquidity and covenant measurements exclude contributions from Williamson's trading results and only recognises cash distributions payable to Petra upon forecasted receipt, or Petra's funding obligations towards Williamson upon payment.

The Petra Board has given careful consideration to potential risks identified in meeting the forecasts under the review period. The following sensitivities have been performed in assessing the Group's ability to operate as a going concern (in addition to the Base Case) at the date of this report:

- a 10% decrease in forecast rough diamond prices from July 2022 to December 2023
- a 10% strengthening in the forecast South African Rand (ZAR) exchange rate from July 2022 to December 2023
- a 10% increase in Operating Costs from July 2022 to December 2023
- a US$15.0 million reduction in revenue contribution from Exceptional Stones
- a production disruption sensitivity assuming no carat production across the Group's operations for a period of two weeks in

# Accounting policies

**Going concern (continued)**

February 2023 (could be due to extreme weather conditions or supply chain events or any other unexpected event)

- Combined sensitivity: Prices down 10% and ZAR stronger by 10% and Exceptional Stones contributions reduced by US$15.0 million and Operating Costs up 5%

Under all the cases, the forecasts indicate the Group's liquidity outlook over the 18-month period to December 2023 remains strong, even when applying the above sensitivities to the base case forecast.

The forward-looking covenant measurements associated with the new First Lien facility do not indicate any breaches during the 18-month review period for the base case as well as all the above sensitivities, except for the worse case combined sensitivity, which shows a covenant breach for the required interest cover ratio in the December 2023. While the ICR is projected to be breached in this combined sensitivity, both the Consolidated Net Debt to EBITDA covenant and the liquidity covenant remain healthy, while the RCF remains undrawn. It is therefore assumed that the RCF remains available, with the First Lien lender assumed to agree to an ICR covenant waiver, given that the Group does not expect to utilise the RCF for servicing of its interest obligations on its Senior Secured Second lien notes. Furthermore, the potential ICR breach may be mitigated by means of reducing the Group's gross debt by utilising existing cash reserves and/or marginally increasing the EBITDA for the preceding 12-month period.

**Debt tender offer**

In September 2022, the company launched a tender offer to its bondholders to purchase US$150 million of the Senior Secured Second Lien Notes due in 2026 in line with its stated intent to further optimise its capital structure through a reduction of gross debt. As at the date of this report, the company has, through this tender offer, reduced gross debt by US$144.6 million. As per the company's strategy, it will continue to consider opportunities to further optimise its debt structure. The tender offer transaction will see the company saving at least US$14 million (and up to US$17 million) per annum in interest expenses.

***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 the recently embedded new operating model 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, the Petra Board confirms that it is satisfied that the Petra Group will be able to continue to operate and meet its liabilities as they fall due over the going concern period to December 2023. Accordingly, the Petra Board have concluded that the going concern basis in the preparation of the Group's financial statements is appropriate and that there are no material uncertainties that would cast doubt on the going concern basis of preparation.

Accordingly, and having updated their inquiries of the Petra Board and their own assessments to date, based on the above, the letter of support obtained from its ultimate holding company, and the company's underlying dependence on the Petra Group's mining operations, the directors have concluded that the going concern basis of preparation remains appropriate for the company.

**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 or reversal thereof. 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.

# Accounting policies

### 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.

### Substantial modification of financial liabilities

When the company's borrowings are refinanced, and the refinancing is considered to be a substantial modification, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised as a charge in the income statement.

Under the quantitative test, the modification is classed as substantial if the present value of the modified cashflows is at least 10% difference to the present value of the remaining original cashflows. There may be circumstances where the 10% test is not met, but other qualitative factors indicate there has been a substantial modification.

### Loans to / (from) group companies

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

Loans to group companies 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

## Accounting policies

**Financial instruments (continued)**

(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.

**Capital contribution**

Loans made to the company by its parent that are then waived are recorded as equity and credited to a capital contribution reserve.

