Risk Management

Identifying, managing and mitigating risk

Risk management is the overall responsibility of the Board at Petra, but the Board Committees, Exco and Senior Management also play important roles in terms of the identification, assessment, management and ongoing mitigation of risks, including emerging risks, within their realm of responsibilities. Please refer to pages 72 to 74 of this Report for further details on how Petra manages risks.

EXTERNAL RISKS

1. Rough diamond prices

Long term

Risk change in FY 2023

Higher

Strategic objectives

Continued improvement of our balance sheet health; positioning Petra to enable it to pay dividends to shareholders.

KPIs

Revenue; Adjusted EBITDA; Operational free cashflow; TSR

Responsibility

Exco; Audit and Risk Committee

Description and impact

The Company's financial performance is closely linked to rough diamond prices, which are influenced by numerous factors beyond the Company's control, including global macroeconomic conditions, global production levels and consumer trends.

Growth in the laboratory-grown diamonds (LGD) market also impacts diamond prices. The Company continues to closely monitor the war in Ukraine and sanctions on Russian companies and its impact on the global diamond market. Whilst the long-term fundamentals of the diamond market remain supportive, some volatility in rough diamond pricing may be experienced whilst macroeconomic uncertainties remain.

Lower than planned diamond prices may have a negative impact on cashflow, profitability, the overall performance of the business and the Company's ability to meet its financial obligations when they fall due as well as the viability of capital programmes going forward and the ability to pay dividends.

Mitigation

Petra undertakes a robust, market-driven tender process and aims to achieve full realisable value. The Company's ability to defer the timing of its sales tenders can act as a mitigation during a lower pricing environment. The Company also participates in profit sharing agreements with the aim of realising additional value from selected diamonds.

Petra continues to maintain regular dialogue with its client base to keep abreast of diamond market demand fundamentals and to be able to react in a timely manner to changes in rough diamond prices. The Company also continues to monitor the global diamond market, including through external publications such as, among others, the Global Diamond Industry Report by Bain & Co.

Petra is a founding member of the NDC which aims to maintain and enhance consumer demand for, and confidence in, diamonds by a range of methods, including via advertising campaigns across multiple digital channels. The Company continues to monitor LGD developments and its impact on the diamond market. The diversified nature of the Group's production profile also acts as a mitigation in that Petra produces the full spectrum of diamond sizes and qualities, to minimise reliance on the price performance of any one diamond category.

FY 2023 risk developments and management

Despite significant global economic uncertainties resulting from the war in Ukraine and the lockdown restrictions in China which continued in FY 2023, like-for-like diamond prices increased by 12.6% in H1 FY 2023. However, since Q4 FY 2023, diamond prices have softened with Tender 5 seeing a 13% reduction in like-for-like prices on Tender 4 resulting in like-for-like prices increasing by around 2% compared to FY 2022. Due to continuing softer prices resulting from elevated inventory levels in the mid-stream, the majority of sales from Tender 6, together with the c 76kcts withdrawn from Tender 5, were deferred and offered for sale in Tender 1 of FY 2024 in August 2023, with like-for-like prices in Tender 1 declining by 4.3% on Tender 5 and like-for-like prices for the initial Tender 2 results, which partially closed in October 2023 prior to the release of this Report, declining by 16 to 18% on Tender 1.

During the Year, three blue diamonds recovered from the Cullinan Mine were sold into partnerships, extending our partnership approach on selected diamonds. The 17.4, 10.4 and 25.6 carat gem-quality blue diamonds were sold for US$7 million, US$2 million and US$3.5 million respectively, with Petra retaining a 50% share of the profits on sales after cutting and polishing. Revenue from profit share agreements such as these increased for the Year to US$1.4 million (FY 2022: US$1.1 million).

In May 2023, the G7 announced that they will continue to work closely to restrict trade in and use of diamonds mined, processed or produced in Russia and engage with key partners with the aim of ensuring effective implementation of future co-ordinated restrictive measures, including through tracing technologies. This development is being closely monitored to determine the impact of such restrictions on diamond prices and Petra.

While subdued demand and price volatility are expected to continue in the short term, including from increased polished inventory, prolonged weakness in the Chinese market, lab-grown sales in the bridal jewellery segment and higher interest rates impacting the mid-stream in particular, we see prevailing structural supply deficit providing market support.

The two-month voluntary moratorium on diamond imports to India (from 15 October to 15 December 2023), announced by a group of Indian trade organisations on 27 September 2023, is intended to provide support for diamond prices in the medium to longer-term through the rebalancing of inventory across the value chain, though it is expected to add to pricing volatility in the short-term. Recent announcements by major producers to constrain the supply of rough diamonds, coupled with the possibility of the G7 imposing further sanctions or restrictions on the trade of diamonds of Russian origin, should also provide support to diamond prices.

Petra continues to work with the NDC in its activities to support rough diamond demand.

Read more

Our Markets on pages 30 to 40 of this Report

2. Currency

Long term

Risk change in FY 2023

Lower

Strategic objectives

Continued improvement of our balance sheet health

KPIs

Revenue; Adjusted EBITDA; Operational free cashflow; TSR

Responsibility

Exco; Audit and Risk Committee

Description and impact

Currency fluctuations may have a significant impact on the Group's performance.

