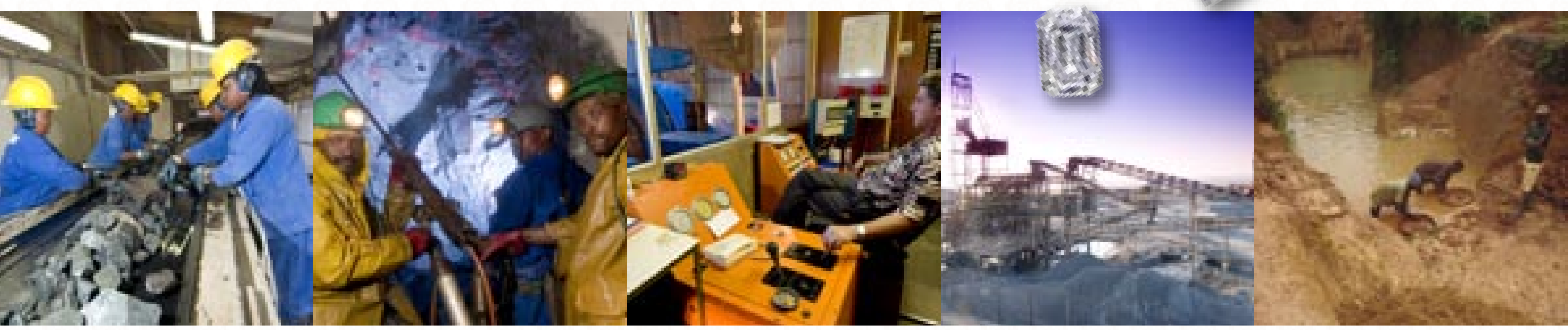
Petra Diamonds

Annual Report 2005



PetraDiamonds

Adonis Pouroulis, *Chairman*

"This has undoubtedly been a transformational year for Petra. We have stated a clear strategy to build Petra into a mid-tier diamond mining group, offering a unique way for investors to gain exposure to a buoyant and growing diamond market. We are well on our way to achieving this objective and these results demonstrate the rapid progress we have made. Petra believes that Africa offers exciting and vibrant deal flow and we look forward to further benefiting our shareholders from this pipeline of opportunities."

Contents

Highlights for 2005

- *Corporate: merger with Crown Diamonds NL completed and business fully integrated; placing undertaken raising a total of £17.1 million; dual AIM and ASX listing; acquisition of Kalahari Diamonds Limited; proposed merger with Mano River Resources Inc*

- *Angola: Alto Cuilo – 320 hectares of kimberlitic anomalies identified; BHP Billiton elected to fund all exploration at Alto Cuilo; helimag survey undertaken with exciting results; pace of exploration increased*

- *Botswana: key base established in Botswana, the world's number one diamond producer by value, through the acquisition of Kalahari Diamonds Limited*

