Viability Statement

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 currently the most relevant time period for this assessment is a five-year period ending June 2026, reflecting the amortising profile of the restructured first lien bank debt, the terms of the recently completed Restructuring with specific reference to the March 2026 maturity date of the Loan Notes, and the potential impact of the principal risks that could affect the viability of the Group. The Board extended the assessment period from three to five years following the successful Restructuring of the Group's first and second lien debt during the Year. This assessment is carried out annually before the approval of the annual Financial Statements and informed by continuous business planning processes throughout the Year.

The review of the Group's viability is led by the Executive Directors and involves all relevant functions including operations, sales and marketing, finance, 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 liquidity and the covenants related to the Group's banking facilities, restructured Loan Notes and their maturity date, and the principal risks of the Group.

Capital Restructuring

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 thereafter, with US$10.3 million (ZAR160 million) of facilities remaining undrawn and available to the Group.

Loan Notes reduced from US$713.7 million maturing 1 May 2022 (US$650 million capital plus accrued interest of ca. US$63.7 million to date of settlement) to US$336.7 million maturing in March 2026. 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 the amortising revolving credit facilities to ZAR560 million, while the previous ZAR500 million WCF and the ZAR683 million BEE guarantee facilities were refinanced and replaced by a ZAR1.2 billion amortising Term Loan. The agreed amortisation profile will see the first lien debt repaid in full by March 2024.

Impact of COVID-19

While the COVID-19 pandemic remains an ongoing challenge, the Company's comprehensive systems and processes in place are allowing for the South African mining operations to continue without a material impact on production. In order to further protect its workforce, the Company is now working to support the Government's mass vaccination drive by making vaccine stations available at, or nearby, each of its operations and running campaigns to raise awareness of the benefits of vaccination to encourage their uptake.

While international travel remains subject to changing levels of restrictions, the diamond sales market in Antwerp has remained open, with the Belgian Government designating the diamond industry as an industry of strategic importance. Petra is therefore holding rough diamond tenders for its South African goods in Antwerp, having fulfilled its regulatory obligation to offer a portion of goods for sale to the State Diamond Trader and local beneficiation groups in South Africa, and this is working well in terms of providing access to the majority of the Company's client base. Petra may continue to hold its sales tenders in Antwerp should ongoing COVID-19 restrictions continue to make travel to South Africa problematic for international buyers.

Improved diamond sales

Despite the severe impact of the COVID-19 pandemic on the diamond market in FY 2020, which experienced a major halt or slowdown of activity across the pipeline and caused the rough diamond pricing realised by Petra to fall ca. 18% during the Year, improvements in market conditions and the easing of certain COVID-19 restrictions resulted in an increase in demand for rough diamonds in FY 2021, 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 during FY 2021 from Cullinan, yielding a total of US$62.0 million in sales revenues. Post Year end, another three special stones were sold, being a 39.3 carat blue diamond yielding US$40.18 million in July 2021, and a 342.9 carat white diamond and an 18.3 carat blue diamond which collectively sold for US$13.5 million, while the Company retained a 50% interest in the profits, after costs, of both these stones.

These factors, coupled with the successful completion of the capital Restructuring, supported by the Group's tight control of Capex, operating costs and corporate overhead, resulted in solid progress towards stabilising the Group's balance sheet and strengthening cash reserves to the date of this report.

South African operations

Cullinan performed well during FY 2021, delivering record throughput supported by Project 2022 initiatives. It is expected that Cullinan will continue to perform at these levels in the future. Finsch was impacted by unexpected levels of waste ingress, reducing both throughput and grades recovered at the mine. The longer-term impact of the waste ingress has been assessed through geological simulations, with results informing revised LOM planning models and cashflow projections. Short-term disruptions were also experienced after unusually heavy rainfalls hampered operations at both Finsch and Koffiefontein during Q3 FY 2021.

Project 2022 initiatives are expected to continue to support both production and cost efficiencies during the review period across the South African operations with an appropriately conservative level of these initiatives built into the projections.

Williamson mine, Tanzania

The Williamson mine remained on care and maintenance in FY 2021, but the improvement in the diamond market during the Year has allowed the mine's operator, WDL, to commence preparations to resume production in H1 FY 2022, as pricing is gauged to now be at a level at which the mine can operate economically. As previously announced, the Board has reviewed its strategic options at Williamson and it has therefore been reclassified as an asset held for sale.