With Petra's operations (and therefore costs) mainly in South Africa, but diamond sales based in US Dollars, the volatility and movement in the Rand can have a significant impact on the Group. Whilst this means a weakening Rand has a positive financial impact on Petra, it also tends to contribute towards greater uncertainty for Petra, particularly from a planning and budgeting perspective.

Mitigation

The Group continually monitors the movement of the Rand against the US Dollar and takes expert advice from its bankers in this regard. It is the Group's policy to hedge a portion of future diamond sales when weakness in the Rand indicates it is appropriate. Such contracts are generally short term in nature.

The Company looks to actively manage its exposure to the ZAR:USD rate in order to safeguard Group cashflow against a volatile currency outlook.

FY 2023 risk developments and management

The ZAR/USD exchange rate saw significant volatility in FY 2023, with the Rand opening the Year at ZAR16.27/USD1 and closing the Year at ZAR18.83/USD1, having averaged ZAR17.77/USD1 for FY 2023 (compared to ZAR15.22/USD1 for FY 2022).

Since Q3 FY 2023, various domestic South African factors have contributed to the Rand's continuing weakness (outlined in the Country and Political risk below) which led to a sharp sell-off in the Rand and its worst-ever level against the US Dollar, trading at ZAR19.51/USD1 on 12 May 2023.

The Rand is expected to remain volatile, influenced by global economic conditions and locally for the reasons outlined in the Country and Political risk below.

To mitigate volatility, the Company continued with its approach to focus on short-dated hedge positions. The recent weakness in the Rand has given the Company opportunity to obtain hedges of up to 50% of expected 12-month forward looking USD sales proceeds which is mandated by the Board.

Read more

Financial Review on pages 10 to 14 of this Report

Note 8 to the Financial Statements on page 179 of this Report

3. Country and political

Long term

Risk change in FY 2023

No change

Strategic objectives

Continued improvement of our balance sheet health

KPIs

Profitability; Adjusted EBITDA; TSR

Responsibility

Exco; Sustainability Committee

Description and impact

Petra's mining operations are located in South Africa and Tanzania. Emerging market economies are generally subject to greater risks, including legal, regulatory, tax, economic and political risks, and these risks are potentially subject to rapid change.

Mitigation

The Petra team is highly experienced at operating in Africa. Petra routinely monitors political, regulatory and legal developments in its countries of operation at both regional and local level and through continuous engagement with the local authorities, including in South Africa with the Minerals Council acting on behalf of the mining sector.

FY 2023 risk developments and management

The risk of political instability remains and with general elections due in 2024, is expected to increase.

In addition, rolling blackouts as a result of load-shedding (electricity outages) continue due to the inability of South Africa's state-owned electricity provider to service the population and businesses, with an increasing risk of a potential electricity grid failure.

Furthermore, South Africa's non-aligned stance in the war between Russia and Ukraine has been increasingly questioned. This was exacerbated in May with allegations by the US ambassador to South Africa regarding an arms shipment to Russia and also when South Africa publicly announced it will not arrest the Russian President if he attends the BRICS summit in South Africa in August 2023, despite there being an arrest warrant issued by the International Criminal Court, to which South Africa is a signatory. The risk of secondary sanctions being imposed on South Africa has therefore increased. This risk and how it could impact Petra and its lenders are being closely monitored.

During March 2023, Moody's increased Tanzania's rating from B2 Stable to B2 Positive due to reduced political risks, Tanzania's increased engagement with the international community and its structural reforms, resulting in an inflow of Foreign Direct Investments. In December 2021, Petra entered into a Framework Agreement with the Government of Tanzania with a view to establishing a sustainable future for the WDL joint venture between Petra and the Government. As part of this agreement, the Government was expected to allocate the proceeds of a blocked parcel of diamonds to fund the restart of operations at the Williamson Mine. During recent discussions, the GoT confirmed that the blocked parcel was partially sold during the Year. Petra is engaging with the Government regarding the blocked parcel sale proceeds and the related US$20 million settlement amount liability in the Framework Agreement. On 31 May 2023, Petra announced that it had entered into definitive agreements with Taifa Mining and Civils Limited for the sale of 50% (less one share) of Petra's interest in WDL to Pink Diamonds Investments Limited, a company nominated by and affiliated with Taifa. The sale remains subject to satisfying various regulatory conditions. Once this sale completes and the Framework Agreement becomes effective, Petra's exposure to Tanzania will be reduced to 31.5%, though Petra will retain a controlling interest in WDL and a share of the upside.

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC RISKS

4. Group Liquidity

Short to medium term

Risk change in FY 2023

Higher

Strategic objectives

Continued improvement of our balance sheet health; assessment of options to refinance Second Lien Notes to more favourable terms and tenor

KPIs

Rough diamond production; Adjusted EBITDA; Operational capex

Responsibility

Exco; Audit and Risk Committee

Description and impact

Following the Restructuring that was completed in FY 2021 and the US$144.6 million of Loan Notes repurchased in H1 FY 2023, Petra's gross debt was significantly reduced to US$247.5 million (compared to US$366.2 million as at 30 June 2022). Petra is subject to interest payments on this debt and a set of covenants in relation to both its first lien and second lien debt. Failure by Petra to deliver on its business plan could have a material negative impact on cashflow and Petra's ability to further reduce its debt and to continue strengthening its balance sheet, which may affect its ability to meet its financial obligations when they fall due.

In addition, significant global economic uncertainties have resulted in a significant rise in inflation which has the potential to both reduce demand for rough diamonds and have an inflationary impact on Petra's cost base.