**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.

**Taxation**

Taxation comprises current tax 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.

## Accounting policies

**Taxation (continued)**

**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 investments**

The impairment provisions for investments are based on assumptions about risk of default and expected loss rates of the company's wholly owned subsidiary PDUKT. The judgement is based upon factors including post-tax cashflows over the remaining 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.

**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 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.

## Notes to the financial statements

| | 2022 US$ | 2021 US$ |
|---|---|---|
| **2. Profit (loss) before tax** | | |
| **Auditor's remuneration - external** | | |
| Audit services | 17 429 | 17 106 |

**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.

**Gain on extinguishment of Notes**

In the prior year, the Petra Group completed a debt for equity conversion consisting of the partial repayment of the company's 2022 Notes by issuing 8,844,657,929 new Ordinary Shares with a nominal value of 0.001 pence per share in PDL to the company's existing 2022 Noteholders. The fair value of the shares at the date of the conversion was 1.58 pence per share, giving a total consideration of U$194.0 million. As the fair value was derived by reference to the closing share price at the date of the conversion, it was considered to be a Level 1 fair value measurement. The carrying value of the liability at the date of the conversion was US$415.0 million, after capitalisation of the May 2020 and November 2020 coupons and adjusting for the issue of new Notes. The resulting gain, before restructuring costs (US$7.7 million), of US$221.0 million was recognised in profit and loss as part of the gain on extinguishment of the 2022 Notes. The debt for equity conversion resulted in the 2022 Noteholders acquiring 91% of the enlarged share capital of the ultimate parent company, PDL. Refer to notes 14 and 16 for further detail.

**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. The receipt of dividends and future repayment of equity from PDUKT to service the coupon and capital settlement on the New 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 New Notes are denominated in US dollars. The company is also exposed to foreign exchange risk on its foreign currency bank accounts. The company incurred a loss of US$180 (2021: US$3 712) on translation of its Sterling bank account.

**3. Interest receivable**

| | 2022 US$ | 2021 US$ |
|---|---|---|
| **Interest income** | | |
| Interest income - Cullinan Diamond Mine (Pty) Ltd (see note 8) | - | 23 644 622 |
| Interest income - Ealing Management Services (Pty) Ltd (see note 8) | 28 441 966 | - |
| Interest income on bank deposits | 6 183 | 3 041 |
| **Total interest receivable** | **28 448 149** | **23 647 663** |

**4. Finance costs**

| | 2022 US$ | 2021 US$ |
|---|---|---|
| Interest payable on loan notes (refer to note 14) | 38 963 135 | 45 932 958 |
| Unamortised costs on US$650m bond at time of restructure | - | 2 676 813 |
| **Total finance costs** | **38 963 135** | **48 609 771** |

# Notes to the financial statements

| | 2022 US$ | 2021 US$ |
|---|---|---|

## 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 |

## 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 profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021: lower than the standard rate of corporation tax in the UK) of 19% (2021: 19%). The differences are explained below:

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

| | | |
|---|---|---|
| Accounting profit | 14 357 925 | 386 262 998 |
| Tax at the applicable tax rate of 19% (2021: 19%) | 2 728 006 | 73 389 970 |
| **Tax effect of adjustments on taxable income** | | |
| (Income)/expenses not (taxable)/deductible for tax purposes | (4 818 119) | (77 819 249) |
| Amortised debt security issuance cost on US$650m Bond | - | (343 289) |
| Tax effect of group relief (received)/surrendered for no consideration | 4 268 098 | (1 356 130) |
| Tax losses carried forward | (2 177 985) | 6 128 698 |
| **Tax charge for the year** | - | - |