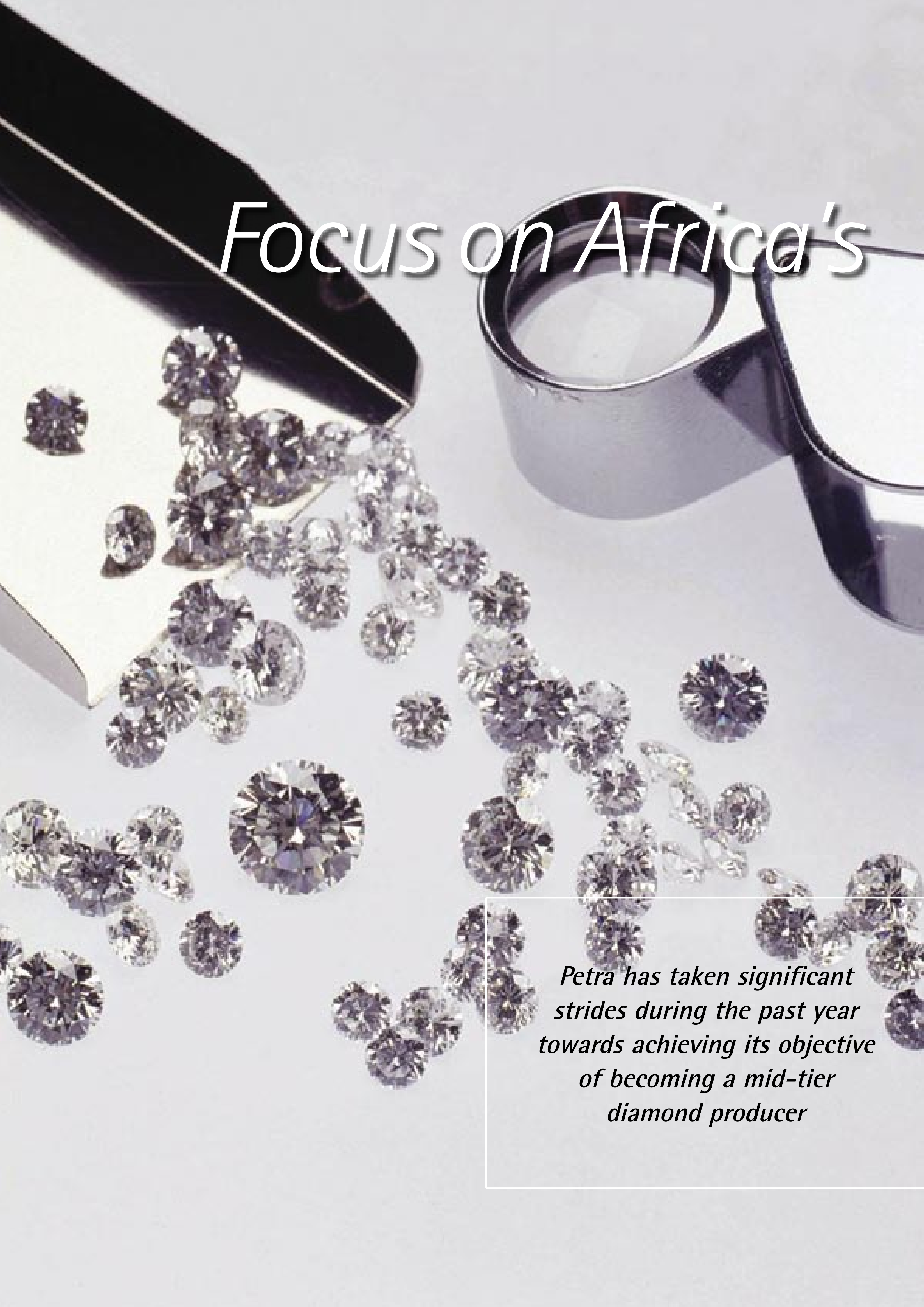
- *Sierra Leone: 75 tonne per hour production plant to be commissioned on site during Q3 2005/6; diamond production from treatment of bulk samples expected H2 2005/6*

- *South Africa: mining income (before depreciation) of £413,732 for the month of June 2005; all mines achieve record US$ diamond prices; strong carat sales and revenue for the six months to June 2005; operations on track to achieve growth orientated production and revenue targets*

Summary of results

	2005	2004
	£	£
Revenue (June only, post Crown merger effective 31 May)	**1,225,292**	–
Loss for the year, before impairment of goodwill*	**6,487,258**	4,219,863
Loss for the year*	**11,319,283**	4,219,863

**Includes £3,510,106 (2004: £2,499,983) of expenditure related to development at Alto Cuilo that is not being incurred from May 2005 due to BHP Billiton's funding.*



Focus on Africa's

Petra has taken significant strides during the past year towards achieving its objective of becoming a mid-tier diamond producer

rich resources

Petra Diamonds Limited ("Petra" or the "Company") is an AIM quoted and ASX listed diamond group focused on the exploration and mining of diamonds in Africa. Petra has taken significant strides during the past year towards achieving its objective of becoming a mid-tier diamond producer, with impressive progress at the Alto Cuilo project, the merger with Crown Diamonds NL, the acquisition of Kalahari Diamonds Limited in Botswana and the proposed merger with Mano River Resources Inc.

Through this corporate activity, Petra has developed a well balanced portfolio of diamond assets in various phases of development, ranging from green field exploration to production, with geographically diversified African operations. The Company's growth can be seen in its market valuation, which is now the largest of the diamond companies currently listed on AIM.

Petra's primary exploration focus continues to be the Alto Cuilo project area in north-eastern **Angola.** Huge progress has been made at this project over the past year, with BHP Billiton electing to sole fund all exploration costs on behalf of PDAC, the Petra/BHP Billiton joint venture company. Four major kimberlitic anomalies have been discovered, covering 320 hectares; other key anomalies will be drilled in the near future and alluvial exploration pits have been prepared for further investigation.

The Company also has interests in two further projects in Angola, Medio Kwanza, west of Alto Cuilo and Muriege, further east, but the main focus is currently on proving up and realising value at the Alto Cuilo project.

