Annual Report 2010

Petra Diamonds

Contents

Pierneef painting

Petra Diamonds 2010 Annual Report cover image:

This watercolour, entitled 'Open Pit Scene of Premier Mine', was painted by Jacob Hendrik Pierneef (1886 – 1957) when he stayed in Cullinan in 1932. The Premier Mine was renamed Cullinan in 2003 to mark the mine's centenary celebrations.

Pierneef was commissioned by Spoornet (now Transnet) to paint 28 landscapes of areas in South Africa reached by the railways, with the then Premier mine being one of them. It is rumoured that this painting was given to the mine by the artist at the time in exchange for board and lodgings.

Pierneef is one of the most celebrated of the old South African masters. His distinctive style is widely recognised and his work was greatly influenced by the South African landscape. His work can now be seen worldwide in many private, corporate and public collections.

2010 Financial year highlights

(year to 30 June 2010)

Cullinan mine, South Africa

Financial highlights

- Group revenue:
  US$163.7 million
  (FY2009: US$69.3 million)
- Profit from mining activity:
  US$67.2 million
  (FY2009: US$7.8 million)
- Operating cashflow:
  US$48.8 million
  (FY2009: US$4.6 million)
- Group adjusted EBITDA:
  US$70.9 million
  (FY2009: US$8.6 million loss)
- Profit after tax:
  US$70.2 million
  (FY2009: US$89.0 million loss)
- EPS:
  22.65 cents per share
  (FY2009: 49.38 cents per share loss)

Operational highlights

- Gross production:
  1,164,856 carats
  (FY2009: 1,099,367)
- 507 carat Cullinan Heritage diamond sold for **US$35.3 million**

Corporate highlights

- Raised **US$120 million** in equity fund raising; increased ownership in Cullinan mine from 37% to 74%
- **Fully financed** capital expansion plans – debt facilities of US$83 million put in place
- Completed **acquisition** of Kimberley Underground mine

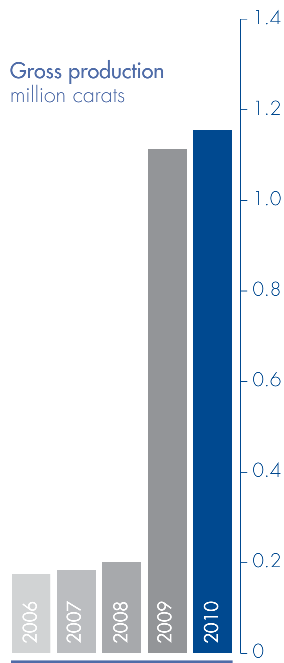
Corporate profile

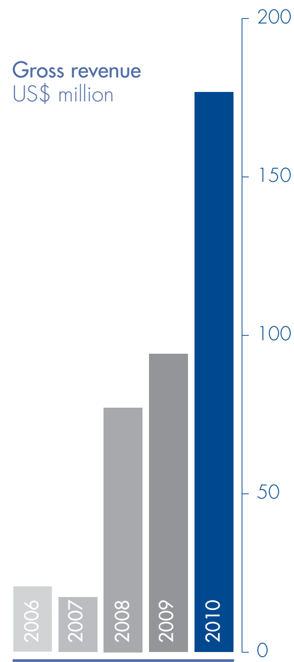
Petra Diamonds is a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market.

Petra Diamonds ("Petra") offers a unique growth profile within the diamond sector, with a core objective to double annual production from just over one million carats in the year to June 2010 to over two million carats by FY2014 and more than treble production to over three million carats by FY2019. Beyond this target, the Group's major resource base of 261 million carats provides scope for further organic growth going forward.

Petra has a well-diversified portfolio, with controlling interests in seven producing mines: six in South Africa (Cullinan, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star) and one in Tanzania (Williamson). The team has managed producing diamond mines for the last 20 years and has developed an enviable track record in terms of delivering superior results from their asset base.

Petra conducts all its operations according to the highest ethical standards, and will only work in countries which are members of the Kimberley Process. The Company is quoted on the AIM market of the London Stock Exchange (AIM: PDL).





Williamson mine, Tanzania

A timeline of growth

Petra Diamonds has grown from a junior diamond exploration company into one of the world's most important independent diamond producers, with over one million carats annual production and over 3,700 employees.

A – Williamson

B – Cullinan

C – Koffiefontein

D – Kimberly Underground

E – Fissure mines

2005

Petra Diamonds merged with ASX quoted Crown Diamonds, introducing production to the Group in the form of three underground **Fissure mines** (Helam, Sedibeng and Star). The Crown Diamonds group had a then 15 year track record managing underground producing diamond mines.

2007

Petra acquired the **Koffiefontein** mine from De Beers – Petra's solid track record of operating the underground fissure mines placed the Company as a forerunner in a highly competitive tender for the mine.

2008

Petra acquired the **Cullinan** mine from De Beers – again Petra was selected as the winning bidder in a highly competitive bid process.

Petra acquired the **Williamson** mine from De Beers – introducing the first opencast operation to the Group.

2010

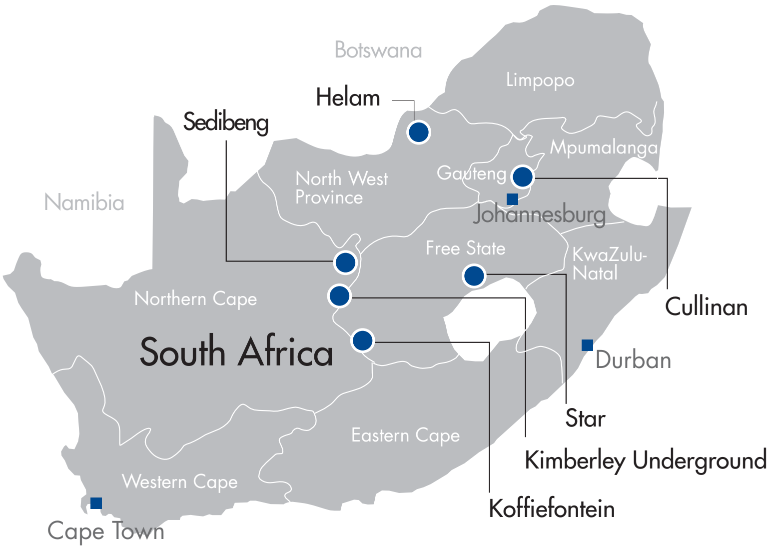
Petra's annual production rose from 200,287 carats in FY2008 to over one million carats in FY2009.

Petra acquired the **Kimberley Underground** mines from De Beers, introducing the seventh producing diamond mine to the group.

The Company's core objective is to double annual production to around two and a half million carats by FY2014 and more than treble production to over three million carats by FY2019, all by organic growth from the existing asset base.

Asset overview

Petra currently operates seven producing diamond mines.



Koffiefontein mine, South Africa

Cullinan mine:

- The world's **most celebrated** diamond mine
- **Source of large, high-quality gem diamonds (Type IIs)**, including the 'Cullinan' (world's largest at **3,106 carats**)
- Only reliable source of very rare and valuable **blue diamonds**
- Underground kimberlite pipe mine currently at **depth of 747 metres**
- World's second largest indicated diamond resource of 181.4 million carats (total resource base of **203.3 million carats** including tailings)
- FY2010 production: **927,931 carats**
- Expansion plan to increase production to **2.4 million carats** pa by 2019
- Ownership: **74% Petra**, 26% BEE partners (14% Thembinkosi Mining Investments (Pty) Ltd, 12% Petra Diamonds Employee Trust)

Koffiefontein mine:

- A **high average value per carat** mine
- Produces **exceptional white and coloured diamonds**, particularly pinks
- Underground kimberlite pipe mine currently at **depth of 490 metres**
- Resource of **5.7 million carats**
- FY2010 production: **60,260 carats**
- Expansion plan to increase production to **117,000 carats** pa by 2017
- Ownership: **70% Petra**; 30% BEE partner Re-Teng Diamonds (Pty) Limited

Kimberley Underground mines:

- Asset comprises three kimberlite pipes in close proximity: **Bultfontein, Dutoitspan** and **Wesselton**
- Historic source of **large diamonds and fancy yellows**
- Underground kimberlite mines between **845 and 995 metres deep**
- Resource of **7.5 million carats**
- FY2010 production: **1,362 carats** (acquisition only completed May 2010)
- Production plan of 100,000 carats for FY2011, rising to **180,000 carats** pa thereafter
- Ownership: **74% Petra**; 26% BEE partner Sedibeng Mining (Pty) Limited

Fissure mines:

- Asset portfolio comprises three mines: **Helam, Sedibeng** and **Star**
- Petra is **world leader** in specialist underground kimberlite **fissure mining**
- Underground fissure mines between **600 and 750 metres deep**
- Resource of **4.7 million carats**
- FY2010 production: **74,232 carats**
- Expansion plan to increase production to **120,000 carats** pa
- Ownership: **74.5%** interest held in Sedibeng (BEE partners Sedibeng Mining (Pty) Limited and Bokone Properties (Pty) Limited); **74%** interest held in Star (BEE partner Sedibeng Mining (Pty) Limited); **100%** interest held in Helam

Williamson mine:

- World's **largest economic kimberlite** by surface area at 146 hectares in size
- Historic source of **high value Type II diamonds** and **fancy pinks**
- Opencast operation at **90 metres** (deepest point)
- Major resource of **40.0 million carats**
- FY2010 production: **101,071 carats** (as part of final bulk sampling operation)
- Expansion plan to increase production to **600,000 carats** pa by FY2012
- Ownership: **75% Petra**; 25% partner the Government of the United Republic of Tanzania

Summary of results – FY2010

	12 months to 30 June 2010 US$ million	12 months to 30 June 2009 US$ million
Revenue [1]	163.7	69.3
Mining and processing costs	(98.9)	(64.0)
Other direct income/(costs)	2.4	2.5
Profit from mining activity [2]	67.2	7.8
Other operating income	5.4	3.2
Exploration income/(expense) [2]	1.2	(13.7)
Corporate overhead	(7.5)	(5.9)
Deferred taxation on inventory fair value adjustment	(7.4)	–
Inventory fair value adjustment [3]	(19.0)	–
Cullinan fair value adjustment [4]	31.0	–
EBITDA[5]	70.9	(8.6)
Impairments	–	(75.3)
Recycling of foreign exchange differences on exploration projects	12.3	–
Depreciation	(11.8)	(11.6)
Amortisation	(1.0)	(3.3)
Share-based expense	(1.7)	(2.3)
Net unrealised foreign exchange gain	0.8	13.4
Net finance expense	(0.5)	(6.3)
Profit from discontinued operations	–	1.6
Tax credit	1.2	3.4
Net profit/(loss) after tax – Group	70.2	(89.0)
Basic profit/(loss) per share attributable to the equity holders of the Company – cents[6]	22.65	(49.38)
Basic diluted profit/(loss) per share attributable to the equity holders of the Company – cents[6]	22.20	(49.38)
Cash at bank	34.5	11.1

Notes:

1. For the Period 1 July to 16 November 2009, Petra accounted for its interest in Cullinan under the gross method of proportional consolidation, recognising 50% of revenue and 13% non-controlling interests. With effect from 17 November 2009, the effective date of control for accounting purposes that Petra acquired the remaining 50% interest in Cullinan Investment Holdings Limited ("CIHL") from Al Rajhi Holdings W.L.L., Petra consolidates 100% of revenue and 26% non-controlling interests in line with IFRS.
2. Stated before depreciation, interest paid, foreign exchange gains and losses, asset impairment charges, inventory fair value adjustment, deferred taxation on inventory fair value adjustment and share-based payments.
3. During the Period the Group sold the 168 carat and 507 carat diamonds (from Cullinan) for US$6.3 million and US$35.3 million respectively. At mine level this realised a profit of US$41.6 million, as the production cost for the diamonds was not material. On acquiring the second 50% of CIHL (before the diamonds were sold), management conservatively estimated the value of the stones for accounting purposes at US$4 million and US$15 million respectively, and this became the cost to the Group for IFRS reporting purposes.
4. The acquisition of the second 50% of CIHL has been treated as a stepped acquisition under IFRS 3 (revised). The total fair value gain of US$31 million reflects the difference between the book value of the original 50% interest and the fair value (as determined by the price paid for the second 50%) of the net assets held at the time that the second 50% was acquired. A significant component of this relates to the difference between the production cost of the exceptional Cullinan stones and management's valuation (US$19 million combined) of these stones. In assessing the fair values of the second 50% of net assets acquired, management has allocated the premium of consideration over net assets to mineral rights (US$12 million) and inventories.
5. EBITDA disclosures are "adjusted EBITDA", being stated before recycling of foreign exchange differences on exploration projects, share based expense, foreign exchange gains and losses and asset impairment charges.
6. Stated after non-controlling interests (BEE partners at Cullinan, Kimberley Underground, Koffiefontein, Sedibeng and Star) of US$6.7 million.

Making history – the Cullinan Heritage

In September 2009, the Cullinan mine once again captivated the world with the recovery of an extraordinary white diamond weighing 507 carats.

The Cullinan Heritage

This spectacular and historic gem was named the Cullinan Heritage to reflect the date of its recovery on Heritage Day in South Africa, as well as its origins from the illustrious Cullinan mine, which has produced the majority of the world's most famous and important diamonds.

After an extensive viewing process, with buyers travelling from around the world to South Africa to examine this exquisitely beautiful gem, the Cullinan Heritage was sold by Petra on tender in February 2010 for US$35.3 million, the highest sale price on record for a rough diamond. This remarkable result reflects the incredible rarity of the diamond, combining its exceptional size, colour and clarity.

The winning bidder for the Cullinan Heritage was Chow Tai Fook Jewellery Company Limited, the leading jewellery brand in China and Hong Kong, with annual sales in excess of US$4 billion. Chow Tai Fook is planning to capitalise on the opportunities available in the Chinese market due to the development of the domestic economy by doubling its retail outlets to over 2,000 by the end of 2020.

Dr Cheng Yu-Tung, Chairman of Chow Tai Fook Group, who is known as "The King of Diamonds" in the Far East, was delighted with the acquisition. "This spectacular and high-quality diamond is very rare and exceptional. Chow Tai Fook Jewellery's repeated success in acquiring world-renowned diamonds is backed by Chow Tai Fook Group's strength and endless pursuit of perfection in providing our customers with unique diamond pieces."

The Cullinan Heritage has the potential to produce one of the world's most important polished gems and its journey is currently being documented until its destiny will be revealed to the public.

The Cullinan mine has now produced four of the world's top 20 largest high quality gem diamonds: The Cullinan (3,106 carats rough), The Golden Jubilee (755 carats rough), The Centenary (599 carats rough) and The Cullinan Heritage (507 carats rough). With a major total diamond resource of 203 million carats, the mine can be expected to continue writing the history of diamonds in Petra's hands.

Chairman's statement

Adonis Pouroulis, Chairman

We have over the past few years successfully executed a growth strategy which has seen Petra's production rise to well over one million carats per annum...

Dear Shareholder,

It is my pleasure to introduce Petra's 2010 Annual Report and Accounts and to give an overview of the Group's strategy and business outlook.

A proven growth strategy

Petra Diamonds is focused on cash generative diamond production, and whilst we maintain a small exploration portfolio in Botswana, our core objective is to continue to grow rough diamond output and increase Petra's stature as a leading independent diamond mining group.

Over the past few years we have successfully executed a growth strategy which has seen Petra's production rise to well over one million carats per annum and gross revenue increase tenfold from US$17 million in FY2007 to US$178 million. The Group is now targeting further growth through the implementation of expansion plans at each of its major mining operations. These expansion plans are fully funded, as the IFC and Rand Merchant Bank debt facilities of US$83 million ensure, along with contributions from Petra's treasury, the roll out of the capital expansion programmes. This growth is expected to double annual production to over two and a half million carats by FY2014 and more than treble production to over three million carats by FY2019.

Our portfolio is currently focused on Africa, which produces the majority of the world's diamonds by volume and value, and where our management team has built up many years of experience. Due to the relatively small size of the diamond mining industry, there are only a limited number of acquisition opportunities. Petra will consider further acquisitions should the right project come to market, but given our commitments to existing organic growth plans, we will only look at new diamond mining projects which are of appropriate scale, and either in or close to production.

A diversified portfolio of mines

Petra has built up a well diversified asset portfolio, with six mining operations in South Africa and one in Tanzania. All of Petra´s existing kimberlite operations have long histories of production and therefore the geology and economics of each mine are well understood. This knowledge of the deposits allows management to eliminate much of the risk associated with developing a diamond mine.

Over the years, the Group has developed a low cost profile ideally suited to maximising returns from its assets, and we have proven our ability to extract value from mines which could have been previously considered 'marginal' or 'end of life' operations. The robust nature of our business was demonstrated during the severe economic downturn, given that Petra was the only significant diamond producer not to close any of its operations during this period and in fact still recorded a modest on-mine profit of US$7.8 million for FY2009.

A further important component to our approach is our focus on 'value production', ensuring that each mine is optimally configured to capture the whole spectrum of diamonds, including those of higher value, according to that orebody's unique production profile. This attention to value production allowed for the discovery of the famous 507 carat Cullinan Heritage, which sold for a record rough diamond price of US$35.3 million in February 2010.

Management culture and close partnerships

Much of Petra's success is due to the fostering of a management culture where management is empowered to make decisions suitable to the relevant operations and where innovation and creativity in the workplace is encouraged and rewarded.

A further ingredient in Petra's continued success is close collaboration with our many partners, and in particular I would like to thank the following for their support during the year: The South African Department of Mineral Resources, the Government of the United Republic of Tanzania, the Government of Botswana, and our black economic empowerment partners in South Africa – Thembinkosi Mining Investments, the Petra Diamonds Employee Trust, Sedibeng Mining, Bokone Properties and Re-Teng Diamonds.

During the Period, we were delighted to welcome Dr. Omar Kamal, Managing Director of Al Rajhi Holdings W.L.L. ("Al Rajhi"), to our Board as a Non-Executive Director, further cementing our strong partnership with the Al Rajhi group. Omar is a valuable addition to the Group, contributing a wealth of financial expertise and an extensive contacts network in the important Middle Eastern market. At the same time as Omar's appointment, Volker Ruffer retired as Non-Executive Director and I would like to thank him on behalf of the Board for his important input over Petra's formative years.

Sustainable operations

Petra is proud to provide direct employment to over 3,700 people and, as our web-based 2010 Sustainability Report goes some way to demonstrate, we support a wide range of initiatives which are designed to enhance the lives of our employees, their families and the wider local communities. In addition, we strictly adhere to all relevant environmental legislation in South Africa, Tanzania and Botswana, placing great emphasis on environmental management throughout the life cycle of our operations from exploration to closure.

A bright outlook

The fundamentals of our industry remain robust, as it is anticipated that supply constraints will result, in the next three to five years, in a significant shortfall to the market. New sources of production coming on stream in this time-frame will only serve to temporarily counteract the depletion of the world's largest diamond mines, which are all past their peak and can no longer be operated at previous higher levels of production. We believe that demand for diamonds will continue to grow, particularly in the Far East, and this disparity between supply and demand will provide the stimulus for further increases in the value of rough production over the coming years.

Going into the 2011 financial year, I believe Petra is in a unique position to further develop its status as one of the world's important diamond mining groups. I would like to thank and congratulate all my co-directors and the employees at Petra for contributing a huge amount of effort and time in making this a very successful year for the Company.

Adonis Pouroulis
Executive Chairman
24 November 2010

CEO's review

Johan Dippenaar, CEO

Petra's strong financial results should be viewed in the context of a diamond market which was in recovery mode for the greater part of the Period…

Dear Shareholder,

I am delighted to provide a review of a remarkable year in which we recorded a profit after tax of US$70.2 million for the year to June 2010 ("FY2010" or "the Period"), made history with the sale of the exceptional Cullinan Heritage diamond, continued to deliver rising production volumes, and put financing in place to ensure the capital roll-out required to double annual production to over two and a half million carats by FY2014 and more than treble production to over three million carats by FY2019.

Petra's strong financial results should be viewed in the context of a diamond market which was in recovery mode for the greater part of the Period. For the 2011 financial year, diamond prices are expected to be firmer, should the market and global economy remain stable. Even in an environment of lower pricing, the robust quality of our assets is amply demonstrated with a profit from mining activity of US$67.2 million.

Cullinan is our flagship asset and, along with Williamson, a key driver to Petra's production and revenue growth in the coming years. We were pleased that Al Rajhi, our partner at the time of purchasing Cullinan in 2008, decided to restructure its direct ownership in the mine. Due to its belief in the potential of Petra's other assets, Al Rajhi increased its shareholding in Petra Diamonds Limited, enabling the Company effective November 2009 to double its direct ownership in Cullinan to 74%. We believe that this consolidation and subsequent simplification of the Cullinan ownership structure will be highly value accretive to our shareholders.

Cullinan once again made headlines around the world following the recovery and sale of the 507 carat Cullinan Heritage, one of the most spectacular diamonds ever seen. Given the incredible rarity of the stone, which combined its large size with exceptional colour and clarity, there was a high level of interest from the trade. After taking considerable time to examine all options, we took the strategic decision to sell the diamond as a rough stone and achieved US$35.3 million, the highest price on record for a rough diamond.

Towards the end of the Period, we completed the acquisition of Kimberley Underground and introduced a seventh producing diamond mine to our portfolio. We had been operating Kimberley Underground on a care and maintenance basis (in association with De Beers) since September 2007 and therefore had time to significantly rehabilitate the underground workings and to build the first of two new plants, prior to completion of the acquisition. Production has now commenced and the mine will be a valuable contributor to the Company's growth plans in the 2011 financial year.

Petra significantly strengthened its balance sheet during the Period by way of a US$120 million equity raising. We were delighted with the overwhelming support from existing shareholders, plus we welcomed many new international institutional investors to the register, which has served to substantially improve the liquidity of the Company's shares.

In November 2010, we finalised the debt facilities of US$83 million with IFC and Rand Merchant Bank ("RMB"). This debt financing is an important and independent validation by both institutions of the quality of Petra's asset base and our strong management team, following detailed due diligences by both banks. Petra is now fully financed to roll out its planned capital expenditure to raise annual output to over three million carats. We believe this places the Group in a unique position to capitalise on the positive fundamentals of the diamond market, where all commentators agree that demand is forecast to outpace supply.

The diamond market

During the Period, the diamond market and rough diamond prices recovered strongly from the downturn, driven by the global economic revival. Crucially, we have witnessed an upturn in the important US market, as evidenced by the steadily increasing volume and value of polished diamond imports in 2010 and improved sales in North America reported by leading diamond retailers. As the diamond market enjoys the pre-festive season, expectations are for a continued improvement that should end with robust retail sales in the fourth quarter.

Global diamond production fell 25% in 2009 to 125 million carats worth US$8.6 billion (giving a world average value per carat of US$69), according to Kimberley Process data. Supply is expected to be considerably higher in 2010, due to increased sales from De Beers and Alrosa, however it is not anticipated to reach previous highs (168 million carats production in 2007 worth US$11.9 billion) in the foreseeable future; rather global production is expected to return to around 140 million carats (estimated to be worth just over US$11 billion) by 2011, then remain flat for some years before starting to decline again.

Supply side constraints are mainly due to the fact that the world's largest diamond mines are now past their peak and can no longer be operated at previous higher levels of production. In some cases, open pit operations are having to move underground, which naturally limits the volumes which can be extracted from the orebody.

Whilst there are some new diamond mines coming on stream in the next few years, current estimates do not forecast significant new supply in order to counteract this declining trend. Depending on political developments and Kimberley Process issues being resolved, there is expected to be new supply of lower quality diamonds coming to the market from Zimbabwe. However, at this point in time there is not enough factual data to accurately determine the scale or quality of Zimbabwe's future production. There are reports that suggest the potential for large annual output, but there is considerable debate as to whether the geology of the alluvial deposits there could sustain high production levels over an extended period of time. Some commentators are of the opinion that the potential Zimbabwean production will help to sustain the cutting and polishing capacity that was created, especially in India, to beneficiate the large volumes of lower value diamonds from the Argyle mine. These developments are being monitored.

We are aware that higher levels of supply could emerge from Russia, where the state's Gokhran currently holds diamond stocks purchased from Alrosa during the period of lower diamond prices. However we believe that, in line with public commentary and past actions, the Russian Government and Alrosa will continue to market their diamonds in an orderly manner.

Demand for diamonds is expected to continue to grow and it is anticipated that a significant shortfall to the market will emerge in the next three to five years. The fastest growing new consumer markets for diamonds are China and India, both of which are recording double digit growth year on year. The industry has added importance in both regions in that India is already one of the world's leading diamond centres due to its major cutting and polishing industry, but China is likewise developing as a highly competitive manufacturing centre and the Government has put fiscal incentives in place to assist its expansion.

The outlook for the industry is therefore positive, particularly for the rough diamond producers who will be supplying into an increasingly tight market. As competition for rough intensifies, we are witnessing the continued constriction of the traditional diamond pipeline, with more and more companies opting for vertical integration. From Petra's perspective, this is particularly evident by the number of major manufacturers and retailers now buying rough diamonds directly from the Group's tenders, rather than via traditional diamond traders. We think this trend will continue as rough becomes ever more scarce and our strategy to continue increasing output ensures that we are poised to benefit from this trend.

Petra's diamond tenders in Johannesburg have remained very well attended and prices are holding firm, following substantial increases over the last financial year. Going forward we expect prices to remain stable, but there are expectations of a significantly improved year end as we enter the festive buying season.

CEO's review *(cont.)*

For the period 1 July to 30 September 2010, the following tender results were achieved. Tender results after end September will be covered when Petra publishes its trading update in January 2011.

	Carats sold	FY2011 to date Average value per carat (US$)	FY2010 Average value per carat (US$)
Cullinan	237,356	110	101 (141 including Cullinan Heritage)
Koffiefontein	17,007	517	402
Kimberley Underground	6,097	250	n/a
Fissures	17,976	188	185

Note: average value per carat is across run-of-mine and tailings sales as the Company sells production from both sources in mixed parcels, on a mine-by-mine basis. There has been only one sale from Kimberley Underground to date.

The tender results to end September for FY2011 show, as expected, an increase on the average values achieved for FY2010, during which prices were still in recovery for the greater part of the Period. Petra considers the results achieved for these first FY2011 tenders to be a reasonable expectation of what may be achieved for the whole of FY2011. This bodes well for Petra's quality assets, which are expected to continue to deliver strong on-mine results and operating cashflows.

Production

Combined production and sales summary: Cullinan, Koffiefontein, Kimberley Underground, Williamson, Fissure mines

	Unit	FY2010	FY2009	Variance
Sales				
Gross revenue	US$M	177.7	94.4	+88%
Diamonds sold	Carats	1,125,098	1,011,707	+11%
Production				
ROM diamonds	Carats	1,050,874	979,094	+7%
Tailings & alluvial diamonds	Carats	113,983	120,273	-5%
Total diamonds	Carats	1,164,856	1,099,367	+6%

Gross revenue was up 88% for the year due to the strong recovery in rough diamond prices for the Period, increased Group production, and the sale of notable 'specials', which are listed below:

- 507 carat white Cullinan Heritage diamond (Cullinan): US$35.3 million
- 168 carat white diamond (Cullinan): US$6.3 million
- 64 carat white diamond (Cullinan): US$3.7 million
- two 50+ carat white diamonds (Cullinan): US$2.8 million
- 104 carat white diamond (Cullinan): US$2.0 million
- 37 carat white diamond (Cullinan): US$1.1 million
- 70 carat white diamond (Koffiefontein): US$1.1 million
- 34 carat white diamond (Koffiefontein): US$1 million
- Cullinan's rare blue diamonds continue to command very high prices per carat (a 6.7 carat blue sold for US$510,000, and a 6.5 carat blue manufactured to a 2.8 carat polished diamond sold for US$250,000)

Group production for the Period was 1,164,856 carats, up 6% on the 2009 financial year. Production for FY2011 is expected to record a further modest increase, but then from FY2012 the expansion programmes at Cullinan and Williamson, plus the tailings programmes at Koffiefontein and Cullinan, will ensure that Group production accelerates from this point onwards.

South Africa

South Africa is one of the world's leading diamond producers, accounting for 10% of global production by value (Kimberley Process data – 2009). The modern diamond industry as we know it originated in South Africa in the 1860s, with the first major commercial diamond finds in Kimberley, later known as the 'City of Diamonds'. The diamond industry is therefore firmly entrenched, with many generations' experience having been developed in mining communities across the diamondfields. Three of Petra's mining operations were discovered in the late 1800s/early 1900s (Kimberley Underground – 'Bultfontein: 1869; Dutoitspan: 1870; Wesselton: 1891', Koffiefontein – 1870, Cullinan – 1902) and the Company has put long, sustainable mining plans in place to ensure their future for many years to come.

Cost pressures

Certain cost categories in South Africa have increased significantly in excess of South African inflation (South African CPI stood at 3.7% by July 2010). However, Petra's low-cost culture, coupled with higher throughput, ensures that the Group is able to partially mitigate the direct effect of these increases on unit costs.

Two key areas where costs are under pressure in South Africa are:

Energy

Inflationary pressures on costs can mainly be ascribed to electricity prices, which rose by 30% in FY2010. Further significant increases, in excess of 25% per year for the next two years, have already been approved by the National Energy Regulator. Petra's electricity accounted for approximately 13% of cash on-mine cost for the Period under review. Petra continuously endeavours to manage the escalated use of its electricity consumption (as our production profile increases) by innovative methods and we have recorded many successes in this area.

Labour

Labour currently accounts for approximately 45% of cash on-mine costs at the pipe mines and 65% of the cash on-mine costs at the fissure mines. Going into FY2011, we anticipate that labour increases will continue to be above inflation.

Cullinan

Cullinan is the flagship of Petra's production portfolio and has been operated by the Company since it was acquired from De Beers in July 2008. Cullinan contains the world's second largest indicated diamond resource of 181.4 million carats, included in a total resource base of 203.3 million carats (including tailings), and the Company is planning to capitalise on this by undertaking an expansion programme at the mine to take annual production from just over 920,000 carats in FY2010 to 2.4 million carats by FY2019. This expansion plan will eventually access the first portions of the major C-Cut resource, which is estimated to contain some 133 million carats, and will also involve a large tailings operation.

In its history, Cullinan has produced many of the world's largest and most famous diamonds, including a quarter of all diamonds over 400 carats. In September 2009, Petra recovered the 507 carat Cullinan Heritage diamond, which was soon recognised as one of the largest high quality rough diamonds ever discovered. The diamond was sold on tender by Petra in February 2010 for US$35.3 million, the highest sale price on record ever achieved for a rough diamond. Cullinan has now produced four of the top 20 largest high quality gem diamonds: The Cullinan (3,106 carats rough), The Golden Jubilee (755 carats rough), The Centenary (599 carats rough) and The Cullinan Heritage (507 carats rough).

During the Period, Petra doubled its ownership in Cullinan to 74% by acquiring the 37% interest held by Al Rajhi. This was a very important development for the Company, serving to double Petra's attributable resources and production from its flagship asset. Following consolidation of the Cullinan ownership, 100% of the cashflows now flow directly to Petra (until the BEE partners have repaid their share of the acquisition cost).

Cullinan generated gross revenues of US$127 million in FY2010. The sale of the Cullinan Heritage served to significantly increase the average value per carat to US$141 for the Period. However even without including this exceptional sale, the average value per carat (including tailings) would have been US$101, up 53% on the previous year.