At balance sheet date, the company has unused tax losses (at the applicable tax rate) of US$23 901 365 (2021: US$9 986 667) 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$5.0 million). 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 2021 | 230 000 000 |
| **At 30 June 2022** | **230 000 000** |
| **Impairment provision** | |
| At 1 July 2021 | 38 071 408 |
| Impairment reversal | (14 686 074) |
| **At 30 June 2022** | **23 385 334** |
| **Carrying amount** | |
| At 30 June 2022 | 206 614 666 |

## Notes to the financial statements

| | | 2022 US$ | 2021 US$ |
|---|---|---|---|

### 7. Investments in subsidiary (continued)

An 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. Based on the afore-mentioned factors and the impact of the underlying Restructure (see notes 14 and 16) which has provided the Petra Group's operations with greater liquidity and significantly reduced financial obligations, management have reduced the impairment provision to US$23 385 334 (2021: US$38 071 408).

Details of the company's subsidiary as at 30 June 2022 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 15–17 Heddon Street, Third Floor, London, W1B 4BF.

### 8. Debtors: amounts falling due after one year

| | | 2022 US$ | 2021 US$ |
|---|---|---|---|
| Amounts due by group undertakings - Cullinan Diamond Mine (Proprietary) Limited<br>The loan and associated interest due from Cullinan was ceded to Ealing during the period. An expected credit loss allowance of US$20 074 682 was provided for against the loan owing to the company at 30 June 2021. See below for further details. | i | - | 300 000 000 |
| Amounts due by group undertakings - Ealing Management Services (Proprietary) Limited<br>The loan and associated interest due from Cullinan was ceded to Ealing during the period. An expected credit loss allowance of US$14 408 000 is provided for against the loan owing to the company at 30 June 2022. See below for further details. | | 300 000 000 | - |
| Amounts due by group undertakings - other related parties[1]<br>An expected credit loss allowance of US$nil (2021: US$5 005 766) is provided for against the long term trade receivable owing to the company. See below for further details. | | 22 423 324 | 22 423 324 |
| Expected credit loss allowance (see below) | | (14 408 000) | (25 080 448) |
| | | **308 015 324** | **297 342 876** |

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.

Loans and other receivables comprise:

- A loan advance to Ealing (previously Cullinan) for an amount of US$300.0 million. During the period, the company entered into an agreement with its fellow subsidiaries, Ealing and Cullinan, whereby the loan and associated interest due from Cullinan was ceded to Ealing along with all the rights and obligations attached to the loan advance. The loan accrues interest at the prevailing South African prime interest rate. The loan ranks on a second-priority basis in favour of the Petra Group's South African Lender Group to satisfy the contingent obligations disclosed in note 16. An expected credit loss allowance of US$14 408 000 (2021: US$20 074 682) is provided for against the loan advance. Refer below for further details on the expected credit loss allowance.

| | 2022 US$ | 2021 US$ |
|---|---|---|

### 8. Debtors: amounts falling due after one year (continued)

- Other receivables are due by Cullinan for an amount of US$13 381 302 and Finsch Diamond Mine (Proprietary) Limited ("Finsch") for an amount of US$9 042 022. An expected credit loss allowance of US$nil (2021: US$5 005 766) is provided for against the other receivables owing to the company. Refer below for further details on the expected credit loss allowance.

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 intercompany loan and long term trade receivable, 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 recovery in diamond prices and market and the related party's payment history. Based on the afore-mentioned, and the impact of the underlying Restructure which was concluded during FY2021 (see notes 14 and 16) which has provided the Petra Group's operations with greater liquidity and significantly reduced financial obligations, management have reduced the total credit loss allowance by US$10 672 448 (2021: US$157 803 254) to US$14 408 000 from US$20 074 682 in FY 2021 representing provisions against both the loan amounting to US$14 408 000 (2021: US$20 074 682) and the long term trade receivable US$nil (2021: US$5 005 766) as current projections post the Restructuring indicate a greater likelihood of the full recovery of the loan owing to the company given the recovery of diamond prices, the rough diamond market and the impact of the Restructuring on the available cashflows of the company's fellow subsidiaries Cullinan and Finsch.