The mine's own liquidity position, bolstered by US$10 million in VAT refunds during Q4 FY 2021, coupled with support from the local mining contractor in the form of deferred payment terms, should see it reach commercial production levels during H1 FY 2022, with the first sale of goods projected to be in Q2 FY 2022, and working capital funding from Petra limited to US$6 million during this start-up period.

In addition, the Group remains in discussions with the GoT around various issues including, inter alia, the sharing of economic benefit, the recoverability of additional VAT receivables and the potential release of the blocked diamond parcel. Williamson's liquidity position is reliant on its ability to generate cash through operations; and/or its ability to reach agreement with the GoT allowing the proceeds of the blocked diamond parcel to be received by Williamson and around potential recoupment of the balance of VAT receivables; and/or its ability to procure funding via borrowings from local financial institutions.

Notwithstanding receiving approval from the GoT to proceed with arranging a US$25 million WCF from a local Tanzanian bank, while pledging its own assets as security, the mine has not yet been able to secure such funding. Earlier discussions with a local bank for a possible WCF were not successful given the mine was still on care and maintenance. The Tanzanian banks suggested that they may consider advancing a facility post restart of operations, although this remains uncertain. Under the terms of the in-principle agreements with the South African Lender Group, any additional funding by Petra would require its approval and if not provided may result in Williamson's insolvent liquidation.

Petra is only allocating Stay in Business Capex to the operation in its plans covering the review period, rather than additional expansion Capex.

Risks and stress tests

For the purpose of assessing the Group's viability, the Board focused its attention on the critical principal risks. In order to determine those risks, the Board assessed the Group-wide principal external, operational and strategic risks by undertaking consultations with Senior Management (refer to the 'Principal Risks and Uncertainties' and 'Risk Management' sections of this report set out on pages 40 to 41 and 98 to 104 respectively). Through this analysis, the Board 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 plans reflect 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. Specific consideration was given to the potential impact of COVID-19 on the business, specifically considering potential production disruptions and adverse impacts on diamond pricing. The scenarios tested considered the Group's revenue, underlying EBITDA, cashflows, covenant ratios, as well as the impact on facility availability over the five-year period excluding repayment of the Loan Notes (refer below) and included:

- an unforeseen disruption to operations at its South African mines due to either COVID-19 restrictions, labour stoppages, flood events, or otherwise;
- a sustained 5% decrease in forecast rough diamond prices throughout the forecast period;
- a sustained 5% strengthening in the forecast South African Rand exchange rate against the US Dollar throughout the forecast period; and
- an increase in forecast operating cost.

Under the base case, as well as identified upside cases, the forecasts indicate that the Company will be able to operate within the covenants set out in the respective financing agreements while in all stressed tested scenarios, as well as a combination of these scenarios ("downside scenario"), maintain sufficient liquidity throughout the period. However, the Company's base case and individual stress tested scenarios indicate the Loan Notes will only be partially settled at maturity date, as further expanded on below.

As also highlighted in the going concern note on page 146, possible covenant breaches associated with the South African banking facilities may occur under certain stress tested scenarios in the bi-annual measurement periods from June 2022 to December 2023 before being fully settled shortly thereafter, given the agreed amortisation profile associated with these facilities. At the time of these possible covenant breaches, projected cash balances under these scenarios exceed outstanding debt under the first lien 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, even under the stressed case scenarios, the Group is not reliant on these facilities. The Company has also commenced with steps towards renegotiating available first lien banking facilities and associated covenants to address the risk of a breach occurring.

The Loan Notes repayment profile comprises cash interest coupons payable from June 2023 and thereafter semi-annually in arrears on 31 December and 30 June respectively; and a final capital repayment in March 2026. The Company's base case, as well as individual stress tested scenarios, indicate that it would be able to part-settle the Loan Notes at maturity with an expectation that it would be able to refinance and settle the remaining outstanding capital balance within a reasonable timeframe thereafter, considering the expected remaining LOMs of both Cullinan and Finsch, coupled with expected levels of cashflow generation. In a stretched downside scenario, which incorporates a combination of production disruptions, price and foreign exchange stressors, 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.

Conclusion

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

Based on its assessment of the forecasts, principal risks and uncertainties and mitigating actions considered available to the Group in the event of downside scenarios, the Board confirms 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.