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PetraDiamonds

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Petra Diamonds Limited
("Petra" or the "Company" or the "Group")

Q1 FY 2021 Trading Update

Petra Diamonds Limited announces the following unaudited Trading Update for the three months ended 30 September 2020 ("Q1 FY 2021", "Q1" or the "Period").

Summary

- Lost Time Injury Frequency Rate ("LTIFR") of 0.65 (Q1 FY 2020: 0.22), however total number of injuries, which includes LTIs, reduced to 13 (Q1 FY 2020: 14). Petra has initiated a behaviour-based intervention campaign to address this LTI trend and reinforce safe workplace practices.
- Q1 production down 10% to 974,346 carats (Q1 FY 2020: 1,082,764 carats), mainly due to the Williamson mine remaining on care and maintenance.
- Q1 revenue increased 33% to US\$82.0 million (Q1 FY 2020: US\$61.6 million) mainly due to the release of inventory carried over from Q4 FY 2020. Although diamond prices increased ca. 21% on a like-for-like basis at the September 2020 tender in comparison to the prices obtained following the COVID-19 outbreak, with a further ca. 2% increase at the October 2020 tender post Period end, prices are still down around 10% in comparison to pre-COVID-19 levels.
- Consolidated net debt as at 30 September 2020 of US\$687.8 million, marginally improving over the Period (30 June 2020: US\$693.2 million).
- Unrestricted cash of US\$49.3 million (30 June 2020: US\$53.6 million), with the Company's banking facilities remaining fully drawn.
- ZAR:USD exchange rate volatility continued during the Period, averaging R16.91/USD1 and closing the Period at ZAR16.73/USD1; the continued weakness in ZAR/USD levels partially offset some of the price weakness realised through diamond sales.

Outlook

- Due to ongoing uncertainty around the impact of COVID-19, production guidance for FY 2021 remains suspended. While the mines are generally operating at planned levels, there remain risks to production relating to the impact of the stringent COVID-19 measures in place. September and October 2020 production at the Finsch mine was impacted by the arrangements to operate continuous operations ("Contops"), to offset the impact of COVID-19 mitigation measures, coming to an end. Post Period-end, an agreement was reached with organised labour to reinstate Contops for the nine-month period to June 2021. Production is therefore expected to revert to planned levels for the duration of FY 2021.

- Post Period end the Company announced on 20 October 2020 that it had reached agreement in principle on a common set of commercial terms with respect to a long-term solution for the recapitalisation of the Group with each of the ad-hoc group of holders of the US\$650 million 7.25% Senior Secured Second Lien Notes and the Company's South African lender group.
- As previously announced, five high quality Type IIb blue diamonds of significant colour, clarity and size were recovered at the Cullinan mine in September 2020 and have since been named the Letlapa Tala Collection. Petra is planning a special, standalone tender for these diamonds which, as previously announced, is due to be finalised around the end of November 2020.
- The Williamson mine in Tanzania remains under care and maintenance and recommencement of operations is dependent on improved market conditions and rough diamond pricing.
- Post Period end, Petra announced the finalisation of a one-year wage agreement with the National Union of Mineworkers covering its A and B Paterson Band employees at its South African operations for FY 2021, providing some assurances around labour stability during these volatile times. Agreement has also been reached with organised labour for other categories of unionised employees.
- Project 2022 continued through the lockdown period, despite the resultant reduction in manning levels, although the emphasis shifted from throughput initiatives to cost optimisation. The implementation of the throughput improvement initiatives has resulted in more stable operations and a thorough understanding of the bottlenecks in our mining and recovery processes. This has facilitated a rapid ramp-up back towards full production. The process of 'rewiring' the business to ensure that these revised processes are both replicable and sustainable is now all but complete.

Project 2022 is firmly embedded across the business and has transitioned to being entirely supported by our Group and site-based Business Improvement teams. Cost optimisation opportunities totalling annualised savings of nearly US\$22 million have been identified and are expected to be fully implemented by the end of FY 2021. With operations now returning to full production, the Project 2022 throughput initiatives are expected to ramp up towards delivering an annualised contribution of some US\$101 million by the end of FY 2021.