South Africa remains one of the world's major producers of quality diamonds and in February 2005 Petra announced a proposed merger with Australian listed Crown Diamonds NL ("Crown"). The transaction became effective in May 2005 and through the merger, which led to the Company being listed on the ASX, Petra acquired three producing diamond mines in South Africa: Helam, Star and the Messina/Dancarl joint venture with Sedibeng Mining, Petra's Black Economic Empowerment ("BEE") partner. All three of these diamond operations are kimberlite fissure mines with a life of mine in excess of 15 years each and all three produce high quality diamond gem stones. The Company is on schedule to produce in excess of 200,000 carats of gem quality stones from these mines in 2005/6 and record diamond prices have been achieved from all of these operations in the period to June 2005.

Both Petra and Nabera Mining (Pty) Ltd continue to work with both Alexkor and the South African Government in order to settle the 'value added' and management fees due to the Nabera consortium, in which Petra is a 29.5% shareholder. Whilst the process has been slow, it remains the Board's objective to conclude this business on good terms with all parties.

The strong technical and financial relationship the Company has with BHP Billiton has been enhanced by Petra's post year end announcement in September 2005 of the all-share acquisition of Kalahari Diamonds Limited ("Kalahari"). Kalahari has highly prospective exploration land in **Botswana.** Kalahari's agreement with BHP Billiton includes the deployment of BHP Billiton's Falcon technology and access to an experienced data acquisition and geophysics team. This acquisition has given Petra an important base in Botswana, with access to five known kimberlites in the Gope area, as well as other potential kimberlites in surrounding licence areas. Not only is Botswana the world's largest diamond producer by value, it also offers a modern, highly developed mining, commercial and financial environment.

The Company's commitment to geographic diversification throughout Africa was further demonstrated by a second post year end announcement of a proposed merger with Mano River Resources Inc ("Mano") in October 2005. Petra has been a JV partner with Mano in **Sierra Leone** since the Crown merger, focusing on the production of diamonds from the underground mining of diamond-bearing kimberlite dykes within the famous Kono diamond district. This will be the first time in Sierra Leone's history that kimberlite dykes will be commercially mined and the Company is accelerating its production plans with the manufacture of a 75 tonne per hour production plant to be commissioned on site during the first quarter of 2006. The exceptional quality of Sierra Leone's diamonds has seen an average price per carat in the first half of 2005 in the region of US$200 per carat.

On completion, the Mano transaction would also extend Petra's exploration interests in West Africa to **Guinea** and **Liberia.** Petra expects to fast-track the development of the Bouro kimberlite dyke deposit in Guinea, which is reported to have an in-situ grade of 500 carats per hundred tonnes and is in good host rock conditions. Production from this source has the potential to reach 250,000 carats per annum within three years. In the Weasua area of Liberia, Mano discovered seven kimberlites. The property is subject to a 50/50 joint venture with Trans Hex and Mano can elect to be the operator. Petra intends to fast track the investigation and potential development of these deposits with its in-house expertise. A kimberlite has also been discovered in the Camp Alpha area, where the Liberian government has a 30% contributory joint venture interest.

The Company remains on course to deliver its strategic goals of developing a world class exploration base complimented by producing mines and a geographically diversified spread of assets. Production of diamonds from South Africa and Sierra Leone is expected to reach half a million carats per year within five years; BHP Billiton's decision to sole fund exploration and development at Alto Cuilo in Angola gives further confidence to Petra's view that Alto Cuilo has the potential to be a substantial source of diamonds; and the Company's acquisitions bringing exposure to Botswana, Guinea and Liberia all augur well for the future prosperity of the Company and its shareholders.

A commitment to

Petra is a truly pan-African diamond group with operations from Sierra Leone in the west through Angola and Botswana to South Africa in the south

The 'African Renaissance' is certainly alive and well, and we are proud to be an active part of it

success and quality

Dear Shareholder,

It is with great pleasure that I present the 2005 financial statements in what I believe has been the most important and successful year in your company's history. Petra Diamonds started off the financial year being just one of the many hopeful junior diamond explorers, and ended it by being the largest in terms of market capitalisation and diamond production listed on the AIM market.

Our objective of becoming a world class diamond mining and exploration group drew closer to reality as Petra increased in size and stature. It is a noteworthy achievement that Petra now employs just under 2,000 people in its various operations, second only to De Beers in South Africa, as an employer and producer of diamonds.