Cullinan – FY2010 – gross numbers

	Unit	FY2010	FY2009	Variance
Sales				
Revenue	US$M	127.0	51.2	+148%
Diamonds sold	Carats	903,861	780,663	+16%
Average price per carat	US$	141	66	+114%
ROM production				
Tonnes treated	Tonnes	2,160,907	1,989,599	+9%
Grade	Cpht	38.9	39.5	-2%
Diamonds recovered	Carats	841,293	784,978	+7%
Tailings production				
Tonnes treated	Tonnes	248,380	176,757	+41%
Grade	Cpht	34.9	58.6	-40%
Diamonds recovered	Carats	86,638	103,617	-16%
Total production				
Tonnes treated	Tonnes	2,409,287	2,166,356	+11%
Diamonds recovered	Carats	927,931	888,595	+4%
Costs				
On-mine cost per tonne	ZAR	167	169	-1%
Total Capex	US$M	20.4	12.0	n/a

Note: Petra has a 74% interest in Cullinan; BEE partners 26%

CEO's review *(cont.)*

The main operational challenge for the year was grade control, as evidenced by a 6% decline in overall grade for the Period. This was due to the following reasons:

- an increase of the bottom cut for slimes discard from 0.8 mm to 1.3 mm (although the effect on total revenue is not significant due to the increased average value per carat achieved);
- higher than average rainfall in South Africa in the months to April 2010 resulting in wet ore having to be pulled from many of the mature drawpoints. This diluted 'muddy' ore affects grade due to the significantly increased moisture content. The increased moisture content accounted for approximately 4% of hoisted tonnes and resulted in an approximate 1.5 carats per hundred tonnes ("cpht") reduction of grade; and
- the depletion of the higher grade OSP tailings, with the lower grade run of mine ("ROM") tailings now being treated.

Going forward, management expects grade to continue to be a challenge as the majority of tonnes will be drawn from mature areas of the pipe until the expansion plan has progressed sufficiently to give access to the higher grade, western areas of the kimberlite orebody. Once the expansion plan has been implemented and the C-Cut is the primary source of production, Cullinan's average grade is expected to increase to around 50 cpht, a realistic target based on long term production records at Cullinan. In addition, historically and from sampling programmes, there has been a higher incidence of larger white diamonds and blue diamonds in the western blocks of the Cullinan kimberlite pipe, which bodes well for future recoveries of 'specials'.

Despite South African cost pressures, unit costs at Cullinan remained flat due to increased volumes. Longer term, once the development plan has significantly progressed in the years to come, costs are expected to go down due to increased efficiencies (such as a simplified ore-handling system underground and further streamlining of the plant).

The expansion plan at Cullinan is progressing as planned and the South decline has already passed the 800 metre level. It is anticipated that rim tunnel development will commence shortly. All other aspects of the development work are on track. Capital expenditure ("Capex") of US$20.4 million was spent at Cullinan for the Period. The bulk of this spend was used for the underground development work and on the continued upgrading of the plant, with the remainder for new underground fleet equipment. The Large Diamond Recovery Plant was commissioned in December 2009 and is functioning well.

As there is a 165 million tonnes tailings resource at Cullinan (estimated to contain 16.5 million carats), Petra is currently implementing a major tailings treatment programme, ramping up to 4 million tonnes per annum ("Mtpa") by FY2014. The development

Koffiefontein – FY2010 – gross numbers

	Unit	FY2010	FY2009	Variance
Sales				
Revenue	US$M	22.8	18.3	+25%
Diamonds sold	Carats	56,707	72,809*	-22%
Average price per carat	US$	402	252	+60%
ROM production*				
Tonnes mined	Tonnes	884,058	831,532	+6%
Diamonds produced	Carats	53,026	52,089	+2%
Tonnes treated	Tonnes	884,058	1,149,590*	-23%
Grade	Cpht	6.0	6.6	-9%
Diamonds recovered	Carats	53,026	75,377*	-30%
Tailings/Ebenhaezer production				
Tonnes treated	Tonnes	243,714	n/a	n/a
Grade	Cpht	3.0	n/a	n/a
Diamonds recovered	Carats	7,234	n/a	n/a
Total production				
Tonnes treated	Tonnes	1,127,772	1,149,590	-2%
Diamonds recovered	Carats	60,260	75,377*	-20%
Costs				
On-mine cost per tonne	ZAR	123	96	+28%
Total Capex	US$M	4.6	4.7	n/a

Note: Petra has a 70% interest in the Koffiefontein mine; BEE partners 30%

* During FY2009 the balance of the ROM stockpile (318,058 tonnes), built up during the pre-acquisition care and maintenance period, was treated yielding 23,288 carats. Additional ROM production detail has been given for Koffiefontein due to the stockpile effect.

of this programme is on track and capacity of 1 Mtpa, producing approximately 100,000 carats, will be delivered for FY2012.

The remaining Capex for the Cullinan expansion programme is estimated to be R2.6 billion (US$330 million) (2010 money), to be spent over the life of the expansion programme. Approximately US$30 million of Capex funding is required during the period to 2012, which will be funded by the RMB debt facility, whereafter it is expected that the mine will generate sufficient cashflow to fund the remaining expansion programme.

Management has upgraded its revenue forecasts for Cullinan, based on slightly higher anticipated average diamond prices. Once the expansion plan at Cullinan has been implemented by FY2019, management forecast gross annual revenues of approximately US$235 million (2010 money), based on 2.4 million carats production (from underground and tailings) and an assumed ROM average carat value of US$105. The total carat output has been slightly downgraded due to a revision to the forecast underground average grade from 55 cpht to 50 cpht, due to revisions in bottom cut and an overall conservative long term approach.

Koffiefontein

The Koffiefontein mine is one of the world's top kimberlite mines by average value per carat, achieving US$402 (including tailings) for the 2010 financial year, up 60% on the comparative period, even though there were neither tailings production nor sales in 2009.

Production at Koffiefontein was impacted as a result of new sections of the front cave on the 490 and 520 Levels taking longer than anticipated to induce natural caving. This meant that Petra had reduced production flexibility in terms of which drawpoints could be accessed. The lower grade of 6 cpht for the Period is a direct result of this, due to significant amounts of diluted front cave material being drawn from the main cave on the 480 Level, whilst allowing the East, West and Recovery Level caves to reach maturity by pulling lower tonnages from these areas. Over the coming year it is anticipated that there will be a systematic decrease in reliance on the main cave material and underground production will increase, from the East, West and Recovery Level caves.

Excess capacity created in the plant is being utilised by feeding material from the Eskom tailings dump. This tailings programme is now fully operational and supplying significant ore to the main plant.

Unit costs were under pressure during the Period due to the production constraints coupled with the inflationary issues outlined earlier in this review. In the comparative period, the unit cost was lower due to the depletion of the ROM ore stockpile. In FY2011, tonnages treated will increase, which will serve to improve unit costs for the next reporting period.

Capex of US$4.6 million for the Period was mostly spent on underground development, the finalisation of the tailings plant and some underground equipment.

Petra is well advanced in the establishment of an expansion plan at Koffiefontein and has slightly upgraded its production forecasts to a total of 117,000 carats per annum by FY2017 (comprising 104,000 carats from underground and 13,000 carats from the tailings operation), further to increased plant capacity of 1.7 Mtpa. Management are forecasting a long-term ROM average value per carat of US$480, which would deliver gross annual revenues of approximately US$52 million (2010 money) at these higher production levels.

Kimberley Underground

At the end of May 2010, Petra completed the acquisition of Kimberley Underground and thereby introduced a seventh producing diamond operation to the Group portfolio. Kimberley Underground comprises Wesselton, Dutoitspan and Bultfontein, three mines which were integral to the economic development of South Africa as their output effectively financed development of the nascent gold industry. The Kimberley Underground mines' long history of production is testament to the quality of these assets. The mines are renowned for the historical production of large and fancy yellow diamonds, including the famous yellow Oppenheimer diamond which was 253.7 carats rough.

Kimberley Underground – FY2010 – gross numbers

	Unit	FY2010	FY2009	Variance
Sales				
Revenue	US$M	n/a	n/a	n/a
Diamonds sold	Carats	n/a	n/a	n/a
Average price per carat	US$	n/a	n/a	n/a
Total production (all ROM)				
Tonnes treated	Tonnes	9,141	n/a	n/a
Diamonds recovered	Carats	1,362	n/a	n/a
Grade	Cpht	14.9	n/a	n/a
Costs*				
Total Capex	US$M	10.2	16.7	n/a

Note: Petra has a 74% interest in Kimberley Underground; BEE partners 26%

* Production and plant treatment only commenced shortly before Period-end and therefore a cost per tonne for the Period will not be realistic given the low volumes and short production period.

CEO's review *(cont.)*

The mines were closed by De Beers in 2005 and the Company had subsequently been operating Kimberley Underground under care and maintenance since September 2007. Petra was given approval to operate the mines under De Beers' licence, which demonstrates the level of confidence the industry leader has in Petra's overall ability to rehabilitate and operate deep underground diamond mines.

Petra had anticipated the acquisition to complete earlier, but the process was delayed due to the complexity of the New Order Mining Right conversion. However, the care and maintenance period enabled Petra to complete all the rehabilitation work required in order to ready the operation to recommence production.

In FY2010, Petra constructed and commissioned a new diamond recovery plant (capacity over 600,000 tonnes per annum) at Joint Shaft, which treats production from the Bultfontein and Dutoitspan pipes. This plant was designed and built by Petra's in-house engineering and construction teams, delivering substantial savings over using external consultants or contractors. A similar plant (expected cost approximately R85 million (US$11.2 million)) is now being built for the Wesselton Shaft (which will treat production from the Wesselton pipe) and will be commissioned by July 2011. Capex of US$10.2 million for the Period was spent on a combination of the Joint Shaft plant and the underground refurbishment.

As part of the care and maintenance activity necessary to maintain a block cave mining operation, Petra was able to extract ore from underground and build-up two substantial surface stockpiles of some 250,000 tonnes each (500,000 tonnes in total), estimated to contain a total of 90,000 carats, at Joint Shaft and Wesselton Shaft. Petra expects to treat approximately 600,000 tonnes of ore at Joint Shaft in FY2011, of which approximately 180,000 tonnes will be drawn from the Joint Shaft stockpile. Treatment of the stockpile at Wesselton Shaft will only commence when the new Wesselton plant is constructed. Petra expects to haul ore at the rate of approximately 750,000 tonnes per annum (both shafts combined) for FY2011, increasing to 1 Mtpa thereafter.

Further to commissioning of the Joint Shaft plant from end May 2010, Petra experienced plant start-up challenges. These have now been overcome and the plant is now fully operational. Petra is pleased to announce that the first parcel of 6,097 carats from Kimberley Underground was sold on tender in Johannesburg in September 2010, achieving US$250 per carat. This is substantially higher than the US$180 to US$200 that management used in mine and financial planning and this value, whilst only from a first tender of relatively small size, bodes very well for the future of the mine.

As the mine only came into Petra's control at the end of May 2010, no representative unit costs can be provided for the Period, however the Company is confident that costs should be contained in line with our mine planning (subject to escalations in energy/labour costs, as previously mentioned).

Fissure Mines (Sedibeng, Star, Helam) – FY2010 – gross numbers

	Unit	FY2010	FY2009	Variance
Sales				
Revenue	US$M	13.5	15.3	-12%
Diamonds sold	Carats	72,629	82,126	-12%
Average price per carat	US$	185	186	-1%
ROM production				
Tonnes treated	Tonnes	168,840	176,538	-4%
Grade	Cpht	42.0	37.7	+11%
Diamonds recovered	Carats	70,950	66,566	+7%
Tailings production				
Tonnes treated	Tonnes	30,640	72,578	-58%
Grade	Cpht	10.7	6.5	+65%
Diamonds recovered	Carats	3,282	4,708	-30%
Total production				
Tonnes treated	Tonnes	199,480	249,116	-20%
Diamonds recovered	Carats	74,232	71,274	+4%
Costs				
On-mine cost per tonne	ZAR	669	550	+22%
Total Capex	US$M	2.5	1.9	n/a

Note: Petra has a 100% interest in Helam, a 74% interest in Star; BEE partners 26%, and a 74.5% interest in Sedibeng; BEE partners 25.5%

Kimberley Underground is expected to produce 100,000 carats from underground in FY2011, rising to 180,000 carats per year thereafter, following commissioning of a second production plant by June 2011. Management are now forecasting a higher long-term ROM average value per carat of US$250, which would deliver approximately US$45 million in gross annual revenues (2010 money) at the higher production level.

Fissure mines (Sedibeng, Star, Helam)

At the three fissure mines – Helam, Sedibeng and Star – output was significantly affected by a two week strike at Sedibeng and lower production from Star and Helam, further to the retrenchment programmes of the previous financial period. Prior to this, several years of capital investment in both mines had laid the platform for the operations to become less labour intensive, and Petra expects production levels to improve in FY2011. All planned developments are currently on target.

The average price per carat reduced from the previous year due to the 2009 figure being inflated as a result of a stone from Sedibeng, which sold for US$5.2 million in the year to June 2009. Without this stone, the year-on-year price per carat increase would have been approximately 52%.

Unit costs at the mines suffered due to decreased tonnages, which management anticipates will be reversed in FY2011.

During the Period, Petra received a New Order Mining Right for Star. The issue of the New Order Mining Right required that Petra introduce a black economic empowerment ("BEE") partner to the mine. Sedibeng Mining (Pty) Limited (Sedibeng Mining), which is a Petra BEE partner in Cullinan, Kimberley Underground and the Sedibeng fissure mine will, from FY2011, hold a 26% interest in Star. Application is currently underway for Helam's New Order Mining Right and it is expected that Sedibeng Mining will also be Petra's BEE partner in respect of that mine.

Tanzania

Tanzania's robust economy reflects its stable political situation and ensures that it ranks highly in Africa in terms of its attractiveness for foreign investment. The country has enjoyed strong economic growth in recent years and the outlook is similarly positive, with the IMF forecasting GDP growth to rise to 6.2% in 2010.

Tanzania has been a major focus of Africa's gold exploration and development over the past five years and the country is thought to have Africa's largest gold reserves after South Africa. Diamonds, nickel and gemstones also play key roles in Tanzania's growing minerals industry.

Williamson

Williamson is Petra's first open pit mine and is the most important diamond operation in Tanzania. At 146 hectares, the Mwadui kimberlite (on which the mine is based) is the largest pipe ever to be mined continuously, having been operated as an open pit mine

Williamson – FY2010 – gross numbers

	Unit	FY2010	FY2009	Variance
Sales				
Revenue	US$M	14.4	9.4	+53%
Diamonds sold	Carats	91,901	75,045	+22%
Average price per carat	US$	157	126	+25%
ROM production				
Tonnes treated	Tonnes	1,334,656	1,239,105	+8%
Grade	Cpht	6.3	6.1	+3%
Diamonds recovered	Carats	84,241	75,460	+12%
Alluvial production				
Tonnes treated	Tonnes	423,665	255,930	+66%
Grade	Cpht	4.0	3.5	+14%
Diamonds recovered	Carats	16,830	9,026	+86%
Total production				
Tonnes treated	Tonnes	1,758,321	1,495,035	+18%
Diamonds recovered	Carats	101,071	84,486	+20%
Costs				
Cash cost per tonne*	US$M	n/a	n/a	n/a
Total Capex	US$M	11.6	0.5	n/a

Note: Petra has a 75% interest in the Williamson mine, Government of the United Republic of Tanzania 25%

* During FY2009 and FY2010 the mine was in a bulk sampling phase, which does not reflect conditions associated with normal production.

since 1940. The mine regularly produces large, high quality stones and is an important source of rare and valuable fancy pink diamonds. The Company acquired a 75% interest in the mine in November 2008 and since this time has concluded a major 2.5 million tonne bulk sample to accurately ascertain the operating parameters under Petra management. The bulk sampling production operations were effectively stopped on 1 April 2010 and the last tender of diamonds held in May 2010.

The bulk sampling work supports Petra's strategy to increase throughput at Williamson from an average 2 Mtpa to 10 Mtpa, which at an average grade of 6 cpht would yield an estimated annual production of some 600,000 carats. This expansion programme will capitalise on the economies of scale offered by the vast Mwadui orebody and is expected to considerably enhance the economics of the mine. Once the 10 Mtpa throughput is achieved (expected FY2014), Williamson is forecast to deliver gross revenues of over US$120 million and run at a margin of approximately 40%.

The expansion plan has now commenced and is estimated to take up to three years to complete. Pit-shaping operations are underway and a stockpile in excess of 500,000 tonnes has been established, estimated to contain in excess of 30,000 carats.

Petra had previously anticipated that there would be no production whilst this expansion plan was underway. However, based on the results achieved during the bulk sampling programme and the pit shaping operations, the Company saw an opportunity to refurbish the existing plant at Williamson and expects to bring this online before the end of FY2011, with a production capacity of 3 Mtpa (180,000 carats per annum). The cost of this refurbishment is anticipated to be US$5.5 million, of which US$1 million was funded during the Period. This production will serve to fast-track revenues from the project.

Capex required for the remainder of the expansion programme is approximately US$50 million, the majority of which will be covered by the US$40 million IFC debt financing, with the balance being contributed from Petra's own treasury.

Petra has been very pleased with the high quality of diamonds recovered at Williamson. Whilst an average sales value of US$157 per carat was achieved for the Period, the Company expects that the new plant and processing techniques to be introduced at the mine will bring about substantial improvements to diamond recoveries and values in the future, and that values of around US$200 per carat will be achievable over the medium term.

Diamond sales were less than production for the Period, due to the previously reported theft at O.R. Tambo International airport in October 2009 of a Williamson diamond parcel of 14,931 carats, valued at approximately US$3 million. The Company had previously reported that it expected the insurance claim to be settled satisfactorily; however, underwriters have rejected Petra's claim on technical grounds and Petra is currently assessing its options with regards to the loss.

Exploration

Botswana

Petra's sole exploration activity is focused in Botswana, the world's largest producer of diamonds by value and host to the world's richest diamond mine, Jwaneng. Botswana is also one of Africa's most stable countries and the continent's longest continuous multi-party democracy. This political and socio-economic stability combines with its low-cost base to make Botswana the most attractive destination for diamond exploration worldwide. Petra believes that modern exploration techniques hold the key to uncovering new large finds in the country.

Kalahari Diamonds

Petra remains the largest holder of diamond exploration ground in Botswana. Despite the reduced funding of US$0.8 million directed to our Botswana exploration programme, significant progress has been made. Whilst the first half of the financial year was largely used as a period of consolidation, field operations were ramped up to full capacity during the latter part.

During the period of consolidation, large tracts of well explored ground were relinquished and significant tracts of new ground have been allocated to Petra, resulting in a total current land holding of approximately 44,000 km^2 of highly prospective ground, all on 'craton' (the geological province where all primary diamond deposits are found).

Geophysical ground follow-up and heavy mineral analysis of 30 high priority targets was completed in the Gope North, Gope East and Kukama East project areas. As part of the target selection criteria, Petra is only choosing to further investigate magnetic anomalies for which the causative bodies are geophysically interpreted to be larger than eight hectares. Several such targets have been identified and selected for drilling during a 1,200 metre exploration drilling campaign planned for the first half of FY2011.

During the Period, a 4,500 line kilometre Xcalibur HiRes Airborne Magnetic Gradiometer survey was successfully commissioned and conducted over historical kimberlite indicator minerals recoveries in the Kukama East project area. The application of Xcalibur Airborne Geophysics' horizontal gradient magnetic acquisition system remains Petra's primary exploration tool to be utilised in clearly defined areas of interest, and a 22,000 line kilometre survey covering newly acquired ground in the Lebu project area is planned for the latter half of the next financial year.

Significant progress has also been made with both the geophysical and geological 3D modelling of the portion of kimberlite BK1 South discovered on Petra ground in mid 2008. Results will be used for the calculation of material volumes for the portion of the kimberlite body BK1 (20 – 25%) that falls outside the Debswana Mining Lease and within Petra's Prospecting Licence, and will form part of a feasibility study to be undertaken for the application of a retention licence for part of the Prospecting Licence.

Petra's considerable expertise and years of local knowledge, together with the advantage of our extensive geophysical and mineral chemistry databases, ensure that we remain at the forefront of diamond exploration in Botswana.

Sierra Leone

Kono Project

During the Period, Petra divested of its interest in the Kono kimberlite fissure project in Sierra Leone, which was no longer considered core to the Company's portfolio given its relatively small scale in comparison with Petra's major producing kimberlite mines.

Petra exchanged its interest in Kono for shares in Stellar Diamonds plc ("Stellar"), the project's joint venture partner. As consideration, Stellar issued Petra with 4,500,000 new ordinary Stellar shares. Petra thereby retains an interest in Kono's future upside.

In addition, Petra formed a 'cooperation agreement' with Stellar, giving Petra first option to discuss the joint venture of any current or future project in Stellar's portfolio. Stellar is developing a number of other exciting diamond projects in West Africa.

Safety

The health and safety of employees is the highest priority for Petra Diamonds. In addition to appropriate risk management processes, Petra has various strategies, systems and training in place to ensure that working places are safe and to encourage a healthy lifestyle for our workforce. Health and safety awareness is encouraged amongst all levels of employees and they are equipped to adhere to the relevant legislation in all of the countries in which we operate. Petra's Lost Time Injury Frequency Rate ("LTIFR") in FY2010 was 1.03 (2009: 0.71). Analyses of incidents have indicated that these increases are ascribed to health and safety procedures not being adhered to, rather than due to unsafe working conditions. The Company has therefore identified the areas of concern and has appropriate strategies in place to improve performance for FY2011.

It is with deep regret that we report that one employee lost his life in an equipment-related incident on 3 January 2010 in an underground workshop at the Koffiefontein mine. No other employees were injured or endangered in the incident. Prior to this tragic event, there had not been a fatality at a Petra mining operation since 2004.

Petra produces an in-depth report annually on its sustainable development policies and practices, covering areas such as health and safety, environment, community and employment. The 2010 Sustainable Development Report is available on the Petra website at www.petradiamonds.com.

Outlook

We have recorded a further period of superior growth and I would like to extend my thanks to our Board, management team and all of our employees for the hard work and dedication which continues to propel Petra forward. For those looking to gain exposure to the diamond market, we believe Petra offers a unique investment vehicle, combining strong management, proven mines, sensible capital spending and a transparent growth profile.

Johan Dippenaar
CEO
24 November 2010

Results and financial review

David Abery, Finance Director

The superior asset and production growth that Petra has recorded in the last few years has now translated into financial results for our shareholders...

The full year results comprise results from Cullinan, Koffiefontein, the fissure mines, the bulk sampling programme at Williamson (which stopped on 1 April 2010, followed by the commencement of the capital expansion programme), and the care and maintenance costs of Kimberley Underground until the acquisition officially completed on 19 May 2010.

Revenue

Gross revenue of US$177.7 million was recorded for the Period, an increase of 88% on the US$94.4 million recorded in the 12 months to 30 June 2009. Group revenue was up 136% to US$163.7 million, against the US$69.3 million recorded in the 12 months to 30 June 2009. A direct comparison of Group revenues between the periods is complicated due to the increased interest in Cullinan acquired during the Period. For future reporting periods, Petra will consolidate 100% of the results for the Cullinan mine and this is expected to further significantly increase Group revenue and EBITDA.

With our operations mainly in South Africa, but our diamond sales based in dollars, the volatility and movement in the Rand is a significant factor to the Group. In the Period under review, the Rand traded in a range of R7.17/US$1 and R8.31/US$1, averaging R7.61 for the year (FY2009: R9.05).

Mining and processing costs

Mining and processing unit costs (before depreciation) for the South African operations increased in ZAR terms by approximately 3%, being largely due to upwards pressure on electricity and labour costs experienced for the Period, offset by increased throughput of both underground and tailings tonnes. In US$ reporting terms, mining and processing costs have increased further due to the strengthening of the Rand during the Period by approximately 15.9%, the consolidation of 100% of the mining and processing costs for Cullinan from 17 November 2009, the inclusion of Williamson for the full Period and the start-up of the Kimberley Underground operations late in the Period.

Mining profit

A profit on mining activity of US$67.2 million was recorded for the Period, against a profit of US$7.8 million for the corresponding period. These strong results reflect the robust nature of Petra's assets, which were net profitable even throughout the downturn. Petra's mines generally operate at healthy margins, which bodes well for the 2011 financial year, when management expects to see higher average diamond prices than FY2010.

Other income

As at 1 July 2009, the Company had written down to zero the carrying value of the plant and equipment that remained in Angola following its withdrawal from the Alto Cuilo and Luangue projects. These assets were sold during the Period for US$3.7 million cash and a profit on disposal of the assets of US$3.7 million is included within other income.

During the Period, Petra exchanged its interest in the Kono project in Sierra Leone with Stellar, the project's joint venture partner, for a total consideration of US$0.9 million, that was settled by the issue to Petra of 4,500,000 new ordinary Stellar shares.

The management consultancy fees of US$0.8 million arose due to Petra's recharge of management internal resources to third parties.

Exploration income

Petra Diamonds is focused primarily on production, but it has retained some exposure to exploration whilst minimising funding commitments. The Group's modest annual exploration budget is now focused in Botswana, which is considered to offer a highly attractive operating environment. The net exploration income for the Period (excluding amortisation charges) is comprised of exploration costs in Botswana of US$0.8 million and a one-off credit of US$2 million. Further to the Company's withdrawal from Angola, provisions for withdrawal and associated costs of US$2 million were no longer required and were therefore credited to the income statement within exploration income.

During the Period, the Company took the last required charge for the amortisation of the licences in Botswana and there will be no further amortisation charges in this respect for future accounting periods.

Corporate overhead

Corporate overheads (before depreciation and share-based payments) increased to US$7.5 million for the Period (US$5.9 million in FY2009). This was largely due to an increase to staff costs, rising from US$2.4 million (FY2009) to US$3.6 million (FY2010), in line with Petra's growth for the Period.

Inventory fair value adjustment

During the Period the Group sold the 168 carat and 507 carat Cullinan stones for US$6.3 million and US$35.3 million respectively. At mine level this realised a profit of US$41.6 million, as the production cost for the stones was not material. On acquiring the second 50% of Cullinan Investment Holdings Limited ("CIHL"), management prudently estimated the value of the stones for accounting purposes at US$19 million, and this became the cost to the Group for IFRS reporting purposes. The deferred taxation on the inventory fair value adjustment of US$7.4 million was realised on the sale of inventories that had been fair valued as at the acquisition date.

Cullinan fair value adjustment

The Cullinan fair value adjustment of US$31 million arises due to the acquisition of the second 50% of CIHL, which has been treated as a stepped acquisition under IFRS 3 (revised). The fair value gain of US$31 million reflects the difference between the book value of the original 50% interest in CIHL and the fair value (as determined by the price paid for the second 50%) of the net assets held at the time that the second 50% was acquired. A significant component of this relates to the difference between the production cost of the exceptional Cullinan stones and management's valuation of these stones. In assessing the fair values of the second 50% of net assets acquired, management has allocated the premium of consideration over net assets to mineral rights and inventories.

Recycling of foreign exchange differences on exploration projects

In prior periods, foreign exchange gains relating to Petra's exploration assets in Angola were taken directly to reserves. Following the Group's exit from Angola and disposal of the remaining assets, these gains have been taken to the income statement, in accordance with accounting standards.

Net unrealised foreign exchange gain

During the Period, the Group generated net unrealised foreign exchange gains, the majority of which are due to unrealised foreign exchange movements on the annual restatement of foreign subsidiary intercompany loans.

Net finance expense

The Group incurred net finance costs of US$0.5 million (US$6.3 million in FY2009), being interest payable on the Al Rajhi loan, the Al Rajhi convertible loan (which was settled in December 2009), the Group's working capital facility and the fair value adjustment on the CIHL/Al Rajhi deferred cash consideration, offset by interest received on cash balance, interest received from the Cullinan BEE partners loans and realised foreign exchange gains of US$4.2 million (primarily on settlement of the Al Rajhi convertible loan).

Tax credit

A tax credit of US$1.2 million (US$3.4 million in FY2009) was recorded, being tax payable of US$0.1 million by Premier Rose and Blue Diamond Mines, tax refundable of US$0.2 million to Messina Diamonds and Dancarl Diamonds, deferred tax debit of US$10.4 million for Cullinan, Crown Resources and Messina Diamonds and deferred tax credits of US$3.8 million for Dancarl Diamonds and US$7.4 million in respect of deferred tax liabilities recognised on the step-up acquisition of CIHL.

Group profit

A net profit after tax of US$70.2 million was recorded for the Period, in comparison to a loss of US$89.0 million for the prior period (of which US$75.3 million was largely attributed to the write-down of Petra's exploration portfolio). The superior asset and production growth that Petra has recorded in the last few years has now translated into financial results for our shareholders, as diamond prices have now recovered and stabilised from the global economic downturn. The Company recorded earnings per share of 22.65 cents, ahead of analyst expectations.

Cash and debt

As at 30 June 2010, Petra had cash at bank of US$34.5 million (17 September 2010: US$32.1 million). Of this total balance at Period end, US$9.7 million is held by Petra's bankers as security for environmental rehabilitation bonds lodged by the bankers with the South African Department of Mineral Resources ("DMR"); the balance of US$24.8 million is unrestricted cash.

As at 30 June 2010, debt and borrowings were largely compromised of the balance of the Al Rajhi Cullinan loan of US$30.7 million principal (plus accrued interest) and the deferred consideration for the Cullinan step-up (37%) due to Al Rajhi in December 2011 of US$32 million (US$35 million gross). These sums due are split between short- and long-term debt.

The only other 'cash' obligations within liabilities are US$16.8 million of trade payables. The balance of liabilities on the balance sheet (which are of a 'non-cash' nature) comprise provisions for various rehabilitation liabilities, accounting for amounts owing due to the financing of the minorities in Cullinan, leave and medical aid provisions and deferred tax.

Petra substantially simplified and strengthened its balance sheet from the proceeds of the share placing and in November 2010 completed the US$83 million debt financing with IFC/RMB, settling the Al Rajhi Cullinan loan shortly thereafter. The Group will only draw-down on these IFC/RMB debt facilities over time, with the funding of the capital expansion programmes at Williamson and Cullinan to be financed from these facilities (and supported by Petra's strong operating cash inflows) stretching over some three years.

Cashflow

Petra's management is focused on cashflow generation from its operations. The Group generated strong operating cashflows for the Period of US$48.8 million (FY2009: US$4.6 million). Group cash was further augmented by net proceeds from the share placing carried out in November/December 2009 of US$113.4 million. Capital expenditure amounted to US$33.4 million, the cost of the acquisition of Kimberley Underground and associated pre-acquisition capital spend were US$18.1 million, and settlement of Group borrowings (including the Al Rajhi convertible and Cullinan loan) were US$91.9 million, taking Group cash balances to US$34.5 million at Period end.