### 9. Debtors: amounts falling due within one year

| | 2022 US$ | 2021 US$ |
|---|---|---|
| Amounts due by group undertakings - Petra Diamonds Limited | 3 714 417 | - |
| Amounts due by group undertakings - other related parties[1] | 37 270 237 | 23 828 270 |
| VAT receivable | - | 4 163 176 |
| Prepayments and accrued income | 70 028 | 58 616 |
| **Balance at the end of the year** | **41 054 682** | **28 050 062** |

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.

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

| | 2022 US$ | 2021 US$ |
|---|---|---|
| Amounts due to group undertakings - Petra Diamonds Limited | - | 10 515 777 |

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2022 US$ | 2021 US$ |
|---|---|---|
| Bank balances | 19 499 530 | 15 057 388 |

# Notes to the financial statements

| | 2022 US$ | 2021 US$ |
|---|---|---|

## 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.

**Other reserves**

As a result of the Restructuring, a debt owing by the company to its holding company Petra Diamonds Limited arose as a result of the exchange by the existing Noteholders of the company's 2022 Notes for equity in PDL.

The debt for equity conversion consisted of the partial repayment of the company's 2022 Notes by issuing 8,844,657,929 new Ordinary Shares with a nominal value of 0.001 pence per share in PDL to the company's existing Noteholders. The fair value of the shares at the date of the conversion was 1.58 pence per share, giving a total consideration of U$194.0 million. As a result, an intercompany loan payable to PDL arose equal to the fair value of the PDL shares (US$194.0 million) issued to Noteholders in respect of the debt for equity conversion. The carrying value of the 2022 Notes liability at the date of the conversion was US$415.0 million. This intercompany loan was waived in exchange for equity in the company (via a Capital contribution reserve). For further detail on the Restructuring refer to notes 14 and 16.

| | 2022 US$ | 2021 US$ |
|---|---|---|
| Opening balance | 194 025 677 | - |
| Debt for equity conversion (value of shares issued by Petra Diamonds Limited) | - | 194 025 677 |
| | **194 025 677** | **194 025 677** |

## 14. Loans and borrowings

In the prior period, the company's ultimate parent company, Petra Diamonds Limited ("PDL" or "the Petra Group") announced it had completed the implementation of the Debt Restructuring (Restructuring) project with the company's 2022 Noteholders and the Petra Group's South African Lender Group. The key features of the Restructuring of the US$650 million Notes (2022 Notes) and the Senior secured lender debt facilities of ZAR1.6 billion are as follows:

- conversion of 2022 Notes debt valued at US$415.0 million into equity, which resulted in the Noteholder group acquiring 91% of the enlarged share capital of the PDL (refer (i) below);
- the remainder of the 2022 Notes exchanged for the issue of US$295.0 million new Notes and the contribution by holders of the existing 2022 Notes of US$30.0 million in new money, each to take the form of new Notes (New Notes) (refer (ii) below) ; and
- restructuring of the first lien facilities to provide for a Term Loan of ZAR1.2 billion and a Revolving Credit Facility ("RCF") of ZAR560 million provided by the South African Lender Group (refer to note 16).

The following table summarises the company's current and non-current interest-bearing borrowings:

| | 2022 US$ | 2021 US$ |
|---|---|---|
| **Loans and borrowings due within one year** | | |
| Loan notes (US$336,7 million - senior secured second lien notes) | 12 262 943 | - |
| **Loans and borrowings due after one year** | | |
| Loan notes (US$336,7 million - senior secured second lien notes) | 353 984 159 | 327 283 966 |