Whilst Management prepares detailed projections based on operational plans and sales estimates, actual cashflow results may differ from these projections. The Group's financial position will remain sensitive to operational performance, operating cost inflation and the diamond pricing environment and product mix available for sale.

Mitigation

The Company closely monitors and manages its liquidity risk, including regularly reviewing its covenant levels and cashflow forecasting to ensure operational plans are adequately financed. The Company also continuously looks for opportunities to reduce its gross debt levels and also to improve its Second Lien debt structure, as it did earlier in the Year through the debt tender offer described in more detail below.

Petra's enhanced Operating Model provides a platform for greater stability and resilience, enabling opportunities for further cash generation to fund future capex requirements and support further de-leveraging.

Available levers to manage working capital are considered and employed to manage short-term cashflow requirements and one such lever is the Company's ZAR 1 billion (c US$53.1 million) revolving credit facility. The Company also has flexibility in the roll-out of its future capital spend and in determining the timing of its sales tenders to coincide with a stronger diamond pricing environment and to manage working capital requirements. The Company also actively monitors the USD:ZAR exchange rate and pro-actively locks in hedges to benefit from periods of weaker ZAR which results in cash flow savings compared to the base case USD:ZAR forecast. The Company's Investment Committee makes recommendations to the Board on capex and investment proposals and monitors progress of major capital investments.

In FY 2022, the Company initiated Business Re-Engineering Projects at Finsch and Koffiefontein with the aim of reducing costs. During FY 2023, the Koffiefontein mine was placed under care and maintenance following an unsuccessful sales process, with detailed and responsible closure planning now underway and accelerated closure being pursued where feasible.

The Company is monitoring cost increases across the Group's operations very closely, and Petra's disciplined cost management, three-year labour agreement to June 2024, and exposure to a weaker South African Rand will assist the Company in better absorbing these cost pressures.

FY 2023 risk developments and management

Whilst the Group's balance sheet was strengthened during the Year through the repurchase of the Company's Loan Notes totalling US$144.6 million, resulting in annual interest savings of c US$15 million, the Group has experienced operational challenges that impact its liquidity position. These challenges include:

- The lower grades at the Cullinan Mine (as described in more detail in the Mining and Production risk below)
- Lower tonnes mined at the Finsch Mine in FY 2023 (as described in more detail in the Mining and Production risk below)
- The production suspension and remediation costs at Williamson arising from the TSF failure in November 2022

As a result, FY 2023 production of 2.67 Mcts was lower than originally guided and production guidance for FY 2024 (2.9-3.2 Mcts) and FY 2025 (3.4 to 3.7 Mcts) has also been lowered. This has had a negative impact on the Group's projected liquidity.

Softening of rough diamond prices (see Rough Diamond Prices risk above) led to a decision to defer sales from Tender 5 (partial) and the majority of Tender 6 in FY 2023 to Tender 1 FY 2024 in August 2023. These deferrals from FY 2023 into FY 2024 impacted Petra's revenues and financial results in both financial years, with revenue for FY 2023 being reduced by c US$50 million and revenue for FY 2024 being increased by a corresponding amount.

Softening rough diamond prices have continued into FY 2024 leading to the Indian diamond import moratorium (see above) and this has led to an additional "stressed diamond price" sensitivity (plus associated levers to address potential liquidity covenant breaches) being analysed that has resulted in material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern, as described in more detail in the Group's Going Concern statement on pages 169 to 171 of this Report.

As noted above, the Company has a ZAR 1 billion (c US$53.1 million) revolving credit facility to manage its working capital needs. To address disruptions associated with Indian diamond import moratorium (see above) and the possibility of prices for rough diamonds remaining softer into CY 2024, the Group is seeking an increase in working capital funding through an upsizing of this revolving credit facility to provide additional headroom to the Group.

Consolidated net debt increased to US$176.8 million (from US$40.6 million as at 30 June 2022) due to the deferral of diamond sales to FY 2024 (as explained above) coupled with planned higher capital expenditure associated with the mine plan extension projects at the Cullinan and Finsch Mines.

Discussions with organised labour concerning a new wage agreement for the South African operations are planned to commence in the coming months given the current agreement ends in June 2024.

Read more

Financial Review pages 10 to 15 of this Report

Going Concern statement pages 169 to 171 of this Report

5. Licence to operate: regulatory and social impact & community relations

Long term

Risk change in FY 2023

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; continue to meet and maintain the Company's environmental, social and community obligations including while Koffiefontein is in care and maintenance.

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Social spend

Responsibility

Exco; Sustainability Committee; Health and Safety Committee

Description and impact

Petra's key obligations in maintaining its licence to operate is to effectively manage the social impact of its mining activities, comply with applicable legislation and help ensure the successful implementation and sustainability of Local Economic Development Projects. Factors influencing this risk include:

- Historical allegations of human rights abuses relating to security operations at Williamson pertaining to illegal mining activities, potentially exacerbated by the impact of the TSF failure
- In South Africa, the integration and alignment of Integrated Development Plans (Local Municipalities), DMRE requirements and Social and Labour plan driven Local and Economic Development Projects to help ensure, timely, fit for purpose and sustainable community projects
- Community factionalism, personal agendas and political influence resulting in delayed acceptance of and implementation of community projects and aggrieved and frustrated communities
- Inherent lack of business skills and know-how by the community in managing projects post hand-over resulting in failed projects
- The impact on communities of a major hazard materialising such as failure of critical infrastructure (e.g. shaft collapse, tailings storage facility failure)
- The impact of climate change including the physical hazards and socio-economic impacts and consequences

