Report of the Audit and Risk Committee

Members of the Audit and Risk Committee[1]

Gordon Hamilton (Chair), iNED

Varda Shine, iNED[2]

Octavia Matloa, iNED

Bernard Pryor, iNED

Deborah Gudgeon, iNED[3]

1. As at 12 October 2021; Mr Lowrie was a member of the Audit and Risk Committee until he retired from the Board on 17 November 2020.
2. Ms Shine joined the Committee on 1 July 2020.
3. Ms Gudgeon joined the Committee post Year end on 1 July 2021.

Audit and Risk Committee Terms of Reference https://petradiamonds.com/about-us/ corporate governance/board-committees

Quote from the Chair:

"The Restructuring was a major step forward in placing Petra on a more sustainable financial footing and thereby mitigated a material uncertainty from the Company's outlook. More recently, the Committee has given careful consideration to the Group's liquidity forecast, the treatment of Williamson as an asset held for sale, impairment testing and the ongoing assessment of the Group's viability. After ten years in my role as Chair of the Committee, I will be shortly stepping down and I would like to welcome Ms Gudgeon as the Chair-designate, who brings a wealth of relevant experience to the benefit of the Committee."

The Audit and Risk Committee ("the Committee") continued to focus on its key objectives set for FY 2021 of:

- assessing the Group's ability to navigate the challenges brought about by COVID-19, as well as the finalisation of the capital Restructuring during FY 2021;
- ensuring the Group's interim and annual results and financial statement reporting were adequately considered with focus on maintaining robust judgements and estimates, specifically in light of the impact of COVID-19 on these judgements and estimates;
- continually assessing the Group's Internal Audit function and looking to enhance and improve processes and functions where appropriate;
- overseeing and directing enhanced enterprise-wide risk management practices, including the operationalisation of the new ERM and Combined Assurance Plan;
- ongoing consideration of controls systems to ensure they remain relevant and appropriate to the business and the associated risks thereto; and
- maintaining regular and detailed interaction with the external auditors, both within the Committee meetings and otherwise (by the Committee Chair), ensuring the highest levels of audit quality and timeous feedback are maintained.

Report of the Audit and Risk Committee continued

Dear shareholder,

The Audit and Risk Committee plays a vital role at Petra by ensuring that the Group has effective and appropriate risk management and internal control systems, backed up by comprehensive financial, governance, Internal Audit and reporting functions. As Chair of the Committee, I am pleased to have this opportunity to summarise some of the key developments during the Year, as well as our ongoing responsibilities and objectives.

Careful consideration of capital structure, debt Restructuring, banking covenants, going concern and the Viability Statement

Despite facing a number of challenges during FY 2021, improvements in market conditions and the easing of certain COVID-19 restrictions resulted in an increase in demand for rough diamonds, specifically during H2. This allowed for a higher volume of diamond sales to be generated by the Group, which further benefitted from a ca. 9% increase in diamond prices on a like-for-like basis when compared to FY 2020. In addition, the Company recovered and sold a number of Exceptional Stones from Cullinan during FY 2021, yielding a total of US$62.0 million in sales revenues.

During October 2020, an in-principle agreement was reached with the AHG and South African Lender Group to restructure both its existing Notes as well as its existing banking facilities, including amounts drawn under its ZAR500 million (US$28.9 million) WCF, ZAR400 million (US$23.1 million) RCF and amounts outstanding under the Group's guarantee to its BEE partners' facilities (ca. ZAR694 million). The Restructuring entailed a debt-for-equity swap which impacted the Group's equity shareholders and was thus subject to shareholder approval by way of voting at a Special General Meeting; this approval was obtained in January 2021.

The Restructuring completed in March 2021 and significantly reduced the Company's gross debt from US$817.5 million directly before the Restructuring to US$450.1 million immediately thereafter, with some US$10.3 million (ZAR160 million) remaining undrawn and available to the Group.

Loan notes reduced from US$713.7 million (US$650 million capital plus accrued interest of ca. US$63.7 million to date of settlement) to US$336.7 million, while debt owed under the Group's banking facilities saw an additional US$10.3 million (ZAR160 million) RCF being made available to the Group, increasing these facilities to ZAR560 million, while the previous ZAR500 million WCF and the ZAR683 million BEE guarantee facilities were refinanced and replaced by a ZAR1,200 billion amortising term loan.

The Committee was kept fully appraised of and reviewed the proposed Restructuring, liquidity and cashflow forecast positions, including potential forecast covenant breaches (related to its first lien bank debt facilities), as well as Management's engagements with the AHG and the South African Lender Group. The Committee noted that the first lien covenants were set with limited headroom to the Company's base case and as such, results of the stress testing indicated that in the event of a combination of all tested scenarios, possible covenant breaches associated with the South African banking facilities may occur at June 2022, while a breach is also projected in December 2022 on an individual stress test basis. The Committee noted that at the time of any covenant breach in June 2022 and December 2022 under such scenarios, projected cash balances exceed outstanding debt under these facilities, which would allow the Group to fully pay down the drawn facilities prior to the breach occurring and maintain adequate liquidity. The forecasts indicate that under the sensitivity scenarios, the Group is not reliant on the facilities. Refer to the going concern note to the Financial Statements on page 146. The Committee also carefully considered the projections to FY 2026 which informed the Board's assessment of the Group's viability for this period; refer to the Viability Statement on pages 96 and 97. The Committee regularly discussed these issues and the Restructuring and potential de-leveraging mechanisms available to the Group with the full Board, ensuring at all times that appropriate consideration was being given and that external reporting in regulatory announcements was always appropriate, balanced and complete. Consideration was also applied to the accounting treatment of the loan notes, debt-for-equity conversion, South African lender facilities, transaction costs and assumptions relating to the substantial modification assessment of the Restructuring under IFRS on the Group's balance sheet at Year end.

