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.

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%

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

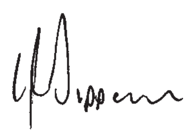
The health and safety of employees is the highest priority for Petra Diamonds. In addition to appropriate risk management processes, Petra has various strategies, systems and training in place to ensure that working places are safe and to encourage a healthy lifestyle for our workforce. Health and safety 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