Mitigation

We strive to establish partnerships with our employees, communities, governments, local business forums, NGOs and educational institutions to optimise the impact of our initiatives. The structure of our community engagement and development programmes is guided by the Company's stakeholder engagement and management approach. In addition to the above, each mine also considers the following when developing their engagement programmes:

- Initial Social Impact Assessments (SIAs) based on participatory processes prior to drafting Social and Labour Plans (SLPs)
- A co-ordinated and purposeful stakeholder engagement and management approach that understands and addresses community expectations and feedback and timely resolution of grievances
- Applicable legislation relating to diversity/employment equity
- Environmental impact assessments and ongoing monitoring
- Local community development programmes based on local communities' needs
- Stakeholder Engagement Plans (SEP) based on stakeholder mapping
- Local municipality's integrated development plans (IDPs)
- Broad-based local community consultation committees and processes that include vulnerable groups
- Worker representation bodies that provide input to our initiatives and projects
- An effective Enterprise Supplier Development strategy that provides business opportunities and funding assistance to local communities, especially black women and youth owned businesses
- Recruitment policies that prioritise and provide preference to local community members

At Williamson, the implementation of the IGM provides a mechanism for complainants who have suffered severe human rights impacts in connection with security operations at the mine. Various community projects have been completed or assessed, in order to provide sustainable benefits to the communities located close to the mine.

The Stakeholder Engagement and Management Policy that was approved in FY 2022 continues to be implemented and has resulted in the establishment of multi-stakeholder engagement forums at CDM, KDM and FDM. This means that Community engagement structures are in place, across all operations.

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC RISKS CONTINUED

5. Licence to operate: regulatory and social impact & community relations continued

Long term

FY 2023 risk developments and management

Petra continued to comply in all material aspects with relevant laws and regulations in the countries in which it operates.

Improved relations have been observed with KDM, CDM and FDM following recent engagements involving all three local governments. Various engagements were conducted to agree on projects for SLP4, with KDM, CDM and FDM all submitting their SLPs in FY 2023.

Terms of Reference for the multi-stakeholder engagement forums at CDM and FDM were finalised. Community engagement structures are now in place including at KDM where weekly meetings are held. Significant progress has been made in addressing community grievances at FDM and CDM. At CDM, community grievances relating to No.7 Dam remain open, although there have been positive engagements with the City of Tshwane, members of the community and the Department of Mineral Resources. Further information on the Company's community programmes for the Year can be found on pages 83 to 97 of the Sustainability Report.

In November 2022, the IGM became operational with the commencement of its pilot phase. The purpose of the IGM is to provide a remedy for complainants who have suffered severe human rights impacts in connection with security operations at Williamson. The IGM's pilot phase was launched to develop and test the IGM's systems and to identify learnings and potential improvements. The pilot phase was completed in May 2023 and the IGM is now implementing the findings of reviews undertaken by an external service provider, Synergy, and the Independent Monitors.

Various restorative community projects are underway, with the potential to provide sustainable benefits to the communities located close to the mine. In Q4 FY 2023 and following completion of feasibility studies, the external advisers indicated that the ASM project will not be pursued and that the remaining escrow funds will be committed towards the ADI projects in order to achieve a more reliable and sustainable benefit for the surrounding communities.

In November 2022, the eastern wall of the tailings storage facility (TSF) at Williamson failed, resulting in flooding away from the pit, extending into areas outside the mine-lease area. A Rapid Environmental Assessment (based on UN Disaster Management Principles) was performed at Williamson to determine the impact of the TSF failure and the extent of environment remediation, which was concluded during the Year. The environment remediation at WDL is largely complete, and the slimes impacted areas are now being used by the local communities to practice agriculture.

Whilst no fatalities or serious injuries were reported after the TSF failure, the livelihoods of a number of community members were affected. An assessment of the impact on the surrounding communities and remediation measures was undertaken in Q3 FY 2023. WDL provided immediate humanitarian relief to those affected and an Entitlement Framework was developed that enables community members who have been impacted by the TSF failure to be appropriately compensated, with the compensation process for Phase 1 and Phase 2 now complete, with all individuals affected by the failure having been compensated, in line with Tanzanian law and International Finance Corporation best practice.

The risk of illegal mining at Williamson is ongoing, given the nature and scale of the operation and challenges associated with securing such a large perimeter. During FY 2023, with the number of illegal incursions increasing, with a total of 870 reported incidents of illegal incursions onto the Williamson mine lease area, 41 illegal miners, 8 security officers and 6 police officers sustaining minor injuries and 146 illegal miners being apprehended.

WDL continues its engagement with local authorities to actively target those individuals that are known to be providing economic support to disaffected youth and the wider community to trespass onto the mining area. WDL is also continuing its extensive engagements with communities around the mine to highlight the dangers of illegal mining, thereby seeking to reduce illegal incursions onto the mine lease area, with a particular focus on seeking to reduce or eliminate the involvement of minors in illegal mining. We also manage this through policing patrols, physical infrastructure and the deployment of security technologies to detect intrusion and to proactively deter potential threats. This includes, for example, the installation of cameras for day and night observation of the mine lease area. We have also erected 7km of double fencing, mainly around the open pit. Security personnel at Williamson have been trained on the VPSHR, with annual refresher training provided.