Reviewing LOM estimates leading to impairments

IFRS requires that detailed impairment reviews are performed for each reporting period if there are indications of a potential impairment. Market conditions in the global rough diamond market, the ongoing impact of the COVID-19 pandemic, volatility of and variability in product mix are all factors impacting the rough diamond prices achieved by Petra during the Year. Given the impact of the strengthening South African Rand, specifically in the period leading up to Year end, Management also considered the impact of ZAR:USD movements on the business, coupled with the unexpectedly high waste-ingress experienced at Finsch toward the middle of FY 2021, and identified there to be indicators of impairment, which required the carrying out of tests for each mine based on the underlying LOM models. Improving diamond prices as well as the higher incidence of Exceptional Stones at Cullinan also prompted Management to consider any possible reversals of prior impairments.

The review required Management to use its judgement and make assumptions with regards to production rates, operating costs, cost savings incorporated into the long term forecasts, Capex, classification of Williamson as an asset held for sale and its recoverable value, and the Group's reserves and resources, coupled with a robust discussion on diamond pricing in light of the positive trends in the diamond market witnessed more recently measured against prices achieved historically and anticipated future pricing. Economic assumptions around inflation, foreign exchange rates and discount rates are further included in the preparation of the models with the resultant net present value per mine then being compared to the carrying value of mining assets, ore stockpiles and diamond inventories. An impairment of US$15.1 million (FY 2020: US$27.6 million) was recognised at Finsch and an impairment of US$2.2 million (FY 2020: US$11.7 million) at Koffiefontein. No impairment charge was recognised at Cullinan, nor was any impairment's reversal deemed appropriate in the current Year.

The Committee assessed all these key assumptions and project initiatives, considered market conditions, and was kept abreast regularly by Management of developments at the operations, as well as holding frequent discussions with the external auditors so as to ensure appropriate external reporting was provided.

Williamson held for sale and impairment considerations

The Board reviewed its strategic options around the Williamson operation during FY 2021. The Williamson mine has remained on care and maintenance since April 2020; however, the Company is currently taking steps to resume production, given the improvement in market conditions over recent months. This strategic review gave rise to key considerations around the reclassification of Williamson as an asset held for sale on the Group's balance sheet, amounts relating to unsettled and disputed tax claims and unpaid taxes, and the measurement of the Williamson assets at the lower of carrying value and the recoverable amount for impairment.

The Committee assessed the requirements and criteria under IFRS 5, the carrying value of the assets and fair value less costs to sell for impairment. An impairment of US$21.4 million was recognised, based on the best available information at the present time, to reduce assets of Williamson to equal the fair value less costs to sell on the recognition of Williamson as held for sale. Consideration was given to Management's assumptions in respect of a provision amounting to US$19.5 million raised for unsettled and disputed tax claims. Discussions with the external auditors were held pertaining to the assessments to ensure the appropriate external reporting and disclosure on the Group's balance sheet at Year end.

Tanzanian legislative environment

Ongoing legislative challenges in Tanzania impacting the mining industry, coupled with the blocked parcel of rough diamonds dating back to September 2017, continue to constitute a commercial risk for the Group. The Committee considered external legal advice received by Management, which highlighted the Company's legal right to receive the parcel as well as Petra's adherence to all requisite procedures. These factors, along with the ongoing engagement with the GoT and its decision to approve and release subsequent parcels, show that the continued seizure of the parcel is not indicative of a wider dispute, which would increase the risk of the Group's ownership and right to the diamonds being contested. This provided further additional support to the likelihood of the release of the parcel and therefore, the Committee's consideration of the carrying value of the parcel and its reflection thereof in inventory.

The Committee held frequent discussions with Management on VAT receivables at Williamson throughout the Year, wherein updates concerning feedback on engagements with the GoT were provided. Consideration of refunds received towards the end of FY 2021, in-country legal advice as to the VAT legislative changes in July 2020 amending the categorisation of raw minerals (which had previously applied for the period post July 2017 to June 2020) in the context of Williamson's diamond exports, current fiscal constraints in Tanzania and the political environment were further considered by the Committee. Given the continued delays in recovery, significant uncertainty exists regarding the timing of receipt. Following a review of Management's analysis, taking into account the US$10.0 million of VAT refunds received in two separate payments during FY 2021 relating to VAT due pre-July 2017, the Committee agreed with their assessment around the potential timing of the recoverability of the receivables and credit adjusted discount rate, and agreed with the suggested provision to appropriately reflect a time value of money adjustment. It was noted that the disputed VAT balance of US$26.9 million relating to the period July 2017 to June 2020 was written down to US$nil. The provision of US$28.8 million (FY 2020: US$29.6 million) is appropriately disclosed under asset held for sale in the Group's balance sheet at Year-end.

Recoverability of BEE loans receivable

The BEE partners hold non-controlling interests in Cullinan, Finsch and Koffiefontein. In determining the extent to which expected credit losses may apply, the Group assessed the agreement entered into, during March 2021, between the Group and its BEE partners with respect to the offset of the gross receivable and payable balances and the future free cashflows expected to be generated by the mining operations, based on the current LOM plans.

Subsequent to the offset agreement, the Group held BEE loan receivables of US$52.4 million (before recognising expected credit losses or reversals under IFRS 9) due from its BEE partners, as set out in note 16, which are repayable out of the future free cashflows generated from the Group's mines.

Under IFRS 9, the Group performed an expected credit loss assessment on the recoverability of the BEE receivable balance and recorded an expected credit loss reversal of US$5.8 million with a provision of US$5.1 million remaining which is specifically attributable to the Koffiefontein portion of the expected credit loss provision, which required judgement and estimation by Management. The Committee carefully considered the appropriateness of judgements and estimates applied in determination of the accounting for the offset of the gross receivable and gross payable, together with the expected credit loss reversal determination, and agreed with Management's assessment.

Other matters considered by the Committee

Litigation at Williamson

During May 2020, a UK-based law firm, Leigh Day, filed claims in the High Court of England and Wales against Petra and WDL. The claims are understood to have been filed on behalf of anonymous individuals in relation to alleged breaches of human rights at the Williamson mine, arising from the mine's security operations.

