Viability Statement

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Adonis Pouroulis and Gordon Hamilton joined the investor and analyst site visit to Cullinan in February 2018

The UK Corporate Governance Code requires that the Directors assess the viability of the Group over an appropriate period of time selected by them. The Board has concluded that the most relevant time period for this assessment is a three-year period ending June 2021, taking into account the Group's current position and the potential impact of the principal risks that could affect the viability of the Group. This assessment is done annually before the approval of the Annual Financial Statements.

While the Group maintains a full business model based predominantly on the Life of Mine plans for each of its significant operations, the Group's key business and strategic planning period is through to the end of FY 2021.

The review of the Group's viability is led by the Chief Executive and involves all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board actively participates in the annual review process by means of structured Board meetings. As part of this review, the Board considered detailed forecasts in respect of both liquidity and the future covenant measurements related to the Group's banking facilities.

The forecasts indicate that the Group will maintain sufficient liquidity through the period to June 2021, with no breaches in any of the Group's covenants related to banking facilities indicated in the three-year period under the base case assumptions.

Risks and stress tests

For the purpose of assessing the Group's viability, the Board focused its attention on the more critical principal risks. In order to determine those risks, the Directors assessed the Group-wide principal external, operational and strategic risks by undertaking consultations with Senior Management (refer to the Risk Overview and Risk management sections of this report set out on pages 43 and 44 and 80 to 87 respectively). Through this analysis, the Directors also identified low probability, high loss scenarios – 'singular events' – with the potential magnitude to severely impact the solvency and/or liquidity of the Group.

Although the business and strategic plan reflects the Board's best estimate of the future prospects of the Group, the Board has also stress tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

The scenarios tested considered the Group's revenue, underlying EBITDA, cashflows and other key financial and covenant ratios over the three-year period and included:

- a significant reduction in revenue from the Cullinan mine in the period FY 2019 and FY 2020 while the footprint of the C-Cut Phase 1 block cave is extended to cover the full extent of the orebody in that area, due to the erratic nature of recoveries of higher value stones when mining is limited to smaller areas;
- a significant decrease in forecast rough diamond prices;
- a significant increase in forecast operating cost;
- a significant appreciation of the South African Rand to the US Dollar; and
- a combination of the above.

The results of this stress testing showed that due to the stability and cash-generating nature of the Group's core assets, Finsch and Cullinan, along with the debt facilities in place and available to the Group at the time of the assessment and mitigating actions reasonably considered to be available to the Company in the event of the stress scenarios, Petra would be able to withstand the impact of these scenarios occurring over the three-year period by making adjustments to its operating plans within the normal course of business.

The forecasts indicate that the Group retains sufficient liquidity from existing cash resources and operating cashflows, without the need to utilise existing facilities, to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. Under the base case, the Company forecasts to maintain headroom against its financial covenants going forward. Base case forecasts assume an average exchange rate of ZAR13.40:US$1 but exclude the proceeds from the sale of the blocked Williamson parcel and the recovery of VAT from GoT during the forecast period. The Board remains confident that the existing facilities will remain available to the Group and the conclusion as set out below has been reached on this basis.

Conclusion

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending June 2021.