Our Organisation Design Project (a subset of Project 2022) is now being implemented and is expected to be completed by the end of March 2021. This will provide for a cleaner structure and revised role descriptions with clear accountabilities that will result in better support to our operations.

- The diamond market has shown some modest improvement in FY 2021 but there is still uncertainty around further disruption due to COVID-19 related restrictions. Sales post Period end indicated like-for-like price movements up ca. 2% from the September tender. The Company is continuing its flexible approach in planning its upcoming tenders in light of the COVID-19 challenges. Risks to tender timing remain as a result of possible restrictions that may be re-imposed following a second wave of COVID-19 infections currently being experienced in a number of countries, including Belgium.
- The Company is taking steps to address the allegations of human rights abuses at the Williamson mine and has established an independent board committee to oversee an investigation, which is being carried out by a specialist external adviser in conjunction with the Company's lawyers. The investigation is scheduled to be completed during Q2 FY 2021 and the committee will review the outcome of the investigation and will make recommendations to address any findings. This may include any required remedy or corrective action to be taken as a result of the investigation's conclusions.

Q1 FY 2021 Production, Sales – Summary¹

	Unit	Q1 FY 2021	Q1 FY 2020	Variance	FY 2020
Sales					
Diamonds sold	Carats	936,749	603,626	+55%	2,895,497
Revenue	US\$M	82.0	61.6	+33%	295.8
Tonnages					
ROM diamonds	Mt	2.2	3.6	-39%	11.5
Tailings & other ¹ diamonds	Mt	0.1	0.3	-67%	0.8
Total tonnes treated	Mt	2.3	3.9	-41%	12.3
Production					
ROM diamonds	Carats	916,905	1,059,329	-13%	3,442,593
Tailings & other ¹ diamonds	Carats	57,441	23,435	+145%	146,583
Total diamonds	Carats	974,346	1,082,764	-10%	3,589,176

Notes:

- ¹ 'Other' represents alluvial diamond mining at Williamson.

Richard Duffy, Chief Executive of Petra Diamonds, commented:

“The Company continued to perform well during the Period, with record carat production at Cullinan during August and September, an excellent achievement given the COVID-19 mitigation measures, which now form part of our standard working conditions. However, Group production was down, mainly due to the Williamson mine remaining on care and maintenance.

“We are working very hard to improve our safety performance, with a continued emphasis on awareness campaigns, retraining and management-led interventions and, despite the regression in our LTIFR rate, it was encouraging to see that overall the number of total injuries during the Period reduced.

“We will retain flexibility around the timing and method of our sales tenders for the remainder of the financial year, given the COVID-19 related risks. Sales will be boosted by the special tender for our Letlapa Tala Collection of blue diamonds towards the end of November 2020.

“Finally, last week’s announcement with regards to reaching agreement in principle with our ad hoc group of bondholders and South African lender group around a financial restructuring will provide us with a considerably more manageable level of debt going forward and marks a significant milestone in putting the Company on a viable footing going forward.”

Health and safety

- The Company’s LTIFR increased to 0.65 (Q1 FY 2020: 0.22) due to nine LTIs recorded in Q1 FY 2021 as opposed to four in Q1 FY 2020; these incidents were mainly behaviour-related, with a low severity impact (66% hand and ankle injuries) at Cullinan (four) and Finsch (five). Behaviour-based interventions, including the ‘Together We Can’ safety campaign, have been initiated and are being led from the top by the Executive Committee, with the aim of mitigating this trend and improving our safety performance. The number of total injuries (including lost time injuries) improved to 13 (Q1 FY 2020: 14).
- Our primary value at Petra is “Let’s Do No Harm”, meaning safety is at the heart of everything we do, and the Company is continuously aiming to improve the systems and processes already in place to support our aspiration of a zero harm working environment.