The Committee takes these allegations extremely seriously. A sub-committee of the Board, the Tunajali Committee which was formed entirely of independent Non-Executive Directors, was established. The Tunajali Committee initiated an investigation, which was carried out by a specialist external adviser in conjunction with specialist human rights lawyers advising the Tunajali Committee and the Group, for the purposes of responding to the allegations and was responsible for overseeing this investigation and reporting back regularly to the Board.

The Company took immediate precautionary measures to address the concerns raised, ahead of the findings of the investigation and in order to mitigate the risks of future incidents, including the appointment of a new third-party security contractor, the training of all security personnel and internal management at WDL on human rights and their obligations in terms of the VPSHR and the launch of an OGM.

Report of the Audit and Risk Committee continued

Other matters considered by the Committee continued

Litigation at Williamson continued

On 12 May 2021, the Group announced the findings of the Tunajali Committee's investigation and the measures that had been or will be put in place to address the issues identified, including the revision of reporting structures to enable the more timely, accurate and transparent reporting of all incursions and incidents, the enhancement of stakeholder engagement at the mine (as well as ongoing work Group-wide), and the establishment of a non-judicial IGM to investigate and resolve allegations of human rights breaches.

Petra also announced on 12 May 2021 that it had reached a settlement, on a no admission of liability basis, in relation to claims brought in London by Leigh Day on behalf of 71 anonymous claimants in relation to alleged breaches of human rights, associated with third-party security operations, at the Williamson mine.

The agreed total settlement figure announced in May 2021 was £4.3 million (US$6.1 million), which includes the sum to be distributed to the claimants by Leigh Day, a contribution to the claimants' legal expenses and funds which Petra has committed to invest in programmes dedicated to providing sustainable support to the communities living around the mine. The Company also announced that its settlement agreement with Leigh Day included a framework pursuant to which an additional payment will be made by Petra in respect of up to 25 additional potential claimants who came forward in the final stages of the settlement negotiations. A settlement, on a no admission of liability basis, in relation to these 25 additional claims has been reached with Leigh Day.

In addition to the £4.3 million (US$6.1 million) payment described above, the Company has incurred and provided for additional total costs of US$6.6 million related to this matter in its FY 2021 accounts, the majority of which relate to legal, consultant, investigation and expert fees and which also cover the settlement of the 25 additional claims with Leigh Day.

Based on discussions with Management, their assessment of the investigation report of the findings, the settlement agreement with Leigh Day and the assumptions used for incurring and providing for additional costs relating to the claims raised at Year end, the Committee agrees with Management that the provision raised is sufficient and that the disclosures made are appropriate.

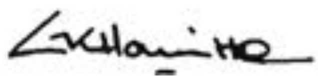
The Committee's responsibility towards risk management

The Committee continued to execute its risk management oversight responsibilities ensuring that both operational and corporate level risk reviews were both carried out and appropriately reported on during the Year. In addition, the Committee had oversight of the Risk and Assurance function operationalising the new ERM and Combined Assurance Plan, which included a Group Risk and Assurance Policy Statement and Group Risk Policy and Framework. An enterprise-wide and 'bottom-up' risk relevance testing, assessment and aggregation was also carried out and integrated into the Group Risk Register.

The revised ERM approach has not materially amended the Group's principal risks as disclosed on pages 40 and 41.

Committee composition

In November 2020, Mr Lowrie stepped down from the Board and as a member of the Committee. I would like to thank Tony for his exceptional contribution to Petra and the Committee over the years. In July 2021, we welcomed Ms Gudgeon to the Committee and she will shortly be taking over from me as Chair following the 2021 AGM. Deborah is a highly experienced non-executive director and audit committee chair, as well as having extensive experience working for companies in both Africa and the resources industry. She therefore has a high level of understanding of the risks and opportunities faced by such businesses and her background will be greatly relevant to Petra and the Committee.



Gordon Hamilton
Audit and Risk Committee Chair
12 October 2021

Committee experience and skill-set

The members of the Audit and Risk Committee are considered to possess the appropriate skills and experience to monitor and ensure the integrity of the Group's financial reporting, Internal Audit, internal financial control and risk management systems and to support Petra's governance.

Mr Hamilton, the Chair of the Committee, fulfils the requirements of the Code with regards to recent and relevant financial experience, having spent more than 30 years as a partner at Deloitte LLP primarily responsible for multinational and FTSE 350-listed company audits in mining and for several South African companies. He is currently chairman of the audit committee for several other companies (refer to page 63).

Ms Gudgeon, who will succeed Mr Hamilton as Chair following the 2021 AGM in November 2021, joined the Committee post Year end and she likewise fulfils the requirements of the Code with regards to the required level of financial and audit experience. Ms Gudgeon qualified as a chartered accountant with PwC before going on to hold a range of roles at Deloitte, BDO and within industry. More recently, she has extensive experience as a non-executive director and chair of the audit committees of Highland Gold Mining Limited and Acacia Mining plc, and she currently holds the role of chair of the audit committee for FTSE 100 natural resources and industrial group Evraz plc.

In terms of the other Committee members, and in line with updated FRC Guidance, Dr Bartlett, as an experienced diamond geologist, possesses a wealth of sector-specific experience relevant to the nature of Petra's business; he was a member of the Committee until the end of FY 2020, at which point he stepped down from the Board. However, he remained available to the Company for the duration of FY 2021 as a Technical Consultant. Mr Lowrie brought many years of business experience across international banking and financial sectors; he was a member of the Committee until 17 November 2020, at which point he stepped down from the Board. Ms Matloa is a qualified Chartered Accountant who brings relevant business and audit experience as she is currently a member of the audit committee for other organisations in South Africa. Mr Pryor is a metallurgical engineer with 35 years of experience in the international mining industry. Ms Shine, who was appointed as a member of the Committee with effect from 1 July 2020, brings deep knowledge of the diamond industry, as well as significant experience in the South African and UK corporate environments.

When appropriate, new members of the Audit and Risk Committee will receive the required induction to ensure they are properly equipped to discharge their duties; this includes the standard Board induction process (as set out on pages 72 and 73), as well as information specific to the Committee such as its Terms of Reference, Internal Audit Charter, previous internal and external auditor reports and Committee meeting minutes. The Committee members receive appropriate ongoing training and development, as well as regular updates from the Group's external auditors on relevant financial reporting, governance and regulatory developments.