Strengthening the balance sheet

The Company took a number of steps during the Period to significantly strengthen its balance sheet, as outlined below:

Placing raised US$120 million

In December 2009, Petra completed a successful placing to raise gross proceeds of US$120 million (£72.7 million) by the issue of 121,200,000 new Ordinary Shares at a price of 60 pence per share. The Company decided to undertake this placing for the following reasons:

- Acquisition of an additional 37% of the Cullinan mine

  Cullinan is Petra's key asset in terms of the potential for earnings growth and cashflow generation yet the Company previously only had a 37% interest in the mine. Furthermore, cashflows from the mine were ring-fenced to paying down the US$80 million Al Rajhi loan provided in respect to the original acquisition and financing of the mine. Effective 17 November 2009, the Company increased its interest in the Cullinan mine to 74%, by acquiring the 37% interest held by Al Rajhi. The consideration was satisfied by the issue to Al Rajhi of 36 million new Petra shares and a deferred cash consideration of US$35 million, payable December 2011.

  As part of the above transaction, Petra also took over responsibility for the loan due to Al Rajhi, this was previously recognised in the books of Cullinan Investment Holdings Limited and therefore did not form part of the consideration. This loan was reduced to US$50.7 million in December 2009 by the issue of 11.4 million new Petra shares to Al Rajhi and the payment of US$15 million cash from the raising proceeds. Petra reported in its interim results in February 2010 that the principal loan balance had since been reduced to US$43.2 million. In March 2010 a further US$12.5 million was paid to Al Rajhi from Petra's treasury, further reducing the principal loan balance to US$30.7 million. In November 2010, the remainder of the principal loan balance and interest were paid to Al Rajhi.
- Repayment of US$20 million Al Rajhi Convertible Loan Note

  In order to trigger the acquisition of the additional 37% interest in Cullinan from Al Rajhi, it was a requirement that the Convertible Loan Note, plus accrued interest, be settled. In December 2009, post the raising, Petra paid Al Rajhi US$20.5 million and fully settled the Convertible.
- Strengthen Company treasury

  During the course of 2009 Petra's debt levels had increased as, during a period of very weak diamond prices, the Company had invested out of its own cash resources in the construction of the plant and the care and maintenance of the underground operations at Kimberley Underground, development work at Cullinan and the bulk sampling programme at Williamson. Management considered it important in terms of Petra's corporate development to reduce debt to a more appropriate level.

The US$120 million funds raised were therefore applied to:
- strengthen the Company's balance sheet by paying down existing debt (including the US$20 million convertible bond);
- acquire a further 37% interest in Cullinan; and
- bolster the Company's treasury.

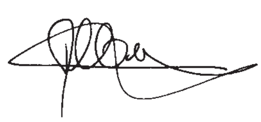
Facilities to fund Williamson and Cullinan expansion

In June 2010, Petra agreed terms with IFC (a member of the World Bank Group) and RMB, a division of FirstRand Bank Limited, with regards to new five and a half year debt facilities of approximately US$83 million (US$40 million to be provided by IFC and approximately US$43 million (R300m) to be provided by RMB).

The facilities are being applied to:
- primarily finance the expansions of Williamson and Cullinan (together with contributions from Petra's own treasury);
- general Petra working capital needs, and
- settlement of the outstanding loan due to Al Rajhi, removing this short term debt obligation from Petra's balance sheet.

Further to the completion of this debt transaction in November 2010, the expansion plans for Williamson and Cullinan are now fully financed, assuring the capital roll-out required to take Group annual production to over three million carats.

The strategy behind these financing facilities is to secure funding for Petra's planned expansion programmes and to potentially fund other organic production growth opportunities currently under consideration. These debt facilities may even allow the Company to further fast-track production. The Group will consider carefully whether it needs to take full advantage of the draw-down of these debt facilities, but to secure the financing at this time provides Petra with the scope and flexibility to bring the stated production and revenue growth opportunities to account.



David Abery
Finance Director
24 November 2010

Reserves and resources

Jim Davidson, Technical Director

The Petra Group controls one of the world's largest diamond resources...

Careful management of Petra's major diamond resource will ensure sustainable, long-life mining for many years. It also provides flexibility in terms of organic growth and the Company has plans in place to substantially increase output, most notably at the Cullinan and Williamson mines.

Gross reserves and resources

As at 30 June 2010, the Group's total carat base had reduced by roughly one million carats to 261 million carats (FY2009: 262 million carats), mainly due to depletion by production at the mining operations over the year.

Attributable reserves and resources

The Group's attributable reserves and resources increased significantly in the Period by approximately 75 million carats to 194 million carats (FY2009: 119 million carats). This major increase is due to the doubling of Petra's interest in the Cullinan mine, which accounts for some 77% of the overall Group reserves and resources.

General notes on reporting criteria

1. Resources are reported exclusive of reserves.
2. Tonnes are reported as millions. Contained diamonds are reported as millions of carats ("Mcts").
3. Tonnes are metric tonnes, and are rounded to the nearest 1,000 tonnes. Carats are rounded to the nearest 1,000 carats. Rounding off of numbers may result in minor computational discrepancies.
4. Resource tonnages and grades are reported exclusive of internal waste, unless where otherwise stated.
5. Reserve tonnages and grades are reported inclusive of external waste, mining and geological losses and plant modifying factors. Reserve carats will be less than resource carats on conversion and this has been taken into account in the applicable statements.

The following table summarises the reserve and resource status of the combined Petra Group operations as at 30 June 2010:

	Gross			Net attributable		
Category	Tonnes (millions)	Grade (cpht)	Contained Diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (Mcts)
Ore/Diamond reserves per asset						
Proven	17.898	7.13	1.276	12.837	8.38	1.076
Probable	37.441	22.85	8.555	27.418	23.99	6.576
Sub-total	**55.339**	**17.76**	**9.831**	**40.255**	**19.01**	**7.652**
Diamond resources per asset						
Measured						
Indicated	354.709	52.83	187.400	263.217	52.70	138.711
Inferred	1226.551	5.21	63.895	912.924	5.27	48.148
Sub-total	**1581.260**	**15.89**	**251.295**	**1176.140**	**15.89**	**186.859**
Total			**261.126**			**194.511**

"cpht" – carats per hundred tonnes; "Mcts" – millions of carats

Reserves and resources *(cont.)*

Summary of reserves and resources by status – Cullinan

Category	Gross Tonnes (millions)	Gross Grade (cpht)	Gross Contained Diamonds (Mcts)	Net attributable Tonnes (millions)	Net attributable Grade (cpht)	Net attributable Contained Diamonds (Mcts)
Ore/Diamond reserves per asset						
Proven						
Probable	13.866	37.10	5.144	10.261	37.10	3.807
Sub-total	**13.866**	**37.10**	**5.144**	**10.261**	**37.10**	**3.807**
Diamond resources per asset						
Measured						
Indicated	253.757	71.49	181.401	187.780	71.49	134.237
Inferred	167.105	10.04	16.777	123.657	10.04	12.415
Sub-total	**420.862**	**47.09**	**198.178**	**311.437**	**47.09**	**146.652**
Total			**203.322**			**150.459**

Resource bottom cut-off: 1 mm
Reserve bottom cut-off: 1.2 mm
Resource tonnes and grade are based on block cave depletion modelling, and include external waste.
Reserve carats and grades are factorised as per the following resource to reserve liberation factors: "Brown" kimberlite 75.8%, "Grey" kimberlite 71.4%, and Hypabbysal kimberlite 71.8%.
A total of 10 new drawpoints were added to the reserve

Summary of reserves and resources by status – Koffiefontein

Category	Gross Tonnes (millions)	Gross Grade (cpht)	Gross Contained Diamonds (Mcts)	Net attributable Tonnes (millions)	Net attributable Grade (cpht)	Net attributable Contained Diamonds (Mcts)
Ore/Diamond reserves per asset						
Proven	16.404	3.35	0.550	11.483	3.35	0.385
Probable	18.284	8.26	1.510	12.798	8.26	1.057
Sub-total	**34.688**	**5.94**	**2.060**	**24.281**	**5.94**	**1.442**
Diamond resources per asset						
Measured						
Indicated	4.196	6.01	0.252	2.937	6.01	0.177
Inferred	101.978	3.34	3.408	71.384	3.34	2.386
Sub-total	**106.174**	**3.45**	**3.660**	**74.321**	**3.45**	**2.563**
Total			**5.720**			**4.005**

Resource bottom cut-off (Koffiefontein underground and Ebenhaezer): 0.5 mm
Resource bottom cut-off (Eskom tailings):1 mm
Reserve bottom cut-off: 1.2 mm.
Changes due to geological re-evaluation and modelling of drilling results below 520 Level.

Summary of reserves and resources by status – Kimberley Underground

Category	Gross Tonnes (millions)	Gross Grade (cpht)	Gross Contained Diamonds (Mcts)	Net attributable Tonnes (millions)	Net attributable Grade (cpht)	Net attributable Contained Diamonds (Mcts)
Ore/Diamond reserves per asset						
Proven						
Probable	3.219	19.58	0.630	2.382	19.58	0.466
Sub-total	**3.219**	**19.58**	**0.630**	**2.382**	**19.58**	**0.466**
Diamond resources per asset						
Measured						
Indicated	6.750	18.29	1.234	4.995	18.29	0.913
Inferred	55.798	10.03	5.595	41.291	10.03	4.140
Sub-total	**62.548**	**10.92**	**6.829**	**46.286**	**10.92**	**5.053**
Total			**7.459**			**5.519**

Resource bottom cut-off (Dutoitspan West Extension): 1 mm
Resource bottom cut-off (all other underground blocks): 0.5 mm
Reserve bottom cut-off: 1.2 mm
Changes due to a complete geological re-evaluation of remaining resources and reserves in Wesselton 995 m Centre block cave, and Dutoitspan 870 m East and West block cave, plus re-evaluation of exploration development, drilling and sampling results for Dutoitspan NW corner.

Summary of reserves and resources by status – Williamson

	Gross			Net attributable		
			Contained			Contained
	Tonnes	Grade	Diamonds	Tonnes	Grade	Diamonds
Category	(millions)	(cpht)	(Mcts)	(millions)	(cpht)	(Mcts)
Diamond resources per asset						
Measured						
Indicated	90.006	5.01	4.512	67.505	5.01	3.384
Inferred	900.048	3.94	35.444	675.036	3.94	26.583
Sub-total	990.054	4.04	39.956	742.541	4.04	29.967
Total			39.956			29.967

Resource bottom cut-off: 1 mm.
Resource depletion calculated from in-pit survey.
Stockpile of 594,000 tonnes of RVK and BVK accumulated since plant shutdown at end of March 2010

Summary of reserves and resources by status – Fissure mines combined (Helam, Sedibeng, Star)

	Gross			Net attributable		
			Contained			Contained
	Tonnes	Grade	Diamonds	Tonnes	Grade	Diamonds
Category	(millions)	(cpht)	(Mcts)	(millions)	(cpht)	(Mcts)
Ore/Diamond reserves per asset						
Proven	1.494	48.57	0.726	1.354	51.01	0.690
Probable	2.073	61.30	1.270	1.976	63.07	1.246
Sub-total	3.567	55.96	1.996	3.330	58.17	1.936
Diamond resources per asset						
Measured						
Indicated						
Inferred	1.622	164.66	2.672	1.555	168.77	2.624
Sub-total	1.622	164.66	2.672	1.555	168.77	2.624
Total			4.667			4.560

Resource and reserve bottom cut-off: 1 mm
Resource bottom cut-off: 1 mm
Reserve bottom cut-off: 1 mm
Measured resources are classified as 1 level below current workings, or where a block is bounded above and below by current workings.
Indicated resources are classified as 2 levels below measured resources.
Inferred resources are classified as 3 levels below indicated resources.
Measured and indicated resources have been converted to reserves by applying historically derived external dilution and in-stope loss factors to resource tonnages and grades.

Notes

The annual reserve and resource statements for Petra shown above are based on information compiled internally within the Group under the guidance and supervision of Jim Davidson, Pr. Sci. Nat. (reg. No.400031/06). Jim Davidson is the qualified person for the purposes of the AIM guidance note on Mining, Oil and Gas companies (2006). Jim Davidson has over 30 years' relevant experience in the diamond industry and is a full-time employee of Petra.

All reserves and resources have been independently verified by Patrick Bartlett, Pr.Sci. Nat. (reg. No. 400060/87), a competent person with over 30 years' relevant experience in the diamond mining industry. Reserves and resources have been reported in accordance with the South African code for the reporting of mineral reserves and mineral resources (SAMREC 2007).

Jim Davidson
Technical Director
24 November 2010

Board of Directors

Executive Directors

Adonis Pouroulis

Adonis Pouroulis

Executive Chairman

Adonis Pouroulis, aged 40, is a mining entrepreneur whose expertise lies in the discovery and exploration of natural resources across Africa, including diamonds, precious/base metals, coal and oil and gas, and bringing these assets into production. Mr Pouroulis founded Petra Diamonds in 1997 and it became the first diamond company to float on AIM. He has been influential in the listing of a number of other resources companies onto AIM and is also Non-Executive Chairman of Chariot Oil & Gas Limited.

Johan Dippenaar

Johan Dippenaar

Chief Executive Officer

Johan Dippenaar (CA), aged 53, has 20 years' experience in the leadership and management of producing diamond mining companies. Prior to his appointment as CEO of Petra, he was CEO of Crown Diamonds which merged with Petra in 2005. Mr Dippenaar and his colleagues have led Petra through a period of extraordinary growth, during which time the Company has emerged as the successful frontrunner in the acquisitions of four major mines from De Beers. Mr Dippenaar is a chartered accountant by profession and a member of the South African Institute of Chartered Accountants.

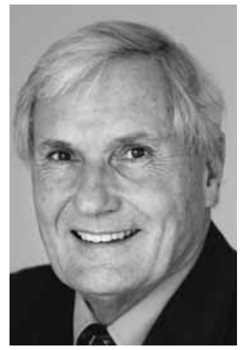
David Abery

David Abery

Finance Director

David Abery (ACA), aged 48, is a Chartered Accountant (ICAEW), who brings to Petra extensive experience as a Chief Financial Officer in both the South African and UK business environments. Mr Abery has been integral to the structuring and delivery of strategic group corporate development and acquisitions at Petra, as well as the instigation of a number of innovative financing transactions.

Executive Directors



Jim Davidson

Jim Davidson

Technical Director

Jim Davidson, aged 66, is an acknowledged world authority on kimberlite geology and exploration, having spent in excess of 30 years associated with diamond exploration and mining, of which 20 years have included mine management in South Africa. As Head of Diamond Exploration in Southern Africa for BP Minerals (subsequently Rio Tinto) in the 1980's, Mr Davidson pioneered research into kimberlite indicator mineral chemistry and microdiamond analysis. He is a qualified geologist and a member of the Geological Society of South Africa and registered with the SACNASP.

Non-Executive Directors

Charles Segall

Charles Segall

Charles Segall, aged 69, is a director of the Atlantic Trust Company Limited of South Africa where he specialises in providing trustee services. He is admitted as an attorney of the High Court of South Africa. He is the Chairman of Petra's Remuneration Committee.

Dr. Omar Kamal

Dr. Omar Kamal

Dr. Omar Kamal, aged 37, is a Managing Director of Al Rajhi Holdings W.L.L., Petra's largest shareholder. At Al Rajhi, Dr. Kamal is responsible for identifying, managing and participating in strategic investments and joint venture projects. His current portfolio includes investments across various sectors/asset classes such as mining and minerals, financial institutions and international equities. Dr. Kamal is Chairman of Petra's Audit Committee.

Sustainable development

The Petra Group now encompasses over 3,700 people in South Africa, Tanzania and Botswana, and as such is a significant employer in Africa.

Employees at the Cullinan mine, South Africa

Sustainability is very important to Petra and is integral to the way the Group structures and operates its mining projects. The Petra Group now encompasses over 3,700 people in South Africa, Tanzania and Botswana, and as such is a significant employer in Africa. Petra is proud to have taken over various operations which could otherwise have been shut down, and to have put in place long mine lives, which will ensure continuous stable employment for the Company's workforce.

Petra recognises that its business and operations can and do have an impact on a wide range of stakeholders. These include broader economic, social and environmental impacts. The Company recognises too that it has a responsibility to mitigate potential negative impacts, and to actively endeavour to initiate and support positive impacts that are sustainable after mining has ceased.

Petra's vision for sustainable development is closely aligned with the principles advocated by the International Council of Metals and Mining ("ICMM"). Underpinning this vision are the following principles:

- Petra Diamonds will conduct itself according to the highest ethical and corporate governance standards, and is committed to conducting itself in a way that is mindful of the economic, social and environmental impacts on society.
- Petra is a fair employer, and treats it employees with respect and dignity. The Company will uphold the basic human rights of employees, contractors and community members.
- The safety and health of employees is a priority for the Company. In addition to appropriate risk management processes, the Company will ensure that strategies and systems, as well as training, are in place to ensure that workplaces are safe and that employees are equipped to work safely. Petra will encourage the active participation of employees and their representatives in safety and health issues.
- Petra places a great deal of emphasis on environmental stewardship throughout the life cycle of its operations – from exploration to closure. The Company will, as a minimum, comply with the environmental regulations in the countries in which it operates and will implement environmental management and auditing systems based on good practice.
- Petra believes in the responsible mining and sale of its diamonds. Petra is a signatory to the Kimberley Process, and as a legitimate diamond miner operating in South Africa and Tanzania, 100% of Petra's production is fully traceable and conflict free.
- Petra has a strong commitment to local economic development and to having a positive impact on the social, economic and institutional development of its host communities. The Company is cognisant that poverty alleviation and local economic development are priorities in Africa. It is also aware that, as mining operations have finite lives, its contribution to its host communities needs to deliver sustainable initiatives. A key component to Petra's approach is knowledge transfer, via educational programmes and training, to equip employees with a broad skills base.
- Petra will engage with stakeholders – employees and unions, shareholders, community members, representatives from government and regulators – in an open and transparent manner, and will voluntarily report on its objectives and performance in respect of sustainable development on a regular basis.

Petra produces an in-depth report annually on its sustainable development policies and practices and uses, as a basis for this reporting, the Global Reporting Initiative's ("GRI") G3 guidelines. The 2010 Sustainable Development Report is available on the Petra website at www.petradiamonds.com.

Directors' report

The Directors present their report together with the audited financial statements of the Group for the year ended 30 June 2010.

Principal activities

Petra Diamonds is a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market. The Company has a well-diversified portfolio, with controlling interests in seven producing mines: six in South Africa (Cullinan, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star) and one in Tanzania (Williamson). In addition, Petra has an exploration division in Botswana.

Business review

A detailed review of the Group's operations and finances for the year and events subsequent to the year-end are set out in the CEO's review on pages 10 to 19, the Finance Director's review on pages 20 to 22 and in note 29 to the financial statements.

Results and dividends

The Group's net profit after tax for the year amounted to US$70.2 million (2009: loss US$89.0 million). The Directors do not recommend the payment of a dividend for the year (2009: US$ nil).

Board of Directors and their interests

The interests of the Directors and their families in the issued share capital of the Company (other than in respect of options to acquire ordinary shares which are detailed in the Directors' remuneration report on pages 30 and 31 and note 21 to the financial statements) were as follows:

	Number of shares at 30 June 2010	Number of shares at 30 June 2009
A Pouroulis	9,564,650	9,113,122
J Dippenaar	640,000	640,000
J Davidson	640,000	640,000
D Abery	1,979,649	1,528,122
C Segall	1,380,122	1,380,122

- 7,735,000 ordinary shares in the Company are held by a trust of which A Pouroulis is a beneficiary.
- 5,037,421 ordinary shares in the Company are held by a trust of which A Pouroulis, D Abery and C Segall are beneficiaries.

There were no changes in Directors' share interests between the year end and the date of this report.

Share capital

Details of changes to share capital during the year can be found in note 21 to the financial statements.

Substantial shareholdings

At 22 November 2010 the interests as indicated in the table below in the ordinary shares of the Company represented more than 3% of the issued share capital (other than interests set out above in the Board of Directors' interests).

Employees

The Group's employment policies have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment that rewards achievement, enthusiasm and team spirit. Effective communication

Significant shareholders

	Number of ordinary shares	Percentage of issued share capital
Al Rajhi Holdings W.L.L.	63,948,663	18.1%
Saad Investments Company Limited	60,844,185	17.3%
JP Morgan Asset Management U.K. Limited	32,942,730	9.3%
Capital Group International, Inc.	25,056,245	7.1%
Scottish Widows Investment Partnership	22,000,000	6.2%
BlackRock Investment (UK) Limited	18,891,320	5.4%
Directors	14,204,421	4.0%

and consultation is key to this and the Group endeavours to ensure the appropriate level of employee involvement and communication. The Group is committed to the principle and achievement of equal opportunities in employment irrespective of sex, religion, race or marital status. Full consideration is given to applications from disabled persons who apply for employment where the requirements of the position can be adequately filled by a disabled person, having regard to their particular abilities and aptitude.

Creditors' payment policy

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all terms and conditions have been complied with.

Financial instruments

The Group makes use of financial instruments in its operations as described in note 26 of the financial statements.

Going concern

Following a review of the Group's financial position, the Directors have concluded that sufficient financial resources will be available to meet the Group's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Bermuda governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Bermuda Companies Act 1981. The Directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the rules of the London Stock Exchange for companies trading securities on AIM. The Directors have chosen to prepare financial statements for the Company in accordance with IFRS, as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Auditors

As far as each of the Directors is aware, at the time this report was approved:

- there is no relevant available information of which the auditors are unaware; and
- they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

In accordance with Section 89 of the Bermuda Companies Act, a resolution to confirm the appointment of BDO LLP as auditors of the Company is to be proposed at the Annual General Meeting to be held on 10 January 2011.

By order of the Board

David Abery
Director
24 November 2010

Directors' remuneration report

The Remuneration Committee is responsible for determining the remuneration and incentive packages for the Executive Directors and senior management. The employment terms for Executive Directors and senior management are designed to attract and retain individuals of the right calibre. Incentives are structured so as to align their interests with those of the shareholders by rewarding Executive Directors and senior management for enhancing shareholder value.

Remuneration policy

The remuneration policy aims to attract and retain Executive Directors and senior management who are incentivised to achieve performance, therefore serving the best interests of the shareholders.

Base salaries

The policy of the Board is to pay base salaries which are competitive with those paid to Executive Directors and senior management in organisations of similar size and market sector.

Performance related bonuses

In order to retain and incentivise the Executive Directors and senior management, performance related bonuses are awarded on the achievement of performance criteria that are approved by the Remuneration Committee. It is the policy of the Board that the performance criteria of all such bonuses should be relevant and stretching.

Share options

The Board believes that the granting of share incentives encourages a broad alignment of the interests of the Executive Directors and senior management with the earnings and asset growth of the Company to the mutual benefit of both shareholders and participants. As at 30 June 2010 the following options for directors were in place to subscribe for ordinary shares in the Company.

	Exercise price (pence)	Date of grant	Expiry date	At 30 June 2010	At 30 June 2009
Adonis Pouroulis	44.0	5 September 2003	5 September 2013	500,000	500,000
	85.0	16 June 2005	16 June 2015	250,000	250,000
	79.5	31 May 2006	31 May 2016	250,000	250,000
	27.5	12 March 2009	12 March 2019	250,000	250,000
	45.5	30 September 2009	30 September 2019	100,000	–
	60.5	17 March 2010	16 March 2020	100,000	–
David Abery	44.0	5 September 2003	5 September 2013	500,000	500,000
	85.0	16 June 2005	16 June 2015	250,000	250,000
	79.5	31 May 2006	31 May 2016	250,000	250,000
	27.5	12 March 2009	12 March 2019	750,000	750,000
	45.5	30 September 2009	30 September 2019	350,000	–
	60.5	17 March 2010	16 March 2020	350,000	–
Johan Dippenaar	85.0	16 June 2005	16 June 2015	750,000	750,000
	79.5	31 May 2006	31 May 2016	250,000	250,000
	27.5	12 March 2009	12 March 2019	750,000	750,000
	45.5	30 September 2009	30 September 2019	350,000	–
	60.5	17 March 2010	16 March 2020	350,000	–
Jim Davidson	85.0	16 June 2005	16 June 2015	750,000	750,000
	79.5	31 May 2006	31 May 2016	250,000	250,000
	27.5	12 March 2009	12 March 2019	750,000	750,000
	45.5	30 September 2009	30 September 2019	350,000	–
	60.5	17 March 2010	16 March 2020	350,000	–

As at 30 June 2010, the total number of Petra shares under option was 21,798,001 (representing 6.18% of the Company's issued share capital) of which the number granted to the Directors is 8,800,000 (representing 2.50% of the Company's issued share capital).

Directors' remuneration

The following table gives a breakdown of the remuneration of the individual Directors who held office during the year ended 30 June 2010.

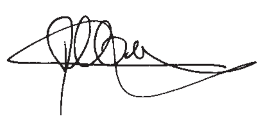
Executive Directors	Base remuneration £	Performance related bonus £	2010 Total £	2009 Total £
A Pouroulis	120,000	96,000	**216,000**	144,000
J Dippenaar	225,000	180,000	**405,000**	233,695
D Abery	225,000	180,000	**405,000**	233,695
J Davidson	225,000	180,000	**405,000**	233,695
	795,000	636,000	**1,431,000**	**845,085**
Non-Executive Directors*				
C Segall #	25,000	–	**25,000**	25,000
V Ruffer	3,069	–	**3,069**	5,000
Dr. O Kamal** #	13,125	–	**13,125**	–
	41,194	–	**41,194**	**30,000**

Although the Company's reporting currency is US Dollars, these figures are stated in Sterling as the Director's service contracts denominate the payments in Sterling.

* The Board determines the Non-Executive Directors' fees in the absence of the relevant Non-Executive Director. The Non-Executive Directors are paid fees for their services; no bonuses or other amounts are paid.

** Dr. Omar Kamal joined the Petra Board as Non-Executive Director in February 2010, at which time Volker Ruffer resigned at Non-Executive Director.

\# Members of the Remuneration and Audit Committees.



By order of the Board

David Abery
Director
24 November 2010

Corporate governance statement

Petra Diamonds is committed to maintaining the highest standards of business conduct and ethics, as well as full compliance with all applicable laws, rules and regulations, corporate reporting and disclosure, and all other matters deemed to protect the best interests of the Company's shareholders.

In June 2010, the new 'UK Corporate Governance Code' ("the Code"), formerly known as the Combined Code, was published. Although as an AIM quoted company Petra is not required to comply with the Code, the Board fully supports the principles on which the Code is based. Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles of corporate governance.

As Petra continues to grow, the Board carries out regular reviews of its corporate governance policy and practices, with the objective that these will continue to evolve in line with the Group's increasing size and stature. Integral to these reviews are appraisals of the Group's system of internal controls, including financial, operational and compliance controls and risk management systems.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for the overall corporate governance of the Group, including (but not limited to) formulating the Group's strategic direction, setting remuneration, appointing Directors and senior management, establishing goals for management and monitoring the achievement of these goals, approving and monitoring capital expenditure, and ensuring the integrity of internal control and management information systems. The Board is also ultimately responsible for approving and monitoring financial and other reporting.

When setting Group strategy, the Board agrees a shared vision of what the Company is trying to achieve and over what time period, as well as an understanding of what is required in order to achieve this ambition. Internally, this strategy is communicated to Petra's senior management and subsequently to the various employee groups in each division of the Company. Externally, strategy is communicated to new and existing shareholders via direct meetings or via public materials (such as press releases or the Company website).

Board process

The full Board meets formally at least four times per year, at such other times as may be necessary to address any significant matters that may arise, and also communicates regularly between these meetings. The Board is supplied on a regular basis with appropriate and timely information relating to all aspects of the Group. In addition, the Directors are free to seek any further information they consider necessary in order to discharge their duties effectively. The collective responsibility of the Board ensures that all Directors are involved in the process of arriving at significant decisions.

The agenda for full Board meetings is prepared in conjunction with the Chairman, CEO and Finance Director. Standing items include the CEO's report, Finance Director's report, management accounts, strategic matters, governance and compliance. Senior management are regularly involved in Board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

To assist in the execution of its responsibilities, the Board has established an Executive Committee to manage the Company on a day-to-day basis. Members of this Committee are A Pouroulis, J Dippenaar, D Abery and J Davidson.

Composition of the Board

The Board consists of four Executive Directors and two Non-Executive Directors. The Executive Chairman of the Board is A Pouroulis, the CEO is J Dippenaar, the Finance Director is D Abery and the Technical Director is J Davidson. The two Non-Executive Directors are C Segall and Dr. O Kamal.

The Board intends, over the next 12 months, to appoint one or more additional independent Directors to the Board to take account of corporate governance best practice, at the same time ensuring that the Board composition gives the right mix of industry specific and broad business experience necessary for the effective governance of the Company.

The composition of the Board is reviewed on an ongoing basis to ensure that the Board has the appropriate mix of expertise and experience. The Board's make-up provides a balance whereby the Board's decision-making cannot be dominated by any one individual. Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting and thereafter Directors are subject to re-election at least every three years. When a Board vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities.

Board performance

The Company has adopted self-evaluation processes to measure Board performance. The performance of all Directors is assessed through analysis, review and specific discussion by the Board of issues relating to individual Director's attendance at and involvement in Board meetings, interaction with management, performance of allocated tasks and any other matters identified by the Board or other Directors. Any significant issues identified are actioned by the Board on an ongoing basis.

The evaluation of key senior management and other Board members is carried out by ongoing monitoring of management performance. The Company has established an Employee Share Option Scheme, whereby it can issue options to eligible employees to subscribe for shares in the Company at set prices.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the conflict is clearly recorded in the Board minutes and, if considered appropriate (due to the nature of the conflict) by the rest of the Board, the Director concerned is not present at the meeting whilst the item is considered.

Director dealings in Company shares

Company policy prohibits Directors and management from dealing in shares or exercising share options whilst in possession of price sensitive information. Directors and senior management must notify and get approval from the Chairman/appropriate Director before they deal in shares or exercise share options in the Company.

Independent professional advice and access to company information

Each Director has the right of access to all relevant Company information and to the Company's senior management.

All Executive and Non-Executive Directors have access to advice from the Company's retained auditors, legal advisers and NOMAD as well as to other independent professional advisers (as appropriate) at the expense of the Company, if considered necessary in the performance of their duties. Directors are expected to bring an independent judgement to bear on issues of strategy, performance and standards of conduct.

Director education

The Group educates new Directors about the nature of the business, current issues, the corporate strategy and timeline for key objectives to be met, and the expectations of the Group concerning the performance of the Directors. Directors also have the opportunity to visit Group facilities and meet with the operational management to gain a better understanding of Petra's business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Remuneration of Non-Executive Directors

When setting fees and other compensation for Non-Executive Directors, the Board takes independent advice and applies international benchmarks. Directors' fees cover all main Board activities and membership of committees. Further information is contained in the Directors' remuneration report on page 30.

Committees of the Board

Nomination Committee

Although corporate governance guidelines recommend that the Company should have a Nomination Committee, the Board has not yet established such a committee as the Board considers that to date a separately established committee was not warranted and its functions and responsibilities were adequately and efficiently discharged by the Board as a whole.

The Board assesses the experience, knowledge and expertise of potential directors before any appointment is made and adheres to the principle of establishing a board comprising directors with a blend of skills, experience and attributes appropriate to the Company and its business. The Board will review the requirement for a Nomination Committee as it enters the next stage of its development, and one will be established if and when considered appropriate by the Board.

Audit Committee

The Audit Committee comprises C Segall and Dr. O Kamal and is chaired by Dr. O Kamal. The Audit Committee meets at least twice per year.

The Committee may, if considered necessary, take independent advice at the expense of the Company. The Audit Committee has recently revisited and updated the Audit Charter in line with current best practice.