Petra is a truly pan-African diamond group with operations from Sierra Leone in the west through Angola and Botswana to South Africa in the south. It is a continent that we believe offers some of the most exciting business opportunities and one in which we feel we can be a force for good sustainable development. The 'African Renaissance' is certainly alive and well, and we are proud to be an active part of it.

The year was filled with many highlights and I think it is important to mention a few.

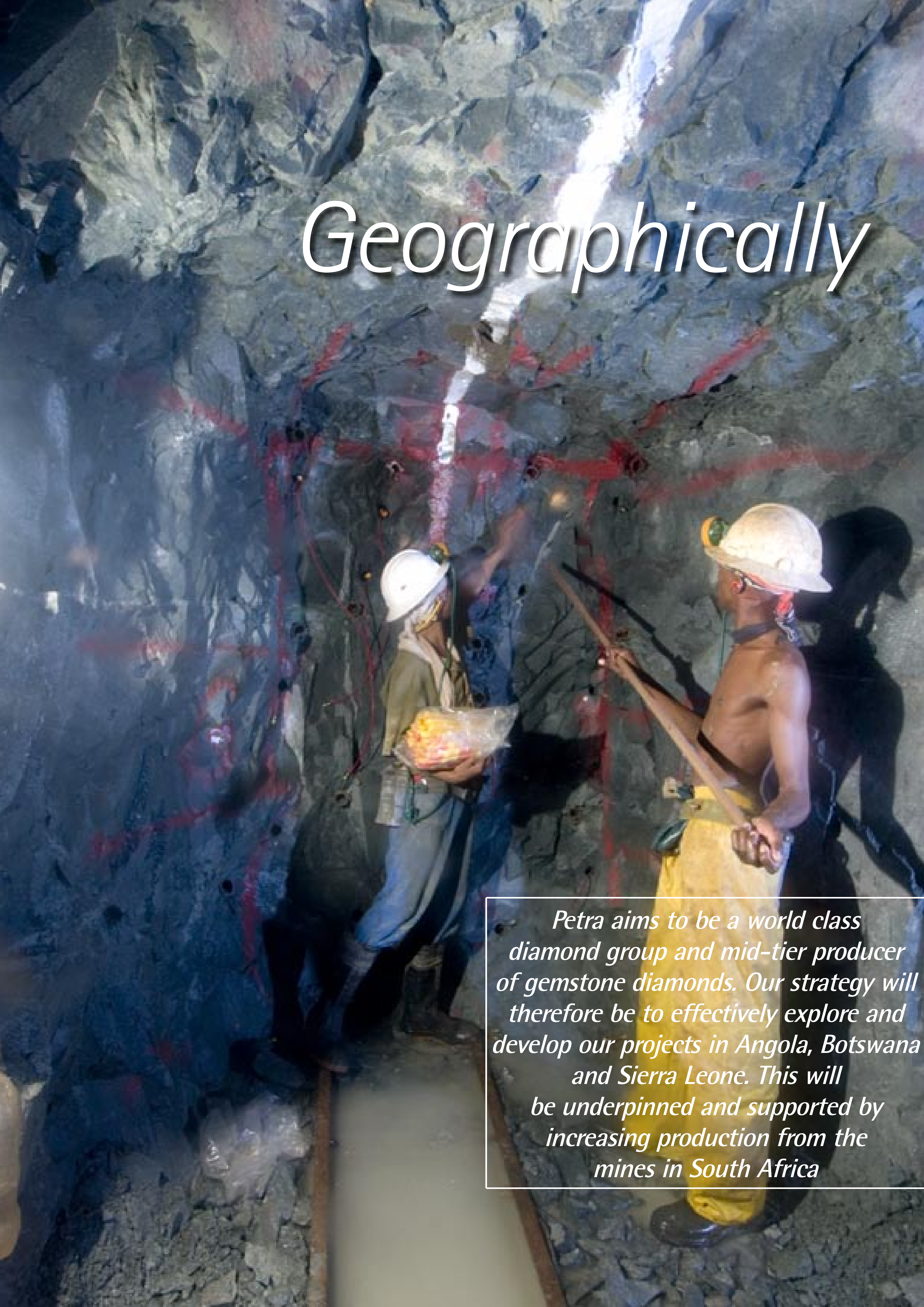
ANGOLA

The Alto Cuilo project lived up to expectations delivering unprecedented exploration success. The year saw BHP Billiton, our joint venture partner, committing to fund all exploration on the project concession area.