### 14. Loans and borrowings (continued)

**(i) Debt for Equity swap**

The Petra Group completed a debt for equity conversion consisting of the partial repayment of the company's 2022 Notes by issuing 8,844,657,929 new Ordinary Shares with a nominal value of 0.001 pence per share in PDL to the company's existing 2022 Noteholders. The fair value of the shares at the date of the conversion was 1.58 pence per share, giving a total consideration of U$194.0 million. As the fair value was derived by reference to the closing share price at the date of the conversion, it is considered to be a Level 1 fair value measurement. The carrying value of the liability at the date of the conversion was US$415.0 million, after capitalisation of the May 2020 and November 2020 coupons and adjusting for the issue of new Notes. The resulting gain, before restructuring costs, of US$221.0 million has been recognised in Profit and loss as part of the gain on extinguishment of the 2022 Notes. The debt for equity conversion resulted in the 2022 Noteholders acquiring 91% of the enlarged share capital of the ultimate parent company, PDL.

**(ii) US$336.7 million senior secured second lien notes**

The company issued debt securities consisting of US$336.7 million five-year senior secured second lien loan notes (New Notes), with a maturity date of 8 March 2026. The New Notes of US$336.7 million were allocated as follows:

- US$30.0 million allocated only to those Noteholders that subscribed, and funded that subscription, to the New Money, pro rata to their New Money contribution (the "New Money Noteholders");
- US$150.0 million allocated only to those New Money Noteholders, pro rata to each holder's contribution to the New Money;
- US$145.0 million allocated to all Noteholders (including the New Money Noteholders), pro rata to their holdings of existing Notes at the close of the Restructuring; and
- a further amount in New Notes as consideration to certain Noteholders, in remuneration for the commercial risks and other commercial considerations borne by those Noteholders whilst restricted for the purposes of negotiations with other stakeholders and work performed in connection with the Restructuring. The quantum of New Notes issued for this purpose was US$11.7 million, which has been capitalised as part of the Notes liability and will be amortised over the term of the Notes.

The New Notes carry a coupon from:

- 9 March 2021 to 31 December 2022 of 10.50% per annum, which is capitalised to the outstanding principal amount semi-annually in arrears on 31 December and 30 June of each year;
- 1 January 2023 to 30 June 2023 of 10.50% per annum on 37.7778% of the aggregate principal amount outstanding, which is capitalised to the outstanding principal amount semi-annually in arrears on 31 December and 30 June of each year and 9.75% per annum on 62.2222% of the aggregate principal amount outstanding which is payable in cash semi-annually in arrears on 31 December and 30 June of each year;
- 1 July 2023 to 31 December 2025 of 9.75% per annum on the aggregate principal amount outstanding which is payable in cash semi-annually in arrears on 31 December and 30 June of each year; and
- 1 January 2026 to 8 March 2026 (final coupon payment) of 9.75% per annum on the aggregate principal amount outstanding which is payable in cash.

The costs associated with issuing the Notes of US$20.7 million have been capitalised against the principal amount and US$18.5 million (2021: US$19.4 million) remains unamortised as at 30 June 2022. Interest of US$50.3 million has been capitalised as at 30 June 2022.

On or after 9 March 2023, the company has the right to redeem all or part of the Notes at the following redemption prices (expressed as percentages of the principal amount), plus any unpaid accrued interest:

## Notes to the financial statements

### 14. Loans and borrowings (continued)

| | Redemption price |
|---|---|
| Period of 12 months from 9 March 2023 | 104,88 % |
| Period of 12 months from 9 March 2024 | 102,44 % |
| Period of 12 months from 9 March 2025 | 100,00 % |

The New Notes are secured on a second-priority basis to the senior secured lender debt facilities by:

- 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.

**Substantial modification**

The company performed an assessment under its accounting policies and the requirements of IFRS 9 as to whether the restructuring of the terms of the Loan Notes represented a substantial modification. As the net present value of the cash flows under the original terms and the modified terms was greater than 10% different, the modification was accounted for as a substantial modification.