The Committee makes recommendations to the Board on the appointment of the external auditors, their independence and the level of their fees; it reviews the findings of the external auditors and ensures appropriate action is taken by management; it ensures the integrity of financial reporting and reviews the Group's interim and full year results prior to submission to the Board; it reviews the Group's statement on internal control systems, considers the effectiveness of internal financial controls and any internal audit resource, making recommendations for changes if appropriate, assesses the Company's arrangements for staff whistle-blowing and the detection of internal fraud, and institutes and reviews special projects and investigations on any matter as it sees fit.

The composition of the Audit Committee will be reviewed once Petra has appointed one or more new independent Non-Executive Directors to the Board.

Remuneration Committee

The Remuneration Committee comprises C Segall and Dr. O Kamal and is chaired by C Segall. The Remuneration Committee meets at least once per year.

The main responsibilities of the Remuneration Committee are to determine on behalf of the Board and shareholders the overall policy for executive remuneration; to determine the base salary, benefits, performance related bonus and any equity participation schemes (including share options) for each of the Executive Directors and other senior management of the Group; and to approve all Directors' service contracts. The Committee ensures that a significant proportion of the Executive Directors' remuneration is directly related to the performance of the Group. No Director or senior manager is involved in deciding their own remuneration. The Committee may, if considered necessary, take independent advice at the expense of the Company.

The composition of the Remuneration Committee will be reviewed once Petra has appointed one or more new independent Non-Executive Directors to the Board.

Internal controls & risk management

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

Although the Board considers that the size of the Group does not warrant compliance with all the Code's requirements, the Board has implemented a reporting structure, as detailed below, to review all aspects of internal control and will continue to develop the process throughout the 2011 financial year:

Risk profile – the Group has not established a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations, ensures risks are identified, assessed and appropriately managed. Where necessary, the Board will draw on the expertise of appropriate external consultants to assist in dealing with or mitigating risk. Major risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on diamond sales, a significant fall in the price of rough diamonds, difficulties in sourcing goods and services, issues relating to the environment or occupational health and safety, financial reporting, and the purchase, development and use of information systems.

The Board's internal control processes are comprehensive and comprise:

- Operating unit controls – operating units confirm compliance with financial controls and procedures including information system controls.
- Functional speciality reporting – key areas subject to regular reporting to the Board include operations/production, finance, investor relations, technical, safety, human resources, corporate social responsibility, environment and legal matters.

Practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval.
- Financial exposures are controlled, including the potential use of derivatives.
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.
- Financial reporting accuracy and compliance with the financial reporting regulatory framework.

Environmental regulation – Petra is committed to achieving a high standard of environmental performance. The Group's operations are subject to significant environmental regulation under international law and the laws of the jurisdictions in which the Group's operations are based in relation to its exploration and mining activities. The Group's exploration and mining activities are concentrated in Africa. The Group has an Environmental Management Programme in place for each exploration and mining permit. The Board is responsible for the regular monitoring on environmental exposures and compliance with environmental regulations. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

Internal audit – the Group has now formally established an internal audit function. The internal audit manager operates under the direction of the Finance Director and any matters arising of a material nature are brought to the attention of the Board. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.

Ethical standards – all Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer issues arising from their employment.

Code of Conduct – the Group has established a documented Code of Conduct. The Group has adopted certain induction procedures to inform newly appointed directors, managers and employees of their rights and their duty to act with utmost integrity and objectivity. The Code of Conduct is designed to guide compliance with legal and other obligations to the Company's stakeholders.

External auditors

The Executive Directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact on the financial statements and to review the fees proposed for the audit work to be performed.
- Review the periodic reports prior to lodgement and release, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results.
- Review the results and findings of the external auditors, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
- Review the draft annual report and recommend Board approval of the annual financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

Communication with shareholders & continuous disclosure

Shareholders' needs and objectives – the Company endeavours to facilitate open dialogue between shareholders and the Board so that the Board understands shareholders' needs and objectives and their views on the Company's performance. Investor relations is an important aspect of the Company's overall communications strategy and Petra has a dedicated in-house investor relations function to ensure that any investor query or concern is responded to and dealt with efficiently and transparently.

As part of Petra's proactive investor relations approach, management commits time to regularly hold formal and informal meetings in person with the Company's shareholders in order to get direct feedback and input on strategy and performance. The Company also hosts financial results webcasts twice a year which are broadcast via the Company website and stored thereafter at http://www.petradiamonds.com/im/presentations.php to ensure that all shareholders can participate in the presentation, regardless of their location.

In addition, the Board encourages full participation of shareholders at shareholders' meetings to ensure a high level of accountability and identification with the Group's strategy and goals. The shareholders are requested to vote on the appointment of Directors and changes to the Company's bye-laws (constitution). Copies of the bye-laws are available on the Company website at http://www.petradiamonds.com/im/rule26.php. The Board ensures that the external auditors attend the Company's Annual General Meeting and other meetings where it is appropriate to do so.

Financial reporting – the Company reports to shareholders half-yearly and annually, as required by the AIM Rules. The CEO and Finance Director state to the Board that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Equal access policy – the Company has a policy, based on existing policies and practices as a company quoted on the AIM market, that all shareholders and investors have equal access to the Company's information and has procedures to ensure that all price sensitive information will be disclosed to AIM in accordance with the continuous disclosure requirements of the AIM Rules. These procedures include;

- A comprehensive process to identify matters that may have a material effect on the price of the Company's shares, notifying them to AIM, posting them on the Company's website, and issuing media releases.
- The Finance Director being responsible for all communications with AIM. Matters that may have an effect on the price of the Company's shares will be promptly advised to AIM.
- All information provided to AIM, and related information being immediately posted to the Company's website at www.petradiamonds.com.
- The Annual Report is made available to all shareholders. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, as well as all required disclosures.
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website, along with the results of such meetings.

Independent auditors' report

to the shareholders of Petra Diamonds Limited

We have audited the Group financial statements (the financial statements) of Petra Diamonds Limited for the year ended 30 June 2010 which comprise the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing.

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with applicable law and IFRS as adopted by the European Union. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the report to consider whether it is consistent with the audited financial statements. The other information comprises 2010 Financial year highlights, Corporate profile, A timeline of growth, Asset overview, Summary of results – FY2010, Making history – The Cullinan Heritage, Chairman's statement, CEO's review, Results and financial review, Reserves and resources, Board of directors, Sustainable development, Directors' report, Directors' remuneration report and Corporate governance statement. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1981 as enacted in Bermuda relating to the responsibilities of auditors and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1981 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 30 June 2010 and of its profit for the year then ended.

BDO LLP

BDO LLP
Chartered Accountants
London
24 November 2010

Consolidated income statement

For the year ended 30 June 2010

US$ million	Notes	2010	2009
Revenue		163.7	69.3
Other income	4	5.4	3.2
Total operating income		169.1	72.5
Fair value uplift on acquisition of Cullinan Investment Holdings Limited	3(a)	31.0	–
Recycling of foreign exchange differences on exploration projects		12.3	–
Total income		212.4	72.5
Mining and processing costs	5	(137.7)	(72.9)
Other direct income	6	2.4	2.6
Exploration expenditure	7	0.2	(19.7)
Corporate expenditure	8	(8.6)	(8.3)
Impairment charges	9	–	(75.3)
Total costs		(143.7)	(173.6)
Financial income		27.6	20.7
Financial expense		(27.3)	(13.5)
Net financing income	10	0.3	7.2
Profit/(loss) before tax		69.0	(93.9)
Income tax credit	11	1.2	3.4
Profit/(loss) for the year from continuing operations		70.2	(90.5)
Profit on discontinued operations (net of tax)	33	–	1.5
Profit/(loss) for the year		70.2	(89.0)
Profit/(loss) for the year attributable to:			
Equity holders of the parent company		63.5	(90.9)
Non-controlling interest		6.7	1.9
		70.2	(89.0)
Profit/(loss) per share attributable to the equity holders of the parent during the year:			
From continuing operations			
Basic profit/(loss) – US cents	13	22.65	(50.23)
Diluted profit/(loss) – US cents	13	22.20	(50.23)
From continuing and discontinued operations			
Basic profit/(loss) – US cents	13	22.65	(49.38)
Diluted profit/(loss) – US cents	13	22.20	(49.38)

The notes on pages 43 to 99 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 June 2010

US$ million	2010	2009
Profit/(loss) for the year	70.2	(89.0)
Profit on hedges transferred directly to reserves	–	0.1
Exchange differences recognised on translation of share-based payment reserve	(0.5)	(0.5)
Recycling of foreign exchange differences on exploration projects	(12.3)	–
Exchange differences on translation of foreign operations	(6.9)	(16.9)
Valuation loss on available for sale financial assets	(0.1)	–
Total comprehensive income/(expense) for the year	50.4	(106.3)
Total comprehensive income/(expense) for the year attributable to:		
Equity holders of the parent company	43.7	(107.7)
Non-controlling interest	6.7	1.4
	50.4	(106.3)

There is no taxation arising from items of other comprehensive income.

The notes on pages 43 to 99 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2010

US$ million	Share capital	Share premium account	Foreign currency translation reserve	Hedging reserve	Share-based payment reserve	Other reserves	Retained losses	Sub total	Non-controlling interest	Total
At 1 July 2008	33.5	212.9	9.5	(0.1)	3.1	4.0	(109.7)	153.2	9.2	162.4
Total comprehensive income	–	–	(16.4)	0.1	(0.5)	–	(90.9)	(107.7)	1.4	(106.3)
Non-controlling interest share of dividend paid to subsidiary	–	–	–	–	–	–	–	–	(1.1)	(1.1)
Equity settled share-based payments transferred between reserves	–	–	–	–	(3.1)	–	3.1	–	–	–
Equity settled share-based payments	–	–	–	–	2.3	–	–	2.3	–	2.3
At 30 June 2009	33.5	212.9	(6.9)	–	1.8	4.0	(197.5)	47.8	9.5	57.3
At 1 July 2009	33.5	212.9	(6.9)	–	1.8	4.0	(197.5)	47.8	9.5	57.3
Total comprehensive income	–	–	(19.2)	–	(0.5)	(0.1)	63.5	43.7	6.7	50.4
Non-controlling interest acquired	–	–	–	–	–	–	–	–	17.4	17.4
Equity settled share-based payments	–	–	–	–	1.7	–	–	1.7	–	1.7
Transfer of equity portion of convertible bond	–	–	–	–	–	(4.0)	4.0	–	–	–
Allotments during the year:										
– Fund raising	20.0	99.9	–	–	–	–	–	119.9	–	119.9
– Settlement of loans and borrowings	1.9	9.0	–	–	–	–	–	10.9	–	10.9
– Acquisition of second 50% of CIHL – Note 3(b)	6.0	33.8	–	–	–	–	–	39.8	–	39.8
– Share options exercised	–	0.1	–	–	–	–	–	0.1	–	0.1
Share issue costs	–	(8.2)	–	–	1.6	–	–	(6.6)	–	(6.6)
At 30 June 2010	61.4	347.5	(26.1)	–	4.6	(0.1)	(130.0)	257.3	33.6	290.9

The notes on pages 43 to 99 form part of the financial statements.

Share capital

The share capital comprises the issued ordinary shares of the Company at par.

Share premium reserve

The share premium reserve comprises the excess value recognised from the issue of ordinary shares at par.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities and foreign exchange differences on net investments in foreign operations.

Hedging reserve

The hedging reserve comprises the change in the fair value of derivative contracts which qualify as effective and are designated cash flow hedges.

Share-based payment reserve

The share-based payment reserve comprises the fair value of employee options as measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

Other reserves

The other reserves comprise the equity portion of the interest free convertible bond US$nil (2009: US$4 million) and the fair value of the 2,000,000 warrants issued with the convertible bond, as well as gains or losses arising from available for sale financial assets of US$0.1 million (2009: US$nil).

Retained losses

The accumulated loss comprises the Group's cumulative accounting losses incurred since incorporation.

Non-controlling interest

Non-controlling interest comprise amounts attributable to third party shareholders in the Cullinan, Kimberley Underground, Koffiefontein and Sedibeng mines. The non-controlling interest of total comprehensive income includes US$6.7 million (30 June 2009: US$1.4 million) of profit for the year.

Consolidated statement of financial position

At 30 June 2010

US$ million	Notes	2010	2009
Assets			
Non-current assets			
Property, plant and equipment	14	371.0	176.7
Intangible assets	15	–	1.0
Investment in associates	16	–	–
Available for sale financial assets	17	0.8	–
Loans and other receivables	19	32.2	19.7
Total non-current assets		404.0	197.4
Current assets			
Inventories	18	29.4	14.8
Trade and other receivables	19	23.5	18.9
Cash and cash equivalents – unrestricted	20	24.8	6.7
Cash-restricted	20	9.7	4.4
Total current assets		87.4	44.8
Total assets		491.4	242.2
Equity and liabilities			
Equity			
Share capital	21	61.4	33.5
Share premium account		347.5	212.9
Foreign currency translation reserve		(26.1)	(6.9)
Share-based payment reserve		4.6	1.8
Other reserves		(0.1)	4.0
Accumulated loss		(130.0)	(197.5)
Attributable to equity holders of the parent company		257.3	47.8
Non-controlling interest		33.6	9.5
Total equity		290.9	57.3
Liabilities			
Non-current liabilities			
Loans and borrowings	22	47.1	44.3
Trade and other payables	23	23.2	19.1
Provisions	24	50.0	28.0
Deferred tax liabilities	25	30.3	7.4
Total non-current liabilities		150.6	98.8
Current liabilities			
Loans and borrowings	22	17.4	57.4
Trade and other payables	23	29.2	23.7
Current tax payable	23	1.1	2.8
Provisions	24	2.2	2.2
Total current liabilities		49.9	86.1
Total liabilities		200.5	184.9
Total equity and liabilities		491.4	242.2

The notes on pages 43 to 99 form part of the financial statements.
The financial statements were approved and authorised for issue by the Directors on 24 November 2010.

Consolidated statement of cash flows

For the year ended 30 June 2010

US$ million	2010	2009
Profit/(loss) before taxation for the year from continuing and discontinued operations	69.0	(92.3)
Depreciation of property plant and equipment – exploration	0.1	2.7
Depreciation of property plant and equipment – mining	11.6	8.9
Depreciation of property plant and equipment – other	0.2	0.1
Amortisation of intangible assets	1.0	3.3
Impairment charge on assets	–	75.3
Profit on sale of Kono project	(0.8)	–
Profit/(loss) on sale of property plant and equipment	(3.7)	0.2
Recycling of foreign exchange differences on exploration projects	(12.3)	–
Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL	26.4	–
Fair value uplift on acquisition of additional 50% of Cullinan	(31.0)	–
(Decrease)/increase in provisions	(2.1)	8.7
Finance income	(7.8)	(3.2)
Finance expense	12.6	9.2
Present value adjustment of rehabilitation provision – change in assumptions	–	(4.6)
Share based payments	0.9	2.3
Foreign exchange gain	(5.1)	(13.4)
Operating profit/(loss) before working capital changes	59.0	(2.8)
(Increase)/decrease in trade and other receivables	(0.3)	25.2
Increase/(decrease) in trade and other payables	4.6	(10.6)
(Increase)/decrease in inventories	(11.2)	0.8
Cash generated from operations	52.1	12.6
Finance expense	(1.6)	(6.6)
Taxation paid	(1.7)	(1.4)
Net cash generated from operating activities	48.8	4.6

Consolidated statement of cash flows *(cont.)*

For the year ended 30 June 2010

US$ million	2010	2009
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	3.9	0.3
Disposal of subsidiary net of cash	–	1.4
Acquisition of subsidiary net of cash	0.4	(8.7)
Acquisition of Cullinan net of cash acquired	–	(62.5)
Acquisition of assets at Kimberley Underground net of cash	(2.0)	–
Acquisition of assets at Kimberley Underground pre-acquisition	(16.6)	–
Finance income	0.4	3.5
Increase in long term receivables	–	(19.5)
Acquisition of property, plant and equipment	(33.4)	(38.8)
Development expenditure	–	(2.1)
Transfer (to)/from restricted cash deposits	(5.3)	13.3
Net cash utilised in investing activities	(52.6)	(113.1)
Cash flows from financing activities		
Proceeds from the issuance of share capital	120.1	–
Payment of share placing costs	(6.6)	–
(Repayment)/increase of non-current borrowings	(43.8)	58.0
(Repayment)/increase of current borrowings	(48.0)	37.5
Net cash generated from financing activities	21.7	95.5
Net increase/(decrease) in cash and cash equivalents	17.9	(13.0)
Cash and cash equivalents at beginning of the year	6.7	19.8
Effect of exchange rate fluctuations on cash held	0.2	(0.1)
Cash and cash equivalents at end of the year	24.8	6.7

The figures for cash and cash equivalents at the beginning and end of the year for the year to 30 June 2009 do not correspond to those presented in the previous financial statements. Cash and cash equivalents have been reclassified into restricted and unrestricted cash balances on the consolidated statement of financial position in the current year and the comparative has therefore been reclassified to aid comparability. The consolidated statement of cash flows has been amended to present movements in unrestricted cash balances. This reclassification has had no impact on profit for the year or on the net assets of the Group.

The notes on pages 43 to 99 form part of the financial statements.
Significant non-cash flow transactions which are not reflected in the cash flow statement are set out in note 31.

Notes to the annual financial statements

For the year ended 30 June 2010

1. Accounting policies

Petra Diamonds Limited ("Petra", or "the Company", or "the Group"), a limited liability company quoted on AIM, is registered and domiciled in Bermuda. The Company's registered address is 2 Church Street, Hamilton, Bermuda. The financial statements incorporate the principal accounting policies set out below, which are except as noted below, consistent with those adopted in the previous financial statements.

1.1 Basis of preparation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC Interpretations) issued by the International Accounting Standards Board (IASB), as adopted by the European Union (IFRS).

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the CEO's review. The financial position of the Group, its cash flows and borrowing facilities are set out in the CEO's review and the Finance Director's review. The notes to the financial statements set out the Group's objectives, policies and processes for managing its capital, exposures to credit risk and liquidity risk. As detailed in Note 22 xii the Group is due to repay $35 million of deferred consideration in December 2011. Due to the length of time before repayment is due the Directors have not yet commenced detailed planning on financing this but it is likely to include a mixture of operating cash flow, debt restructuring and/or an equity placing if market conditions are favourable. Over the forthcoming year the Directors will develop more detailed plans in this regard.

The directors have reviewed the Group's current cash resources, funding requirements and ongoing trading of the operations. As a result of the review, the going concern basis has been adopted in preparing the financial statements and the directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Currency reporting

The functional currency of the Company is US Dollars and the functional currency of the Group's business transactions in Botswana, Tanzania and Sierra Leone is US Dollars. The functional currency of the South African operations is South African Rand (ZAR), reference to transactions in South African Rand (ZAR) in the annual report is denoted by an R. The Group financial statements are presented in US Dollars. Also see the foreign currency accounting policy in note 1.14. ZAR balances are translated to US Dollars at R7.65 (30 June 2009: R7.88) as at 30 June 2010 and at an average rate of R7.61 (30 June 2009: R9.04) for transactions during the year ending 30 June 2010.

1.2 New standards and interpretations applied

The IASB has issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 July 2009 which have been adopted by the Group for the first time this year:

		Effective period commencing on or after	Impact on Group
IAS 1	Amendment – Presentation of financial statements: a revised presentation	1 January 2009	Yes
IAS 23	Amendment – Borrowing costs	1 January 2009	No
IAS 27	Amendment – Consolidated and separate financial statements	1 July 2009	Yes
IAS 32 and IAS 1	Amendments – Puttable financial instruments and obligations arising on Liquidation	1 January 2009	No
IAS 39	Amendment – Financial Instruments: Recognition and measurement of eligible hedged items	1 July 2009	No
IFRS 1	First-time adoption of international accounting standards	1 July 2009	No
IFRS 1 & IAS 27	Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 January 2009	No
IFRS 2	Amendment – Share-based payment: vesting conditions and cancellations	1 January 2009	No
IFRS 3	Revised – Business combinations	1 July 2009	Yes
IFRS 7	Amendment – Improving Disclosures about Financial Instruments	1 January 2009	Yes
IFRS 8	Operating Segments	1 January 2009	Yes
General	Improvements to IFRSs (2009)	1 January 2009	No
IFRIC 9 & IAS 39	Amendment – Embedded derivatives	30 June 2009	No
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009	No
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	No
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009	No
IFRIC 18	Transfer of Assets from Customers	1 July 2009	No

1. Accounting policies (cont.)

IAS 1 Presentation of Financial Statements (revised) includes the requirement to present a Statement of changes in equity as a primary statement and introduces the possibility of either a single Statement of comprehensive Income (combining the Income statement and a Statement of comprehensive income) or to retain the Income statement with a supplementary Statement of comprehensive income. The second option has been adopted by the Group. Previously the Group presented an income statement and statement of recognised income and expense. In addition, a statement of change in equity is now provided, where previously the information was included in a note. As this revision is concerned with presentation only it does not have any impact on the results or net assets of the Group.

IFRS 8, Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (CODM). By contrast IAS 14, "Segmental Reporting" required business and geographical segments to be identified on a risks and rewards approach. The business segmental reporting bases used by the Company in previous years are those which are reported to the CODM, so the changes to the segmental reporting for 2010 are in respect of the additional disclosure only. Comparatives have been restated.

Amendment to IFRS 2, "Share-based payments: vesting conditions and cancellations" results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan. Management has concluded that so far there has been no impact on the results of the Group as a result of this amendment.

The Group has complied with the requirement to adopt IFRS 3 (revised) for accounting periods commencing after 1 July 2009. The basic approach of the existing IFRS 3 to apply acquisition accounting in all cases and identify an acquirer is retained in this revised version. However, in some respects the revised standard has resulted in very significant changes. The main changes that have affected Petra in the period are summarised below:

- Where a controlling interest in another entity is acquired, and the acquirer previously held a non-controlling interest in that entity (whether as an investment, associate or joint venture), the previously held investment is re-measured to fair value on the date on which the controlling interest is acquired, with any gain or loss being recorded in the income statement. The fair value of that previously held interest is then treated as being part of the fair value of the total consideration paid for the (controlling) interest in the new subsidiary. A description of the acquisition of a controlling shareholding in Cullinan Investment Holdings Limited (CIHL) is included in Note 3(a).
- The revised standard includes a requirement to write off all acquisition costs to profit or loss instead of including them in the cost of investment. This did not have a significant impact for the CIHL acquisition because there were not significant external costs of acquisition.
- The revised standard does not require the restatement of previous business combinations.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7), the application of this Amendment has resulted in changes to the disclosures provided in respect of financial instruments, primarily in note 26 to the financial statements including an analysis of financial asset and financial liability that is measured at fair value in the statement of financial position, into a three level fair value measurement hierarchy. The Amendment does not change the recognition or measurement of transactions and balances in the financial statements.

As a result of the amendments to IAS 27, the Group now recognises non-controlling interests in respect of subsidiaries which have net liabilities. The standard is applied prospectively with the non-controlling interest in gains and losses recognised as they occur. Previously, non-controlling interests could not be recorded for subsidiaries with net liabilities unless a binding obligation to reimburse the losses existed and the non-controlling interest had the capability to do so.

New standards and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 July 2010 or later periods and which the Group has decided not to adopt early. These are:

1. Accounting policies (cont.)

1.2 New standards and interpretations not yet effective (cont.)

		Effective period commencing on or after
IAS 19 (IFRIC 14)	Amendment - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IAS 24	Revised - Related Party Disclosures	1 January 2011
IAS 32	Amendment – Classification of Rights Issues	1 February 2010
IFRS 1	Amendment – first-time adopters of IFRS	1 July 2010
IFRS 1	Additional exemptions for first-time adopters	1 January 2010
IFRS 2	Amendment – Group cash-settled share-based payment transactions	1 January 2010
IFRS 9	Financial Instruments	1 January 2013 *(not yet endorsed by the EU)*
General	Improvements to IFRSs (2009)	1 January 2010
General	Improvements to IFRSs (2010)	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 April 2010 *(not yet endorsed by the EU)*

The Group is currently assessing the impact of these standards on the financial statements.

1.3 Basis of consolidation

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control. The Group financial statements incorporate the assets, liabilities and results of operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition to the effective dates of disposal. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Business combinations

The results of business combinations are accounted for using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. Business combinations are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the fair value of the assets, liabilities and contingent liabilities recognised. All costs incurred on business combinations are charged to the income statement.

Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. As a result of the revision to IAS 27 Consolidated and separate financial statements, the non-controlling interests share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

Associates

An associate is an enterprise over whose financial and operating policies the Group has the power to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The equity method of accounting for associates is adopted in the Group financial statements. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which an enterprise becomes an associate and up to the effective date of disposal.

1. Accounting policies (cont.)

1.3 Basis of consolidation (cont.)

The share of associated retained earnings and reserves is generally determined from the associate's latest audited financial statements. Where the Group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil.

Additional losses are only recognised to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprises. Unrealised gains arising from transactions with associates are eliminated against the investment in the associates. Unrealised losses on transactions with associates are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Jointly controlled entities

Joint ventures are those entities in which the Group holds a long term interest and which are jointly controlled by the Group and one or more joint venture partners under a contractual arrangement. The Group's interest in such jointly controlled entities is accounted for by proportionate consolidation. Under this method the Group includes its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line by line basis with similar items in the Group's financial statements.

Cullinan Investment Holdings Limited (CIHL)

In the year ending 30 June 2009, the Group used the gross method of proportional consolidation and therefore reflected 50% of the CIHL sub group operating results, assets, and liabilities and a 13% non-controlling interest in respect of Cullinan Diamond Mine (Pty) Ltd which is a subsidiary of that group. As set out in note 3(a), in November 2009 the Group acquired the remaining 50% interest in CIHL and now holds 100% of CIHL and therefore from that date consolidates 100% of the operating results, assets and liabilities and recognises a 26% non-controlling interest in accordance with the note above on subsidiaries. The original 50% equity interest was revalued at the date of acquisition to fair value and the gain on revaluation taken to the income statement.

1.4 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Depreciation is provided on the straight-line basis over the estimated useful lives of assets.

The depreciation rates are as follows:

Mining assets:	
Plant, machinery and equipment	Units of production method
Mineral properties	Units of production method
Exploration and other assets:	
Plant and machinery	10% – 20% straight-line basis
Office equipment	10% straight-line basis
Computer equipment	25% straight-line basis
Motor vehicles	20% straight-line basis

Mineral properties for the Group's operating mines, Cullinan, Helam, Kimberley Underground mines, Koffiefontein Mine JV, Sedibeng Mine JV, Star and Williamson are based on current life of mine plans. The useful life of the mines is between 13 and 22 years.

1. Accounting policies (cont.)

1.4 Property, plant and equipment (cont.)

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of that asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Expenditure relating to an item of property, plant and equipment considered to be an asset under construction is capitalised when it is probable that future economic benefits from the use of that asset will be realised.

Repairs and maintenance which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

Surpluses/(deficits) on the disposal of property, plant and equipment are credited/(charged) to the income statement. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

Capitalised expenditure in respect of Kimberley Underground mines

The Group capitalised costs of US$16.5 million during the year ended 30 June 2010, prior to the completion of the acquisition of Kimberley Underground mines (30 June 2009: US$8.7 million). The acquisition of the Kimberley Underground mines completed on 19 May 2010 but since 14 September 2007 the Group has maintained the mine under a care and maintenance agreement with De Beers. During the period from 14 September 2007 to completion on 19 May 2010, expenditure has been incurred to bring the mining assets back into a condition in which the assets can be utilised for mining and production. This expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group. Given the satisfactory completion of the acquisition the Group will now realise the future economic benefits of the mining operation and these costs therefore continue to be capitalised post-completion in line with the Group's accounting policies.

The expenditure incurred pre-completion was capitalised on the basis that it was common practice under IFRS 3 (applicable prior to 1 July 2009) for transaction costs incurred in respect of business combinations to be capitalised where the business combination has not completed by the balance sheet date and by analogy to IAS11 (Construction contracts) which permits costs incurred in respect of future activity to be capitalised where it is probable that those costs will be recovered.

1.5 Leases

Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired under terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the statement of financial position.

Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period and the capital repayment, which reduces the liability to the lessor.

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

1. Accounting policies (cont.)

1.6 Exploration and evaluation costs

Exploration and evaluation costs on greenfield sites are written off in the year in which they are incurred. Pre-production expenditure is only capitalised once feasibility studies indicate commercial viability and the Board takes the decision to develop the project further. Capitalisation of pre-production expenditure ceases when the project is capable of commercial production where upon it is amortised on a unit of production basis.

Exploration and evaluation expenditure on brownfield sites, being those adjacent to deposits already being mined or where the economic feasibility of existing deposits has yet to be proven, is capitalised within mineral properties.

1.7 Intangible assets

Mineral rights are capitalised at cost and are amortised on a unit of production basis for operating mines and over the estimated useful life for prospecting rights. Amortisation is included within mining and processing costs or exploration expenditure as appropriate.

Project farm-ins

Where the Group enters into an agreement with a third party for the third party to fund specific expenditure for the exploration and evaluation or development of a licence area, any consideration received by the Group in entering into that agreement is treated as a disposal of part of the Group's interest in that licence.

The consideration received is therefore credited against the expenditure previously capitalised by the Group in respect of the licence. If the consideration received is greater than the expenditure already made by the Group, the excess credit is taken to the consolidated income statement.

This policy is in accordance with industry practice for oil and gas and mining companies entering into such project farm-in arrangements.

1.8 Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future pre-tax cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Refer to note 9 for detailed disclosure of the results of impairment reviews performed. Impairment charges are charged to a separate line item under total costs in the consolidated income statement.

1. Accounting policies (cont.)

1.9 Financial instruments

Financial assets

The Group classifies its financial assets into one of the following categories and the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives that were not designated for hedge accounting at inception. They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement in the finance income or finance expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The assets arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets including cash and cash equivalents and loans and other receivables. They are initially recognised at the fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally of the Group's strategic investment in the entities not qualifying as subsidiaries, associates or jointly controlled entities. The assets are carried at fair value with changes in fair value recognised directly in the consolidated statement of other comprehensive income and accumulated in other reserves. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement. Fair values of quoted investments are based on current market prices. The Group only holds quoted investments. Available for sale financial assets are fair valued at each reported date and reviewed as set out above. As at 30 June 2010 a loss of US$0.1 million was recorded in other reserves in respect of the available-for-sale financial assets.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only out-of-the-money derivatives that were not designated for hedge accounting at inception (see financial assets for "in-the-money" derivatives). The liabilities are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated income statement in the finance income or finance expense line.

Other liabilities

Trade payables and other short-term monetary liabilities

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value are subsequently carried at amortised cost using the effective interest method.

1. Accounting policies (cont.)

1.9 Financial instruments (cont.)

Interest-bearing borrowings

Bank borrowings and the debt element of convertible debt issued are recognised initially at fair value less attributable transaction costs. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of liability carried in the statement of financial position. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Hedging instruments

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date that relevant derivative contracts are entered into, the Group may designate the derivative for hedge accounting. During the year the Group has only entered into hedges of forecast transactions (cash flow hedges). Where a hedge instrument is designated for hedge accounting at inception, the Group formally assesses, at inception and on an on-going basis, whether the derivatives are highly effective in offsetting changes in the fair value or cash flows of the hedged item. Changes in the fair value of a derivative that is effective in offsetting changes in the cash flow of the hedged item, and that is designated and qualifies as a cash flow hedge, are recognised directly in equity. Changes in the fair value of derivatives that do not qualify for hedge accounting or were not designated for hedge accounting at inception are recognised in the income statement. Amounts recognised in equity are transferred to the consolidated income statement in the period during which the hedged forecast impacts net profit or loss. Any ineffective element of a cash flow hedge, which has been designated for hedge accounting, is taken to the income statement. The Group had no hedging instruments as at 30 June 2009 or 30 June 2010.

Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Fair value hierarchy

Financial assets and liabilities measured at fair value are classified according to their fair value hierarchy as disclosed in note 26.

1.10 Revenue

Revenue comprises net invoiced diamond sales to customers excluding VAT. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of future economic benefits is probable.

Revenue from test production on projects pending confirmation of commercial viability is credited to revenue and an equal amount charged to cost of sales and credited to mineral properties so as to record zero margin.

1.11 Finance and other income

Finance and other income comprise income from interest and other non-operating income. Interest is recognised on a time apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

1. Accounting policies (cont.)

1.12 Tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is charged to the consolidated income statement except to the extent that it relates to a transaction that is recognised directly in other comprehensive income, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the consolidated income statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning, mine closure and environmental rehabilitation

The estimated cost of decommissioning, mine closure and environmental rehabilitation is based on current legal requirements and existing technology. A provision is raised based on the present value of the estimated costs. These costs are included in the cost of the related asset. The capitalised assets are depreciated in accordance with the accounting policy for property, plant and equipment. Annual increases in the provision, as a result of the change in the net present value, are charged to the consolidated income statement. The cost of the ongoing programmes to prevent and control pollution and ongoing rehabilitation costs of the Group's operations, is charged against income as incurred.

The obligation to restore environmental damage caused through operations is raised as the relevant operations take place. Assumptions have been made as to the remaining life of existing operations based on studies conducted by independent technical advisers.

1.14 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are recorded at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to, or charged against, income. The issue of shares are included in share capital and share premium at the prevailing US$/Sterling spot rate at the date of the transaction.

1. Accounting policies (cont.)

1.14 Foreign currency (cont.)

Financial statements of foreign entities

Assets and liabilities of foreign entities are translated at rates of exchange ruling at the financial year-end; and income and expenditure and cash flow items are translated at rates of exchange ruling at the date of the transaction or at rates approximating the rates of exchange at the date of the translation where appropriate. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the reporting date. Exchange differences arising from the translation of foreign entities are taken directly to a foreign currency translation reserve.

Foreign operations

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are not expected to be repaid in the foreseeable future are treated as part of the net investment in foreign operations. The unrealised foreign exchange gains and losses attributable to foreign operations are taken directly to other comprehensive income and reflected in the foreign currency translation reserve.

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are expected to be repaid in the foreseeable future are recognised in the consolidated income statement.

1.15 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the reporting date. The provisions have been calculated based on current wage and salary rates.

1.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments, and net of bank overdrafts, all of which are available for use by the Group unless otherwise stated. Restricted cash represents amounts held by banks as a guarantee in respect of environmental rehabilitation obligations in respect of the Group's South African mines.

1.17 Employee pension schemes

Defined contribution scheme

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

Defined benefit scheme

The defined benefit liability or asset recognised in the financial statements represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any net asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and any reduction in future contributions that the Company is entitled to in terms of section 15E of the Pension Funds Act in South Africa.

Actuarial gains and losses are recognised to the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in other comprehensive income over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The actuarial calculation is performed by a qualified actuary using the projected unit credit method.

1. Accounting policies (cont.)

1.18 Post retirement medical fund

The Group operates a post retirement medical fund, which is unfunded and therefore recognised as a liability on the statement of financial position within provisions. The liability is based on an actuarial valuation performed at each year-end reporting date.

1.19 Share-based payments

The fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured based on the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The exercise price is fixed at the date of grant and no compensation is due at the date of grant. On exercise, equity is increased by the amount of the proceeds received.

1.20 Inventories

Inventories, which include rough diamonds, are stated at the lower of cost-of-production on the weighted average basis or estimated net realisable value. Cost of production includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Consumable stores are stated at the lower of cost on the weighted average basis or estimated replacement value. Work in progress is stated at raw material cost including allocated labour and overhead costs.

1.21 Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments and are accordingly split between debt and equity is recorded in the Group's financial statements. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the fair value over the present value of the future cash flows, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the consolidated income statement is calculated using the effective interest rate method. Also see interest-bearing borrowings in note 1.9.

1.22 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing mining or exploration activities, or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The basis of segment reporting is representative of the internal structure used for management reporting.

1.23 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. No such costs were incurred within the Group during the year. Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

1.24 Critical assumptions and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and based on management's historical experience and other factors, including future expectations and events that are believed to be reasonable. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed below.

1. Accounting policies (cont.)

1.24 Critical assumptions and judgements (cont.)

Judgements:

Exploration and evaluation costs

Judgement is applied by management in determining whether exploration and evaluation expenditure should be capitalised or expensed. Management exercise judgement based on the results of economic evaluations, pre-feasibility or feasibility studies as set out in note 1.7. The carrying value of intangible assets (excluding non-current assets classified as held for sale), which includes capitalised exploration and evaluation expenditure at the reporting date is US$nil (30 June 2009: US$1.0 million).

Life of mine and ore reserves

There are numerous risks inherent in estimating ore reserves and the associated life of a mine. Therefore management must make a number of assumptions in making those estimates, including assumptions as to exchange rates, rough diamond and other commodity prices, recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, commodity prices, recovery and production rates may change the economic viability of ore reserves and may ultimately result in the restatement of the ore reserve and potential impairment to the carrying value of the mining assets. The determination of the life of mine and ore reserves also impacts the depreciation of mining assets depreciated on a unit of production basis, as set out in note 1.4.

Impairment reviews

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future rough diamond prices, ore reserves, rehabilitation costs, feasibility studies, future development and production costs. Changes in estimates used can result in significant changes to the income statement. The policy in respect of impairment reviews is set out in note 1.8 and details of impairment reviews carried out during the year are set out in note 9.

Taxation judgement

The Group has received a number of historical tax claims in respect of its mining operations, relating to the period prior to the operations being acquired by the Group. Judgement is applied by management, having consulted with local tax advisors on the probability of payments being made to settle the claims. A provision of US$2.2 million (2009: US$2.2 million) has been made in respect of these claims.

Capitalisation of pre-acquisition costs at Kimberley Underground mines

Judgement was applied by management during the prior year and current year in determining whether pre-acquisition expenditure should be capitalised or expensed. Management exercised judgement based on: whether the Group exercises control over the asset, a consideration of guidance from IAS 11, and an assessment of the nature of the expenditure which has been incurred to bring the mining assets back into a condition in which it can be utilised for mining and production. Based on management's judgements, expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group. All other costs are expensed as care and maintenance costs. The Group has capitalised and expensed pre-acquisition costs during the year as set out in note 1.4.

Capitalisation of prefeasibility costs at Williamson mine

Judgement has been applied by management during the prior year and current year in determining whether pre-feasibility expenditure should be capitalised or expensed. The Group embarked on a feasibility study at the Williamson mine through an intensive bulk sampling programme with a view to better understanding of the ore-body. This is being done to optimise the design of the treatment plant to further increase production in the future. Based on management's judgements, direct expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group. All other costs are expensed as care and maintenance costs. During the year all direct costs net of associated revenue were capitalised towards the Williamson mine expansion project.

1. Accounting policies (cont.)

1.24 Critical assumptions and judgements (cont.)

Assumptions and estimates:

Provision for rehabilitation

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, management used a discount rate range of 6% - 9% (30 June 2009: 8.9%), a life of mine of 13 to 22 years (30 June 2009: 12 to 22 years) and an inflation rate range of 5.5% - 7.0% (30 June 2009: 6.9%). The carrying value of rehabilitation provisions at the reporting date is US$44.7 million (30 June 2009: US$26.0 million).

Valuation of share options

In determining the fair value of share-based payments made during the year to employees, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The total charge to the consolidated income statement in respect of share-based payments for the year is US$1.7 million (30 June 2009: US$2.3 million).

Valuation of components of compound instruments

Judgement is applied by management in determining the fair value of the debt and equity portion of compound instruments. In determining the fair value, management exercises judgement in making assumptions about the duration of the instrument, the risk free interest rate at the time of issuing the compound instrument and the risk premium for compound instruments of a similar nature. The total charge to the consolidated income statement in respect of interest accreted for compound instruments for the year is US$1.4 million (30 June 2009: US$1.4 million). The equity portion of compound instruments reflected in the Group's financial statements is US$nil (30 June 2009: US$4.0 million). No new compound instruments were entered into during the year.

2. Segment information

Segment information is presented in respect of the Group's operating and geographical segments:

Mining – the extraction and sale of rough diamonds from mining operations in South Africa and Tanzania.

Exploration – exploration activities in Botswana. The Group exited from exploration activities in Sierra Leone in May 2010 as a result of its disposal of its interest in Basama Diamonds Ltd, refer to note 3(d). In the prior year, the Group exited from exploration activities in Angola.

Beneficiation – The Group exited from beneficiation activities in the prior year.

Segments are based on the Group's management and internal reporting structure. Management reviews the Group's performance by reviewing the results of the mining activities in South Africa and Tanzania, reviewing the total exploration results of operations in Botswana and Sierra Leone (Angolan exploration has been wound down) and reviewing the corporate administration results in Jersey.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results are calculated after charging direct mining costs, depreciation and other income and expenses. Unallocated items comprise mainly interest-earning assets and revenue, interest-bearing borrowings and expenses and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Eliminations comprise transactions between group companies that are cancelled on consolidation. The results are not materially affected by seasonal variations. Revenues are generated from tenders held in South Africa and Antwerp for external customers from various countries; the ultimate customers of which are not known to the Group.

2. Segment information (cont.)

Operating segments	South Africa mining activities			
US$ million	Cullinan mine	Koffiefontein mine	Kimberley Underground mine	Fissure mines
2010				
Revenue	112.7	22.8	–	13.5
Segment result	24.2	0.2	(4.9)	(5.4)
Other income/(expense)	1.2	0.6	0.2	0.1
Operating profit/(loss)	25.4	0.8	(4.7)	(5.3)
Fair value uplift on Cullinan Investment Holdings acquisition				
Recycling of foreign exchange differences on exploration projects				
Financial income				
Financial expense				
Income tax credit				
Non-controlling interest				
Profit attributable to equity holders of the parent company				
Segment assets	320.4	65.6	47.5	83.6
Segment liabilities	177.4	40.9	54.4	112.4
Share-based payments	0.3	0.2	–	0.2
Capital expenditure	17.3	4.6	19.6	2.5

Capital expenditure at Kimberley Underground includes US$16.4 million of capital expenditure incurred prior to acquisition. Capital expenditure at Williamson includes US$7.8 million of pre-feasibility costs capitalised. Other income in respect of the Fissure mines includes US$15.8 million of revenue and US$15.1 million of costs in respect of the manufacture of plant and equipment, primarily for other mines within the Group. Segment assets and liabilities include intercompany receivables and payables which are eliminated on consolidation.

Operating segments	South Africa mining activities			
US$ million	Cullinan mine	Koffiefontein mine	Kimberley Underground mine	Fissure mines
2009				
Revenue	25.6	18.3	–	15.3
Segment result	0.6	1.5	–	(6.1)
Other income/(expense)	0.7	4.2	(2.1)	(0.9)
Operating profit/(loss)	1.3	5.7	(2.1)	(7.0)
Impairments				
Profit on sale of assets				
Financial income				
Financial expense				
Income tax credit				
Non-controlling interest				
Loss attributable to equity holders of the parent company				
Segment assets	117.1	72.9	25.6	87.7
Segment liabilities	75.6	50.9	7.5	146.9
Share-based payments	–	–	–	–
Capital expenditure	4.2	3.7	8.7	8.6

The Group commenced activities in Tanzania effective 10 November 2008 with the acquisition of Willcroft Company Limited, which owns a 75% equity interest in Williamson Diamonds Limited.

Tanzania mining activities	Angola Botswana Sierra Leone			
Williamson mine	Exploration	Corporate administration	Intersegment	Consolidated
14.4	–	0.3	–	163.7
(6.0)	(1.9)	11.3	–	17.5
0.3	0.5	4.2	0.8	7.9
(5.7)	(1.4)	15.5	0.8	25.4
				31.0
				12.3
				27.6
				(27.3)
				1.2
				(6.7)
				63.5
48.9	7.2	601.4	(683.2)	491.4
144.3	37.9	213.6	(580.4)	200.5
0.1	–	0.9	–	1.7
11.6	–	0.1	(5.9)	49.8

Tanzania mining activities	Angola Botswana Sierra Leone		South Africa		
Williamson mine	Exploration	Corporate administration	Beneficiation	Intersegment	Consolidated
9.5	0.3	0.3	1.0	(1.0)	69.3
(2.4)	(13.9)	(8.3)	(1.0)	(0.1)	(29.7)
0.2	–	0.7	–	–	2.8
(2.2)	(13.9)	(7.6)	(1.0)	(0.1)	(26.9)
					(75.3)
					2.6
					20.7
					(13.5)
					3.4
					(1.9)
					(90.9)
29.1	2.8	372.6	–	(465.6)	242.2
18.4	2.9	146.6	–	(264.0)	184.8
–	–	2.3	–	–	2.3
11.4	4.2	0.1	–	–	40.9

3. Acquisitions and disposals

(a) Investment in Cullinan Diamond Mine (Cullinan)

On 15 July 2008 Petra Diamonds Limited, as a member of the Petra Diamonds Cullinan Consortium ("PDCC"), acquired the Cullinan Diamond Mine ("Cullinan"). Petra held a 50% interest in, and jointly controlled, Cullinan Investment Holdings Limited ("CIHL"). CIHL has a 74% interest in, and controls, the Cullinan Diamond Mine; CIHL consolidates the Cullinan operations and recognises a 26% non-controlling interest. In the prior period, the Group used the proportionate method of consolidation and therefore reflected 50% of the Cullinan operating results, assets and liabilities, and a 13% non-controlling interest.

On 17 November 2009, the Company acquired Al Rajhi Holdings W.L.L.'s 50% interest in CIHL, which in turn increased Petra's ownership in the mine to 74%. The consideration was satisfied by the issue of 36 million Petra shares (fair value of US$39.8 million based on the prevailing share price at the transaction date) and a deferred consideration of US$35.0 million payable by December 2011. The deferred consideration has been discounted over a period of 24 months using a discount factor of 6% to US$31.0 million. The discounted deferred consideration balance will be accreted over the period of 24 months to the full settlement value of US$35.0 million. On acquisition of Al Rajhi's 50% interest in CIHL, the Company assumed responsibility for the US$80.0 million Cullinan loan (plus accrued interest of approximately US$9.6 million) that was due to Al Rajhi. This was previously recognised in the books of CIHL and therefore did not form part of the consideration.

There are two elements to the accounting for this transaction. Under IFRS 3 (revised), the transaction has been accounted for as a step acquisition. Petra's original equity interest in CIHL has been revalued to fair value (based upon the fair value of the purchase consideration of the second 50%) of US$71.0 million, as at the date of the acquisition of the second 50%, resulting in an income statement gain of US$31.0 million as reflected on the income statement as fair value uplift on acquisition of CIHL.

The second 50% of CIHL acquired is recognised at fair value on the acquisition date. The fair value of the consideration paid was used as the best estimate of the fair value of the net assets acquired; this gave rise to a fair value adjustment of US$61.8 million to the mining property, plant and equipment, mineral properties, and inventory (deferred taxation has been provided on the fair value adjustment). The Group now has a 100% interest in CIHL, which has a 74% interest in and controls the Cullinan operations; CIHL consolidates the Cullinan operations and reflects a 26% non-controlling interest. The Group therefore now also consolidates the Cullinan mine as a subsidiary with a 26% non-controlling interest. Full consolidation commenced on the acquisition date of 17 November 2009, being the date on which control passed. The passing of control occurred prior to the formal completion of the transaction. Prior to this date, the Group used the gross method of proportional consolidation.

In the 12 months to 30 June 2010, the CIHL group recorded a net profit before taxation of US$57.5 million. If the acquisition had occurred on 1 July 2009, the Group's profit from the CIHL group for the period ending 30 June 2010 would have increased by US$1.4 million. The underlying Cullinan mine generated revenue for the 12 months to 30 June 2010 of R966.9 million (US$127.0 million) and revenue of R748.6 million (US$98.3 million) since the date of the acquisition of the second 50% of CIHL. Costs associated with the acquisition have been expensed in full in the income statement.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities.

CIHL net assets at acquisition date: US$ million	Book values	Fair value adjustments	Fair value
Mining property, plant & equipment, mineral properties and inventories	166.8	85.9	252.7
Trade and other receivables	87.2		87.2
Cash and cash equivalents	0.8		0.8
Deferred tax	5.2	(24.1)	(18.9)
Environmental liabilities	(15.0)		(15.0)
Long term payables	(131.0)		(131.0)
Employee related payables	(11.1)		(11.1)
Trade and other payables	(11.3)		(11.3)
Net assets acquired	91.6	61.8	153.4
Non-controlling interest			(11.6)
Fair value of assets attributable to the parent company			141.8
Satisfied as follows:			
Consideration satisfied in shares			39.8
Present value of deferred loan consideration			31.0
Fair value of initial 37% equity stake			71.0
Fair value cost of business combination			141.8

3. Acquisitions and disposals (cont.)

(b) Acquisition of Kimberley Underground Mines' assets

On 19 May 2010, the Company announced the completion of its previously announced transaction with De Beers Consolidated Mines Limited ("De Beers") to acquire the mining and associated assets ("Assets") previously used by De Beers in the operation of the Kimberley Underground diamond mines ("Kimberley Underground") in Kimberley, South Africa. The Company and De Beers entered into the agreement for the sale of the Kimberley Underground Assets in September 2007, however the transaction took longer than originally anticipated to complete due to complexities related to the New Order Mining Right, which have now been completely resolved.

The consideration of R78.5 million (US$10.4 million) has been settled by Petra assuming De Beers' rehabilitation obligations with regards to Kimberley Underground of R63.5 million (US$8.4 million), and the payment in cash by Petra to De Beers of R15 million (US$2.0 million).

During the period from September 2007 to date of acquisition, certain pre-acquisition expenditure was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group as disclosed in note 1.4 of the financial statements for the year ending 30 June 2009. All other costs were expensed as care and maintenance costs. Care and maintenance costs of R53.9 million (US$7.1 million) have been expensed. Costs related to ore stock piles of R37.6 million (US$4.9 million) and fixed assets costs of R204.6 million (US$27.0 million), have been included in inventory and fixed assets respectively and treated as part of the consideration paid, as set out in the table below.

As set out above, the Group incurred care and maintenance costs in respect of the Kimberley Underground mine in the pre-acquisition period; these care and maintenance costs would have given rise to a loss before taxation of the same amount. In the 12 months to 30 June 2010, Kimberley Underground incurred care and maintenance costs of US$2.1 million which were recorded in the books of the Group. Therefore if the acquisition had occurred on 1 July 2009 there would have been no change to the losses recorded in respect of Kimberley Underground. Kimberley Underground recorded no revenues in the pre or post-acquisition period.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities.

Kimberley Underground net assets at acquisition date: US$ million	Book values at acquisition date	Pre-acquisition expenditure capitalised	Total acquired book values	Fair value adjustments	Fair values
Mining property, plant & equipment, mineral properties and inventories	10.0	31.9	41.9	0.5	42.4
Trade and other receivables	–	1.8	1.8	–	1.8
Cash and cash equivalents	–	0.1	0.1	–	0.1
Deferred tax	–	–	–	(0.1)	(0.1)
Environmental liabilities	(8.4)	–	(8.4)	–	(8.4)
Trade and other payables	–	(11.8)	(11.8)	–	(11.8)
Net assets acquired	1.6	22.0	23.6	0.4	24.0
Non-controlling interest					(6.2)
Fair value of assets attributable to the parent company					17.8
Satisfied as follows:					
Consideration satisfied in cash					2.0
Expenditure capitalised					22.0
Contribution from non-controlling interests					(6.2)
Fair value cost of business combination					17.8

Judgement was applied by management in determining whether pre-acquisition expenditure should be capitalised or expensed. Management exercised judgement based on: whether the Group exercised control over the asset, a consideration of guidance from IAS 11, and an assessment of the nature of the expenditure which was incurred to bring the mining asset back into a condition in which it can be utilised for mining and production. Based on management's judgements, expenditure was considered to be capital in nature and is capitalised on the basis that the future economic benefits of the mining assets are expected to flow to the Group. All other costs were expensed as care and maintenance costs. The Group has capitalised and expensed pre-acquisition costs during the year as set out above.

3. Acquisitions and disposals (cont.)

(c) Acquisition of subsidiary Williamson Diamond Mine ("Williamson")

2009:

On 10 November 2008, Petra acquired the entire share capital of Willcroft Company Limited ("Willcroft") from Cheviot Holdings ("Cheviot"), a wholly owned subsidiary of De Beers Société Anonyme ("De Beers") for a cash consideration of US$10 million. The total cash consideration of US$10 million was funded entirely from Petra's internal cash resources.

Willcroft owns 75% of Williamson Diamonds Limited, the sole owner and operator of the Williamson mine, and the Government of the United Republic of Tanzania owns the remaining 25%. The results of Willcroft are consolidated into the Group accounts. The Group reflects within its accounts 100% of Williamson Diamonds Limited operating results, assets and liabilities and a 25% non-controlling interest where applicable in accordance with IFRS 3. Applicable at transaction date, no non-controlling interest in Williamson Diamond Limited is reflected as it had net liabilities at the date of acquisition. In the 8 months to 30 June 2009, Williamson incurred a loss of US$2.8 million. If the acquisition had occurred on 1 July 2008, the Group's loss for the period ending 30 June 2009 would have increased by US$6.8 million.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities.

Williamson Diamond Mine net assets at acquisition date: US$ million	Book values	Fair value adjustments	Fair value
Fair value of net assets of entity acquired			
Mining property, plant & equipment	18.8	–	18.8
Mineral properties	–	5.7	5.7
Trade and other receivables	4.8	(0.8)	4.0
Inventory	6.9	(3.8)	3.1
Cash assets	1.2	–	1.2
Deferred tax	–	(1.3)	(1.3)
Environmental liabilities	(11.0)	–	(11.0)
Trade and other payables	(8.3)	(2.2)	(10.5)
Inter-group loans	(97.9)	97.9	–
Consideration amount satisfied in cash	(85.5)	95.5	10.0

The fair value adjustment of US$5.7 million to mineral properties arose as a result of the premium attributable to the mineral properties purchased (grossed up for deferred taxation) from De Beers. The fair value adjustment to other receivables reflected VAT that was unlikely to be recovered. The fair value adjustment to inventory was to write down the book value to its fair value. The fair value adjustment to other payables was to provide for taxes that had not been properly provided. The fair value adjustment of US$97.9 million arose as a result of inter-group loans acquired from Cheviot on acquisition of Willcroft for which there is no future external liability.

Following the acquisition the Company embarked on a feasibility study at the Williamson mine through an intensive bulk sampling programme with a view to better understanding of the ore-body. This was undertaken to optimise the design of the treatment plant to further increase production in the future. During 2009, all direct costs net of associated revenue were capitalised towards the Williamson mine expansion project.

2010:

During the year, the fair value adjustment of US$5.7 million to mineral properties was increased to US$7.1 million gross of tax as a result of a review of the acquisition book values for trade and other receivables and inventories.

The Company continued with the feasibility study at the Williamson mine during the year until 31 March 2010 at which point management considered the feasibility study to be substantially complete and had achieved sufficient understanding of the ore body and plant requirements. To the date that the feasibility was confirmed, all direct costs net of associated revenue have been capitalised as part of the Williamson pre-feasibility project. Subsequently, having confirmed the commercial feasibility, a program of refurbishment and expansion of the plant has commenced and direct costs associated with the refurbishment and expansion have been capitalised. Refurbishment costs have been capitalised when the works are considered to have enhanced the economic returns of the asset. Williamson mine generated revenue for the 12 months to 30 June 2010 of US$14.4 million.

3. Acquisitions and disposals (cont.)

Effect of the acquisition

The effect of the fair value adjustment on acquisition had the following effect on the Group's assets and liabilities.

Williamson Diamond Mine net assets at acquisition date (revised): US$ million	Book values	Fair value adjustments	Fair value
Fair value of net assets of entity acquired			
Mining property, plant & equipment	18.8	–	18.8
Mineral properties	–	7.1	7.1
Trade and other receivables	4.3	(0.8)	3.5
Inventory	6.4	(3.8)	2.6
Cash assets	1.2	–	1.2
Deferred tax	–	(1.7)	(1.7)
Environmental liabilities	(11.0)	–	(11.0)
Trade and other payables	(8.3)	(2.2)	(10.5)
Inter–group loans	(97.9)	97.9	–
Consideration amount satisfied in cash	(86.5)	96.5	10.0

(d) *Disposal of interest in Kono project (Sierra Leone)*

On 4 May 2010, Petra announced that it has reached agreement with Stellar Diamonds plc ("Stellar") to exchange its interest in the Kono Diamond Project ("Kono") in Sierra Leone for shares in Stellar, the project's joint venture partner. The Kono kimberlite fissure project, whilst at an advanced stage of exploration and demonstrating positive project parameters, was not of a suitable scale to contribute to the Group's objective on delivering substantial production and revenue growth from its portfolio of assets. Kono has no carrying value in Petra's statement of financial position and therefore there are no impairments to be recognised by Petra with regards to the divestment.

The terms of the acquisition were that Stellar issue to Petra 4,500,000 new ordinary Stellar shares (at a price of £0.14 per share) for a total consideration of £0.6 million (US$0.9 million) in return for Petra's interest in Kono, held via joint venture company Basama Diamonds Limited. Petra has agreed (subject to certain exceptions) not to dispose of any of the Stellar shares for 12 months from the date of completion of the transaction, which was 24 May 2010. As part of the transaction both Petra and Stellar have agreed to form a cooperation agreement whereby Stellar will give Petra the first option to joint venture any project in the Stellar portfolio which Stellar seeks to develop with a partner. Petra's interest in the Kono project was fully impaired as at 30 June 2009 and therefore 100% of the consideration was recorded as a gain in other income of US$0.9 million (£0.6 million).

4. Other income

US$ million	2010	2009
Profit on sale of residual Angolan assets	3.7	–
Profit on sale of interest in the Kono project	0.9	–
Management and consulting fees	0.8	3.2
	5.4	3.2

5. Mining and processing costs

US$ million	2010	2009
Raw materials and consumables used	77.5	34.4
Employee expenses	53.9	30.5
Depreciation of mining assets	11.6	8.9
Changes in inventory of finished goods	(5.3)	(0.9)
	137.7	72.9

Included within mining and processing costs is US$2.9 million relating to a shipment of diamonds stolen in October 2009 at O.R Tambo International airport, whilst in transit from Williamson mine in Tanzania to the Company's sales office in Antwerp. Whilst the Company takes insurance for diamond transits, underwriters have denied the claim lodged by the Company for this loss. Due to the particular circumstances surrounding this loss, and whilst the Company is considering its options that may include legal actions, no recovery from underwriters or any other party is currently recognised.

Immediately subsequent to this theft, the Company changed the method and route of shipment from Williamson to Antwerp as well as the insurance provider.

6. Other direct (income)

US$ million	2010	2009
Loss on disposal of fixed assets	0.1	0.2
Retrenchment costs	–	0.9
Care and maintenance	2.0	2.1
Rehabilitation liability revaluation – change in assumptions	–	(4.6)
Other mining income	(4.5)	(1.2)
	(2.4)	(2.6)

7. Exploration expenditure

US$ million	2010	2009
Employee expenses	0.5	4.1
Depreciation of exploration assets	0.1	2.7
Amortisation of intangible assets	1.0	5.9
Drilling and air survey expenses	0.1	1.0
Rental and equipment hire	0.1	0.3
Other exploration expenses	(2.0)	5.7
	(0.2)	19.7

The credit of US$2.0 million to other exploration expenses in the year ending 30 June 2010 relates to the reversal of a provision for closure costs in Angola; the Angolan assets were sold during the year which resulted in a much lower level of costs being incurred than originally anticipated.

8. Corporate expenditure

US$ million	2010	2009
Auditors' remuneration		
– audit services	0.4	0.4
Depreciation of property, plant and equipment	0.2	0.1
Operating lease rentals – buildings	0.4	0.2
Staff costs	3.6	2.4
Other charges	3.1	2.9
Share-based payments		
– directors	0.7	1.8
– senior management	0.2	0.5
	8.6	8.3

In addition to the above, the audit fee payable in 2011 in respect of the 2010 audit by the Group to its current auditors is US$0.4 million.

All share-based payments are in respect of equity settled share option schemes as stated in note 28.

9. Impairment of investments and operational assets

In accordance with IAS 36 "Impairment of Assets", when events or changes in market conditions indicate that tangible or intangible assets may be impaired, such assets are reviewed in detail to determine whether their carrying value is higher than their recoverable value, which could lead to recording an impairment loss (recoverable value is the higher of value in use and fair value less costs to sell). Value in use is estimated by calculating the present value of the future cash flows expected to be derived from the asset. Fair value less costs to sell is based on the most reliable information available (market statistics, recent transactions, etc.) The discounted cash flow basis has been used to calculate a value in use for the mining operations.

When determining recoverable values of investments and property, plant and equipment, assumptions and estimates are made, based primarily on market outlooks, obsolescence and sale or liquidation disposal values. Any change in these assumptions can have a significant effect on the recoverable amount and could lead to a revision of recorded impairment losses.

9. Impairment of investments and operational assets (cont.)

30 June 2010

During the year to 30 June 2010, the Group has reviewed the carrying values of its investments and operational assets for indicators of impairment and following that assessment no impairment of investments, property, plant and equipment or reversal of impairment losses incurred in prior periods are considered appropriate. This assessment is based on the assumptions set out in notes 9.1 and 9.2. Impairments of US$nil have been recorded in 2010 (2009: Impairment loss of US$75.3 million).

30 June 2009

US$ million	Asset class	Segment	Book value	Impairment adjustment	Carrying Value
40% equity interest in Moyoweno – Angolan registered company with a 13% interest in the Alto Cuilo kimberlite exploration contract (Note 1)	Investment	Corporate administration	6.0	6.0	–
39% equity interest in the Project Luangue kimberlite exploration project (Note 2)	Intangible asset-prospecting licence	Exploration	37.1	37.1	–
Kono project (Sierra Leone)	Property, plant & equipment	Exploration	8.5	8.5	–
Helam Mining (Pty) Limited (Note 3)	Property, plant & equipment	Fissure mines	28.2	12.9	15.3*
	Mineral properties			6.3	
	UG development			3.8	
	Buildings			0.2	
	Mining property, plant & equipment			2.6	
Star Diamonds (Pty) Limited (Note 3)	Property, plant & equipment	Fissure mines	16.1	10.8	5.3
	Mineral properties			5.1	
	UG development			3.1	
	Buildings			1.2	
	Mining property, plant & equipment			1.4	
Total				75.3	

Note 1 – On 13 May 2008 Petra announced the transfer of BHP Billiton's 75% interest in the Alto Cuilo Joint Venture to Petra, with the Company taking control of the project with effect from 1 April 2008. The consideration price of US$1 was paid for the acquisition of BHP Billiton's 75% interest in the Alto Cuilo Joint Venture; no value was assigned to the assets acquired due to the Group's decision to withdraw from its exploration projects in Angola.