The Committee may, if considered necessary, take independent advice at the expense of the Company. Other than BDO LLP, as the external auditors, no other external consultants assisted the Committee during FY 2021.

Committee meetings

Six meetings were held in FY 2021 and the Committee invited the Group Chairman, the Executive Directors, members of Senior Management (including the Exco members, the Group Risk and Assurance Manager and the Group Security Manager) and the Group Internal Audit Manager to attend these meetings as appropriate. In addition, the Chairman of the Committee met separately with the BDO LLP Audit Partner regularly without Management present to discuss significant audit and accounting matters, together with relevant financial reporting and governance developments. Audit Committee members were afforded the opportunity to meet with the auditors without the Executive Directors.

The Committee recognises the importance of allocating significant time to fulfil its duties effectively. In advance of each Committee meeting, a formal agenda and information pack is circulated allowing each member time to review the information and prepare for the Committee meetings. During the formal meetings, the members then engage in robust and open debate and assessment of relevant matters.

Mr Hamilton, as Chair of the Committee, allocates a significant amount of time to this role. In addition to chairing formal meetings of the Committee and attending sessions with the external auditors, Mr Hamilton regularly held online meetings with the Finance Director as well as the Group Internal Audit Manager in order to discuss and monitor the financial controls and audit activities of the Group on a timely basis.

Site visits to the Group's various operations were unable to be arranged for Committee members during the Year due to the COVID-19 pandemic travel restrictions. Online discussions enabled the Chairman and the Committee to maintain a comprehensive understanding of corporate and finance developments and activities and any associated risks, as well as the operational risks and issues and controls in place at Petra.

Report of the Audit and Risk Committee continued

Committee role and activities

The principal functions of the Audit and Risk Committee are listed below, along with the corresponding activity and performance in FY 2021.

Role	Activities in FY 2021	Outcomes
To monitor the integrity of the interim and preliminary full year results announcements, as well as the Annual Report and Accounts published by the Company, reviewing significant financial reporting judgements contained therein.	The Committee formally considered the Group's interim results, preliminary full year results and Annual Report and Accounts and considers that they present a fair, balanced and understandable assessment of the Group's performance and prospects. The Committee, on behalf of the Board, has a specific process of review that enables it to make this assessment, which includes a detailed appraisal by each member. The Committee then met with the Executive Directors to discuss any questions and comments. In particular, the Committee assessed the balance of information reported against its understanding of the Group, as well as the tone and language used in the reporting, ensuring that it should be comprehensible to readers of various backgrounds. Outside of formal Committee meetings, accounting matters were also discussed by the Chairman of the Committee and the Finance Director. Key auditing, financial reporting and governance matters, which typically focused on areas of significant judgement, estimation or accounting policy selection, were discussed with the Audit Partner ahead of Committee meetings and then during the Committee meetings.	In accordance with the Code, the Directors consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.
To review and challenge, where necessary, accounting policies and practices, decisions requiring a major element of judgement, the clarity of disclosures, compliance with accounting standards, and compliance with regulatory and legal requirements.	As part of its work to approve the Group's Financial Statements, the Committee reviewed the key financial reporting judgements and accounting policies therein. These judgements were assessed through discussions with the Group's auditors and presentations by Management in which the Committee, where appropriate, challenged the basis for such judgements and estimates. Details of the significant matters considered by the Committee in respect of the FY 2021 Annual Report are set out on pages 90 to 94.	The Committee considers that the accounting policies used, reporting disclosures, compliance with accounting standards and other requirements are appropriate to the Group in all regards, taking account of the specialised nature of its business.
To ensure that Petra's risk management systems, internal financial controls and other internal controls are effective.	The Committee assesses the Company's risk management systems, internal controls and internal financial controls on an ongoing basis. As part of this, the Committee invites the Group Chairman, the Executive Directors, Exco members, the Group Internal Audit Manager and other members of the Senior Management team to attend the meetings as appropriate. During these meetings, the Committee was provided with updates on the Group's activities and the members considered the risk and control implications on an ongoing basis. Additionally, the Board as a whole received presentations and reports by Management on operational and financial performance each quarter that allowed for assessment of risk and internal controls. The Committee meetings during FY 2021 included presentations by BDO LLP regarding the results of the FY 2020 audit, the interim review for H1 FY 2021 and the FY 2021 Audit and Risk Committee Planning Report, with a presentation by BDO LLP of the results of the FY 2021 audit subsequent to the Year end. These presentations included the auditors' observations and recommendations in respect of internal controls that the Committee incorporated into its overall assessment of the effectiveness of risk management and controls.	The Committee considers that Petra's internal controls, including its internal financial controls, continue to be robust and defensible. The Committee will continue to review and assess the development of risk management and internal control systems, assisted by the work of the Internal Audit team and the Risk and Assurance function.