Read more

Our response to human rights abuse allegations in Tanzania on pages 34 to 38 of the Sustainability Report

Our response to human rights abuse allegations in Tanzania petradiamonds.com/our-operations/our-mines/williamson/allegations-of-human-rights-abuses-at-the-williamson-mine/

ESG and Sustainability pages 54 to 65 of this Report

OPERATING RISKS

6. Mining and production including ROM Grade and Product Mix volatility

Long term

Risk change in FY 2023

Higher

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; maintenance of operational stability of our mines; disciplined execution of approved mine plan extension projects.

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow; TSR; Training

Responsibility

Exco; Audit and Risk Committee

Description and impact

The mining of diamonds from kimberlite deposits involves an intrinsic degree of risk from various factors, including geological, geotechnical and industrial and mechanical accidents, unscheduled plant shutdowns, technical failures, ground or water conditions, access to energy and inclement or hazardous weather conditions.

Current mining blocks at all South African operations are reaching maturity or moving towards the end of life. While the current orebody footprints are still large enough to deliver relative consistency and product mix, increasing levels of variability in terms of ROM grade and product mix can be expected going forwards which will be mitigated by the ramp up of the new mining areas and blocks at the Cullinan and Finsch Mines.

Some level of variability in terms of ROM grade and product mix occurs depending on the mix of ore produced from the current mining areas at each operation and the level of dilution experienced from waste rock ingress. It can also be impacted by the inclusion of production from surface resources at some of the mines.

Mitigation

Petra's work to extend the lives of its assets is classified as resource extension and brownfields exploration, meaning that the existing knowledge of the deposits, which have long histories of production, allows management to eliminate some of the risk associated with developing a new diamond mine.

The Group's Management team is comprised of key personnel with a substantial and specialist knowledge of kimberlite mining and diamond recovery, and this skills base enables the Company to manage mining and production risks, including through geotechnical modelling, planned maintenance and regular inspections.

Whilst waste ingress issues at Finsch are being managed through the implementation of drill, blast and draw controls, ongoing monitoring and mitigation plans are required to address these issues.

FY 2023 risk developments and management

As a result of operational challenges, including lower grades at the Cullinan Mine which are expected to continue through FY 2024, lower tonnes mined at Finsch and the production suspension at Williamson arising from the TSF failure, as well as Koffiefontein being placed on care and maintenance, FY 2023 production was below guidance at 2.67 Mcts and guidance has been lowered to 2.9 – 3.2 Mcts for FY 2024 and 3.4 – 3.7 Mcts for FY 2025.

At the Cullinan Mine lower grades are attributable to the C-Cut cave maturity as the cave progresses from SW to NE and the earlier than anticipated waste ingress from the overlying depleted mining blocks. Several mitigation actions are underway at the Cullinan Mine to address these grade issues, including:

- Tailings treatment has been maximised to partially offset lower carats from the C-Cut
- The re-opening of Tunnel 36 (which has already occurred) and Tunnel 41 and the establishment of Tunnels 46 and 50 (the development of which was approved by the Board in FY 2023) will provide additional volume from FY 2025 and, in conjunction with production from the CC1E development (expected to contribute meaningfully from FY 2025), will see grades move back towards 40 cpht
- Production from the CC1E project is expected to contribute meaningfully from FY 2025 and is expected to see grades move back towards 40 cpht

Finsch's production fell short of guidance largely attributable to low machine availability, owing to an ageing underground fleet, challenges with the centralised blasting system and emulsion quality and an extended rock-winder breakdown. Mitigation actions implemented at Finsch have included new underground equipment being delivered and commissioned, coupled with positive changes to the blasting process, the introduction of new long hole drill rigs and Load Haul Dump (LHDs) loaders as well as the appointment of individuals to a number of key positions. Furthermore, the 3-Level SLC project scope has been amended to 90L, which adds additional production tonnes to the Mine Plan and this project is key to improving grade and production levels at Finsch.

Williamson performed well during early FY 2023 until the TSF failure in November 2022 when production was suspended. Commissioning of the interim TSF took place in July 2023, enabling operations to restart in Q1 FY 2024 ahead of schedule, with the ramp-up at Williamson currently also ahead of schedule. Prior to the resumption of operations, maintenance was accelerated and waste stripping carried out to enable an efficient ramp-up in production.

Read more

Operational Review on pages 42 to 47 of this Report

7. Labour relations

Short to medium term

Risk change in FY 2023

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; maintenance of operational stability of our mines; disciplined execution of approved mine plan extension projects

KPIs

Rough diamond production; Staff turnover; training

Responsibility

Exco; Sustainability Committee

Description and impact

The Group's production, and to a lesser extent its project development activities, is dependent on a stable and productive labour workforce. The mining labour relations environment in South Africa has been volatile over the years, but much less so specifically in the diamond sector, where there is a higher incidence of mechanisation and skilled workers.

Mitigation

Petra remains highly focused on managing labour relations, and on maintaining open and effective communication channels with its employees and the appropriate Trade Union representatives at its operations, as well as local communities.

A key part of Petra's labour relations strategy is the IPDET, which is one of the Company's core BEE Partners, and owns a 12% interest in each of the South African operations.