On 19 December 2008, Petra announced that based on the results achieved and the global weakness in financial markets that it had decided to withdraw from the Alto Cuilo project (effective end December 2008). Care and maintenance is not an option that is permissible under the Angolan contractual conditions, so Petra therefore decided to withdraw completely and its interest in Alto Cuilo will now revert (at no cost) to Endiama.

Due to the withdrawal from Angola the Company has impaired its 40% equity interest in Organizações Moyoweno – Comércio Geral, Lda. (Moyoweno), an Angolan registered company, in the Group's statement of financial position to US$nil. Moyoweno's sole asset is a 13% interest in the Alto Cuilo kimberlite exploration contract.

Note 2 – On 13 May 2008 Petra announced the transfer of BHP Billiton's 25% interest in the Luangue Joint Venture to Petra, with the Company assuming the exploration funding obligations of the project with effect from 1 May 2008. The consideration price of US$1 was paid for the acquisition of BHP Billiton's 25% interest in the Luangue Joint Venture; no value was assigned to the assets acquired due to the Group's decision to withdraw from its exploration projects in Angola. Similar to the Alto Cuilo project, Petra announced at the time of BHP Billiton's withdrawal that it would monitor the ongoing exploration results with regards to further investment.

On 2 February 2009 Petra announced that it had decided based on the ongoing exploration results and global weakness in financial markets, to withdraw from the Luangue project (effective end December 2008). As with Alto Cuilo, care and maintenance was not an option permissible under the Angolan contractual conditions, so Petra's interest in Luangue will revert to Endiama.

Note 3 – The mining operations recoverable amount was estimated on a discounted cash flow basis at a discount rate of 12% and cost escalation based on the current South African inflation rate.

* The Group's project division is housed in Helam Mining (Pty) Limited. Included in the carrying value of US$15.3 million is Group project related work in progress of US$9.8 million. Had these amounts not been included, Helam's carrying value would be US$6.3 million

9. Impairment of investments and operational assets (cont.)

9.1 Impairment testing assumptions

a) Helam Mining (Pty) Ltd and Star Diamonds (Pty) Ltd

The key assumptions used in determining the recoverable value calculations are listed in the table below in respect of the years ending 30 June 2010 and 30 June 2009:

Key assumptions	Explanation
1. Recoverable value of reserves and resources	Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to 6. below for further information.
2. Diamond prices	Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price range used in the calculations was US$90 – US$200 (30 June 2009: US$40 – US$120).
3. Discount rate	The discount rate used represents the before tax risk free rate per the RSA Government bonds adjusted for market risk and volatility.
4. Inflation rate	Long-term inflation rates of 2.5% to 10% (30 June 2009: 2.5% to 10%) per annum were used for US$ diamond prices. Long term inflation rate of 3.5% (30 June 2009: 3.5%) above the prevailing US inflation rate was used for opex and capex valuations.
5. Exchange rates	Exchange rates are based on external market consensus and after considering long term market expectations. The US$/ZAR exchange rate range used commenced at R7.60 (2009: R9.50); further devaluing at 3.5% (30 June 2009: 3.5%) per annum.
6. Life of mine	Star Diamond Mine (Pty) Ltd – 19 years (30 June 2009: 19 years) life of mine; total extractable resource 0.870mt (2009: 1.155mt) at extraction rate of 52.5ktpa (30 June 2009: 63ktpa). Helam Mining (Pty) Ltd – 21 years (30 June 2009: 20 years) life of mine; total extractable resource 2.6mt (30 June 2009: 2.6mt) at extraction rate of 125ktpa (30 June 2009: 125ktpa).
7. Stay in business capital expenditure	Management have estimated the timing of the capital expenditure based on the Group's current and future financing plans for each operation.
8. Valuation basis	Discounted present value of future cash flows.
9. Sensitivity	Management do not consider there to be any reasonable change in assumption which may give rise to any impairment loss.

9.2 Impairment tests - other mining operations

The Group performs impairment testing on an annual basis of all operations and when there are potential indicators which may require impairment. In addition to Helam Mining (Pty) Ltd and Star Diamond Mine (Pty) Ltd, the Group also performed impairment testing for Cullinan Diamond Mine (Pty) Ltd, Koffiefontein Empowerment Joint Venture, Kimberley Underground Mines Joint Venture, Sedibeng Mine Joint Venture and Williamson Diamonds Ltd. The results of the impairment testing performed did not indicate any additional impairments on the remaining mining operations. The key assumptions used in determining the recoverable value calculations are listed in the table below:

9. Impairment of investments and operational assets (cont.)

9.2 Impairment tests - other mining operations (cont.)

Key assumptions	Explanation
1. Recoverable value of reserves and resources	Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to 6 below for further information.
2. Diamond prices	Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price range used in the calculations was US$90 – US$420 (30 June 2009: US$40 – US$255).
3. Discount rate	The discount rate used for the South African operations represents the before tax risk free rate per the RSA Government bonds adjusted for market risk and volatility. The discount rate used for Williamson Diamonds Ltd represents the before tax risk free rate per the Tanzanian Government bonds adjusted for market risk and volatility.
4. Inflation rate	Long-term inflation rates of 2.5% to 10% (30 June 2009: 2.5% to 10%) per annum were used for US$ diamond prices. Long term inflation rate of 3.5% (30 June 2009: 3.5%) above the prevailing US inflation rate was used for opex and capex valuations.
5. Exchange rates	Exchange rates are based on external market consensus and after considering long term market expectations. The US$/ZAR exchange rate range used commenced at R7.60 (30 June 2009: R9.50); further devaluing at 3.5% (30 June 2009: 3.5%) per annum.
6. Life of mine	**Cullinan** – 22 years (30 June 2009: 22 years) life of mine; total extractable resource 56.6mt (30 June 2009: 71.6mt) at extraction rate of 2.6mtpa (30 June 2009: 3.25mtpa). **Koffiefontein** – 20 years (30 June 2009: +20 years) life of mine; total extractable resource 23.5mt (30 June 2009: 23.5mt) at extraction rate of 0.9mtpa (30 June 2009: 1.2mtpa). **Kimberley Mines** – 12 years (30 June 2009: 12 years) life of mine; total extractable resource 9.9mt at extraction rate of 0.8mtpa **Sedibeng** – 13 years (30 June 2009: 12 years) life of mine; total extractable resource 1.579mt (30 June 2009: 1.448mt) at extraction rate of 126ktpa (30 June 2009: 126ktpa). **Williamson Diamonds Ltd** – 18 years (30 June 2009: 19 years) life of mine: total extractable resource 158mt (30 June 2009: 992mt) at extraction rate of 8.8mtpa (30 June 2009: 7.5 – 10mtpa).
7. Stay in business capital expenditure	Management has estimated the timing of the capital expenditure based on the Group's current and future financing plans for each operation.
8. Valuation basis	Discounted present value of future cash flows.
9. Sensitivity	Management do not consider there to be any reasonable change in assumption which may give rise to any impairment loss.

10. Net financing income

US$ million	2010	2009
Interest expense on bank loans and overdrafts*	(1.6)	(0.7)
Other debt finance costs*	(8.4)	(7.5)
Unwinding of present value adjustment for rehabilitation costs	(2.6)	(1.0)
Realised foreign exchange losses	(0.1)	(0.4)
Other foreign exchange losses realised	(0.1)	–
Unrealised foreign exchange losses	(14.5)	(3.9)
Financial expense	(27.3)	(13.5)
Realised foreign exchange gains	4.5	0.1
Gain on partial settlement of long term liability	4.2	–
Other unrealised foreign exchange gains	15.3	17.4
Interest received on loans and other receivables	3.2	2.1
Interest received on bank deposits	0.4	1.1
Financial income	27.6	20.7
	0.3	7.2

*Calculated using the effective interest method in respect of financial liabilities calculated at amortised cost.

11. Taxation

US$ million	2010	2009
Current taxation		
– Current tax expense	0.1	(2.8)
Deferred taxation		
– Current period	1.1	6.2
	1.2	3.4
Reconciliation of tax rate		
Profit/(loss) before taxation from continuing and discontinued operations	69.0	(92.3)
Tax at Bermudan corporate rate of 0%	–	–
Effects of:		
Tax rates in foreign jurisdictions	(6.2)	11.9
Non-deductible expenses	(2.5)	(6.5)
Adjustment in respect of prior periods	0.2	(1.4)
Assessed losses utilised	13.5	1.5
Temporary differences	0.3	(0.7)
Assessed losses and capital allowances not utilised	(5.2)	(7.6)
Current tax charge	0.1	(2.8)
Deferred tax movement	1.1	6.2
Total tax (charge)/credit	1.2	3.4

During the year, the Group realised a taxation benefit of previously unrecognised tax losses which reduced the current taxation payable by US$1.7 million (2009: US$16,919). Previously the Group did not recognise the tax losses as deferred tax assets. Tax losses not utilised do not have an expiry period in the country in which they arise, unless the entity ceases to continue trading. Tax losses available but not utilised as at 30 June 2010 amount to US$50.6 million (30 June 2009: US$8.4 million) and primarily arise in South Africa; amounts stated include both tax losses and unredeemed capital allowances and are stated at 28% being the tax rate in South Africa.

12. Directors and employees remuneration

US$ million	2010	2009
Staff costs (excluding the Non-executive Directors) during the year were as follows:		
Wages and salaries – mining	53.9	30.5
Wages and salaries – exploration	0.5	4.1
Wages and salaries – administration	3.4	2.3
Pension	0.1	0.1
	57.9	37.0

12. Directors and employees remuneration (cont.)

The number of employees at the various mining and exploration operations (excluding the Non-executive Directors) of the Group at the end of the period was 3,701 (30 June 2009:3,519), employed as follows:

	Number	Number
Mining and exploration	3,553	3,419
Administration	148	100
	3,701	3,519

Remuneration in respect of executive and non-executive Directors was as follows:

US$ million	Base remuneration	Performance related bonus	2010 Total	2009 Total
Executive Directors				
A Pouroulis	0.2	0.1	0.3	0.2
J Dippenaar	0.3	0.3	0.6	0.4
D Abery	0.3	0.3	0.6	0.4
J Davidson	0.3	0.3	0.6	0.4
	1.1	1.0	2.1	1.4

Non-executive Directors

Non-executive directors received remuneration of US$0.1 million (30 June 2009: US$0.1 million).

Further detail in respect of Executive and Non-executive Directors remuneration during the year is disclosed in the Directors' remuneration report on pages 30 and 31.

The IFRS 2 charge relating to the Executive Directors for the year was US$0.7 million (30 June 2009: US$1.8 million). See note 28 in respect of share-based payments.

13. Earnings/(loss) per share

US$ million	Continuing operations 2010	Discontinued operations 2010	Total 2010	Continuing operations 2009	Discontinued operations 2009	Total 2009
Numerator						
Profit/(loss) for the year	63,485,409	–	63,485,409	(92,423,981)	1,557,974	(90,866,007)
Denominator						
Weighted average number of ordinary shares used in basic EPS						
As at 1 July	184,005,523	–	184,005,523	184,005,523	184,005,523	184,005,523
Effect of shares issued during the period	96,241,934	–	96,241,934	–	–	–
As at 30 June	280,247,457	–	280,247,457	184,005,523	184,005,523	184,005,523
Shares						
Dilutive effect of potential ordinary shares	5,717,632	–	5,717,632	–	–	–
Weighted average number of ordinary shares in issue used in diluted EPS	285,965,089	–	285,965,089	184,005,523	184,005,523	184,005,523

13. Earnings/(loss) per share (cont.)

US cents	Continuing operations 2010	Discontinued operations 2010	Total 2010	Continuing operations 2009	Discontinued operations 2009	Total 2009
Basic profit / (loss) per share – cents	22.65	–	22.65	(50.23)	0.86	(49.38)
Diluted profit / (loss) per share – cents	22.20	–	22.20	(50.23)	0.86	(49.38)

In the current year, the number of potentially dilutive ordinary shares applied in the earnings per share calculation, in respect of employee share options and warrants is 5,717,632. These potentially dilutive ordinary shares may have a dilutive effect on future earnings per share.

In the prior year the diluted loss per share was the same as basic loss per share. The number of potentially dilutive ordinary shares, in respect of employee share options, warrants and convertible bonds was 24,452,000. These potentially dilutive ordinary shares may have had a dilutive effect on future earnings per share but were not included in the calculation of diluted earnings per share as they were anti-dilutive.

14. Property, plant and equipment

US$ million	Plant and machinery mining assets***	Plant and machinery exploration assets	Computers and office equipment exploration assets	Motor vehicles exploration assets	Mineral properties mining assets**	Assets under construction mining assets****	Assets advanced to project Alto Cuilo	Total
Cost								
Balance at 1 July 2008	64.0	1.2	1.1	0.2	34.4	3.3	5.8	110.0
Exchange differences	(1.3)	–	–	–	(0.1)	1.9	–	0.5
Business combination*****	86.4	–	–	–	9.8	–	–	96.2
Feasibility production revenue*	–	–	–	–	(9.4)	–	–	(9.4)
Feasibility production expenditure*	–	–	–	–	15.6	–	–	15.6
Additions	22.1	–	0.3	–	–	13.3	1.1	36.8
Disposals	(0.5)	–	(0.3)	–	–	–	–	(0.8)
Transfer to non-current liabilities as set off against JV partner loan	(7.6)	–	–	–	–	–	–	(7.6)
Impairment charge	(20.3)	–	–	–	(11.2)	–	(0.8)	(32.3)
Balance at 30 June 2009	**142.8**	**1.2**	**1.1**	**0.2**	**39.1**	**18.5**	**6.1**	**209.0**
Balance at 1 July 2009	142.8	1.2	1.1	0.2	39.1	18.5	6.1	209.0
Exchange differences	1.3	–	–	–	(0.8)	0.4	0.3	1.2
Business combination*****	95.4	–	–	–	71.3	6.4	–	173.1
Feasibility production revenue*	–	–	–	–	(14.4)	–	–	(14.4)
Feasibility production expenditure*	–	–	–	–	22.2	–	–	22.2
Additions	19.1	–	0.1	–	–	6.3	–	25.5
Disposals	(0.5)	–	–	–	–	–	(6.4)	(6.9)
Balance at 30 June 2010	**258.1**	**1.2**	**1.2**	**0.2**	**117.4**	**31.6**	**–**	**409.7**

14. Property, plant and equipment (cont.)

US$ million	Plant and machinery mining assets***	Plant and machinery exploration assets	Computers and office equipment exploration assets	Motor vehicles exploration assets	Mineral properties mining assets**	Assets under construction mining assets****	Assets advanced to project Alto Cuilo	Total
Depreciation								
Balance at 1 July 2008	9.1	(0.1)	0.1	0.1	7.0	–	2.9	19.1
Exchange differences	1.4	–	–	–	0.1	–	–	1.5
Disposals	(0.1)	–	–	–	–	–	–	(0.1)
Provided in the year	8.0	–	0.1	–	0.9	–	2.7	11.7
Balance at 30 June 2009	18.4	(0.1)	0.2	0.1	8.0	–	5.6	32.2
Balance at 1 July 2009	18.4	(0.1)	0.2	0.1	8.0	–	5.6	32.2
Exchange differences	0.5	–	–	–	0.2	–	0.2	0.9
Disposals	(0.3)	–	–	–	–	–	(5.8)	(6.1)
Provided in the year	11.0	–	0.2	–	0.5	–	–	11.7
Balance at 30 June 2010	29.6	(0.1)	0.4	0.1	8.7	–	–	38.7
Net book value								
At 30 June 2009	124.4	1.3	0.8	0.1	31.1	18.5	0.5	176.7
At 30 June 2010	228.5	1.3	0.8	0.1	108.7	31.6	–	371.0

* Feasibility production expenditure and revenue are in respect of the Williamson Diamond mine feasibility study as disclosed in note 1.24.
** Mineral properties are in respect of various mines within the Group and the useful life, based on life of mine plans is disclosed in note 1.4.
*** The mining assets are secured against the loan facility disclosed in note 22.
**** Assets under construction include refurbishments of mining property, plant and equipment at the Cullinan, Kimberley Underground, Koffiefontein and Williamson mines. The Group had contractual commitments of US$0.3 million (30 June 2009: US$nil) in respect of assets under construction at year end.
***** See additional information in note 1.4 in respect of pre-acquisition costs capitalised at the Kimberley Underground Mine.

There are no contracted capital commitments as at 30 June 2010 (30 June 2009: US$nil).

15. Intangible assets – prospecting licences

US$ million	Total
Cost	
Balance at 1 July 2008	51.6
Exchange differences	(0.1)
Impairment of Project Luangue	(37.0)
Balance at 30 June 2009	14.5
Balance at 1 July 2009 and 30 June 2010	14.5
Amortisation	
Balance at 1 July 2008	(9.8)
Exchange differences	(0.4)
Provided in the year	(3.3)
Balance at 30 June 2009	(13.5)
Balance at 1 July 2009	(13.5)
Exchange differences	–
Provided in the year	(1.0)
Balance at 30 June 2010	(14.5)
Net book value	
At 30 June 2009	1.0
At 30 June 2010	–

15. Intangible assets – prospecting licences (cont.)

Country US$ million	Project	Development	Period years	2010 Amount	2009 Amount
Prospecting licences:					
Angola[1]	Luangue	Terminated	–	–	–
Botswana	Kalahari	Early stage	–	–	1.0
Net book value at 30 June			–	–	1.0

[1] Prospecting licences at Project Luangue have been fully impaired in the prior year as a result of the Group's decision to withdraw from all exploration projects in Angola, as disclosed in note 9.

16. Investments in associates and joint ventures

Interests in associates

	Country	Ownerships 2010	Ownerships 2009
At year end the Group had interests in the following companies:			
Namibia Mining House (Pty) Ltd	Namibia	35.0%	35.0%
Nabera Mining (Pty) Ltd	South Africa	29.5%	29.5%
Organizações Moyoweno - Comércio Geral Lda	Angola	40.0%	40.0%

Summary of financial statements of associates US$ million	Assets	Liabilities	Equity	Revenues	(Loss) after tax
2010					
Namibia Mining House (Pty) Ltd	–	–	–	–	–
Nabera Mining (Pty) Ltd	–	(1.1)	1.0	–	(0.1)
Organizações Moyoweno – Comércio Geral Lda	0.8	(0.4)	(0.4)	–	(0.1)
2009					
Namibia Mining House (Pty) Ltd	–	–	–	–	–
Nabera Mining (Pty) Ltd	–	(0.9)	0.9	–	–
Organizações Moyoweno – Comércio Geral Lda	0.8	(0.4)	(0.4)	–	(0.1)

US$ million	2010	2009
If the investments in associates had been included at cost, they would have been included at the following amounts:		
Cost	–	27.1
Amounts written off	–	(21.1)
Impairment provision	–	(6.0)
Net book amount	–	–

The initial investments by the Group in Namibia Mining House (Pty) Limited, Nabera Mining (Pty) Limited and Organizações Moyoweno – Comércio Geral Lda (Moyoweno) have all been impaired in full in prior periods. Moyoweno's financial year end is 31 December, the statutory reporting period for companies based in Angola, and its primary asset is a 13% investment in the Alto Cuilo project in Angola, from which the Group withdrew in the year ending 30 June 2009. Interim financial information for Moyoweno has been used as at year end for the Group.

Interest in joint ventures

Name of joint venture	Effective percentage 2010 %	Effective percentage 2009 %	Nature of business	Country of incorporation	Functional currency
Cullinan Investment Holdings Ltd	100	50	Investment in diamond mining operations	British Virgin Islands	US$

16. Investments in associates and joint ventures (cont.)

On 17 November 2009, the Company acquired Al Rajhi Holdings W.L.L.'s 50% interest in CIHL, which in turn increased Petra's direct ownership in the mine to 74%, as disclosed in note 3(a). The Group now has a 100% interest in CIHL, which has a 74% interest in and controls the Cullinan operations; CIHL consolidates the Cullinan operations within its books and reflects a 26% non-controlling interest and therefore the Group now indirectly consolidates the Cullinan mine as a subsidiary with a 26% non-controlling interest. Prior to 17 November 2009 the Group used the gross method of proportional consolidation and presented the information set out below.

The following is the Group's interest in the statement of financial position and income statement of the joint venture as extracted from their financial statements:

US$ million	2010	2009
Balance sheet information		
Non–current assets	–	93.5
Current assets	–	23.6
Total assets	–	117.1
Non-current liabilities	–	66.8
Current liabilities	–	8.7
Total liabilities	–	75.5
Total shareholders' equity	–	41.6
Total equity and liabilities	–	117.1
Income statement information		
Revenue	14.1	25.6
Expenses	(12.5)	(23.5)
	1.6	2.1
Net financing costs	(4.5)	(3.0)
	(2.9)	(0.9)
Taxation	–	2.4
Net (loss)/profit	(2.9)	1.5

The Group's interest in the joint venture's approved capital projects and contingent liabilities at year end amounted to US$nil (30 June 2009: US$12.4 million) and US$nil (30 June 2009: US$nil).

17. Available for sale financial assets

US$ million	2010	2009
Balance at 1 July	–	–
Acquisition	0.9	–
Fair value adjustment taken to other reserves	(0.1)	–
Balance at 30 June	0.8	–

As a result of the disposal of Petra's interest in the Kono project, the Company received 4,500,000 Stellar Diamonds PLC ("Stellar") ordinary shares at a price of £0.14 per share, equivalent to 4.45% of Stellar's total share capital, was translated to a total fair value of £0.6 million (US$0.9 million) on initial recognition. The Company has written down its investment in Stellar to the market value of the shares at 30 June 2010 of £0.6 million which translates to a total fair value of US$0.8 million. The movement of US$0.1 million was taken to other reserves.

18. Inventories

US$ million	2010	2009
Diamonds held for resale	15.0	6.5
Work in progress stockpiles	9.6	4.2
Consumables and stores	4.8	4.5
Livestock	0.1	0.1
	29.5	15.3
Provision for impairment of slow moving consumables and stores	(0.1)	(0.5)
	29.4	14.8

For the 12 month period ending 30 June 2010, diamonds (inventories held for resale) with a value of US$6.5 million (30 June 2009: US$3.4 million) are carried at the lower of cost and net realisable value, resulting in a charge to the income statement of US$0.3 million.

19. Trade and other receivables

US$ million	2010	2009
Current		
Trade receivables	2.9	3.2
Other receivables[1]	12.6	8.5
Prepayments[2]	8.0	7.2
	23.5	18.9
Non-current		
Rehabilitation guarantee[3]	0.2	0.1
Black Economic Empowerment partners	32.0	19.6
	32.2	19.7

1 Included within other receivables are amounts related to funding advanced to joint venture Black Economic Empowerment partners on the Koffiefontein Mine assets of US$2.6 million (30 June 2009: US$3.8 million), rehabilitation deposits for Cullinan Diamond Mine (Pty) Ltd of US$5.2 million (30 June 2009: US$2.1 million) and Value Added Tax refunds of US$4.9 million (30 June 2009: US$2.3 million) receivable. The rehabilitation deposit is available to the Group upon successful rehabilitation of the Cullinan mine.

2 Included within prepayments is US$4.6 million (30 June 2009: US$6.0 million) relating to a deposit paid for further investment in the Group's South African projects. The original US$6 million payment, which will be deducted in full from any future acquisition consideration, was made by a Group company with Pounds Sterling as its functional currency, resulting in unrealised exchange rate fluctuations in the US Dollar equivalent for presentational purposes only.

3 The rehabilitation guarantee comprises an insurance risk policy which will be recovered upon the successful rehabilitation at the Sedibeng Diamond Mine operation.

The financial assets classified as loans and receivables included in receivables are as follows:

US$ million	2010	2009
Current trade receivables	2.9	3.3
Other receivables (excluding VAT)	8.9	6.2
Non-current trade receivables	32.2	19.6
	44.0	29.1

The trade receivables are all due within normal trading terms and there are no trade receivables classified as past due. Trade receivables are due within 2 days of awarding the rough diamond sales tender to the successful bidder. No other receivables are considered to be past due or impaired.

The carrying values of these loans and receivables are denominated in the following currencies:

US$ million	2010	2009
Pound sterling	1.9	4.8
South African rand	39.1	21.4
US Dollars	3.0	2.9
	44.0	29.1

20. Cash

US$ million	2010	2009
Cash and cash equivalents – unrestricted	24.8	6.7
Cash – restricted	9.7	4.4
	34.5	11.1

As security for the Group's rehabilitation obligations at Helam Mining (Pty) Ltd (Helam), Star Diamond Mine (Pty) Ltd, Sedibeng Mine JV and Kimberley Underground Mines JV the Company has ceded US$9.7 million (30 June 2009: US$4.4 million) in a fixed deposit. The restricted cash will return to the Group's sole control when a suitable financial product is put in place which meets with the approval of the Department of Mineral Resources ("DMR"). The rehabilitation guarantees are disclosed under note 24.

A controlled entity, Helam, has a R10 million (US$1.3 million) (30 June 2009: R10 million (US$1.2 million)) overdraft facility with First National Bank, a division of FirstRand Bank Limited. At year end the overdraft, was not utilised. At 30 June 2009, an amount of R8.5 million (US$1.1 million) was drawn down. When utilised, the overdraft is set-off against other cash balances held with First National Bank as it forms part of the Group's operational cash balances. The weighted average interest rate for the overdraft as at 30 June 2010 is nil% (30 June 2009: 10.47%). For additional facilities available to the Group refer to note 22(iv).

21. Issued capital

US$ million	Number of shares	2010	Number of shares	2009
Authorised – ordinary shares of 10p each				
As at 1 July 2009 and 30 June 2010	400,000,000	76.3	300,000,000	60.1
Issued and fully paid				
At 1 July	184,005,523	33.5	184,005,523	36.7
Retranslation of allotments prior periods	–	–	–	(3.2)
Restated at 1 July	184,005,523	33.5	184,005,523	33.5
Allotments during the year	168,797,498	27.9	–	–
At 30 June	352,803,021	61.4	184,005,523	33.5

Allotments during the year were in respect of 121,200,000 shares issued as part of a capital fund raising exercise, the issue of 36,000,000 shares as part consideration for the acquisition of an additional 50% interest in Cullinan Investment Holdings Ltd, the issue of 11,363,636 shares in respect of a US$15 million loan repayment and the exercise of 233,862 share options held by employees.

There were no allotments in the prior year.

Warrants

Holder	Expiry	Exercise price	2010 Number of warrants	2009 Number of warrants
Canaccord Genuity	17 December 2011	80p	4,092,777	–
RBC Capital Markets	17 December 2011	80p	1,364,259	–
Al Rajhi Holdings W.L.L.	05 October 2009	130p	–	2,000,000

As part of the capital fund raising exercise undertaken by the Company during the year, 4,092,777 and 1,364,259 warrants over ordinary shares, exercisable at 80p per warrant were issued to Canaccord Genuity and RBC Capital Markets respectively.

The warrants held by Al Rajhi Holdings W.L.L expired on 5 October 2009.

The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

21. Issued capital (cont.)

Employee share options Holder	Shares	Exercise price	Expiry
Directors			
A Pouroulis	500,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	250,000	27.5p	12 March 2019
	100,000	45.5p	30 September 2019
	100,000	60.5p	16 March 2020
D Abery	500,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	750,000	27.5p	12 March 2019
	350,000	45.5p	30 September 2019
	350,000	60.5p	16 March 2020
J Dippenaar	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	750,000	27.5p	12 March 2019
	350,000	45.5p	30 September 2019
	350,000	60.5p	16 March 2020
J Davidson	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	750,000	27.5p	12 March 2019
	350,000	45.5p	30 September 2019
	350,000	60.5p	16 March 2020
Senior Management	172,000	44.0p	5 September 2013
	50,000	56.75p	13 September 2014
	192,000	46.5p	24 September 2014
	57,500	56.5p	28 January 2015
	312,266	65.75p	27 November 2015
	350,516	79.5p	31 May 2016
	507,718	96p	31 July 2016
	5,570,001	27.5p	12 March 2019
	2,496,000	45.5p	30 September 2019
	3,290,000	60.5p	16 March 2020
Total	21,798,001		

The current number of shares reserved for issue under the share option scheme is 21,798,001, the terms and conditions of which are disclosed in note 28.

22. Interest bearing loans and borrowings

US$ million	2010	2009
Current		
Bank loan – secured (i)	0.1	–
Bank loan – secured (ii)	0.3	0.6
Bank loan – secured (iii)	–	0.5
Bank loan – secured (iv)	–	8.1
Bank loan – secured (v)	–	3.1
Loan – secured (vi)	–	9.3
Convertible bond – unsecured (vii)	–	19.6
Loan unsecured (viii)	–	2.6
Loan unsecured (ix)	–	9.8
Loan unsecured (x)	–	3.8
Loan unsecured (xi)	17.0	–
	17.4	57.4
Non-current		
Bank loan – secured (i)	0.1	0.1
Bank loan – secured (ii)	–	0.4
Bank loan – secured (iii)	–	–
Loan – unsecured (xi)	15.0	43.4
Deferred consideration (xii)	32.0	–
Associate loans	–	0.4
	47.1	44.3

(i) Bank loans - secured

First National Bank

Helam has a term loan facility with First National Bank and at year end an amount of R0.9 million (US$0.2 million) (30 June 2009: R1.2 million (US$0.1 million)) was drawn on the loan, R0.4 million (US$0.06 million) (30 June 2009: R0.3 million (US$0.04 million)) payable within the next 12 months and R0.5 million (US$0.06 million) (30 June 2009: R0.9 million (US$0.1 million)) payable over a period of two years. The effective interest rate for the term loan at 30 June 2010 was 9.92% (30 June 2009: 10.47%) and the final installment is due on 30 November 2012.

The above facilities are secured against properties of Helam for up to R7.9 million (US$1.0 million) (30 June 2009: R7.9 million (US$1.0 million)) and a R8.0 million (US$1.1 million) (30 June 2009: R8.0 million (US$1.0 million)) general notarial bond over moveable assets along with unlimited letters of suretyship from Star Diamonds (Pty) Ltd and Messina Diamonds (Pty) Ltd and a letter of joint suretyship for R2.0 million (US$0.3 million) (30 June 2009: R2.0 million (US$0.3 million)) from Directors Mr J Dippenaar and Mr J Davidson. The facilities with First National Bank are subject to annual review.

(ii) Bank loan – secured

Industrial Development Corporation of South Africa

The Sedibeng Mine Joint Venture ("Sedibeng JV"), which comprises subsidiaries of the Company, Messina Diamonds (Pty) Ltd ("Messina") and Dancarl Diamonds (Pty) Ltd ("Dancarl"), has a loan facility of R30.0 million (US$3.9 million) (30 June 2009: R30.0 million (US$3.8 million)) with the Industrial Development Corporation of South Africa ("IDC") to fund future capital expenditure at the Messina and Dancarl mines. The drawdown value of the loan facility at 30 June 2010 is R2.2 million (US$0.3 million) (30 June 2009: R8.2 million (US$1.0 million), R2.2 million (US$0.3 million) (30 June 2009: R4.7 million (US$0.6 million)) payable within the next 12 months and Rnil (US$nil) (30 June 2009: R3.6 million (US$0.4 million)) payable over a period greater than 12 months. The loan is repayable over 60 months at 0.5% below the prevailing South African prime lending interest rate. The effective interest rate for the loan facility at 30 June 2010 is 9.92% (30 June 2009: 10.47%) and the final installment is due on 1 October 2010.