Role	Activities in FY 2021	Outcomes
To ensure the Internal Audit function is adequately resourced and effective and is supported by the Committee in its role.	The Internal Audit Charter was reviewed, having been approved by the Committee in FY 2019. The Committee continued to assess the effectiveness of Internal Audit during the Year and to review progress against the Internal Audit Plan approved by the Committee.	The Group Internal Audit Manager, and supporting team, will continue to work with the Committee to ensure the integrity and effectiveness of the Group's internal control procedures and risk management systems.
To consider the appointment, re-appointment or removal of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity. **To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence or objectivity.**	In advance of the FY 2021 audit, the Committee reviewed and approved the external auditors' audit planning presentation and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. The Committee approved the audit fees as part of the audit planning process. The Committee also reviewed audit-related fees in relation to the interim review and agreed upon procedures over the Company's ESG and Sustainability Report. During the Year, the Committee reviewed non-audit fees and independence considerations in respect of BDO LLP's role as Reporting Accountant as part of the Restructuring process. Having considered the estimated fees, nature of the services and safeguards to independence the Committee ascertained that BDO LLP continue to be independent and approved the services.	The Committee has taken appropriate steps to assess the independence of its auditors, recognising the importance of audit independence to the audit process. The Committee has reviewed and gained a thorough understanding of the external auditors' strategy and has satisfied itself that it is robust and that the auditors remain independent.
To give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules.	The Committee received adequate timely information, briefings and training on all relevant regulatory updates and developments. The Chairman of the Committee met regularly without Management present with the BDO LLP Audit Partner to discuss significant audit, accounting and governance developments during the Year.	The Committee is satisfied that Petra continues to act in accordance with the Code and all relevant laws, regulations and the UK Listing Rules.
To review the adequacy of the Company's whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention.	The Committee continues to consider the adequacy of the various policies and systems in place across the Group that cover the whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention. The Group's whistleblowing procedure was reviewed and updated during the Year, and the independent, external whistleblowing and fraud hotline remains in place and continues to be offered to all employees as well as other stakeholders.	In FY 2021 Petra received 28 reports involving alleged irregularities considered necessary to investigate, relating mostly to fraud involving recruitment scams, procurement irregularities, non-compliance of procedures, theft and corruption. Of the 39 reports in total under review, including eleven brought forward from the previous year, 37 were resolved and closed, with most of these found to be unsubstantiated, while appropriate actions were instituted where warranted; two remain under investigation. Further information is included in the Company's 2021 ESG and Sustainability Report on page 20.

Report of the Audit and Risk Committee continued

Significant issues considered by the Committee in FY 2021

The following are considered by the Committee to be the significant issues considered by the Committee in respect of the Group's Financial Statements, based upon its interaction with both Management and the external auditors during the Year. These issues align with those disclosed in the Independent Auditors' Report on pages 131 to 140.

The Committee separately considered certain key areas warranting specific audit focus, in particular going concern and viability and impairments given the impact of COVID-19 and the weaker pricing environment, and compared these to the significant matters identified by the external auditors. The Committee assessed that all matters were adequately covered during the FY 2021 external audit.

Significant matters considered	Our response to these matters
Capital structure, going concern, debt Restructuring, banking covenants and viability statement	
Notwithstanding the Restructuring undertaken during FY 2021, the Committee continued to focus on going concern, liquidity and covenant compliance coupled with facility availability, especially taking into account the uncertainty around potential future COVID-19 pandemic impacts. **Management's base case forecasts as at the date of this report indicate that the Group will maintain sufficient liquidity and operate within its covenants across the period to 31 December 2022. However, the Group's forecasts remain sensitive to both trading conditions and the potential impact of COVID-19; however, there are sufficient funds available to settle the South African lender facilities.** **Management forecasts to FY 2026 contained with the viability statement indicate on a base case scenario that there will be a part-settlement of the US$336 million loan notes due in 2026 ("Loan Notes").**	The Committee members critically reviewed the forecast cashflow and banking covenant models presented by Management against forecast Group liquidity requirements and required covenant ratios in relation to the banking facilities, carried out a detailed and robust review of the impact of COVID-19 on assumptions pertaining to a disruption to operations at its South African mines, as well as considered the potential impact of other unforeseen disruptions such as labour stoppages and flood events, a sustained decline in rough diamond prices of 5%, a sustained 5% strengthening in the forecast South African exchange rate against the US Dollar and an increase in operating costs. The Committee members considered the results under the base case scenario, noting that the continued availability of the South African banking facilities was crucial to the assessment. The Committee noted the forecasts indicate that the Company will be able to operate within covenants set out in accordance with the Restructuring agreements and maintain sufficient liquidity. However, the Committee noted that proposed first lien covenants were set with limited headroom to base case. As such, although adequate liquidity is maintained throughout the review period under each of the individual scenarios subject to the continued availability of the South African Lender Group bank facilities. The results of the stress testing indicated that in the event of a combination of all tested scenarios, possible covenant breaches associated with the South African banking facilities may occur at June 2022, while a breach is also projected in December 2022 on an individual stress test basis. The Committee noted that at the time of any covenant breach in June 2022 and December 2022 under such scenarios, projected cash balances exceed outstanding debt under these facilities, which would allow the Group to fully pay down the drawn facilities prior to the breach occurring and maintain adequate liquidity. At the time of any covenant breach in June 2022 and December 2022 under such scenarios, projected cash balances exceed outstanding debt under these facilities, which would allow the Group to fully pay down the drawn facilities prior to the breach occurring and maintain adequate liquidity. The forecasts indicate that under the sensitivity scenarios, the Group is not reliant on the facilities. The Company has also commenced with steps towards renegotiating available banking facilities and associated covenants to address the risk of a breach occurring. Having considered the cashflow forecast, risks and sensitivity analysis, the Committee was satisfied with Management's forecast and judgement that the going concern basis of preparation remained appropriate. The Committee reviewed the assumptions in the viability base case, as well as individual stress tested scenarios, considering the expected remaining LOMs of both Cullinan and Finsch, coupled with expected levels of cashflow generation available to part-settle the Loan Notes or within a reasonable timeframe after maturity. The Committee reviewed the stretched downside scenario, which incorporates a combination of production disruptions, price and foreign exchange stressors, noting that liquidity is projected to be tight with little or no capital repayment of the existing Loan Notes in March 2026. In such a downside scenario, the willingness of Noteholders at the time of the possible refinancing on or before maturity, as well as the terms and conditions of such a refinance, may make a refinancing of the Loan Notes prohibitive. This may see the Company having to resort to an equity raise or asset sales should a refinancing be unsuccessful. A successful equity raise would be dependent upon feasibility studies to access the deeper levels of the orebodies at both Cullinan and Finsch and extending the LOMs beyond 2030. Having considered the assumptions and projections of the Group's viability for the five-year period to FY 2026 and the possibility of an equity raise in the future, the Committee was satisfied that it has a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due over the review period. The Committee assessed the disclosures in the Annual Report and Financial Statements in respect of going concern, viability and covenant compliance and concluded that they were appropriate. Refer to note 1.1 on pages 146 to 148 for further details.