- The health, safety and wellbeing of all Petra people remains the Company's overriding priority. While Petra's South African mines are highly mechanised underground operations, with limited human interaction, the Company has put in place stringent protocols in order to minimise the risk of COVID-19 to its employees and contractors. More information about the Company's response to the pandemic can be accessed here: <https://www.petradiamonds.com/sustainability/health-and-safety/our-response-to-covid-19/>
- Up to 30 September 2020, 199 employees have been confirmed COVID-19 positive at the South African operations, and of these so far 186 have recovered in full. All cases have been dealt with in terms of the Company's comprehensive Response Plan. Although the majority of those affected are only experiencing mild symptoms, we tragically have lost two colleagues as a result of COVID-19.
- There have been no cases of COVID-19 confirmed at the Williamson mine in Tanzania to date.

Production

- The South African operations demonstrated resilience in the face of the COVID-19 challenges and were able to deliver strong operational performance.
- Overall carat production decreased 10% to 974,346 cts (Q1 FY 2020: 1,082,764 Mcts), with Cullinan's outperformance offsetting lower production at Finsch, and no contribution from Williamson (Q1 FY 2020: 116,973 cts), which remains on care and maintenance.
- Cullinan's overall carat production increased by 15% to 532,815 carats (Q1 FY 2020: 462,919 carats) due to ROM production increasing 4% to 475,374 carats (Q1 FY 2020: 457,104 carats) and tailings production increasing to 57,441 carats (Q1 FY 2020: 5,815 carats). The operation achieved record carat production during both August and September 2020. The higher ROM carat production was largely driven by a 6% increase in the grade to 40.3 cpht (Q1 FY 2020: 37.9 cpht), marginally above expectations and impacted by in-process stockpiles (stockpiles built up as the result of not being able to complete processing at the time) built up during Q1. Petra continued to treat higher grade recovery tailings utilising available treatment capacity during the Period.
- Finsch's overall carat production decreased by 13% to 420,774 carats (Q1 FY 2020: 482,452 carats) due to ROM carat production decreasing by 10% to 420,774 carats (Q1 FY 2020: 468,639 carats) further to a 7% decrease in the volume treated of 757,402 tonnes (Q1 FY 2020: 813,621 tonnes) and a 4% decrease in the ROM grade to 55.6 cpht (Q1 FY 2020: 57.6 cpht). ROM volumes mined were impacted during the Period by the expiry of the temporary Contops arrangement, which was reinstated during October 2020 and will remain in place until June 2021. ROM grades were impacted by higher than expected waste ingress in the 73 and 75 production levels, while the ramp-up at 78 level was delayed. Production from both the high-grade ROM overburden dumps and the tailings dumps has now ceased, in line with the mine plan (Q1 FY 2020: 22,021 carats produced from these sources).
- Koffiefontein's overall production increased 2% to 20,758 carats (Q1 FY 2020: 20,420 carats) with treatment from underground ore mined during the Period supplemented by some 47,000 tonnes of ROM material stockpiled during the preceding quarter further to the COVID-19 lockdowns; the ROM stockpile balance at the end of Q1 is estimated to be around 22,500 tonnes.
- The Williamson mine was placed on care and maintenance during April 2020, as a result of a significantly depressed market environment. The Company will look to resume operations once diamond prices are at a level that make it operationally sustainable. Discussions with the Government of Tanzania in relation to various issues, including the overdue VAT receivables and the blocked diamond parcel, are ongoing, but have been interrupted by the COVID-19 outbreak.