As security for the loan, Messina has signed suretyship as co-principal debtor and registered a general notarial bond over Messina's moveable assets in favour of the IDC.

22. Interest bearing loans and borrowings (cont.)

(iii) Bank loan – secured

Rand Merchant Bank

On 1 August 2009, a controlled entity, Autumn Star Investment Holdings (Pty) Ltd ("Autumn Star") settled its loan with FirstRand Ltd ("FirstRand"). Autumn Star and Messina Investments Ltd have been released from the suretyship signed for the loan in favour of FirstRand. The Group's borrowings at 30 June 2009 were US$0.5 million with an effective interest rate of 10.47%.

(iv) Bank loans - secured

First National Bank

The Company's South African subsidiaries have a total loan facility of R70.0 million (US$9.1 million) (30 June 2009: R67.9 million (US$8.6 million)) with First National Bank of which Rnil (US$nil) (30 June 2009: R63.8 million (US$8.1 million)) was drawn down at 30 June 2010.

In the prior period the loan facility was split into a fixed and variable portion of R50.0 million (US$6.3 million) and R17.9 million (US$2.3 million) respectively of which the fixed facility drawn down was R50.0 million (US$6.3 million) and the variable facility R13.8 million (US$1.8 million). The effective interest rate for the loan facility at 30 June 2009 was 12.68%. The loan facility is subject to annual review.

The above facility is secured by a guarantee issued by the Company, suretyships from Star Diamonds (Pty) Ltd, Helam Mining (Pty) Ltd, Sedibeng Mine JV and Blue Diamond Mines (Pty) Ltd and cessions of intergroup loans payable in favour of First National Bank.

In the prior year, as a result of the impairment detailed in note 9, the Group was in technical default on a covenant regarding net assets on one of its loans. The bank was fully aware of this issue and no formal waiver was requested or issued. The facility remained unchanged as a result of the breach and repayment was not accelerated.

(v) Bank loan – secured

Board of Executors

On 17 December 2009, a controlled entity, Premier Rose Management Services (Pty) Ltd, settled its loan facility (capital and interest) of R51.4 million (US$6.7 million) with the Board of Executors Stockbrokers (Pty) Ltd (BoE). The Group's attributable exposure to the facility at 30 June 2009 was R24.5 million ($3.1 million) and the effective interest rate was 10.47%. The loan was proportionately consolidated at 30 June 2009 based on the Group's 50% interest in Cullinan Investment Holdings Ltd before being fully consolidated from 17 November 2009 following the acquisition of the remaining 50% interest.

(vi) Loan – secured

Cheviot Holdings Limited

On 18 March 2010 the Company settled its loan (capital and interest) of US$9.5 million (30 June 2009: US$9.3 million) with Cheviot Holdings Ltd (Cheviot). The Group's borrowings at 30 June 2009 were US$9.3 million with an effective interest rate of 8.59%.

(vii) Convertible bond – unsecured

On 18 December 2009 the Company settled the US$20.4 million outstanding balance of its unsecured interest free convertible bond ("the Convertible"). The effective interest rate on the Convertible bond was 7.48% (30 June 2009: 7.48%). The Warrants over 2,000,000 Petra shares at 130 pence per share issued to the holder of the Convertible expired on 5 October 2009.

22. Interest bearing loans and borrowings (cont.)

US$ million	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Movements in convertible notes and bond	Number	Number		
Balance at beginning of year	7,677,337	7,677,337	19.6	18.2
Interest accreted for the year	–	–	0.8	1.4
Repaid during the year	(7,677,337)	–	(20.4)	–
Balance at the end of year	–	7,677,337	–	19.6

(viii) Loan – unsecured

Umnotho Wesizwe Group (Pty) Ltd

On 11 December 2009, a controlled entity, Petra Diamonds Southern Africa (Pty) Ltd, settled its loan (capital and interest) of R20.9million (US$2.7 million) with the Umnotho Wesizwe Group (Pty) Ltd. The Group's borrowings at 30 June 2009 were R20.4 million (US$2.6 million) with an effective interest rate of 11.02%.

(ix) Loan – unsecured

Cullinan Investment Holdings Ltd

Prior to the Group acquiring 100% of Cullinan Investment Holdings Ltd ("CIHL") on 19 December 2009, the Group had a loan owing to CIHL of US$19.8 million being its portion outstanding in respect of the contributions to the Cullinan Investment Holdings Ltd Joint Venture. The Group's net exposure to the loan was US$9.8 million and the loan bore interest at 8% per annum simple interest non-compounding. Following the acquisition of CIHL, there is no external debt exposure to the Group.

(x) Loan – unsecured

Cullinan Diamond Mine (Pty) Ltd

During the year, a controlled entity, Petra Diamonds Southern Africa (Pty) Ltd, settled its loan of R59.1 million (US$7.7million) with the Cullinan Diamond Mine (Pty) Ltd. The Group's borrowings at 30 June 2009 were R59.1million (US$3.8 million) with an effective interest rate of 7.02%. The Group's borrowings at 30 June 2009 arose as Cullinan Diamond Mine (Pty) Ltd, which was proportionately consolidated by the Group based on its 50% joint venture interest, provided a loan to Petra Diamonds Southern Africa (Pty) Ltd.

(xi) Loan – unsecured

Al Rajhi Holdings W.L.L

The Company, has a loan of US$32.0 million (30 June 2009: US$86.6 million) with Al Rajhi Holdings W.L.L. The Group's exposure to the loan is US$32.0 million (30 June 2009: US$43.3 million, it was previously a 50% joint venture share). The loan bears interest at 8% (30 June 2009: 8%) per annum simple interest non-compounding. The loan is repayable as to US$17.0 million by 30 December 2010 and US$15 million by 30 December 2011.

(xii) Deferred consideration

Al Rajhi Holdings W.L.L

As part of the consideration for the acquisition of Al Rajhi's 50% interest in CIHL a deferred consideration of US$35.0 million is payable by December 2011. The deferred consideration has been discounted over a period of 24 months using a discount factor of 6%. The discounted deferred consideration balance is being accreted over the period of 24 months to the full settlement value of US$35.0 million. The deferred consideration balance is US$32.0 million (30 June 2009:US$nil)

There are no significant differences between the fair value and carrying value of loans and borrowings.

23. Trade and other payables

US$ million	2010	2009
Current		
Trade payables	9.4	7.3
Deferred consideration (i)	2.9	2.9
Accruals	16.9	13.5
	29.2	23.7
Taxation payable	1.1	2.8
	30.3	26.5
Non-current		
Amounts owing to Black Economic Empowerment Partners	23.2	19.1
	23.2	19.1

Current

(i) The Group is liable to pay US$3.2 million (US$2.9 million after deducting the deferred consideration discount) being the balance of the Helam Mining (Pty) Ltd purchase price which is payable from 50% of the cash surplus generated by Helam Mining (Pty) Ltd for the years ending 31 December 2006 and 2007.

Any shortfall in the amount payable in any one year can be carried forward to the next year until such time that the total amount payable of US$2.9 million has been extinguished. At year end no portion of the liability had been repaid and the total liability will be carried forward to June 2011.

The financial liabilities included in trade and other payables (which exclude taxation) are as follows:

US$ million	2010	2009
Trade payables	9.4	7.3
Other payables (includes deferred consideration)	19.8	16.5
Non-current trade payables owing to Black Economic Empowerment Partners	23.2	19.1
	52.4	42.9
The carrying values of financial liabilities classified as other liabilities are denominated in the following currencies:		
Botswana pula	0.1	0.1
Pound sterling	1.0	0.2
South African rand	41.7	37.0
US Dollar	9.6	5.6
	52.4	42.9

24. Provisions

US$ million	Post retirement medical fund and income tax	Rehabilitation	Total
Balance at 1 July 2008	–	12.1	12.1
Arising on business combination	2.0	17.9	19.9
Increase in provisions	2.2	–	2.2
Revaluation of environmental rehabilitation liability due to change in assumptions adjusted against assets	–	0.1	0.1
Revaluation of environmental rehabilitation liability due to change in assumptions adjusted in income statement	–	(4.6)	(4.6)
Unwinding of present value adjustment of rehabilitation provision	–	1.1	1.1
Forex movement	–	(0.6)	(0.6)
Balance at 30 June 2009	4.2	26.0	30.2
Current	2.2	–	2.2
Non-current	2.0	26.0	28.0
Balance at 30 June 2009	4.2	26.0	30.2
Balance at 1 July 2009	4.2	26.0	30.2
Arising on business combination	2.3	15.8	18.1
Increase in provisions	0.9	–	0.9
Unwinding of present value adjustment of rehabilitation provision	–	2.5	2.5
Forex movement	0.1	0.4	0.5
Balance at 30 June 2010	7.5	44.7	52.2
Current	2.2	–	2.2
Non-current	5.3	44.7	50.0
Balance at 30 June 2010	7.5	44.7	52.2

Employee entitlements and other provisions

The provisions relate to provision for an unfunded post retirement medical fund and income tax. The provision for the post retirement medical fund is further disclosed in note 35. The provision for taxation is based on estimates made, where appropriate, from historical information. In the current period, the Group has amended the presentation of employee entitlements and performance bonuses which the Group expects to incur within the next 12 months. The Group has presented these amounts as accruals, disclosed in note 23 which is considered a more appropriate presentation for the user of these financial statements. As a result, certain current provisions as at 30 June 2009 are now included within accruals. Following the restatement of the 2009 comparatives, a consolidated statement of financial position would ordinarily be required by IAS 1, "Presentation of financial statements", as at the beginning of the earliest comparative period presented. However, given that this restatement has been fully disclosed and has no impact on either the overall consolidated profit for the year ended 30 June 2009 or the consolidated statement of financial position as at 1 July 2008, the Directors do not believe that the inclusion of an additional consolidated statement of financial position as at 30 June 2008 would provide any additional useful information so, accordingly, have not presented it in these financial statements.

24. Provisions (cont.)

Rehabilitation

The provision is the estimated cost of the environmental rehabilitation at each site, which is based on current legal requirements and existing technology. The Group expects to incur rehabilitation expenditure at Koffiefontein Mine of US$6.4 million (30 June 2009: US$5.7 million), during its useful life of 20 years, Cullinan Diamond Mine of US$15.5 million (30 June 2009: US$6.9 million) during its useful life of 22 years, Kimberley Underground Mines of US$8.3 million (30 June 2009: US$nil) during its useful life of 12 years, Williamson Diamond Mine of US$12.1 million (30 June 2009: US$11.5 million) during its useful life of 18 years and rehabilitation expenditure at Helam Mining (Pty) Ltd, Star Diamond Mine (Pty) Ltd and Sedibeng Mine JV (the fissure mines) of US$2.4 million (30 June 2009: US$1.9 million) during the useful life of the fissure mines which is approximately 21 years, from the date of this report. The majority of the rehabilitation expenditure is expected to be incurred at the end of the life of mines. Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in notes 19 and 20.

During the prior year, the Group commissioned an independent review of its rehabilitation liabilities at all of its mines (other than Williamson that was acquired during the year). As a result of the review, US$4.6m was released to the income statement in accordance with IFRIC 1.

25. Deferred taxation

US$ million	2010	2009
Balance at beginning of the year	7.4	13.1
Adjustment as a result of business combination	24.1	1.3
Income statement (credit)/charge	(1.1)	(6.2)
Foreign currency translation difference	(0.1)	(0.8)
Balance at the end of year	30.3	7.4

Deferred taxation comprising:

		2010	
US$ million	Total	Recognised	Unrecognised
Deferred tax liability:			
– Capital allowances	72.0	64.3	7.7
– Provisions and accruals	–	–	–
– Prepayments and accruals	0.3	–	0.3
– Forex allowances	1.4	0.3	1.1
	73.7	64.6	9.1
Deferred tax asset:			
– Capital allowances	(37.7)	(27.4)	(10.3)
– Provisions and accruals	(7.3)	(6.7)	(0.6)
– Prepayments and accruals	–	–	–
– Forex allowances	(1.0)	–	(1.0)
– Tax losses	(13.0)	(0.2)	(12.8)
	(59.0)	(34.3)	(24.7)
	14.7	30.3	(15.6)

25. Deferred taxation (cont.)

US$ million	Total	2009 Recognised	Unrecognised
Deferred tax liability:			
– Capital allowances	9.6	9.6	–
– Provisions and accruals	–	–	–
– Prepayments and accruals	–	–	–
– Forex allowances	0.2	0.2	–
	9.8	9.8	–
Deferred tax asset:			
– Capital allowances	(3.4)	–	(3.4)
– Provisions and accruals	(0.3)	(0.2)	(0.1)
– Prepayments and accruals	–	–	–
– Forex allowances	(1.7)	(1.7)	–
– Tax losses	(5.0)	(0.5)	(4.5)
	(10.4)	(2.4)	(8.0)
Net deferred tax liability/(asset)	0.6	7.4	(8.0)

Deferred taxation schedule of movements:

US$ million	Total	Income statement	Statement of financial position
Deferred tax liability:			
– Capital allowances	54.7	35.6	19.1
– Provisions and accruals	-	-	-
– Prepayments and accruals	-	-	-
– Forex allowances	0.1	0.1	-
Deferred tax asset:			
– Capital allowances	(27.4)	(24.9)	(2.5)
– Provisions and accruals	(6.5)	(6.5)	-
– Prepayments and accruals	-	-	-
– Forex allowances	1.2	1.1	0.1
– Tax losses	0.9	0.9	-
Net deferred tax liability movement	23.0	6.3	16.7
Less deferred tax adjustment for CIHL inventory fair value uplift[1]		(7.4)	
Income statement credit		(1.1)	

[1] The deferred tax adjustment of US$7.4 million is in respect of a deferred tax asset raised by the Group on inventory that has been fair valued at the date of acquiring the additional 50% in CIHL. Subsequent to the acquisition, the inventory was sold and the deferred tax liability released.

26. Financial instruments

Exposures to currency, credit and interest rate risk arise in the normal course of the Group's business. The Group may from time to time use financial instruments to help manage these risks. The Directors review and agree policies for managing each of these risks. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

The details of the categories of financial instruments of the Group are as follows:

US$ million	2010	2009
Financial assets:		
Loans and receivables:		
– Non-current trade receivables	32.2	19.6
– Trade receivables	2.9	3.3
– Other receivables	13.7	8.5
– Cash – restricted	9.7	4.4
– Cash and cash equivalents – unrestricted	24.8	6.6
Available for sale financial assets (level 1 valuation)	0.8	–
	84.1	42.4
Financial liabilities:		
Held at amortised cost:		
– Non-current amounts owing to Black Economic Empowerment Partners	23.2	19.1
– Loans and borrowings	64.5	101.7
– Trade and other payables (includes deferred consideration)	30.3	13.4
	118.0	134.2

There is no significant difference between the fair value of financial assets and liabilities and the carrying values set out in the table above. Available for sale financial assets are valued based on the share price at the reporting date. A loss of US$0.1 million has been recognised in the statement of comprehensive income in respect of the write down of the available for sale financial assets to fair value.

Fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels. The only financial instrument held by the Group that is carried at fair value is the available for sale financial asset which is valued using level 1 of the hierarchy.

26. Financial instruments (cont.)

The currency profile of the Group's financial assets and liabilities is as follows:

US$ million	2010	2009
Financial assets:		
Botswana pula	0.1	–
Pound sterling	6.5	4.8
South African rand	58.9	30.2
US dollar	18.6	7.4
	84.1	42.4
Financial liabilities:		
Botswana pula	0.1	0.1
Pound sterling	1.0	0.2
South African rand	42.2	43.7
US dollar	74.7	90.2
	118.0	134.2

The Group is exposed through its operations to one or more of the following risks:

- Credit risk;
- Foreign exchange risk;
- Liquidity risk;
- Interest rate risk; and
- Other market price risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables;
- Cash
- Trade and other payables;
- Loans and borrowings including convertible bonds; and
- Hedging instruments.

Credit risk

The Group sells its rough diamond production through a tender process on a recognised bourse. This mitigates the need to undertake credit evaluations. Where production is not sold on a tender basis the Directors undertake suitable credit evaluations before passing ownership of the product.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the statement of financial position. The financial assets are carried at amortised cost, with no indication of impairment. The Group considers the credit quality of loans and receivables that are neither past due nor impaired to be good.

The Group cash balances are deposited with reputable banking institutions within the countries in which it operates. Excess cash is held in overnight call accounts and term deposits ranging from 7 to 30 days. Refer to note 20 for restricted cash secured in respect of rehabilitation obligations. At year end the Group had undrawn borrowing facilities of US$10.4 million.

26. Financial instruments (cont.)

Derivatives

Derivative financial instruments represent forward exchange contracts entered into the hedge the Company's future diamond sales and entity acquisitions. At year end the Company had US$0.6 million (30 June 2009: US$nil) in open forward exchange contracts and an unrealised foreign exchange loss of US$0.1 million (30 June 2009: US$0.2 million) was taken to the income statement.

The following amounts in respect of derivative financial instruments have been included in equity:

US$ million	2010	2009
Opening balance	–	0.1
Recognised directly in equity	–	(0.1)
Closing balance	–	–

Foreign currency risk

Foreign exchange risk arises because the Group has operations located in parts of the world where the functional currency is not the same as the Group's primary functional currency of US dollars. The Group's net assets arising from its foreign operations are exposed to currency risk resulting in gains and losses on translation into US dollars. Only in exceptional circumstances will the Group consider hedging its net investments in foreign operations, as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. The policy of the Group is, where possible, to allow Group entities to settle liabilities denominated in their local currency with the cash generated from their own operations in that currency. In the case of the funding of non-current assets such as projects to expand productive capacity entailing material levels of capital expenditure, the central Group treasury function will assist the foreign operation to obtain matching funding in the functional currency of that operation and shall provide additional funding where required. The currency in which the additional funding is provided is determined by taking into account the following factors:

- the currency in which the revenue expected to be generated from the commissioning of the capital expenditure will be denominated;
- the degree to which the currency in which the funding provided is a currency normally used to effect business transactions in the business environment in which the foreign operation conducts business; and
- the currency of any funding derived by the Company for onward funding to the foreign operation and the degree to which it is considered necessary to hedge the currency risk of the Company represented by such derived funding.

The foreign currency effect on the Group's financial assets and liabilities is as follows:

30 June 2010

US$ million	Year end US$ rate	Year end amount	US$ strengthens 5%	US$ weakens 5%
Financial assets:				
Botswana pula	0.1390	0.1	0.1	0.1
Pound sterling	0.6637	6.5	6.1	6.8
South African rand	0.1307	58.9	55.9	61.8
US dollar	1.0000	18.6	18.6	18.6
		84.1	80.7	87.3
Financial liabilities:				
Botswana pula	0.139	0.1	0.1	0.1
Pound sterling	0.6637	1.0	1.0	1.1
South African rand	0.1307	42.2	40.1	44.3
US dollar	1.0000	74.7	74.7	74.7
		118.0	115.9	120.2

26. Financial instruments (cont.)

30 June 2009

US$ million	Year end US$ rate	Year end amount	US$ strengthens 5%	US$ weakens 5%
Financial assets:				
Pound sterling	0.6053	4.8	4.5	5.0
South African rand	0.1268	30.2	28.7	31.7
US dollar	1.0000	7.4	7.4	7.4
		42.4	40.6	44.1
Financial liabilities:				
Botswana pula	0.1491	0.1	0.1	0.1
Pound sterling	0.6053	0.2	0.2	0.2
South African rand	0.1268	43.7	41.5	45.9
US dollar	1.0000	90.2	90.2	90.2
		134.2	132.0	136.4

The directors consider a 5% currency movement to be the maximum likely change over the next 12 months.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations and when necessary will seek to raise funds through the issue of shares.

It is the policy of the Group to ensure that it will always have sufficient cash to allow it to meet its liabilities when they fall due. To achieve this aim, the Group maintains cash balances and funding facilities at levels considered appropriate to meet ongoing obligations.

Cash flow is monitored on a regular basis. Projections reflected in the Group working capital model indicate that the Group will have sufficient liquid resources to meet its obligations under all reasonable expected circumstances. The maturity analysis of the actual cash payment due in respect of loans and borrowings is set out in the table on page 86. The maturity analysis of trade and other payables are in accordance with those terms and conditions agreed between the Group and its suppliers, for trade and other payables payment terms are 30 days, provided all terms and conditions have been complied with. Exceptions to agreed terms are set out in note 23, as reflected under non-current.

26. Financial instruments (cont.)

Maturity analysis

The below maturity analysis reflects cash and cash equivalents and loans and borrowings based on actual cash flows rather than carrying values.

30 June 2010

US$ million	Notes	Effective Interest Rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash							
Cash and cash equivalents – unrestricted	20	0.1% – 5.8%	24.8	24.8	–	–	–
Cash – restricted	20	0.1% – 5.8%	9.7	9.7	–	–	–
Total cash			34.5	34.5	–	–	–
Loans and borrowings							
Bank loan – secured	22(i)	9.92%	0.2	–	0.1	0.1	–
Bank loan – secured	22(ii)	9.92%	0.3	0.3	–	–	–
Loan – unsecured	22(xi)	8%	32.0	17.0	–	15.0	–
Deferred consideration – unsecured	22(xii)	6%	32.0	–	–	32.0	–
			64.5	17.3	0.1	47.1	–
Cash flow of loans and borrowings			64.5	17.3	0.1	47.1	–

30 June 2009

US$ million	Notes	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash							
Cash and cash equivalents – unrestricted	20	7.01%	6.7	6.7	–	–	–
Cash – restricted	20	7.01%	4.4	4.4	–	–	–
Total cash			11.1	11.1	–	–	–
Loans and borrowings							
Bank loan – secured	21(i)	10.47%	0.2	–	0.1	0.1	–
Bank loan – secured	21(ii)	10.47%	1.0	0.3	0.3	0.4	–
Bank loan – secured	21(iii)	11.75%	0.5	0.5	–	–	–
Bank loan – secured	22(iv)	11.02%	8.1	4.0	4.1	–	–
Bank loan – secured	22(v)	10.47%	3.1	1.6	1.5	–	–
Loan – secured	22(vi)	8.59%	9.3	4.7	4.6	–	–
Convertible note – unsecured	22(vii)	7.48%	19.6	19.6	–	–	–
Loan – unsecured	22(viii)	11.57%	2.6	2.6	–	–	–
Loan – unsecured	22(ix)	8.00%	9.8	–	–	–	9.8
Loan – unsecured	22(x)	7.02%	3.8	1.9	1.9	–	–
Joint venture partner loans	22(xii)	8.00%	43.3	–	–	–	43.3
Associate loans		10.47%	0.4	–	–	–	0.4
			101.7	35.2	12.5	0.5	53.5
Cash flow of loans and borrowings			82.1	15.6	12.5	0.5	53.5

26. Financial instruments (cont.)

Interest rate risk

The Group has borrowings that incur interest at floating rates and no interest rate swaps are used. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary. An analysis of the sensitivity to interest rate changes is presented below. The directors consider 100 basis points to be the maximum likely change in interest rates over the next 12 months.

The effect of an interest rate increase/(decrease) on the Group's interest charge in the period is as follows:

30 June 2010

US$ million	Notes	Year end interest rate	Year end interest bearing liability	Interest rate increases 1%	Interest rate (decreases) 1%
Bank loan – secured	22(i)	9.92%	0.2	–	–
Bank loan – secured	22(ii)	9.92%	0.3	–	–
Loan – unsecured	22(xi)	8%	32.0	–	–
Deferred consideration	22(xii)	6%	32.0	–	–
			64.5	–	–

30 June 2009

US$ million	Notes	Year end interest rate	Year end interest bearing liability	Interest rate increases 1%	Interest rate (decreases) 1%
Bank loan – secured	22(i)	10.47%	0.2	–	–
Bank loan – secured	22(ii)	10.47%	1.0	–	–
Bank loan – secured	22(iii)	11.57%	0.5	–	–
Bank loan – secured	22(iv)	11.02%	8.1	0.1	–
Bank loan – secured	22(v)	10.47%	3.1	0.1	–
Loan – secured	22(vi)	8.59%	9.3	0.2	(0.2)
Convertible note – unsecured	22(vii)	7.48%	19.6	–	–
Loan – unsecured	22(viii)	11.57%	2.6	–	–
Loan – unsecured	22(ix)	8.00%	9.8	–	–
Loan – unsecured	22(x)	7.02%	3.8	–	–
Joint Venture partner loans	22(xi)	8.00%	43.3	–	–
Associate loans		10.47%	0.4	–	–
			101.7	0.4	(0.2)

The loans disclosed in notes 22(vii), 22(xi) and 22(xii) are fixed interest rate loans and therefore are not exposed to fluctuations in interest rates.

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates and age analysis at the balance sheet date. Each interest bearing financial liability is restated to show the cash flows arising based on the respective country specific prime lending rates as disclosed in note 22.

Other market price risk

The Group generates revenue from the sale of rough and polished diamonds. The significant number of variables involved in determining the selling prices of rough diamonds, such as the uniqueness of each individual rough stone, the content of the rough diamond parcel and the ruling US$/ZAR spot rate at the date of sale make it difficult to accurately extrapolate the impact the fluctuations in diamond prices would have on the Group's revenue.

26. Financial instruments (cont.)

Capital disclosures

Capital is defined by the Group to be the capital and reserves attributable to equity holders of the parent Company. The Group's objectives when maintaining capital are:

- to safeguard the ability of the entity to continue as a going concern; and
- to provide an adequate return to shareholders.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as total debt (excluding provisions and deferred tax liabilities) less cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent Company.

The debt to equity ratios at 30 June 2010 and 30 June 2009 are as follows:

US$ million	2010	2009
Total debt	117.9	136.5
Cash and cash equivalents	(34.5)	(11.1)
Net debt / (funds)	83.4	125.4
Total equity attributable to equity holders of the parent Company	257.3	47.8
Debt to equity ratio	0.32:1	2.63:1

The Group manages its capital structure by the issue of ordinary shares, raising debt finance where appropriate, and managing Group cash and cash equivalents.

27. Contingent liabilities

Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set below, as well as details of contingent liabilities, which although considered remote, the Directors consider should be disclosed.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities considered remote

(i) A former director of Crown Diamonds (Pty) Ltd has lodged a claim for AUD$1.2 million (US$1.0 million) being a project sourcing fee resulting from the acquisition of Helam Mining (Pty) Ltd. In the Directors' opinion, disclosure of any further information about this matter would be prejudicial to the interests of the Company.

Indemnities have been provided to Directors in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements.

Environmental

The controlled entities of the Company provide for all known environmental liabilities. While the Directors of each of those entities and the Company believe that, based upon current information, their current provisions for environmental rehabilitation are adequate, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known mining operations or identification of new rehabilitation obligations at other mine operations.

28. Share-based payments

Employee share options

The Company has an established share option programme that entitles the Remuneration Committee, at its discretion, to grant share options to directors and senior management. The terms and conditions of the share options granted during the year ended 30 June 2009 are disclosed below. The share-based payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

Fair value of share options and assumptions are as follows:

	2010	2009
Fair value at measurement date	20.8p – 35.7p	5p – 9p
Exercise price	45.5p – 60.5p	27.5p
Share price at grant date	64p – 66p	27.5p
Expected volatility	68% – 71%	46%
Vesting period	1 – 3 years	1 – 3 years
Option life	10 years	10 years
Expected dividends	–	–
Risk-free interest rate (based on national government bonds)	0.98% – 2.48%	2.47%

The expected volatility is based on historic volatility of the Group's share price, adjusted for any extreme changes in the share price during the historic period. During the year 233,862 (30 June 2009: nil) options held by employees were exercised and the Company expensed US$1.7 million (30 June 2009: US$2.3 million) related to the fair value of employee share options. During the year, 16,666 (30 June 2009: 6,610,000) share options with an option price of 27.5p were cancelled, 492,805 (30 June 2009: nil) options lapsed and 8,186,000 (30 June 2009: 8,365,000) share options were granted at an option price ranging between 45.5p and 60.5p.

The terms and conditions to the grants are as follows, whereby all options are settled by delivery of shares:

Employees entitled	Grant date	Number	Vesting period	Remaining life of options (years)
Options granted to directors	5 September 2003	1,000,000	1/3 rd per annum from grant date	3
	16 June 2005	2,000,000	Subject to performance of share price	5
	31 May 2006	1,000,000	1/3 rd per annum from grant date	6
	12 March 2009	2,500,000	1/3 rd per annum from grant date	9
	30 September 2009	1,150,000	1/3 rd per annum from grant date	10
	17 March 2010	1,150,000	1/3 rd per annum from grant date	10

28. Share-based payments (cont.)

Employees entitled	Grant date	Number	Vesting period	Remaining life of options (years)
Options granted to senior management	5 September 2003	172,000	1/3 rd per annum from grant date	3
	13 September 2004	50,000	1/3 rd per annum from grant date	4
	24 September 2004	192,000	25% from grant date for 2 years, then 50% in 3rd year	4
	28 January 2005	57,500	25% from grant date for 2 years, then 50% in 3rd year	5
	27 November 2005	312,266	1/3 rd per annum from grant date	5
	31 May 2006	350,516	1/3 rd per annum from grant date	6
	31 July 2006	507,718	1/3 rd per annum from grant date	8
	12 March 2009	5,570,001	1/3 rd per annum from grant date	9
	30 September 2009	2,496,000	1/3 rd per annum from grant date	10
	17 March 2010	3,290,000	1/3 rd per annum from grant date	10

	Weighted average exercise price 2010	Number 2010	Weighted average exercise price 2009	Number 2009
Outstanding at beginning of the year	45.46p	14,355,334	74.70p	12,600,334
Cancelled during the year	0.90p	(16,666)	102.86p	(6,610,000)
Lapsed during the year	62.76p	(492,805)	0.00p	–
Exercised during the year	49.07p	(233,862)	0.00p	–
Granted during the year	53.08p	8,186,000	27.50p	8,365,000
Outstanding at the end of the year	48.60p	21,798,001	45.46p	14,355,334
Exercisable at the end of the year	37.73p	7,581,656	44.78p	5,052,102

The weighted average market price of the shares in respect of options exercised during the year was 45.72p (30 June 2009: nil options exercised). The options outstanding at 30 June 2010 have an exercise price in the range of 27.5p to 96p (30 June 2009: 44p to 96p) and a weighted average remaining contractual life of eight years (30 June 2009: eight years).

Warrants

The Company issued additional warrants during the year as part of a capital raising exercise in December 2009. The fair value of the warrants has been calculated using the Black-Scholes model and is debited against the share premium account being a directly attributable cost of the capital raising exercise. Canaccord Genuity and RBC Capital Markets were issued 4,092,777 and 1,364,259 warrants over ordinary shares, exercisable at 80p per warrant.

28. Share-based payments (cont.)

Fair value of warrants and assumptions for the 12 months ended 30 June 2010:

	Warrants
Fair value at measurement date	18.5p
Exercise price	80p
Share price at date of grant	72.2p
Expected volatility	71%
Warrant life	2 years
Expected dividends	–
Risk-free interest rate (based on national government bonds)	1.73%

The fair value of the warrants in issue as at 30 June 2009 were incorporated into the calculation of the equity component of the convertible bond set out in note 22(vii), therefore no separate valuation assumptions are provided here.