Significant matters considered	Our response to these matters
Carrying value of mining assets	
The carrying values of the mining assets at all of the operations were key focus areas for the Committee in FY 20201 on the back of the sustainability of the recovery in the diamond market, the impact of any future COVID-19 lockdowns and volatility in the ZAR/US Dollar exchange rate. **At Finsch and Koffiefontein, impairment indicators were identified and impairment charges of US$15.1 million and US$2.2 million respectively were recognised.** **No impairment indicators were identified at Cullinan and no reversal of previous impairments were deemed appropriate.** **Impairment considerations relating to Williamson are discussed below.** **The impairment tests include significant estimates and judgements and therefore represented a key focus for the Committee, as covered in note 8 on pages 151 to 154.**	The current market conditions in the global rough diamond market, the ongoing impact of the COVID-19 pandemic, volatility of and variability in product mix are all factors impacting the rough diamond prices achieved by Petra during the Year, and the impact of the strengthening South African Rand, specifically in the period leading up to Year-end, coupled with the unexpectedly high waste-ingress experienced at Finsch toward the middle of FY 2021, were all key indicators to be considered by the Committee in assessing the carrying value of the mining assets. The Committee critically reviewed the key assumptions and parameters (diamond price forecasts versus historical pricing trends and the impact of COVID-19 pandemic on the market outlook, foreign exchange rates against current and forward rates, and the basis for production, cost forecasts and the determination of the discount rate) in the LOM plans for Cullinan, Finsch, and Koffiefontein that supported the impairment tests performed by Management. In addition, the Committee reviewed, for all the operations, the sensitivity analysis performed by Management on key parameters of potential impairments under various scenarios. The Committee has also reviewed the assumptions around price recovery post COVID-19 and compared such recovery to pre COVID-19 diamond prices. Analyst reports, media sources and public statements from other diamond companies were also critical to the Committee's review of the impairment models. The changes to the underlying operational plans, costs and capital expenditure assumptions did not materially change the valuation of these assets compared to earlier reviews of this nature and thus did not indicate any impairment on a standalone basis. The revised Koffiefontein mining plan with reduced Capex resulting in a shorter remaining LOM assumption is still appropriate. However, the strengthening of the ZAR against the US Dollar, unexpected waste-ingress at Finsch impacting recovery grades and Koffiefontein's underperformance to previous mining plans compared to earlier assumptions resulted in the Finsch and Koffiefontein operational assets' carrying values being partially impaired to reflect the latest assessment of the recoverable value. The Committee further reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.
Williamson held for sale and impairment considerations	
The carrying values of the mining assets at Williamson and the accounting treatment was a key focus area for the Committee in FY 2021 on the back of the Board's decision to review its strategic options at Williamson. **Williamson was recognised as an asset held for sale under IFRS 5 as a result of the Board's review of its strategic options around Williamson.** **At Williamson, impairment indicators were identified and impairment charges of US$21.4 million were recognised representing the difference between the Williamson assets measured at the lower of their carrying amount and fair value less costs to sell. In determining the fair value used to calculate the appropriate write down, consideration of the best available information at the present time.** **The impairment tests include significant estimates and judgements and therefore represented a key focus for the Committee, as covered in note 37 on pages 201 and 202.**	The Committee critically reviewed the key criteria required under IFRS 5 to classify the Williamson operation as an asset held for sale. For this to be the case, all of the following criteria have been met: Management must have committed to a plan to sell; the operation must be available for sale; an active search for a buyer is in place; and a transaction is highly probable within 12 months of classifying as held for sale. The Committee reviewed the impairment assumptions around the impairment charge in respect of the Williamson assets. Under IFRS 5, the Group is required to measure a non-current asset classified as held for sale at the lower of its carrying values and the recoverable amount (fair value less costs to sell). The Committee reviewed the carrying value of the Williamson assets and challenged Management's assumptions and judgement around the fair value used to calculate the write down. The Committee also considered current discussions with vendors, the latest LOM plan assessment and the best available information at the present time in assessing the fair value arrived at by Management. The Committee gave consideration to Management's assumptions in respect of a provision amounting to US$19.5 million raised for unsettled and disputed tax claims. Based on its enquiries and assessment the Committee was of the opinion that the Williamson operation met the criteria under IFRS 5 to be classified as an asset held for sale and that the determination of the recoverable amount was appropriate. The Committee further reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.

Report of the Audit and Risk Committee continued

Significant issues considered by the Committee in FY 2021 continued

Significant matters considered	Our response to these matters
Tanzanian legislative environment	
At Williamson, ongoing risks arising from legislative changes and political uncertainties, alongside the remaining uncertainty around the recovery of VAT receivables and the continued confinement of the blocked diamond parcel (due for export in FY 2018) continued to represent a significant area of focus for the Committee in FY 2021.	The Committee reviewed updates to legislative changes, reviewed associated commentary from legal bodies and discussed with Management and the Company's legal counsel the potential impact of the legislative changes on the Williamson LOM plan and impairment test. Consideration of the Board's review of its strategic options at Williamson was taken into account. During FY 2018, an investigation into the Tanzanian diamond sector by a parliamentary committee in Tanzania was undertaken to determine if diamond royalty payments were being understated. In connection with this, Petra announced on 11 September 2017 that a parcel of diamonds (71,654.45 carats) from the Williamson mine had been blocked for export to Petra's marketing office in Antwerp. The assessment of the recoverability of the diamond parcel required significant judgement. In making such a judgement, the Committee considered the Group's ongoing discussions with the GoT, verbal confirmation that the GoT still holds the diamond parcel in the course of the ongoing discussions held with the GoT, an assessment of the internal process used for the sale and export of diamonds confirming such process is in full compliance with legislation in Tanzania and the Kimberley Process, and legal advice received from the Group's external in-country attorneys which supports the Group's position. The Committee also received confirmation that all subsequent parcels of diamonds have been exported from Tanzania for eventual sale at the Company's marketing office in Antwerp. While a resolution has not yet been reached with regards to the parcel of diamonds that was blocked for export, based on the above judgements and assessment thereof, the Committee agrees with Management's assessment that the diamond parcel will be released by GoT and will be available for future sale. The Committee reviewed the VAT legislation amendment which now allows for VAT input credit to be claimed on the export of raw materials. The amendment became effective on 17 June 2020. The Committee considered the impact of the legislation change on VAT receivables pre-July 2017 and VAT receivables post 1 July 2020. Further consideration was undertaken by the Committee of Management's assessment that the pre-July 2017 VAT is legally valid and remains recoverable by reviewing the historical in-country legal advice and confirming that no change to the legal opinion was implemented. The Committee also noted that a total of US$10 million in VAT refunds was received during FY 2021 relating to the pre-July 2017 VAT. The Committee considered Management's discounting provision based on Management's analysis of the expected timing of receipts and suggested risk adjusted discount rate. Additionally, the impact of care and maintenance at Williamson, the forecast for production to re-commence in FY 2022 and ongoing discussions with GoT were reviewed by the Committee. The Committee reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.