FY 2023 risk developments and management

Stable labour relations were experienced at all operations throughout FY 2023.

WDL signed a Collective Bargaining Agreement with TAMICO, the majority Union and subsequently registered this with the Labour Commissioner's Office in January 2023.

In South Africa, Petra introduced a quarterly production bonus for employees up to Paterson Band C5.

Koffiefontein was placed under care and maintenance as a result of the unsuccessful sales process, with detailed and responsible closure planning now underway and accelerated closure being pursued where feasible. In November 2022, notices were issued to Koffiefontein employees under section 189(3) of the Labour Relations Act resulting in four consultation meetings facilitated by the CCMA. The S189 (3) process was concluded in March 2023 with a signed Retrenchment Agreement between the parties.

Discussions with organised labour concerning a new wage agreement for the South African operations are planned to commence in the coming months given the current agreement ends in June 2024.

Read more

Labour relations on pages 52 to 54 of the Sustainability Report

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS CONTINUED

8. Safety

Short to Medium term

Risk change in FY 2023

Higher

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

LTIFR

Responsibility

Exco; Health and Safety Committee

Description and Impact

The impact of safety-related incidents directly affects the wellbeing of Petra's staff and given the inherent risk in any mining operations, the Group is exposed to various safety-related risks across all its operations. Petra seeks to make its commitment to a zero harm working environment visible throughout its operations and Petra seeks to remain vigilant, proactive and act timeously to matters that contribute to a safe working environment. Significant safety-related incidents could cause Petra's operations to shut down and directly impact production.

Mitigation

Petra conducts regular self-assessments on its compliance with safety laws, regulations, policies and procedures, and undertakes remedial action where areas of non-compliance are noted. The Group's safety policies and procedures are well established, and implemented with employees and contractors receiving regular training and updates on safety protocols and requirements. Regular updates to these policies and procedures are conducted as a result of gaps identified during the risk identification and mitigation processes.

Petra plays an active role in providing oversight, monitoring and reporting of safety compliance, and regularly engages external service providers to conduct independent and objective reviews and inspections.

FY 2023 developments and management

Petra's safety performance saw a marginal increase in LTIs and LTIFR to 17 and 0.24 for the Year (in comparison to 15 and 0.22 for FY 2022). The ramping up of the extension projects at the Cullinan and Finsch Mines has contributed to this regression in safety performance and an increase in safety-related risk. Whilst FY 2023 safety indicators showed a declining trend, improvements have been made in Q4 FY 2023, with remedial action, Group-wide learnings, visible felt leadership and behaviour intervention programmes being undertaken to address this trend. During the Year, the Company embarked on a risk alignment process between the Enterprise Risk Management and Health, Safety and Environment (HSE) processes. This process, which is now complete, has prompted the Company to reassess its significant HSE risks and associated critical controls. The Company also started developing performance criteria to measure the effectiveness of critical controls, in addition to other methods measuring control effectiveness to help reduce safety, health and environment risks.

Petra continues to target a zero harm working environment.

At the start of FY 2023, the Board approved a Tailings Management Policy that applies to all of Petra's operations and is aligned to the Global Industry Standard on Tailings Management (GISTM). During FY 2023, the Company conducted a gap analysis to identify area.;s of non-compliance with GISTM and embarked on an action plan to address those areas of non-compliance. More details on this can be found on our website at https://www.petradiamonds.com/sustainability/environment/tailings-management/

Read more

Safety pages 71 to 73 of the Sustainability Report

9. Environment

Long term

Risk change in FY 2023

Higher

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

Water intensity

Responsibility

Exco; Sustainability Committee; Health and Safety Committee

Description and Impact

The impact of our mining and processing operations can have a significant impact on our environment, including local communities, if not managed appropriately. Key environmental risks identified include the following:

- A failure of Petra's tailings storage facilities will result in an outflow of fine residue deposits which could severely impact our communities and the environment
- Inadequate management of biodiversity commitments may lead to loss in ecosystem and ecological functions (e.g. water purification, prevention of soil erosion)
- Lack of continuous rehabilitation activities resulting in higher than anticipated financial commitments during mine closure
- Non-compliance with material environmental legislation may result in operations being halted by the regulator, fines and penalties and adverse reputational risks

Mitigation

Our mitigation initiatives pertaining to the environmental risk consist of various strategies that include, amongst others:

- Compliance with conditions attached to water use licences at the mines. Applications for amendments to water use licenses at the Cullinan, Finsch and Koffiefontein Mines are all under review
- Williamson operates under approved permits for water consumption from three operating dams in the Kishapu district of Tanzania. One of these dams was lost during the TSF failure in November 2022. Planning is underway to replace the dam with another facility
- Performance reviews, legal inspections as well as audits conducted on an ongoing basis, including conducting concurrent rehabilitation processes
- Annual waste audits conducted at the Cullinan and Finsch Mines
- Environmental Management Programmes for all operations contain management options for mining waste disposal
- Tailings deposition plans are underway for each of the mines
- WDL received permission for extension of its Coarse Residue Deposit
- Monitoring environmental compliance with KPIs in accordance with the Company's Sustainability Framework; all operations achieved their fresh water consumption KPIs for Q2 FY 2023
- The Cullinan, Finsch and Koffiefontein Mines have annual schedules to remove invasive plants, while WDL remove invasive plants as part of their concurrent rehabilitation plan
- Implementation of Water Conservation & Water Demand Management Plans at all local mines
- Management obtains independent external assurance annually on the structural integrity of Petra's tailings facilities

FY 2023 developments and management

In November 2022, the eastern wall of the TSF at Williamson failed, resulting in flooding away from the pit, extending into areas outside the mine-lease area. WDL successfully closed the failure and ensured that it is secure and also constructed berms downstream of the wall to ensure that, going forward, any outgoing material is contained. This work was completed at the start of CY 2023.