As a result, on completion of the Restructuring, the carrying value of the Loan Notes of US$299.0 million was de-recognised and the amended new Notes with a nominal value of US$306.7 million were recognised on the balance sheet at the date of modification. The loss arising on substantial modification of the 2022 Notes of US$7.7 million has been netted off against the gain on extinguishment of the 2022 Notes in Profit and loss. The acceleration of unamortised costs associated with the substantial modification were expensed and included within the prior periods finance costs (refer to note 4).

### 15. Other related party transactions

| Other related party - amounts due from group undertakings | 2022 US$ | 2021 US$ |
|---|---|---|
| Cullinan Diamond Mine (Proprietary) Limited** | 13 381 302 | 37 205 490 |
| Ealing Management Services (Proprietary) Limited | 37 266 155 | - |
| Finsch Diamond Mine (Proprietary) Limited** | 9 042 022 | 9 042 022 |
| Petra Diamonds UK Treasury Limited | 4 082 | 4 082 |
| | **59 693 561** | **46 251 594** |

**The outstanding balance is unsecured, interest free with no fixed terms of repayment. Included in this balance is an amount of US$22 423 324 which is not expected to be repaid within 12 months from period end. An expected credit loss allowance of US$nil (2021: US$5 005 766) has been provided for against this balance at year end (refer to note 8).

| Other related party - amounts due from group undertakings | | |
|---|---|---|
| Current assets | 37 270 237 | 23 828 270 |
| Non-current assets | 22 423 324 | 22 423 324 |
| | **59 693 561** | **46 251 594** |

For other related party transactions, amounts due to/from related parties, refer to notes 10 and 8.

## 16. Contingencies

The debt facilities of the Petra Group are secured by the assets of the company together with the assets of other companies within the Petra Group. Further detail on the Petra Group's debt facilities and related securities is provided below:

### (a) Senior secured lender debt facilities

**Settlement of RCF, Term loan and a new Senior secured first lien lender debt facilities on more favourable terms**

During June 2022, the Petra Group (the Group) restructured its existing banking facilities providing for more favourable terms than the Group's current first lien facilities and resulting in Absa Corporate and Investment Banking ("Absa") becoming the Group's banking partner under the new banking facilities.

A new Revolving Credit Facility (RCF) with Absa replaces the existing RCF and term lending arrangements with the previous South African lender syndicate comprising Absa, Nedbank, RMB and NinetyOne. The new terms include, *inter alia*:

- improved structure with a single ZAR1.0 billion RCF replacing the existing amortising term loan of ZAR1.2 billion and the ZAR408.8 million RCF;
- more appropriate covenant package resulting in improved headroom and flexibility on the balance sheet;
- extended tenure for the RCF with a maturity date of December 2025 and a more usual bullet payment at maturity; and
- reduced financing costs with improved margin and commitment fees. The costs associated with restructuring of the banking facilities of US$0.5 million has been expensed in the Petra Group's Consolidated Income Statement under net finance charges.

The revised terms under the RCF are:

- maturity date December 2025 with a 60 day buffer between the redemption of the Notes and the maturity of the RCF;
- to maintain a net debt : EBITDA ratio tested semi-annually on a rolling 12-month basis;
- to maintain an interest 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; and
- interest rate of SA JIBAR + 4.15% per annum (with the margin to be reconsidered annually based on Petra's credit metrics with a view of further optimising the margin to be achieved).

| Amended Senior Lender Debt Facilities | 30 June 2022 Facility amount | 30 June 2021 Facility amount |
|---|---|---|
| **ZAR Debt Facilities** | | |
| Working capital facility (WCF) | ZARnil | ZARnil |
| Revolving credit facility (RCF)* | ZAR1 000.0 million | ZAR509.6 million |
| Term loan facility | ZARnil | ZAR1 109.4 million |
| Foreign exchange hedging facilities | ZAR300 million | ZAR150 million |

*At 30 June 2022, the new RCF was available and undrawn.