Significant matters considered	Our response to these matters
Litigation at Williamson	
In May 2020, the Group received litigation claims from a UK based law firm, Leigh Day, in respect of various alleged human rights abuses at Williamson. The Group was also contacted by RAID, a human rights NGO based in the UK, subsequent to Year end with similar claims. The financial impact of the risks associated with such claims required the Committee to focus on the settlement agreement entered into with Leigh Day in respect of the claims. **The agreed total settlement figure of £4.3 million (US$6.1 million) includes the sum to be distributed to the claimants by Leigh Day, a contribution to the claimants' legal expenses and funds which Petra has committed to invest in programmes dedicated to providing sustainable support to the communities living around the mine. The Company also announced that its settlement agreement with Leigh Day included a framework pursuant to which an additional payment will be made by Petra in respect of up to 25 additional potential claimants who came forward in the final stages of the settlement negotiations. A settlement, on a no admission of liability basis, in relation to these 25 additional claims has been reached with Leigh Day.** **In addition to the aforementioned £4.3 million (US$6.1 million) payment, the Company also incurred and provided for additional total costs of US$6.6 million related to this matter in its FY 2021 accounts, the majority of which relate to legal, consultant, investigation and expert fees and which also cover the settlement of the 25 additional claims with Leigh Day.**	The Committee reviewed the claims letter received from Leigh Day and noted its content and alleged claims. Responses by Management during the Year to Leigh Day were also reviewed. The responses to RAID were also reviewed and included setting out the proactive measures taken to strengthen human rights management at Williamson. The reports of external advisers, appointed to assist with the in-depth investigation, working with the legal team, and legal substance of the claims, and the establishment of the Tunajali Committee comprising of iNEDs (including the Chair of the Audit and Risk Committee) to oversee the investigation, was noted and reviewed by the Committee. The Committee held calls with the advisers and the Chair of the Tunajali Committee to understand the scope of the work and also the terms and conditions of the settlement agreement and the costs relating to the matter. The discussions held with both the Tunajali Committee and advisers confirmed that the settlement terms and settlement amounts reached with Leigh Day were appropriate. The Committee considered Management's approach, based on the information presented, to be appropriate and reviewed the disclosure in the Annual Report for compliance with reporting standards.
Recoverability of BEE loans receivable	
Given the successful completion of the Group's Restructuring, the offsetting of the BEE receivables against the BEE payables and the cashflows of the underlying operating mines, the Committee considered the recoverability of the BEE loans a key issue. **The Group's expected credit loss reversal for the BEE loans receivable amounted to US$5.8 million, comprising US$5.8 million for Cullinan and Finsch and US$nil in respect of Koffiefontein BEE loan receivables.**	The Committee reviewed the expected credit loss assessment calculations and confirmed that the calculations were based on the approved LOM models for Cullinan and Finsch used in the 30 June 2021 impairment testing under different pricing scenarios. The Committee considered Management's assumptions in the impairment models around pricing, discount rates, the market outlook, foreign exchange rates against current and forward rates, and the basis for production and cost forecasts. Taking into account the agreement entered into with the BEE partners allowing for the successful offsetting of the BEE loans receivable against the BEE loans payable, such approach was deemed appropriate and Management's assumptions used in the impairment models were considered appropriate. The Committee also noted no adjustment was appropriate in respect of Koffiefontein due to the shorter LOM and decreasing future cashflows available, and agreed with Management that the full amount in respect of BEE loans receivable related to Koffiefontein should remain provided for. The Committee considered the expected credit loss reversal assessment by Management to be well balanced and appropriate, and reviewed the disclosure in the Financial Statements for compliance with reporting standards.

Report of the Audit and Risk Committee continued

Significant issues considered by the Committee in FY 2021 continued

Significant matters considered	Our response to these matters
Accounting treatment of the Restructuring	
The successful completion of the Group's debt Restructuring gave rise to accounting considerations regarding the accounting treatment for the debt-for-equity swap, the accounting treatment of unamortised costs, including the accounting treatment of transaction costs and accrued interest associated with the New Notes.	The Restructuring comprised two major components: 1) the debt-for-equity swap of US$415.0 million, involving the issue of 8.9 billion shares with a market value of US$194.0 million, and the respective gain of US$213.3 million realised on extinguishment of the notes and 2) the extinguishment of the remaining notes through the issue of New Notes for a value of US$295.0 million, the issue of US$30.0 million of New Notes in the form of New Money, and US$11.7 million of transaction costs capitalised to the New Notes. The Committee reviewed the final Restructuring agreements and assessed whether the transactions and amounts had been appropriately reflected in the accounting treatment. The Committee reviewed the agreement terms and the share price at transaction date to assess accuracy of the gain on extinguishment of the notes. The Committee agreed with Management's assessment and deemed the gain on extinguishment to be appropriate. The Committee assessed Management's treatment of the costs relating to the Restructuring, including the allocation of the costs between equity, the Notes and the first lien facilities. The Committee considered Management's approach based on the information presented, to be appropriate and reviewed the disclosure in the Annual Report and Accounts for compliance with reporting standards.