Project 2022 Update

- Project 2022 is now embedded and fully resourced across the Group and, although it is still too early to properly assess the effectiveness, the necessary re-wiring of the business to ensure that the improvements made are sustainable is now complete.
- Continuous improvement is now integrated into how we work and weekly Results Action Review meetings (“RARs”) focus on the delivery of agreed key performance indicators (“KPIs”), from the CEO level down to the first layers of management on site, enabling the early identification of issues and strong alignment between operational and Group functional support teams around key deliverables.
- In addition to these weekly RARs, daily production meetings and meetings with shifts ensures that KPIs are well understood and aligned from the General Manager through the different levels to the frontline workers, with a focus on clear single point of accountability for each individual.
- A shift in focus to cost optimisation as a result of COVID-19 production restrictions, resulted in the identification of annualised savings ideas increasing to US\$22 million. These savings are expected to be fully realised by the end of Q3 FY 2021. The bulk of these savings come from:
 - cost reduction at Finsch in the areas of ventilation, water and electricity (ca. US\$8 million);
 - old or redundant asset disposals;
 - reduced corporate expenses (ca. US\$7 million);
 - cost reductions at Cullinan in the areas of ventilation, tyres and transport (ca. US\$3 million); and
 - ca. US\$3 million from procurement initiatives.
- With operations now returning to full production, the Project 2022 throughput initiatives are expected to ramp up towards delivering an annualised contribution of some US\$101 million by the end of FY 2021.
- The design phase of the Organisation Design (“OD”) project, which forms part of Project 2022, has been completed and will provide for more focused delivery of support by the various Group functions to the operations and alignment of operational structures across the different sites.

Implementation of this OD project is expected to be completed by the end of Q3 FY 2021 and will result in updated role descriptions providing for clearer line of site and improved accountability.

REVENUE AND DIAMOND MARKET

Diamond Market

- Conditions in the diamond industry are improving as lockdown measures around the world are eased and retail outlets reopened. Since the outbreak of COVID-19, a period of sustained low supply, particularly from the majors De Beers and ALROSA, has allowed for a better equilibrium in the market and there is now improved demand from the downstream as retailers look to put orders in place in time for the festive retail season. The cutting and polishing factories of India have ramped up to ca. 60% capacity under COVID-19 guidelines, but are looking at how to maximise working hours in order to meet demand, including observing a much shorter holiday period for Diwali than usual. Many producers have reinstated their usual sales tender pattern in order to match demand. However, all participants in the industry recognise that risks to a sustained recovery remain, particularly in light of the current resurgence of COVID-19 in key diamond markets, and much will depend on the level of consumer activity in the coming months, especially in the major US market.

- During the Period, the industry welcomed the launch of the Natural Diamond Council's new consumer identity 'Only Natural Diamonds' and the release of a new major advertising campaign in September 2020, positioning diamonds as the ultimate gift "for moments like no other" and starring up-and-coming Hollywood star Ana De Armas. The timing of the campaign was well received as it is helping to build momentum prior to the start of the major retail buying season. Watch the new campaign at <https://www.naturaldiamonds.com/>.

Diamond Sales and Prices

- Q1 FY 2021 revenue increased 33% to US\$82.0 million (Q1 FY 2020: US\$61.6 million) due to the number of carats sold during the Period increasing 55% to 936,749 carats (Q1 FY 2020: 603,626 carats), offset by a weaker diamond market.
- The Company's tender in September 2020 saw pricing on a like-for-like basis strengthen around 21% in comparison to prices achieved in the March/April 2020 and June/July 2020 sales cycles, with a further ca. 2% increase at the October 2020 tender post Period end; prices are still around 10% below pre-COVID-19 levels.
- Diamond inventory as at 30 September 2020 was 1,394,825 carats valued at US\$90.2 million (30 June 2020: 1,357,584 carats valued at US\$84.1 million) largely as a result of the extended lead times since the introduction of Antwerp-based tenders to mitigate the COVID-19 impact on customers' ability to attend tenders in South Africa.
- The Company will continue to remain flexible in terms of its approach to diamond sales in order to achieve the best possible route to market, subject to prevailing market conditions and any COVID-19 related regulations or restrictions.
- Prices achieved during Q1 FY 2021 are set out in the table below:

Mine	Q1 FY 2021 (US\$/ct)	Q1 FY 2020 (US\$/ct)	FY 2020 US\$/ct
Cullinan	72	89	98
Finsch	81	81	75
Koffiefontein	790	415	387
Williamson	150	176	177

- Pricing achieved in Q1 was impacted by the carry-over of certain, mostly lower-value parcels from FY 2020, which were subsequently sold during July 2020. The realised prices reflect the weaker market conditions offset by a higher proportion of coarse material (larger diamonds) in the product mix, specifically at Finsch and Koffiefontein.
- Despite the Williamson mine being on care and maintenance, it was possible to include ca. 30,000 carats for sale in Q1 due to these diamonds being withheld for sale in Q4 FY 2020.