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;

## Notes to the financial statements

**16. Contingencies (continued)**

- the cession of all claims against debtors and third parties in South Africa held by the company and certain Petra Group companies;
- the cession of all insurances including all insurance proceeds from all insurance cover, held by the company and certain Petra Group companies;
- the registration of notarial bonds over all the moveable assets at the Cullinan, Finsch and Koffiefontein mining operations;
- the registration of mortgage bonds over all the 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.

As at date of this report, the RCF was undrawn and ZAR1.0 billion remained available for drawdown. On 24 January 2022, the Group paid ZAR404.6 million (capital plus interest) to settle the old RCF and on 18 March 2022 the Group paid ZAR893.2 million (capital plus interest) to settle the Term Loan.

**Covenant ratios**

As part of the revised Term loan and RCF facilities entered into with ABSA in FY2022, the Group is required:

- to maintain a Net Debt : EBITDA ratio tested semi-annually on a rolling 12-month basis; and
- to maintain an Interest Cover Ratio tested semi-annually on a rolling 12-month basis and
- to maintain minimum 12 month forward looking liquidity requirement that consolidated cash and cash equivalents (excluding diamond debtors) shall not fall below US$20.0 million.

The Group's new covenant levels for the respective measurement periods are outlined below:

| | **30 June 2022** | **31 Dec 2022** | **30 June 2023** | **31 Dec 2023** | **30 June 2024** | **31 Dec 2024** | **30 June 2025** | **31 Dec 2025** |
|---|---|---|---|---|---|---|---|---|
| Net Debt : EBITDA Leverage ratio (*maximum*) | 4.00 | 4.00 | 3.50 | 3.50 | 3.25 | 3.25 | 3.00 | 3.00 |
| Interest Cover Ratio (*minimum*) | 1.85 | 1.85 | 2.50 | 2.50 | 2.75 | 2.75 | 3.00 | 3.00 |

## Notes to the financial statements

### 17. Events after the reporting period

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

**US$160.0 million debt repayment by Ealing Management Services (Pty) Ltd (Ealing)**

On 27 September 2022, Ealing settled an amount of US$160.0 million to the company comprising capital and interest on the loan advanced to Ealing (previously Cullinan).

**Debt tender offer**

On 13 September 2022, the company's holding company, Petra Diamonds Limited ("Petra" or "the Petra Group") announced its intention to reduce its gross debt through a tender offer to the company's bondholders to purchase US$150.0 million of the Senior Secured Second Lien Notes due in 2026 (the Notes) in line with the Group's stated intent to further optimise its capital structure through a reduction of gross debt.

On 27 September 2022, the Group announced that the notional principal amount of Notes that have been validly tendered by Noteholders prior to the Early Participation Deadline and are accepted for payment by the Offeror is US$125 590 338 (corresponding to an actual principal amount after application of the Pool Factor of US$143 627 622.34. The total cash purchase price to be paid by the company to Noteholders pursuant to the tender offer on the Early Settlement Date (that is, the Total Consideration for all Notes validly tendered multiplied by the Pool Factor) is US$145 063 898.63. The Group amended the terms of the tender offer and increased the purchase offer from the initial US$150.0 million to US$175.0 million.

On 12 October 2022 the Group announced, further to the extension granted on 27 September 2022, that the notional principal amount of Notes that have been validly tendered by Noteholders, prior to the extension deadline and are accepted for payment by the Offeror is US$875 000 (corresponding to an actual principal amount after application of the Pool Factor of US$1 000 667.50). The total cash purchase price to be paid by the company to Noteholders pursuant to the tender offer on the Early Settlement Date (that is, the Total Consideration for all Notes validly tendered multiplied by the Pool Factor) is US$1 010 674.18.

The principal amount of Notes outstanding after the offers accepted from Noteholders will be US$210 190 662.

### 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 Third Floor, 15–17 Heddon Street, London, W1B 4BF, United Kingdom.

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