Each of these areas, also represented key audit matters or otherwise areas of audit focus for BDO LLP and, accordingly, the Committee was provided with detailed written and oral presentations by the engagement team on each of these matters. Additionally, the engagement team provided presentations on the audit assessment of Williamson as an asset held for sale and related accounting treatment and disclosure by Management. On the basis of their work, BDO LLP reported to the Committee no inconsistencies or misstatements that were material in the context of the Financial Statements as a whole.

External auditors

During the Year, the Committee fully considered the effectiveness, objectivity, skills, capacity and independence of BDO LLP considering all current ethical guidelines, and was satisfied that all these criteria were met. The auditors' fees were approved as part of this process.

The effectiveness of the external auditors was deliberated, giving consideration to recent FRC guidance on assessing audit quality. The Committee places considerable importance on the following attributes: African mining sector experience (given the specialised nature of the industry), service levels, audit quality, sound auditor judgement, the willingness and ability to challenge Management and provision of value for money.

In forming its assessment of the effectiveness of the audit, prior to the audit the Committee considered the FRC's Audit Quality Review report on BDO LLP, received formal presentations regarding the proposed audit strategy, and the Chairman met separately with the Audit Partner to discuss the audit strategy in detail. These forums enabled the Committee to assess the extent to which the audit strategy was considered to be appropriate for the Group's activities and addressed the risks the business faces, including factors such as: independence, materiality, the auditors' risk assessment versus the Committee's own risk assessment, the extent of the Group auditors' participation in the subsidiary component audits and the planned audit procedures to mitigate risks.

Following the audit, BDO LLP presented their findings to the Committee and met separately with the Committee Chairman to discuss key audit judgements and estimates. This provided an opportunity to assess the audit work performed, understand how Management's assessments had been challenged and assess the quality of conclusions drawn.

The Committee also made enquiries of Senior Management to obtain its feedback on the audit process and considered this feedback in its assessment.

Each of the key attributes for audit effectiveness was considered to be appropriately met for FY 2021 by the Group's auditors.

Auditors' remuneration US$ million	**FY 2021**	FY 2020
Audit services[1]	**1.0**	0.9
Audit-related assurance services[2]	**0.1**	0.1
Non-audit related services[3]	**0.4**	—
Total	**1.5**	1.0

1. Audit services are in respect of audit fees for the Group.
2. Audit-related services are in respect of the interim review of US$0.1 million (FY 2020: US$0.1 million) and specific agreed upon procedures in relation to the ESG and Sustainability Report, under the International Standard on Related Services 4400 as issued by the International Auditing and Assurances Standards Board, of US$5.0k (FY 2020: US$5.0k).
3. Non-audit related services comprised fees in respect of the Company's Restructuring transaction of US$0.4 million (FY 2020: US$nil).

The Committee requires that any non-audit services to be performed by BDO LLP are formally approved by the Committee. Audit-related services do not require pre-approval and encompass actions necessary to perform an audit, including areas such as internal control testing procedures; providing comfort letters to Management and/or underwriters; and performing regulatory audits. BDO LLP provided audit-related services in the Year in relation to the interim review and specific agreed upon procedures on the Company's ESG and Sustainability Report.

The provision of any non-audit service requires Committee pre-approval and is subject to careful consideration, focused on the extent to which provision of such non-audit service may impact the independence or perceived independence of the auditors. The auditors provided details of their assessment of the independence considerations, as well as measures available to guard against independence threats and to safeguard the audit independence. Non-audit services were provided by BDO LLP during the Year as the Reporting Accountant as part of the Restructuring process. The Committee reviewed non-audit fees and independence considerations in respect of BDO LLP's proposed role as Reporting Accountant as part of the Restructuring process. Having considered the estimated fees of £0.25 million (US$0.4 million), the nature of the services and safeguards to independence, the Committee approved the services.

Internal controls (including the system of internal financial controls) and risk management

The Board, with assistance from the Committee, is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate those risks that may affect the Company in achieving its business objectives. The Code requires that the effectiveness of the system of internal control be reviewed by the Directors, at least annually, including financial, operational and risk management.

The Group's Internal Audit function

The Group's Internal Audit function is staffed by the Group's Internal Audit Manager, supported by two Senior Internal Audit Managers. The Group Internal Audit Manager reports directly to the Chairman of the Committee.

The FY 2021 Internal Audit Plan was approved by the Committee, as aligned to the previously approved three-year Internal Audit Plan strategy (i.e. FY 2019 to FY 2021), presented to the Committee and approved during September 2020.

The Group's Risk Management function

During the Year, the Risk and Assurance function operationalised the new Enterprise and Risk Management ("ERM") and Combined Assurance Plan, which included the Group Risk and Assurance Policy Statement and the Group Risk Policy and Framework. An enterprise-wide and 'bottom-up' risk relevance testing, assessment and aggregation was also carried out and integrated into the Group Risk Register.

In FY 2021, the Risk and Assurance function also led Petra's risk owners, Management and Exco through a review and update of the Group's principal risks with reference to the Group's internal risk registers. The Board, the Committee and Exco conducted an in-depth analysis and appraisal of the Group's risk profile shortly after Year end, including a review of emerging risks, with the process supported for the first time by the newly adopted ERM risk software solution. No new principal risks were added, with the COVID-19 pandemic risk being maintained as a principal external risk for a second year running.

System of internal control

The Committee regularly reviews the adequacy and effectiveness of the Group's internal control procedures and risk management systems through regular reports from the Group's Internal Audit, Finance, Operations and Corporate teams, and through consideration of the external auditors' Audit and Risk Committee reports and face-to-face discussion between the Audit Partner and the Audit and Risk Committee Chairman and Committee members.

For FY 2021, the Group Internal Audit Manager and the Committee remained satisfied that no material weaknesses in internal control systems were identified. Whilst being satisfied that controls and risk management remain appropriate for the Group's activities, the Committee continues to undertake a thorough review and to challenge internal controls, risk management procedures, Internal Audit resourcing and strategy to ensure that its practices develop and remain appropriate. When internal control reviews identified necessary or beneficial improvements, appropriate steps have been taken to ensure the control environment is effective. This includes systems to track management's responses to the areas for improvement and subsequent Internal Audit visits to test the implementation.