Balance Sheet

- A summary of the Group's current cash, diamond inventories, debtors, borrowings and net debt is set out below.

	Unit	30 Sep 2020	30 Jun 2020	31 Dec 2019	30 Sep 2019
<i>Exchange rate used for conversion</i>		<i>R16.73:US\$1</i>	<i>R17.32:US\$1</i>	<i>R13.99:US\$1</i>	<i>R15.61:US\$1</i>
Cash at bank	US\$M	63.4	67.6	53.6	57.2
Diamond inventories	US\$M	90.2	84.1	85.2	92.4
	Carats	1,394,825	1,357,584	992,425	1,145,274

Diamond debtors	US\$M	19.1	4.8	12.8	7.2
US\$650 million loan notes including May 2020 deferred coupon of US\$23.6 million	US\$M	673.6	673.6	650.0	650.0
Bank loans and borrowings	US\$M	53.8	52.0	0.0	0.0
Bank facilities undrawn and available	US\$M	0.0	0.0	107.2	98.9
Consolidated net debt ^{1,2}	US\$M	687.8	693.2	632.9	637.7

Notes:

1. Consolidated Net Debt is bank loans and borrowings plus loan notes, less cash, less diamond debtors and includes the Black Economic Empowerment guarantees of ca. US\$42.9 million (ZAR717.2 million) as at 30 September 2020 (ca. US\$40.0 million (ZAR693.6 million) as at 30 June 2020).
2. In terms of the Amendment Agreement entered into on 29 May 2020, Petra and the South African lender group have agreed that covenant measurements will not be undertaken for the period ending 30 June 2020.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information will be considered to be in the public domain. The person responsible for arranging for the release of this announcement on behalf of the Company is Jacques Breytenbach, Finance Director.

Notes to announcement:

1. The following definitions have been used in this announcement:
 - a. cts: carats
 - b. cpht: carats per hundred tonnes
 - c. kcts: thousand carats
 - d. LTI: lost time injury
 - e. LTIFR: lost time injury frequency rate; the number of LTIs multiplied by 200,000 and divided by the number of hours worked
 - f. Mctpa: million carats per annum
 - g. Mcts: million carats
 - h. Mt: million tonnes
 - i. Mtpa: million tonnes per annum
 - j. ROM: run-of-mine, i.e. relating to production from the primary orebody
 - k. SLC: sub-level cave, a variation of block caving

~ Ends ~

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About Petra Diamonds Limited

Petra Diamonds is a leading independent diamond mining group and a consistent supplier of gem quality rough diamonds to the international market. The Company has a diversified portfolio incorporating interests in three underground producing mines in South Africa (Finsch, Cullinan and Koffiefontein) and one open pit producing mine in Tanzania (Williamson).

Petra's strategy is to focus on value rather than volume production by optimising recoveries from its high-quality asset base in order to maximise their efficiency and profitability. The Group has a significant resource base of ca. 290 million carats, which supports the potential for long-life operations.

Petra conducts all operations according to the highest ethical standards and will only operate in countries which are members of the Kimberley Process. The Company aims to generate tangible value for each of its stakeholders, thereby contributing to the socio-economic development of its host countries and supporting long-term sustainable operations to the benefit of its employees, partners and communities. Petra is a founder member of the Natural Diamond Council, which aims to promote the desirability of natural diamonds and support the integrity of the diamond jewellery industry.