The kimberlite exploration programme led to the discovery of four major kimberlitic material anomalies, all within close proximity of each other, totalling a surface area of 320 hectares. The magnitude of these discoveries is unprecedented in modern kimberlite exploration. A low level helimag survey was completed on one quarter of the project concession area. This has led to further new potential anomalies requiring the mobilisation of a second drill rig later this year. The coming year will also see large diameter drilling of the best 10 to 12 anomalies and the processing of the mini bulk samples obtained. The objective of this is to establish economic deposits which could lead to mine development.

Eighty six alluvial exploration pits were prepared, all with the aim of uncovering an economic alluvial deposit. Work is in progress and we will be in a position to report back on these results in the near future.

The costs of drilling, bulk sampling and associated activities on Alto Cuilo to the end of April, when BHP Billiton elected to fund all expenditure, amounted to £3,510,106. Shareholders should note that, in accordance with best practice, it is our accounting policy to expense exploration



Geographically

Petra aims to be a world class diamond group and mid-tier producer of gemstone diamonds. Our strategy will therefore be to effectively explore and develop our projects in Angola, Botswana and Sierra Leone. This will be underpinned and supported by increasing production from the mines in South Africa

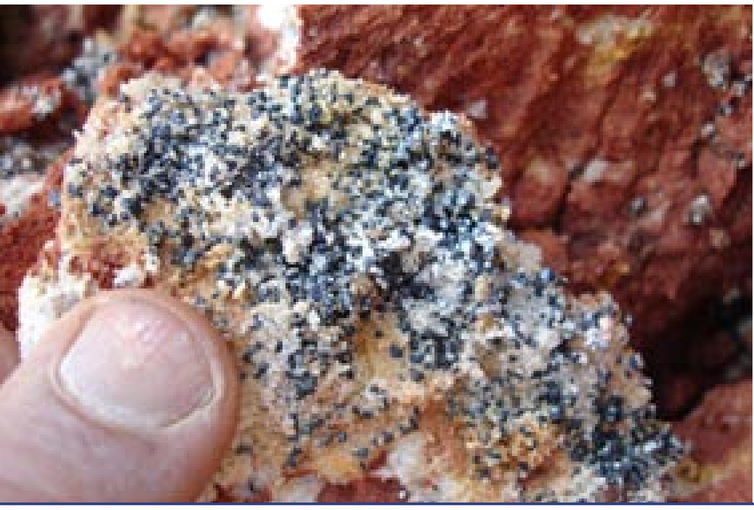
diversified asset base

expenditure in the year in which it is incurred. Therefore the Company's expenditure on Alto Cuilo to date has not been recognised in the balance sheet and hence no accounting recognition is given to the potential of this world-class exploration target.

BOTSWANA

On 7 September 2005 Petra announced that it had entered into a conditional agreement to acquire the entire issued share capital of Kalahari Diamonds Limited for a consideration to be satisfied by the issue of 16,166,529 new Petra shares. The transaction was approved by the Kalahari shareholders on 26 September 2005 and completed on 30 September 2005.

The acquisition of Kalahari Diamonds introduces Petra to Botswana, the world's largest diamond producer by value. The Kalahari ground is situated in what we believe to be a highly prospective diamond territory and the coming year will see an aggressive exploration programme aimed at the discovery of new kimberlites. Kalahari has an agreement with BHP Billiton whereby Kalahari has rights in Botswana to direct the deployment of BHP Billiton's proprietary Falcon technology and also has access to an experienced Falcon data acquisition and geophysics team.



The acquisition of Kalahari will ultimately introduce new shareholders to the Petra register including the World Bank (through the IFC) and some of the world's largest diamantaires. BHP Billiton, who owned twenty percent of Kalahari Diamonds, will also in due course become a larger shareholder in Petra.

Botswana hosts two of the world's biggest diamond mines, Orapa and Jwaneng. The acquisition of Kalahari Diamonds meets one of Petra's objectives to geographically diversify its African asset base and gives Petra the largest land holding under diamond prospecting licence in Botswana.

SOUTH AFRICA

The successful merger with Crown Diamonds NL to form one of the largest junior diamond players was key to Petra's objective of moving from being a pure explorer to a producer. This allowed the Company to benefit from a buoyant rough diamond market that saw prices increasing for the third year running. Crown brought with it a highly experienced management team which, coupled with Petra's exploration and financial expertise, resulted in a fully fledged diamond group complete with its own geological, mining and engineering expertise.

We are confident that your company can further maximise efficiencies from the mining complexes leading to increased production. Although the mines in South Africa have been in production for many years it is the view of the Board and management that at least a fifteen year life remains in all these operations.

