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FOR IMMEDIATE RELEASE

20 October 2020 **LSE: PDL**

Petra Diamonds Limited

("Petra", "PDL" or the "Company" or, in conjunction with its subsidiaries, the “Group”)

Long-term Restructuring Solution for Petra: Commercial Terms agreed in principle with Financial Stakeholders

Conclusion of Formal Sale Process

Introduction

Throughout this calendar year Petra Diamonds Limited has been considering the Group's strategic options, including with respect to the maturity of its US$650 million 7.25% Senior Secured Second Lien Notes (the "Notes") in May 2022. The Company updated the market on 29 May 2020 that it had reached agreement with an ad-hoc group of holders of the Notes (the "AHG") regarding forbearance in respect of the May 2020 interest payment due on the Notes pursuant to a "Forbearance Agreement", and also agreement with the Group's South African lender group regarding the Group's near-term liquidity position. Both of these agreements required Petra to work towards a long-term restructuring solution to improve the Group's capital structure.

To this end, the Company has engaged in an extended period of hitherto confidential discussions with the Group's relevant financial stakeholders and is pleased to announce that it has reached agreement in principle on a common set of commercial terms with respect to a long-term solution for the recapitalisation of the Group (the "Restructuring") with each of the AHG and the South African lender group. The key features of the proposed Restructuring are as follows:

1. partial reinstatement of the Notes debt and the contribution by holders of the existing Notes of US$30.0 million in new money, each to take the form of new senior secured second lien notes ("New Notes"). It is expected that the New Notes will amount to approximately US$337.0 million (including the new money and fees paid as part of the transaction in New Notes)[1];

2. conversion of the remainder of the Notes debt into equity, which will result in the Noteholder group holding 91% of the enlarged share capital of PDL;

3. restructuring of the first lien facilities provided by the South African lender group; and

4. new governance arrangements and cashflow controls.

The parties will continue to work together towards agreeing a "Lock-Up Agreement" to bind each party into supporting the Restructuring on these proposed terms, as further described in this announcement. This is expected to include members of the AHG and the South African lender group, subject to credit committee and other approvals. The Restructuring will involve the Group's black economic empowerment ("BEE") partners, and accordingly, the Company has also briefed the BEE partners on their involvement. The Company intends that its BEE partners will be parties to any binding agreements concerning the Restructuring, including any Lock-Up Agreement.

Having reached an agreement in principle on the terms of the Restructuring, the Board of PDL has decided to conclude the formal sale process with respect to the Group, which commenced on 26 June 2020. The formal sales process has not produced any offers for the Group or its assets that the Board considers to be a viable alternative to the Restructuring in terms of improving the Group's capital structure for the benefit of its financial and other stakeholders.

1 The Company estimates the Group will have US$699 million of Notes outstanding as of 1 November 2020, reflecting the US$650 million principal amount and US$49 million of accrued coupons for May and November. Final amount to be increased to reflect any additional accrued interest from 1 November 2020 until the closing date of the Restructuring.

Outline timetable

The Company expects to agree a Lock-Up Agreement with the AHG and the South African lender group in the early part of November 2020. Following execution of a Lock-Up Agreement, the Group will commence implementation of the Restructuring, which is expected to become effective in Q1 of calendar year 2021. In order to become effective, the Restructuring as currently constituted will need to be approved by PDL shareholders at an extraordinary general meeting ("EGM"). For the purposes of convening the EGM, the Company will publish a circular and prospectus to shareholders. The Company currently anticipates publishing the combined circular and prospectus before the end of the calendar year.

A further update in relation to the Company's corporate calendar will be made in due course.

Richard Duffy, Chief Executive of Petra, said:

"We are very pleased to announce today an agreement in principle between the Company and our financial stakeholders on the key terms of a restructuring that puts PDL on a viable footing going forward, for the benefit of all our stakeholders. We would like to thank both the AHG and South African lender group for their ongoing support and commitment to the Company, which they have demonstrated by agreeing in principle to provide meaningful additional liquidity to the Company during this difficult period.

“We own and operate world-class diamond assets; all of our South African mines are now back at normal operating levels, despite being subject to stringent COVID-19 precautionary measures. The Williamson mine in Tanzania remains on care and maintenance but we are continually evaluating when we can recommence operations, subject to more favourable market conditions. The Board believes the agreement in principle announced today provides the business with a stable, deleveraged capital structure that will ensure the short and long-term viability of the Company. Today is an important milestone for Petra, and we will continue to work constructively with our financial

stakeholders to convert the agreement in principle into legally binding agreements and implement the Restructuring."

