

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.

Corporate governance statement (cont.)

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.