SIERRA LEONE

Along with the three producing South African mines, Crown brought with it the exciting Mano River Resources joint venture, the Kono project in Sierra Leone. Mobilisation is underway which will see limited production from the Kono project in the first half of next year. Sierra Leone is an investor friendly and Kimberley Process certified country. We hope that this project will lead on to further developments in that country.

WEST AFRICA

On 3 October 2005 the Company announced its proposed merger with Mano River Resources Inc. The proposed merger represents another major step in Petra's long-term growth strategy of becoming a significant player in the diamond industry. Through our joint venture with Mano on the Kono project in Sierra Leone it has become apparent that West Africa has the potential to become a large producer of diamonds. Many of the assets in the Mano portfolio, we believe, can be fast tracked to production. Initial geological interpretation and studies of these prospects are very promising. Mano also brings with it a highly experienced exploration and management team well versed with the West African environment. The proposed merger gives both Petra and Mano the ability to realise real value from the West African assets in the medium term.

RESULTS

As Petra's effective date of control of the Crown mines was 1 June 2005, the results for the year reflect the results for the Petra group (pre the acquisition of Crown Diamonds NL) for the eleven months to 31 May and for the enlarged group, including one month's performance from the Crown operations acquired, to 30 June 2005.

The loss for the year, before the goodwill impairment referred to below, was £6.5m (2004: £4.2m). This loss includes £3.5m (2004: £2.5m) of expenditure related to development at Alto Cuilo that fell away from May 2005 due to BHP Billiton's funding at Alto Cuilo. The activity and associated costs at Alto Cuilo led to the significant exploration developments noted above. Petra's costs with regards to its current Angolan interests are expected to be approximately £0.25m for the 2005/6 financial year.

The goodwill impairment has arisen due to the Board taking the prudent view of restating the fixed assets acquired from the Crown merger to the preferred valuation arrived at by Snowden Mining Consultants in their report published at the time of the merger and correspondingly the adjustment has been reflected in full in the 2005 financial year.

The results from the Crown South African production operations acquired have been consolidated into the Petra group results for the month of June 2005 and I am pleased to report that the 'profit on mine', that is mining profit before depreciation, arising from these operations was £413,732 for the month.

FUNDING

An institutional placing was undertaken as part of the Crown merger, which raised £17.1m (£15.3m net of placing fees and merger costs) at 85 pence per share. These funds were raised to settle deferred acquisition costs in respect of the Helam mine, develop the Sierra Leone joint venture properties, investigate new business opportunities in southern Africa and Sierra Leone, settle various term loans, secure the outstanding Crown loan notes, settle the costs and fees related to the Crown merger and placing and provide working capital to the Group.

As at 30 June 2005 the Group had cash balances of £15.3m and, after settlement in July 2005 of the Helam mine acquisition costs, various term loans and other expenditure to date, as at 30 September the Group had cash in hand of £8.2m and other than a loan to finance the Sedibeng JV of £1.4m, the Group was debt free.

NABERA

Both Petra and Nabera continue to work with both Alexkor and the South African Government with regards to the 'value added' and management fees that are due to the Nabera consortium, in which Petra is a 29.5% shareholder. Whilst the process is slow, it remains the Board's objective that the 'value-added' and management fees be finalised with the government and Alexkor in an amicable manner in the near future.

OBJECTIVES AND STRATEGY

Petra aims to be a world class diamond group and mid-tier producer of gemstone diamonds. This will be achieved by possessing a highly prospective exploration portfolio ensuring future growth, organically expanding the Group's production profile and by geographically diversifying the country spread.

Our strategy will therefore be to effectively explore and develop our projects in Angola, Botswana and Sierra Leone. This will be underpinned and supported by increasing production from the mines in South Africa with no significant increase in unit operating costs. In the medium term, production is planned from the kimberlite fissures in Sierra Leone. In conjunction with all of this, any new diamond projects that meet and fulfil Petra's overlying objectives will be carefully scrutinised.

The past few years have shown us that to achieve success and maximise our ability to operate on the African continent, local participation is vital and essential. To this end a strategy of carefully choosing quality partnerships will be implemented in our projects. This we believe makes commercial sense and helps ensure the long-term viability and sustainability of our business.