The expected volatility is based on historic volatility of the Group's share price, adjusted for any extreme changes in the share price during the historic period. During the year 2,000,000 (30 June 2009: nil) warrants held by warrant holders lapsed, with an option price of 130p. US$1.6 million (30 June 2009: US$nil) was off-set against share premium, related to the fair value of warrants issued during the year, as set out above. During the year 5,457,036 warrants were granted at a warrant price of 80p.

The terms and conditions of the grants are as follows, whereby all warrants are settled by delivery of shares:

	Weighted average exercise price 2010	Number 2010	Weighted average exercise price 2009	Number 2009
Outstanding at beginning of the year	130p	2,000,000	130p	2,000,000
Lapsed during the year	130p	(2,000,000)	–	–
Granted during the year	80p	5,457,036	–	–
Outstanding at the end of the year	80p	5,457,036	130p	2,000,000
Exercisable at the end of the year	80p	5,457,036	130p	2,000,000

The warrants outstanding at 30 June 2010 have an exercise price 80p (30 June 2009: 130p) and a weighted average remaining contractual life of two years (30 June 2009: one year).

29. Post-balance sheet events

Completion of IFC/RMB debt facilities

On 4 November 2010, the Company announced the financial close and completion of US$83.5 million debt facilities with IFC (a member of the World Bank Group) and Rand Merchant Bank (a division of FirstRand Bank Limited).

The debt facilities provide the Company with a US$40 million loan from IFC and a US$43.5 million (R300 million) loan from RMB, as well as the extension of the Company's existing US$14.5 million (R100 million) FirstRand Bank Limited group overdraft facility. Together with contributions from the Company's own treasury, the facilities will primarily finance the expansions of the Williamson mine in Tanzania and the Cullinan mine in South Africa. In addition, the facilities will be applied to general Group working capital needs and settlement of the outstanding US$31 million loan due to Al Rajhi Holdings W. L. L., thereby removing this short term debt obligation from Company's balance sheet.

Details of the debt facility

- The debt facilities will be available for Company's drawdown for up to 24 months from financial close of the transaction and carry a capital repayment holiday period of 24 months from financial close,
- Interest rates: IFC US$ loan - six month US$ LIBOR plus 4.5% margin; RMB ZAR loan - six month JIBAR plus 4.5% margin,
- Capital repayments: eight semi-annual payments commencing after a 24 month capital repayment holiday period,
- Final repayment date: five and a half years from financial close and
- As a term of the debt facilities, each of the Lenders will be granted 6.3 million warrants over Petra shares on financial close. The warrants vest on grant and the warrant expiry dates will be in equal tranches at the end of years two, three and four from the warrant grant date. The warrant exercise prices for each tranche will be 90p, 95p and 100p respectively.

30. Related parties

Subsidiaries, associates and joint ventures

Details of subsidiaries, associates and joint ventures are disclosed in note 32 and note 16 respectively.

Directors

Details relating to Directors' shareholdings and emoluments in the Company are disclosed in note 12 and pages 28 and 31 of the Directors' Report and the Directors' Remuneration Report respectively.

During the year a subsidiary of the Company paid US$1.2 million (R8.9 million) to Zeren (Pty) Limited for the purchase of plant and equipment. Johan Dippenaar, Jim Davidson and David Abery are all directors of the Company and are also directors and shareholders of Zeren (Pty) Limited.

There are no material loans to Directors or senior management which have not been disclosed in the notes.

Shareholders

The principal shareholders of the Company are detailed in the Directors' Report on page 28.

Transactions with principal shareholders are detailed in note 22 (vii), 22 (ix) and 22 (xii).

Contingent liabilities

Details of contingent liabilities are disclosed in note 27.

Nabera Mining (Pty) Limited

The Company is a 29.5% shareholder in Nabera Mining (Pty) Ltd (Nabera), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2010 Petra Diamonds did not incur any expenses on behalf of Nabera (30 June 2009 Rnil (US$nil)). Prior period expenses were incurred in relation to the recovery of the management fee and value-add due to Nabera from Alexkor Limited and the South African Government. All such expenses incurred on Nabera's behalf will be reimbursed to the Company on receipt of the management fee and value-add.

31. Significant non-cash transactions

Operating activities

US$ million	2010	2009
Share based payments	0.9	2.3
Foreign exchange gain	(5.1)	(13.4)
Impairment of assets	–	75.2
Revaluation of rehabilitation liability	–	(4.6)
Recycling of foreign exchange differences on exploration projects	(12.3)	–
Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL	26.4	–
Fair value uplift on acquisition of additional 50% of Cullinan	(31.0)	–
(Decrease)/increase in provisions	(2.1)	8.8
Shares issued to repay non-current liabilities	(15.0)	–
Depreciation of property plant and equipment	11.9	11.7
Amortisation of intangible assets	1.0	3.3
(Profit)/loss on sale of property plant and equipment	(3.7)	0.2
Finance income	(7.8)	(3.2)
Finance expense	12.6	9.2
	(24.2)	89.5

Financing activities

On 16 December 2009, the Company acquired Al Rajhi Holdings W.L.L.'s 50% interest in CIHL, which in turn increased Petra's ownership in the Cullinan Diamond mine to 74%. On acquisition of Al Rajhi's 50% interest in CIHL, the Group took on 100% of the Al Rajhi loan which resulted in an increase of US$44.8 million being recorded in loans and borrowings. As part settlement of the loan, 11,363,636 shares were issued to settle US$15 million.

32. Subsidiaries and associates

At 30 June 2010 the Group held 20% or more of the allotted share capital of the following:

	Country of incorporation	Class of share capital held	Percentage held 2010	Percentage held 2009	Nature of business
Afropean Diamonds (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Alltop Investments (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Autumn Star Investments (Pty) Ltd*	South Africa	Ordinary	40%^	40%^	Mining and exploration
Basama Diamonds Ltd***	Seychelles	Ordinary	–	51%^	Mining and exploration
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
BPL Diamonds Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Compass Mining Services (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Crown Diamonds NL	Australia	Ordinary	100%^	100%^	Dormant
Crown Resources (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Cullinan Diamond Mine (Pty) Ltd[1]	South Africa	Ordinary	74%^	37%**	Mining and exploration
Cullinan Investment Holdings Limited[1]	British Virgin Islands	Ordinary	100%^	50%	Mining and exploration
Dalestar Corporation (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Dancarl Diamonds (Pty) Ltd*	South Africa	Ordinary	40%^	40%^	Mining and exploration
Dimeng Diamond Holdings (Pty) Ltd	South Africa	Ordinary	59%^	59%^	Mining and exploration
Engiminas Consultoria e Enginharia LDA	Angola	Ordinary	100%^	100%^	Mining and exploration
Frannor Investments and Finance Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Frannor Investments and Financing (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Helam Mining (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Ida Valley (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Johannesburg Diamond Trading Corporation (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Kalahari Diamonds Ltd	United Kingdom	Ordinary	100%^	100%^	Services provision
Kamara Holdings (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Kimberley Underground Mines JV	Unincorporated JV	Ordinary	74%^	74%^	Mining and exploration
Koffiefontein Mine JV	South Africa	Ordinary	70%^	70%^	Mining and exploration
Madeline Alluvial Diamonds and Mineral Development (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Majestic Resources (Pty) Ltd~	Australia	Ordinary	–	100%^	Investment holding
Majestic Resources South Africa (Pty) Ltd~	South Africa	Ordinary	–	100%^	Dormant
Messina Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Messina Investments Ltd	South Africa	Ordinary	100%^	100%^	Investment holding
Nabera Holdings (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Nabera Mining (Pty) Ltd	South Africa	Ordinary	29.5%**	29.5%**	Mining and exploration
Namibia Mining House (Pty) Ltd	Namibia	Ordinary	35%**	35%**	Dormant
Nooitgedacht Diamonds (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Organizações Moyoweno – Comércio Geral Lda[2]	Angola	Ordinary	40%**	40%**	Mining and exploration
Paardekraal Properties (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Pagvlei Mining (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Angola Holdings Ltd	British Virgin Islands	Ordinary	100%^	100%^	Investment holding
Petra Diamonds Angola Services Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Namibia (Pty) Ltd	Namibia	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Southern Africa (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Services provision
Power Corporation Angola (Pty) Ltd~	Bermuda	Ordinary	–	70%^	Exploration
Premier Rose Management Services (Pty) Ltd[1]	South Africa	Ordinary	100%^	50%**	Services provision
Santara Holdings (Pty) Ltd~	Australia	Ordinary	–	100%^	Dormant
Sedibeng Diamond Mine JV[a]	Unincorporated JV	Ordinary	57.5%^	57.5%^	Mining and exploration
Sekaka Diamonds (Pty) Ltd	Botswana	Ordinary	100%^	100%^	Exploration
Star Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Union Investments Corporation (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Vulcan Mining (Pty) Ltd~	Australia	Ordinary	–	100%	Dormant
Willcroft Company Ltd	Bermuda	Ordinary	100%^	100%	Investment holding
Williamson Diamonds Ltd	Tanzania	Ordinary	75%^	75%	Mining and exploration

1 Cullinan Investment Holdings Ltd (CIHL), Cullinan Diamond Mine (Pty) Ltd and Premier Rose Management Services (Pty) Ltd are all subsidiary companies, as a result of the additional 50% acquisition of CIHL from Al Rajhi Holdings W.L.L (refer note 3(a)).

2 Organizações Moyoweno – Comércio Geral Lda (Moyoweno) is an associate company as a result of the Group purchasing a 40% interest in the company during the prior year. Moyoweno's year end is 31 December which is the statutory reporting period for Angolan registered companies.

a The Company owns an effective 57.5% of Sedibeng Mine JV (Sedibeng), through its investment in Messina Diamonds (Pty) Ltd.

* Although the Company owns 40% of Autumn Star Investments (Pty) Ltd (Autumn) and Dancarl Diamonds (Pty) Ltd the Company has consolidated its investments on the basis of control.

~ The Group subsidiary was deregistered during the year.

*** On 4 May 2010 Basama Diamonds Ltd was disposed of (refer note 3(c)).

^ Acquisition accounted

** Equity accounted

33. Discontinued operation – prior year

30 June 2009:

Calibrated Diamonds Investment Holdings (Pty) Limited ("CDIH")

On 22 September 2008, the Group disposed of the entire ordinary share capital of CDIH together with associated assets for a total cash consideration of R47.0 million (US$5.9 million). On initial reclassification of the operation as held for sale in the results for the year ended 30 June 2008, the Group did not recognise any impairment losses. The results of the discontinued operation included in the income statement and the cash flows from discontinued operations included in the statement of cash flows in the prior years are set out below.

US$ million	As at 22 September 2008	30 June 2008
a) Net assets :		
Property, plant and equipment	0.1	0.1
Intangible assets	3.1	3.1
Other financial assets	–	0.4
Non–current assets classified as held for sale	3.2	3.6
Trade and other receivables	–	1.0
Inventories	0.2	2.5
Cash	0.1	0.1
Net loans from group companies	–	(5.9)
Trade and other payables	(0.2)	(0.1)
Net assets disposed	3.3	1.2
b) Result of discontinued operation:		
Revenue	0.9	0.8
Cost of sales	(0.9)	(0.9)
Gross (loss)	–	(0.1)
Expenses other than finance costs	(1.0)	(1.1)
Profit on sale of assets	2.5	–
Finance income	–	–
Finance costs	–	(0.1)
Profit/(loss) for the year before tax expense	1.5	(1.3)
Tax expense	–	–
Profit/(loss) for the year	1.5	(1.3)
Attributable to:		
– Equity holders of the parent	1.5	(1.3)
– Minority interest	–	–
	1.5	(1.3)
Basic profit/(loss) per share (US cents)	0.86	(0.76)
Dilutive profit/(loss) per share (US cents)	0.86	(0.76)

33. Discontinued operation – prior year (cont.)

US$ million	As at 22 September 2008	30 June 2008
c) Post-tax profit/(loss) on disposal of discontinued operation at:		
Consideration received on disposal	1.5	
Less: transaction costs	(0.6)	
Less: net assets disposed	(3.3)	
Less: foreign currency translation recycled on disposal	1.7	
Pre-tax profit on disposal of discontinued operation	(0.7)	
Deferred taxation recycled	0.7	
Post-tax profit on disposal of discontinued operation	–	
d) The cash flow statement includes the following amounts relating to discontinued operations at:		
Operating activities	(0.4)	(5.0)
Investing activities	–	–
Financing activities	2.5	4.6
Net cash generated from/(utilised in) discontinued operations	2.1	(0.4)

34. Pension scheme

The Company operates a defined benefit scheme and defined contribution scheme. The defined benefit scheme was acquired as part of the acquisition of Cullinan Diamond Mine (Pty) Ltd and is closed to new members. As at 30 June 2009 the Group proportionately consolidated its 50% in Cullinan Diamond Mine (Pty) Ltd. During the current year the Group acquired the remaining 50% interest and consolidated the assets and liabilities of its subsidiaries. All new employees are required to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group's assets.

Defined benefit scheme

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions.

The pension charge or income for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the charge or income were that the return on the funds will be 11.39% (30 June 2009: 9.16%), based on the average yield of South African Government long dated bonds plus 2%, and that salaries will be increased at 7.20% (30 June 2009: 7.21%), based on current South African consumer price index plus 1%. The market value of the assets of the defined benefit scheme at 30 June 2010 is R140.1 million (US$18.3 million) and the actuarial valuation of the assets on an ongoing basis represented 128.7% (30 June 2009: 134%) of the benefit of R108.8 million (US$14.2 million) that had accrued to members allowing for expected future increases in earnings. The pension surplus is R31.3 million (US$4.1 million) (30 June 2009: R36.5 million (US$4.6 million)). The pension fund values are converted using the year end foreign exchange rate of US$/R 7.65 (30 June 2009: US$/R7.88).

34. Pension scheme (cont.)

US$ million	2010	2009
Defined benefit obligations		
Present value of funded obligations	(14.2)	(13.4)
Fair value of plan assets	18.3	18.0
Unrecognised net gain	(4.1)	(4.6)
Recognised surplus for defined benefit obligations	–	–
Movements in present value of the defined benefit obligations recognised in the statement of financial position		
Net surplus for the defined benefit obligation as at 1 July	–	–
Net expense recognised in the income statement	(0.4)	(0.3)
Contributions by employer	0.4	0.3
Unrecognised surplus due to IAS 19 Paragraph 58 limit	–	–
Net surplus for defined benefit obligations at 30 June	–	–
Refer to note 1.17 for details of the limit applied to recognition of pension surplus asset.		
Income/(expense) recognised in the income statement		
Current service cost	(0.4)	0.4
Finance expense	(1.2)	1.2
Expected return on assets	2.0	(1.8)
Unrecognised net (gain)/loss	0.3	–
Recognition in terms of IAS 19 paragraph 58A	(1.1)	0.5
	(0.4)	0.3
Change in the fair value of the defined benefit assets		
Net surplus for the defined benefit obligation as at 1 July	18.0	–
Foreign exchange movement on opening balances	0.6	–
Arising on acquisition of subsidiary	–	14.8
Expected return on assets	2.0	1.8
Benefits paid to members	(2.0)	(0.5)
Contributions	0.5	0.5
Net transfers in	–	1.1
Actuarial (losses)/gains	(0.8)	0.3
At 30 June	18.3	18.0
Change in the present value of the defined benefit obligations		
At 1 July	(13.4)	–
Foreign exchange movement on opening balance	(0.4)	–
Arising on acquisition of subsidiary	–	(11.9)
Benefits paid to members	2.0	0.5
Current service cost	(0.4)	(0.4)
Finance cost	(1.2)	(1.2)
Contributions by members	(0.2)	(0.1)
Actuarial losses	(0.6)	(0.3)
At 30 June	(14.2)	(13.4)

34. Pension scheme (cont.)

US$ million	2010	2009
Actuarial gains and losses		
Actuarial (losses)/gains on plan assets	(0.8)	0.3
Actuarial losses on plan liabilities	(0.6	(0.3)
Analysis of plan assets		
Cash	10.00%	18.40%
Equity	75.00%	44.90%
Bonds	15.00%	27.30%
Property	0.00%	0.00%
Other – offshore	0.00%	9.40%
	100%	100%
Principal actuarial assumptions		
	% per annum	% per annum
Discount rate at 30 June	9.39%	9.16%
Expected return on plan assets at 30 June	11.39%	9.16%
Future salary increases	7.20%	7.21%
Inflation	6.20%	6.21%
Future pension increases	4.65%	7.21%
Determination of estimated pension expense for the year ended 30 June 2011		
Member Contributions	0.2	0.1
Company Contributions	0.4	0.3
Risk Premiums	–	–
Benefit Payments	(2.2)	(0.5)
Cumulative actuarial gains/(losses)		
Funded status	4.1	4.6
Net change on assets	(0.8)	0.3
Net change on liabilities	(0.6)	(0.3)
	(1.4)	–

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in the fund.

The average life expectancy in years of a pensioner retiring at age of 65 on 30 June 2010 date is as follows:

	2010	2009
Male	18.01	18.01
Female	22.52	22.52

Further to the acquisition of the defined benefit fund, the Group has no experience adjustments.

35. Post retirement medical fund

The Company operates a post-employment health care liability scheme. The post post-employment health care liability scheme was acquired as part of the acquisition of Cullinan Diamond Mine (Pty) Ltd and is closed to new members. As at 30 June 2009 the Group proportionately consolidated its 50% in Cullinan Diamond Mine (Pty) Ltd. During the current year the Group acquired the remaining 50% interest and consolidated the assets and liabilities of its subsidiaries. All new employees will be responsible for funding their own post-employment health care liability costs.

35. Post retirement medical fund (cont.)

The benefit liability for the post-employment health care liability scheme is assessed in accordance with the advice of a qualified actuary. The Group's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. The most important assumptions made in connection with the charge or income were that the health care cost of inflation will be 6.75%, based on the average yield of South African Government long dated bonds of 9.25%, and that salaries will be increased at 5.75%. The actuarial accrued liability funded status of the post-employment health care liability scheme at 30 June 2010 is R40.7 million (US$5.2 million). The post-employment health care liability values are converted using the year end foreign exchange rate of US$/R 7.65.

US$ million	2010	2009
Post retirement medical fund		
Present value of post-retirement medical care obligations	5.3	2.0
Unfunded status at 30 June	5.3	2.0
Movements in present value of the post retirement medical fund obligations recognised in the statement of financial position		
Net liability for the post retirement medical fund obligation as at 1 July	2.0	–
Arising on acquisition of subsidiary	2.5	1.7
Net expense recognised in the income statement	0.7	0.3
Net discount rate change	0.1	–
Changes in % continuing at post employment	(1.3)	–
Membership changes	0.3	–
Health care inflation	0.9	–
Other	0.1	–
Net liability for post-retirement medical care obligations at 30 June	5.3	2.0
Expense recognised in the income statement		
Current service cost	0.3	0.1
Finance expense	0.4	0.2
	0.7	0.3
The expense is recognised in the following line items in the income statement		
Mining and processing costs	0.3	0.1
Finance expense	0.4	0.2
	0.7	0.3
Reconciliation of fair value of scheme liabilities		
At 1 July	2.0	
Arising on acquisition of subsidiary	2.5	1.7
Net expense recognised in the income statement	0.7	0.3
Net discount rate change	0.1	–
Changes in % continuing at post employment	(1.3)	–
Membership changes	0.3	–
Health care inflation	0.9	–
Other	0.1	–
Liabilities at fair market value as at 30 June	5.3	2.0

35. Post retirement medical fund (cont.)

US$ million	% per annum 2010	% per annum 2009
Principal actuarial assumptions		
Discount rate at 30 June	9.25%	9.25%
Health care cost inflation	6.75%	6.75%
Future salary increases	5.75%	5.75%
Net replacement ratio	60.00%	60.00%
Net discount rate	2.34%	2.34%
Normal retirement age (years)	60.0	60.0
Fully accrued age (years)	60.0	60.0
Determination of estimated post retirement medical fund expense for the year ended 30 June 2011		
Current service cost	0.2	–
Finance expense	0.5	–
Benefit payments	(0.1)	–
Cumulative actuarial gains/(losses)		
Unfunded status	–	–
Net change on liabilities	0.7	0.6
	0.7	0.6

Sensitivity analysis

Health care inflation rate

The effect of a one percent increase or decrease in the health care inflation rate on the post-retirement medical fund accrued liability is as follows:

US$ million	30 June 2010	1% increase	1% decrease
Accrued liability	5.3	6.4	4.4
% difference	–	19.9%	(15.8%)

Average retirement age

The table below shows the impact of a 1 year change in the expected average retirement age.

US$ million	30 June 2010	Retirement 1 year earlier	Retirement 1 year later
Accrued liability	5.3	5.6	5.0
% difference	–	5.9%	(5.5%)

Glossary

AIM	–	London Stock Exchange's Alternative Investment Market.
Alluvial	–	Diamond deposits which are located in sediments transported by river or marine systems.
Audit	–	Checking mechanisms to verify the veracity of results.
Bulk sample	–	Large sample which is processed through a small-scale plant, not a laboratory.
Capex	–	Capital expenditure.
Carat	–	Unit of weight for diamonds. The metric carat equals 200mg.
Cross section	–	A diagramme or drawing that shows features transected by a vertical plane drawn at right angles to the longer axis of a geologic feature.
Cut-off grade	–	The lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit.
Diamond drilling	–	A drilling method, where the rock is cut with a diamond bit, to extract a core of the rock.
Diamond grade	–	The content of diamonds, measured in carats, within a volume or mass of rock.
Diamondiferous	–	Containing diamonds.
DMS	–	Dense Medium Separation, a way of separating diamonds or heavy minerals from waste material using a flotation process.
Estimation	–	The quantitative judgement of a variable.
Exploration	–	Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
Feasibility study	–	A definitive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the economic viability of a project and to support the search for project financing.
Garnet	–	A silicate mineral. The magnesium-rich variety, pyrope, is commonly found in kimberlites.
Grade	–	The relative quantity or percentage of diamonds within the rock mass. Measured as carats per hundred tonnes in this report.
In situ	–	In its original place, most often used to refer to the location of the mineral resources.
Indicated diamond resource	–	That part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a reasonable level of confidence. It is based on exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed and sufficient diamonds have been recovered to allow a confident estimate of average diamond value (SAMREC Code).

Inferred diamond resource	–	That part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability (SAMREC Code).
Kimberlite	–	An ultra basic rock defined as a porphyritic alkalic peridotite containing phenocrysts of olivine and phlogopite. Occurs as dykes or as characteristically carrot-shaped pipes.
KIM	–	Kimberlite indicator minerals – diamonds, garnets, and several other minerals which are unique to kimberlitic rocks.
MBS	–	Mini bulk sampling; the collection and processing of typically one to several hundred tonnes of kimberlite as part of the initial steps on the road to establishing a grade of a given deposit.
Measured diamond resource	–	That part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a high level of confidence. It is based on detailed and reliable exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity and sufficient diamonds have been recovered to allow a confident estimate of average diamond value.
Mineable	–	That portion of a resource for which extraction is technically and economically feasible.
Mineralisation	–	The presence of a target mineral in a mass of host rock.
NAV	–	Net asset value.
NPV	–	Net present value.
Opencast/Open pit	–	Surface mining in which the ore is extracted from a pit. The geometry of the pit may vary with the characteristics of the ore body.
Orebody	–	A continuous well-defined mass of material of sufficient ore content to make extraction feasible.
Parcel	–	A collection of diamonds of various sizes made available for sale as a single package.
Percussion drilling	–	A drilling method where the rock is broken by a compressed-air driven bit into chips that are blown up the hole to be sampled.
Primary deposit	–	With reference to the deposition of diamonds, these deposits include kimberlite pipes, dykes, blows and fissures as well as lamproites. Contrasted with alluvial.
Primary gravel	–	Potentially diamondiferous alluvial gravels derived from primary deposits.

Glossary *(cont.)*

Probable reserves	–	The economically mineable material derived from a measured and/or indicated diamond resource. It is estimated with a lower level of confidence than a proven reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
Proven reserves	–	The economically mineable material derived from a measured diamond resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
Rehabilitation	–	The process of restoring mined land to a condition approximating to a greater or lesser degree its original state. Reclamation standards are determined by the South African Department of Minerals and Energy Affairs and address ground and surface water, topsoil, final slope gradients, waste handling and revegetation issues.
RVK	–	Resedimented volcaniclastic kimberlite. Volcaniclastic kimberlite that has been redistributed by sedimentary processes during and directly after volcanic eruptions.
Sample	–	The removal of a small amount of rock pertaining to the deposit, which is used to estimate the grade of the deposit and other geological parameters.
Sampling	–	Taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content).
Slimes	–	The fine fraction of tailings discharged from a processing plant without being treated; in the case of diamonds, usually that fraction which is less than 1mm in size.
Slimes dam	–	A storage facility for all fine waste products from the processing plant.
Stockpile	–	A store of unprocessed ore.
Stone size	–	Average size of the diamonds, expressed as carats/stone.
Stones	–	Diamonds.
Tailings	–	The waste products of the processing circuit. These may still contain very small quantities of the economic mineral.
Tailings dump	–	Dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted.
Tonnage	–	Quantities where the tonne is an appropriate unit of measure.Typically used to measure reserves of target commodity bearing material or quantities of ore and waste material mined, transported or milled.
Yield/Recovered grade	–	The actual grade of ore realised after the mining and treatment process.

Units Description

°	–	Degree
°C	–	Degrees Celsius
cm	–	Centimetre
cpht	–	Carat per hundred tonnes
ct	–	Carat
ha	–	Hectare
km	–	Kilometre
km^2	–	Square kilometres
m	–	Metre
m	–	Million
m^2	–	Square metres
m^3	–	Cubic metre
t	–	Tonne
tpa	–	Tonnes per annum
tph	–	Tonnes per hour
tpm	–	Tonnes per month

Notice of Annual General Meeting

For the year ended 30 June 2010

Notice is hereby given that the thirteenth Annual General Meeting of Petra Diamonds Limited (incorporated and registered in Bermuda under registration number EC23123) ("the Company") will be held at 11:00am GMT on 10 January 2011 at the offices of Memery Crystal LLP, 44 Southampton Buildings, London, WC2A 1AP for the purpose of considering and, if thought fit, passing the following resolutions:

Ordinary Resolutions

1. Statutory accounts

That the financial statements of the Company for the year ended 30 June 2010, together with the Reports of the Directors and Auditors, be received.

2. Re-appointment of auditors and authorisation to set auditor remuneration

That BDO LLP of 55 Baker Street, London, W1U 7EU be re-appointed as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are presented, or until their successors are appointed and that the directors be authorised to fix the remuneration of the auditors.

3. Re-appointment of directors

That each of (a) Johan Dippenaar and (b) David Abery (each to be separately proposed and voted upon), who retire in accordance with the Company's Bye-Laws, be and are hereby re-appointed as directors of the Company to hold office until the date on which his office is otherwise vacated.

That (c) Dr. Omar Kamal, who was appointed by the Board during the year pursuant to the authority delegated to the Board under the Company's Bye-laws, be hereby re-appointed as a director of the Company to hold office until the date on which his office is otherwise vacated.

4. Increase of authorised share capital

That the Company increase its authorised share capital from £40,000,000 to £65,000,000 by the creation of an additional 250,000,000 ordinary shares of 10p each ranking pari passu with the existing shares of the Company.

Special Resolution

5. Electronic communications

That the Company be authorised, subject to and in accordance with the provisions of the AIM Rules for Companies and Bermuda Companies Act 1981, as amended, to send, convey or supply all types of notices, documents or information to the members of the Company by means of electronic equipment for the processing (including without limitation by means of digital compression), storage and transmission of data, using wires, radio optical technologies, or any other electromagnetic means, including, without limitation by making such notices, documents or information available on a website.

By order of the Board

A Pouroulis
Chairman
24 November 2010

Registered office

Clarendon House, 2 Church Street, Hamilton HM11, Bermuda
Company registration number: EC23123

Explanatory notes

For the year ended 30 June 2010

These explanatory notes form part of the Notice of the Annual General Meeting.

Notes

A member entitled to attend and vote at the above meeting or any adjournment thereof may appoint one or more proxies to attend and vote in their stead on a show of hands or on a poll. A proxy need not be a member of the Company. A member who is entitled to cast two or more votes at the meeting may appoint up to two proxies.

To be valid, the form of the proxy must be lodged with the Company's UK branch registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for the Annual General Meeting or any adjournment thereof.

Only those members entered on the register of members of the Company at 5:00pm (Bermuda time) on 5 January 2011 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 5:00pm (Bermuda time) on 5 January 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Depositary interest holders who are CREST members and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Any holders of depository interests in the Company who cannot give voting instructions via CREST should instruct Capita IRG Trustees Limited to vote in respect of the holder's interest using the Form of Direction enclosed. The completed Form of Direction must by received by Capita IRG Trustees Limited, Proxy Department, The Registry, 34 Beckenham Road, Kent BR3 4TU, England not later than 72 hours before the time appointed for the Annual General Meeting or any adjournment thereof.

Item 3, Re-appointment of directors

Information on the experience and qualifications of directors seeking re-appointment is included in the Company's 2010 Annual Report on page 26.

These explanatory notes form part of the Notice of the Annual General Meeting.

Item 4, Increase of authorised share capital

The current issued share capital of the Company is £35,380,302, leaving only £741,194 of unissued share capital after taking into account options and warrants. The directors of the Company therefore recommend that, in order to provide for future flexibility and growth, the Company increases the headroom on its authorised share capital by the creation of an additional 250,000,000 ordinary shares of 10p each ranking pari passu with the existing shares of the Company, thereby increasing the authorised share capital from £40,000,000 to £65,000,000.

Item 5, Electronic communications

Subject to the passing of Resolution 5, under the AIM Rules for Companies and in accordance with the Bermuda Companies Act 1981 (as amended) the Company can use its website to publish statutory documents, notices and other information to shareholders, such as the Annual Report and Accounts, as its default method of publication.

The Company would like to take advantage of these new regulations; therefore in future the Company intends to publish all shareholder information, including the Notice of Annual General Meeting and the Annual Report and Accounts, subject to the passing of Resolution 5, on the Company's website at www.petradiamonds.com. Reducing the number of communications sent by post will not only result in cost savings in terms of administration, printing and posting costs, it will also speed up the provision of information to shareholders. The reduced use of paper will also have environmental benefits.

In addition to Resolution 5 being passed by the shareholders, the AIM Rules for Companies requires that shareholders are asked individually to consent to this method of publication. Therefore, each shareholder of the Company will be written to individually to seek his/her consent to receive notices, documents and other information of the Company via publication on the Company's website at www.petradiamonds.com. Shareholders will then be able to choose whether they wish to opt in to electronic communications, or whether they wish to continue to receive notices, documents and other information in hard copy. If the Company does not receive a response from the shareholder within 28 days of such request, the shareholder will be deemed to have opted in.

If a shareholder consents, or is deemed to have consented, to website publication, he/she will continue to be notified each time that the Company places a statutory communication on the Company's website. This notification will be sent either by post or by email, according to the preference of that individual shareholder.

Notes

Administrative information

Group head office

Elizabeth House
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www.petradiamonds.com
Email: info@petradiamonds.com

Secretary and registered office

Michael Ashford
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Nominated adviser & joint broker

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Email: ryan.gaffney@canaccordgenuity.com

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Registrars

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