Commercial terms of the Restructuring

The following outlines the material features of the Restructuring that have been agreed in principle between the Company, the AHG and the South African lenders. The implementation of the Restructuring is now subject to agreeing documentation between the parties, including the Group's BEE partners, and PDL shareholder approval. Any full-form documentation involving the South African lenders will also be subject to obtaining approval from the respective lenders' credit committees before execution is possible.

1. *Reinstatement of Notes debt and New Money*

New Notes

All Noteholders shall have a right to subscribe for a portion of US$30.0 million of new money to be provided by Noteholders to Petra Diamonds US$ Treasury plc (the "New Money"), pro rata to their holdings of the Notes. The New Money will be structured to incentivise participation by Noteholders, including through the treatment of their existing Notes debt (as further described below), and backstopped by certain of the Noteholders.

A portion of the existing Notes debt will be reinstated alongside the New Money notes; each to be reinstated in the form of New Notes. The New Notes will be allocated as follows:

(a) US$30.0 million (reflecting the New Money) allocated only to those Noteholders that contribute New Money, pro rata to their New Money contribution;

(b) US$150.0 million allocated only to those Noteholders that contribute New Money, pro rata to each holder's contribution to the New Money (reflecting a ratio of 5.0:1);

(c) US$145.0 million allocated to all Noteholders, pro rata to their holdings of existing Notes at the close of the Restructuring; and

(d) a further amount of New Notes as consideration to certain Noteholders, including the AHG, for their support and efforts expended in connection with the Restructuring. It is expected that the quantum of New Notes issued for this purpose will be approximately US$12.0 million including, without limitation:

(i) New Notes to be issued to any Noteholder who executes the Lock-Up Agreement on or within 14 days of the date of the agreement (the "**Early-Bird Fee**"), where the Early Bird Fee will be equal to 1.0% of the aggregate principal amount of such Noteholder's Existing Notes as at the date 14 days after the date of the Lock-Up Agreement; and

(ii) New Notes to be issued to certain Noteholders who agree to provide any portion of the New Money that is not otherwise provided by other Noteholders in the form of a pro rata allocation of $1.5m of New Notes.

Material terms of the New Notes:

(b) *Interest rate* (payable every six months)*:*

(i) 10.50% Payment in Kind for the first 24 months; and

(ii) 9.75% cash pay thereafter.

(c) *Maturity date*: 5 years from completion.

(d) *Non-call protection:* 2 year non-call protection (customary make-whole), and coupon step-down profile thereafter at 104.88, 102.44, then par.

(e) *Covenants*: customary for financing of this type, including (i) a change of control provision requiring a change of control offer at 101% and (ii) a minimum liquidity covenant.

(f) *Guarantors, security and ranking:* second-ranking guarantees and security to be provided on substantially the same terms as under the existing Notes, with certain amendments to be agreed in line with corporate restructuring steps. Enhancements to security package to be agreed, including, but not limited to security over intra-group offtake receivables and inventory at all relevant points in supply chain until inventory is sold to third parties (but only to extent not constraining operations or incurring material additional duties or fees, and to be agreed). Any enhancements shall also be included in the first lien security package.

(g) *Intercreditor arrangements:* to reflect second-ranking guarantees and security and certain additional intercreditor arrangements including payment stops (including limitations on paying cash interest) and enforcement limitations, subject to the requirements and covenants of the first lien debt (including compliance with a first lien debt service cover ratio (see Section 3 below for further details), amount drawn under the new Revolving Credit Facility ("RCF") of no more than ZAR400 million at the time of and for two weeks following the interest payment and a minimum unrestricted cash covenant of US$20.0 million).

It is contemplated that the above arrangements with respect to the Notes shall be effected through an English law scheme of arrangement under part 26 of the Companies Act 2006.