SOCIAL DEVELOPMENT

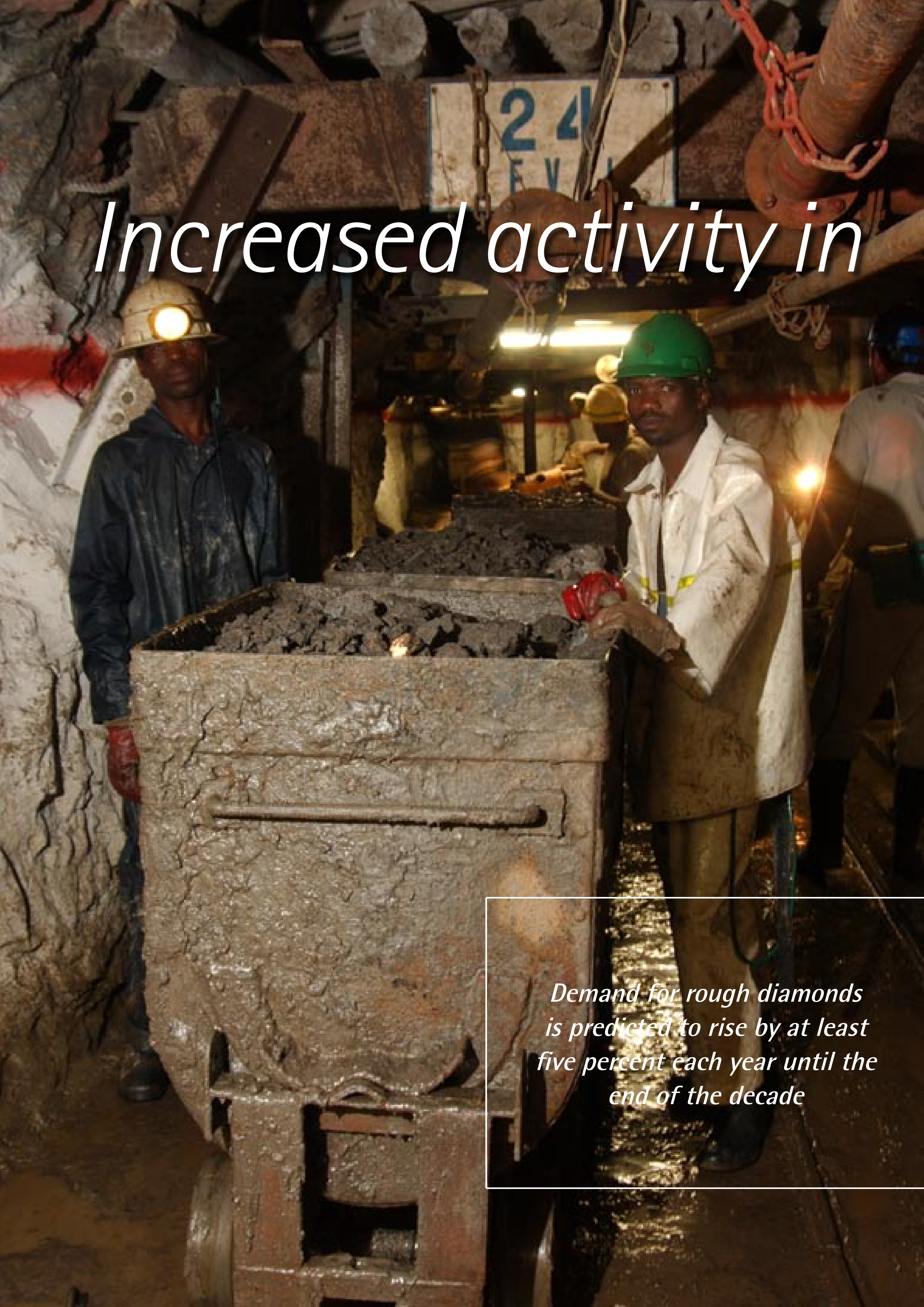
I am proud to inform shareholders that at Project Alto Cuilo in north eastern Angola, we provided the adjacent village with fresh, clean running water for the first time in the village's history. A school was built which is staffed with a permanent teacher, supplied by the Angolan Government. The clinic in the camp is also staffed with a full time doctor and paramedic providing treatment not only to the employees of the project but also to family members and the general populace. We hope to be able to provide similar and other services in all the communities in which we work. We believe it is an important role of your Company to improve the lives of all the communities in which we are involved.

STAFF

The merger with Crown resulted in many new people joining the Group and I welcome all these new members to Petra. In particular I am pleased to have added to the strength of the Board by welcoming Johan Dippenaar as Petra's Chief Executive Officer and Jim Davidson as Technical Director, giving the Board a balanced blend of mining, geological, commercial and financial expertise.