Petra is quoted with a premium listing on the Main Market of the London Stock Exchange under the ticker 'PDL' and is a constituent of the FTSE4Good Index. For more information, visit www.petradiamonds.com

APPENDIX

MINE BY MINE PRODUCTION TABLES

Cullinan – South Africa

	Unit	Q1 FY 2021	Q1 FY 2020	Variance	FY 2020
Sales					
Diamonds sold	Carats	469,954	250,504	+88%	1,183,745
Average price per carat	US\$	72	89	-19%	98
Revenue	US\$M	33.8	22.2	+52%	116.5
ROM Production					
Tonnes treated	Tonnes	1,180,477	1,206,433	-2%	3,972,682
Diamonds produced	Carats	475,374	457,104	+4%	1,482,482
Grade ¹	Cpht	40.3	37.9	+6%	37.3
Tailings Production					
Tonnes treated	Tonnes	105,097	66,855	+57%	257,549
Diamonds produced	Carats	57,441	5,815	+888%	95,918
Grade ¹	Cpht	54.7	8.7	+528%	37.2
Total Production					
Tonnes treated	Tonnes	1,285,574	1,273,288	+1%	4,230,231
Diamonds produced	Carats	532,815	462,919	+15%	1,578,400

Notes:

1. The Company is not able to precisely measure the ROM / tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

Finsch – South Africa

	Unit	Q1 FY 2021	Q1 FY 2020	Variance	FY 2020
Sales					
Diamonds sold	Carats	424,576	272,249	+56%	1,348,181
Average price per carat	US\$	81	81	0%	75
Revenue	US\$M	34.3	22.1	+55%	101.1
ROM Production					
Tonnes treated	Tonnes	757,402	813,621	-7%	2,719,389
Diamonds produced	Carats	420,774	468,639	-10%	1,603,678
Grade ¹	Cpht	55.6	57.6	-4%	59.0
Tailings Production					
Tonnes treated	Tonnes	0	88,537	-100%	211,541
Diamonds produced	Carats	0	13,813	-100%	39,890
Grade ¹	Cpht	0	15.6	-100%	18.9
Total Production					
Tonnes treated	Tonnes	757,402	902,158	-16%	2,930,930
Diamonds produced	Carats	420,774	482,452	-13%	1,643,568

Note:

1. The Company is not able to precisely measure the ROM / tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

Koffiefontein – South Africa

	Unit	Q1 FY 2021	Q1 FY 2020	Variance	FY 2020
Sales					
Diamonds sold	Carats	11,881	12,666	-6%	66,326
Average price per carat	US\$	790	415	+90%	387
Revenue	US\$M	9.4	5.3	+78%	25.7
ROM Production					
Tonnes treated	Tonnes	299,931	314,302	-5%	891,705
Diamonds produced	Carats	20,758	20,420	+2%	69,077
Grade	Cpht	6.9	6.5	+7%	7.7
Total Production					
Tonnes treated	Tonnes	299,931	314,302	-5%	891,705
Diamonds produced	Carats	20,758	20,420	+2%	69,077

Williamson – Tanzania

	Unit	Q1 FY 2021	Q1 FY 2020	Variance	FY 2020
Sales					
Diamonds sold	Carats	30,339	68,206	-56%	297,245
Average price per carat	US\$	150	176	-14%	177
Revenue	US\$M	4.6	12.0	-62%	52.5
ROM Production					
Tonnes treated	Tonnes	0	1,312,286	-100%	3,980,438
Diamonds produced	Carats	0	113,166	-100%	287,356
Grade	Cpht	0	8.6	-100%	7.2

<u>Alluvial Production</u>					
Tonnes treated	Tonnes	0	106,038	-100%	302,567
Diamonds produced	Carats	0	3,807	-100%	10,774
Grade	Cpht	0	3.6	-100%	3.6
<u>Total Production</u>					
Tonnes treated	Tonnes	0	1,418,324	-100%	4,283,005
Diamonds produced	Carats	0	116,973	-100%	298,130