2. *Equity*:

Debt for Equity
The remainder of the existing Notes debt will be exchanged for equity in PDL (the "Debt for Equity"), pursuant to which new ordinary shares in PDL will be issued to the Noteholders in consideration for the assignment of existing Notes debt. The Debt for Equity will result in the Noteholder group holding 91% of the enlarged share capital of PDL in the following proportions:
(a) 56.0% of the enlarged share capital to be issued to all Noteholders, pro rata to their holdings of existing Notes at the close of the Restructuring (and to the extent any Noteholder does not take up their entitlement, such entitlement will be allocated to the remaining Noteholders who have not opted-out of their equity entitlement, on a pro rata basis); and
(b) 35.0% of the enlarged share capital to be issued to those Noteholders that elect to contribute towards the New Money only, pro rata to their contribution of New Money (and to the extent any such Noteholders do not take up their entitlement, such entitlement will be allocated to the remaining Noteholders (that are participating in the New Money and who have not opted-out of their equity entitlement) on a pro rata basis).
As a consequence of the Debt for Equity, at least 9% of the enlarged PDL share capital will remain with the existing PDL shareholders (subject to dilution as a result of standard management equity incentive arrangements).
Implementation
The Debt for Equity as currently constituted is subject to the approval of existing shareholders of the Company at an EGM of the Company.
However, the Company is also preparing to implement the agreement in principle reached with its creditors through alternative structures should shareholder approval not be obtained at the relevant time. It is not anticipated that such alternative structures would result in any retention of equity or other interests in the Group by the existing shareholders of the Company.

3. *Arrangements with the South African lender group*

The various existing arrangements with the South African lender group, including the ZAR500 million working capital facility ("WCF"), the ZAR400 million RCF, the financing arrangements in respect of the Group's BEE partners (the "BEE Facilities") and the Group's general banking facilities will (subject to credit committee approval) be restructured as part of the Restructuring.
The new bank facilities will comprise the following, on a first lien basis and on substantially the same terms (or better for the Group) as under the existing documentation:
Term Loan
(a) Available in a principal amount of ZAR1.2 billion, borrowed by existing obligors in the Group (to be agreed) in order to refinance the existing drawn ZAR500 million WCF and the BEE Facilities (approximately ZAR683 million).
(b) Final maturity date: 3 years from completion.
(c) Scheduled amortisation of 9% of principal per quarter (starting in June 2021) with a final 10% of principal repayment at maturity.
(d) 1.3 x debt service cover ratio tested semi-annually on a rolling 12 month basis, which if breached will give rise to an event of default under the new bank facilities.
(e) Interest rate of JIBAR + 5.25% per annum (with an upfront fee of 1% of the Term Loan amount to be capitalised).
RCF
(a) Available in a principal amount of ZAR560.0 million.
(b) Constituted by a rollover of the existing RCF but upsized by ZAR160 million.
(c) Final maturity date: 3 years from completion.
(d) Scheduled reduction in the committed amount under the RCF of 9% of the total initial commitments per quarter (starting in June 2021) with a final 10% reduction at maturity.
(f) 1.3 x debt service cover ratio tested semi-annually on a rolling 12 month basis, which if breached will give rise to an event of default under the new bank facilities.
(e) Interest rate of JIBAR + 5.25% per annum (with an upfront fee of 1% of the RCF amount to be capitalised and a commitment fee based on undrawn balances).
Ancillary Facilities
Derivative, guarantee, foreign exchange and intra-day exposure lines up to an agreed amount consistent with current requirements and on substantially the same terms as the Group's existing arrangements.
Hedging

The existing arrangements will be rolled over to provide hedging against foreign exchange risk on the same terms as the Group's existing arrangements.

4. Additional rights for holders of the New Notes

The holders of the New Notes will be granted certain rights, and some ongoing financial oversight, over the business of the Group, including with respect to governance and cashflow controls.

Directors and Corporate Governance

(a) Up to four Noteholder(s) (in their capacity as shareholders of PDL following a Restructuring) that individually hold at least 10% of the shares in PDL (taking into account the shares issued pursuant to the Debt for Equity) at the closing of the Restructuring shall have a "Nomination Right" to:

(i) nominate a person for appointment to the Board as a non-independent, non-executive director; and

(ii) appoint an observer to the Board (such person shall not have voting rights at Board meetings),

it being acknowledged that the Company shall comply with the UK Listing Rules and the UK Corporate Governance Code on the appointment of additional independent non-executive directors as applicable. If at any time the Noteholder (shareholder) ceases to hold at least 7% of the shares in PDL (taking into account shares issued under the Debt for Equity), the rights will fall away. These arrangements will be governed by agreements between the relevant Noteholder (in its capacity as shareholder) and the Company.

(b) The Nomination Rights will be allocated to the Noteholders who execute the Lock-Up Agreement on, or within 14 days of, the date of the Lock-Up Agreement ("Deadline"), provided they satisfy the minimum shareholding requirements mentioned above in (a). For the avoidance of doubt, only four Noteholders will be entitled to Nomination Rights (and if more than four Noteholders would be so entitled, the top four Noteholders (in terms of projected holdings of PDL shares, based on the Noteholders' holdings of existing Notes as at the Deadline) will have the Nomination Rights).