The TSF failure resulted in Tanzania's National Environment Management Council (NEMC) issuing WDL with an Environmental Protection Order in December 2022 requiring WDL to take various remedial steps which were completed after the TSF failure. The NEMC imposed a fine of TZS200 million (c US$85k) on WDL and alleged, amongst other things, negligence by WDL management and that elevated levels of metals have been dispersed into the environment. WDL has paid this fine but has challenged the allegations made by NEMC. A Rapid Environmental Assessment (based on UN Disaster Management Principles) was performed at WDL to determine the impact of the TSF failure and the extent of environment remediation, which was concluded during the Year. The main portion of the tailings were contained by the New Alamasi water dam, located within the mine lease area. Due to the dam being inundated with tailings material, the Company constructed a new freshwater dam which has been completed and secures water supply to sustain communities and livestock in the area. The environmental remediation at WDL is largely complete, and the slimes impacted areas are now being used by the local communities to practice agriculture. WDL has also constructed a new TSF to manage tailings with operations having been resumed and will not use the old TSF until the results of the forensic drilling are completed.

Elevated water levels at the tailings facility (No 7 Dam) at the Cullinan Mine have required permitted emergency release of water to be made. The releases have resulted in water quality and volume requirements being temporarily exceeded, which is permitted for emergency releases. Short- and long-term mitigation measures to address water levels at the dam are being taken.

The process to complete the final rehabilitation design for Koffiefontein is envisaged to commence in the first half of FY 2024 with community consultation engagement strategies in place.

No significant changes in terms of environmental impacts were observed for the South African operations in FY 2023.

Read more

Environment on pages 62 to 82 of the Sustainability Report

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS CONTINUED

10. Climate change

Long term

Risk change in FY 2023

No change

Strategic objectives

Development of execution roadmaps for sustainability targets, specifically the 2030 greenhouse gas (GHG) reduction target in line with our target to be net zero by 2050, aspiring to reach this goal by 2040

KPIs

Carbon emissions

Responsibility

Exco; Sustainability Committee; Audit and Risk Committee; Remuneration Committee

Description and Impact

Climate change risk is the long-term shift in global or regional climate patterns that constitute physical, transitional and potential liability risks that Petra is exposed to which include:

- Intensification of hazards arising from adverse weather changes such as intense storms (e.g. rainfall, lightning) which may result in flooding of our mining shafts and overflowing of tailings storage facilities. These events increase our safety risks and the risk of severe socio-economic impacts on our communities, including the sustainability of Petra's business
- The medium- to long-term transitioning costs in mitigating the likelihood and severity of physical climate change risks is potentially substantial and may adversely impact the Group's financial position
- Costs associated with compliance to new standards (e.g. the Global Industry Standard on Tailings Management) and reducing GHG emissions in the short term can result in additional pressure on the Group's working capital
- Escalating insurance costs and limitations on cover increases the Group's liability risk in the event of adverse climate change events
- Escalating carbon tax

Mitigation

The Company continues to closely monitor climate related risks that may have an adverse impact on our operations and stakeholders, such as communities residing close to our mining operations.

The Company's Renewables Strategy was reviewed and approved by the Board during February 2023 and will be key in enabling the Company to reach its 2030 interim target of a c 35-40% reduction in Scope 1 & 2 emissions (against the 2019 baseline). Petra is currently exploring an option to source renewable energy from an energy supplier to help meet this target and reduce its energy costs.

The Company performs continuous monitoring against annual targets set for on-mine water and electricity consumption and efficiency.

Petra's membership with the Environmental Policy Committee (Minerals Councils SA) aides in proving advance knowledge of upcoming changes to environmental legislation, including climate change and emissions reporting standards.

FY 2023 developments and management

During the Year, the Company developed its Climate Change Position Statement which was approved by the Board in June 2023.

During FY 2023, the Company engaged Ernst & Young to develop a Climate Scenario Analysis which identifies key climate risks and opportunities using different scenarios across different time horizons, together with the impacts of these risks and opportunities and existing and future resilience measures. The Company then worked with Ernst & Young to develop a Climate Change Strategy with both adaptation and mitigation components, using the results of the Climate Scenario Analysis and including action points on metrics and targets. Analysis and further details of this can be found on pages 64 to 70 of the Sustainability Report.

Climate related disclosures were further aligned to the Taskforce on Climate Related Financial Disclosures (TCFD) recommendations. This process is set to continue in FY 2024. Petra has reported on how it has disclosed against the TCFD Recommendations and Recommended Disclosures, as detailed on pages 66 to 67 of this Report and as set out in the Sustainability Report.

Read more

Climate change on pages 64 to 70 of the Sustainability Report

11. Capital Projects

Short to Medium term

Risk change in FY 2023

Higher

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; disciplined execution of approved mine plan extension projects

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow; Operational capex; TSR

Responsibility

- Exco; Investment Committee; Audit and Risk Committee

Description and Impact

The CC1E SLC and C-Cut mine plan extension projects at the Cullinan Mine and Lower Block 5 3-level SLC mine plan extension project at the Finsch Mine involve significant self-funded capex commitments which makes the Group more exposed to other principal risks, particularly diamond prices, Group liquidity, currency fluctuations and safety.

