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.

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.

Notes to the annual financial statements *(cont.)*

For the year ended 30 June 2010

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

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%)