(c) It is expected that details of these Nomination Rights will be included in the PDL shareholder circular and prospectus to be published in connection with the Debt for Equity. The PDL shareholder circular and prospectus will also disclose the intention that the existing directors of PDL remain in office following closing of the Restructuring.

(d) The Board will, following closing of the Restructuring, form an advisory investment committee, which will include directors nominated by the Noteholder (shareholders) in order to monitor significant capital and other investments and recommend their adoption to the full Board.

(e) A cash bonus and/or equity-based management incentive plan will be implemented by the Remuneration Committee post-closing of the Restructuring which shall be designed to incentivise and reward business performance and to achieve or exceed targets set by the Board, which will include targets relating to cash generation and leverage and performance against the PDL business plan. Any such arrangements will be put forward in the normal course for approval by shareholders at the AGM.

Cashflow Control Enhancement Covenants

In addition to restrictions and tightening to existing covenants and baskets in relation to the Notes (which are to be agreed):

(a) certain cashflow control protocols will be introduced; and

(b) debt service waterfalls will be included reflecting the priority and application of payments to the banks as first lien debt providers and to the Noteholders as second lien debt providers.

Cash Flow Protocols

All cash flows, whether from operations or otherwise, will be applied in accordance with a cash flow protocol. The protocol will include:

(a) transparent and orderly cash flow management in the ordinary course; and

(b) recording and implementation of the agreed priority of ordinary course payments as between the operating companies, the rest of the Group, the BEE partners, the South African lender group and the Noteholders and restricted payments.

Notwithstanding the agreement in principle between the Company, the AHG and the South African lender group as indicated above, implementation of the Restructuring is still subject to finalisation of commercial, tax and legal due diligence, relevant conditions precedent and agreement of all customary implementation documentation (including with respect to all aspects of the above).

(A) Outcome of Formal Sales Process

In connection with its strategic review of the Group's options with respect to its capital structure, the Company commenced a formal sales process on 26 June 2020, which was led by its financial adviser Rothschild & Co. The Company invited indicative offers from prospective purchasers on the basis of publicly available information only. It was the Company's intention to then invite any prospective purchasers with viable indicative offers to participate in a "Phase Two" sales process. However, after due consideration of the results of the Phase One process and the progress that has been made on the Restructuring discussions, the Company has determined that no offers received justify progression to a Phase Two process at this time. Accordingly, and in light of the Restructuring proposal summarised in this announcement, the Company has ceased the formal sales process.

(B) Technical Review by SRK

At the request of the AHG (and coordinated by the AHG's advisers, Houlihan Lokey and White & Case), the Company retained SRK Consulting ("SRK") to undertake a technical review on behalf of the AHG. SRK compiled an independent technical report for the AHG which will in due course be made available to relevant parties, and on a non-reliance basis, at the following website: https://www.lucid-is.com/auroraSRK/.

The report was based on publicly available information and validated the capital expenditures plan published by the Company in its press release dated 29 May 2020, assuming no delay in capital expenditures. In addition, on the basis of SRK's independent industry expertise and judgment, SRK ran various additional capital expenditure scenarios aligned with scenarios the Company has also looked at in the past, including potential scenarios for delaying and/or resequencing capital expenditure.

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

~ Ends ~

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About Petra Diamonds Limited

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

Petra's strategy is to focus on value rather than volume production by optimising recoveries from its high-quality asset base in order to maximise their efficiency and profitability. The Group has a significant resource base of ca. 250 million carats, which supports the potential for long-life operations.

Petra conducts all operations according to the highest ethical standards and will only operate in countries which are members of the Kimberley Process. The Company aims to generate tangible value for each of its stakeholders, thereby contributing to the socio-economic development of its host countries and supporting long-term sustainable operations to the benefit of its employees, partners and communities.

Petra is quoted with a premium listing on the Main Market of the London Stock Exchange under the ticker 'PDL' and is a constituent of the FTSE4Good Index. The Company's US$650 million loan notes due in 2022 are listed on the Global Exchange market of the Irish Stock Exchange. For more information, visit www.petradiamonds.com.

Important Notice

This announcement contains statements about Petra that are or may be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "goals", "should", "would", "could", "continue", "plans", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "estimates", "hopes", "projects" or words or terms of similar substance or the negative thereof, are forward looking statements.

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