Other risks associated with these projects include, amongst others:

- Cost overruns and delayed execution due to inadequate governance and controls, procurement (including excess reliance on particular contractor(s)) and contract management, which includes delays in procuring trackless mining equipment (TME) and critical spares, including shortage of skills to maintain and operate TME
- Unanticipated price increases resulting from macroeconomic conditions
- Inadequate management of geotechnical and mining risks such as fall of ground and flooding
- The mine being operated whilst the project is being built and the management of interface between mine operations and project development, including, for example kimberlite production taking priority over the project when underground materials handling infrastructure is under strain

Mitigation

Petra's enhanced Operating Model provides a platform for greater stability and resilience, enabling further cash generation to fund our capex requirements and support further deleveraging. A Project Governance Framework incorporating governance requirements/controls is under consideration for effective management of projects. The continual tracking of project spend against approved project budgets is performed by an external service provider, to assist management in timeously identifying major deviations from budget. The project budgets include an escalation to cater for price fluctuations, while the Supply Chain function are working closely with the project teams to implement a long-term demand plan to help ensure better pricing for longer off-take agreements.

Overall project risks are identified, assessed and mitigated with support from an external service provider. The Projects Steering Committee, Operations Committee, Exco, Investment Committee and Board continue to monitor progress of all projects, including tracking of spend against budgets and progress against the approved baseline schedule.

Over-reliance on particular contractors has been mitigated through contract tenders and through additional initiatives.

FY 2023 developments and management

The Company's extension projects at the Cullinan and Finsch mines remain on track to deliver an annual production increase of up to c 1.3 Mcts by FY 2026.

Following the commencement of various governance initiatives in FY 2022, an external party is being considered to develop and incorporate several initiatives into a Project Governance Framework which will include project initiation, planning, execution, management and review, including the identification and management of key project risks.

A prolonged conflict in the Ukraine and domestic factors have resulted in protracted inflationary pressures, negatively impacting the costs of goods and services for the projects, however these are being mitigated through robust cost controls and the benefit of a weaker Rand.

Equipment availability for these projects, in particular drill rigs, LHDs and roof bolters, increased during the Year due to improved planning and co-ordination between normal production and project development teams.

Read more

Capital projects pages 134 to 135

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS CONTINUED

12. Supply chain governance

Short to medium term

Risk change in FY 2023

Higher

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

Rough diamond production; Revenue; Adjusted EBITDA

Responsibility

Exco; Audit and Risk Committee; Sustainability Committee

Description and Impact

Petra's new Operating Model has resulted in the centralisation of the Group's Supply Chain function and a greater focus on the function. This centralisation, which has also resulted in a revision of our organisational structures within the function, has resulted in the identification of certain internal control shortcomings which include, among others, non-adherence to procurement policies and procedures. Other key risks identified include:

- Lack of adequate Supply Chain procurement policies and procedures and inadequate management of conflicts of interest
- Improvements that need to be made to diligence and vetting performed on suppliers during their initial on-boarding and then during the term of their contracts, leading to increased potential legal, financial and reputational risks
- Inadequate segregation of duties between roles and inappropriate audit trails contributing to weaknesses in the internal control environment
- Ineffective and unclear functioning of a tender committee for awarding contracts to suppliers contributing to a lack of segregation of duties, uncompetitive pricing and possible conflicts of interest
- Ineffective systems and data transparency on procurement processes with instances of stock outages and subsequent material shortages for projects, potentially impacting standing time claims

Mitigation

Adherence to Petra's new Delegation of Authority Policy and Matrix will enhance governance, the internal control environment and overall risk management in the Supply Chain function. In addition, the engagement of Partners in Performance (PiP) to conduct an end to end diagnostic of the Supply Chain function will further enhance the governance and internal control environments. An online due diligence platform, administered by a reputable external third party, went live in December 2022 to improve the vetting and screening of the Group's suppliers; more detailed third party due diligence is currently being carried out on the Group's suppliers in accordance with the Group's new third party due diligence policy and procedures which were approved by the Audit and Risk Committee during June 2023.

In FY 2022, a Declaration of Interest Policy was approved by the SED Committee (now named the Sustainability Committee) which was rolled out as part of a comprehensive suite of anti-bribery and corruption policies. As part of this roll-out, Online Registers were developed that enable staff to lodge and record declarations of interest and obtain approvals by line management where required. Declarations of interest are now reported quarterly to the Audit and Risk Committee.

FY 2023 developments and management

PiP, an independent external expert, was engaged to conduct a gap analysis of existing Supply Chain processes and systems and this has resulted in management initiating a project to address areas that require improvement. During FY 2023, the diagnostic and design phases of the project were largely completed, with implementation to commence during Q1 FY 2024. Management expects to roll out and embed the new way of working during FY 2024. The project focused on Supply Chain processes, systems and structures with enhancements expected in compliance, governance and risk management, improved procurement, tender and supplier registration procedures and filling critical roles in the function.

Read more

Supply chain governance on pages 92 to 96 of the Sustainability Report **and Modern Slavery Statement at** petradiamonds.com/about-us/corporate-governance/modern-slavery-act-statement/