I wish to acknowledge and thank all our staff who have made this the successful year it has been. Their hard work has certainly paid off. I look forward to your continued support in what promises to be an equally exciting and challenging year ahead.

ADONIS POUROULIS
Chairman
25 October 2005



Increased activity in

Demand for rough diamonds is predicted to rise by at least five percent each year until the end of the decade

the diamond market

The strong fundamentals of the diamond market together with Petra's growth strategy puts the Company in a strong position to create a substantial diamond mining group that will have a world class exploration base, successful producing mines and a geographically diversified spread of assets on the African continent.

DIAMOND MARKET

The global diamond market has changed substantially over the last five years with a major change in strategy being adopted by De Beers from being buyer of last resort to being the supplier of choice. This strategy has led to substantial growth in the volumes and prices of diamonds. The sector is enjoying strong fundamentals which point towards this continuing for the foreseeable future.

This increasing demand is coming from a number of areas. The luxury goods sector in Asia, including jewellery, is getting a boost from rising personal incomes and economic growth. The number of Asian millionaires increased 8.2 percent last year to 2.3 million as China's economy expanded 9.5 percent, according to a report by Cap Gemini and Merrill Lynch & Co. De Beers have played a major part in driving demand through their advertising and marketing campaigns, which have subsequent benefits for the sector as a whole. Gem diamond demand is also growing, with diamond engagement rings becoming increasingly popular in China. Japan is increasingly importing polished stones, paying premium prices.

Manufacturing operations are developing and proliferating, with new cutting facilities being opened in China in anticipation of the demand from its domestic market. Competition in the trading of diamonds is also developing, with Antwerp's and India's platforms seeing increasing rivalry from operations in Dubai. This is leading to premium prices being paid in order to secure a supply for the downstream activity.

In this climate, rough diamond prices may rise by 30 percent by 2012. Leading diamond analyst James Picton of WH Ireland predicts that consumption will have reached US$18 billion by that date. De Beers, which controls approximately half of the world's rough diamonds, estimates that demand might rise to US$14 billion; either figure represents a substantial increase from the US$10.2 billion generated by diamond production in 2004, a rise itself of approximately US$1 billion from the previous year.

From conservative estimates, demand for rough diamonds is predicted to rise by at least five percent each year until the end of the decade. Global supply of rough diamonds is currently increasing at only half this rate. Few significant diamond deposits have been discovered since the early

1990s, and production from Australia, which has historically been the world's largest source of small diamonds, is declining on a year-by-year basis. Despite Botswana and Russia continuing to produce diamonds, with the potential to increase production, and mining companies providing more funding for exploration, supply shortages are set to continue. It typically takes 5 – 8 years to assess the economic viability of newly discovered deposits and bring them into production.

So the stage is set for all diamond mining companies – from the large De Beers, BHP Billiton or Rio Tinto to the smallest independent – to seek new kimberlite sources. Exploration is becoming more adventurous, with companies looking into areas which despite offering huge potential were ignored previously in favour of countries with more amenable environments. Governments are becoming evermore aware of the value that investments such as diamond exploration can generate and climates are improving in order to invite the capital potential.

In summary, demand for rough diamonds is growing and supply is constrained, driving prices higher. As Reuters stated in July 2005, "The market, at least from the miner's perspective, is dazzling."

FOCUS ON AFRICA'S RICH DIAMOND RESOURCES

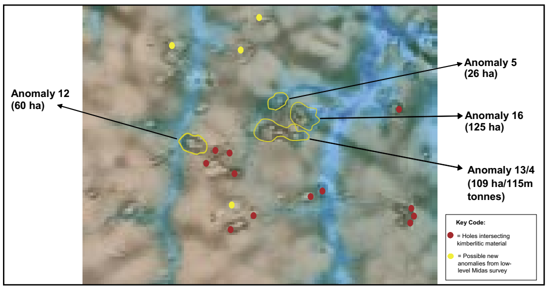
Petra is focused on developing assets within the African continent. The last few years have seen a development and rationalisation of the political and commercial environments in many African countries which are considered to have a high likelihood of hosting significant economic diamond deposits. The 'African Renaissance', which has been underway in recent years, has led to an increased level of exploration activity in Africa by both junior mining companies as well as the majors.

ANGOLA

Petra has several exploration interests in Angola, with the centre of attention being Project Alto Cuilo in the north-east of the country. Petra also has interests in Medio Kwanza and Muriege but is not currently active in these concessions.

PETRA'S PROJECTS

HELIMAG IMAGE ALTO CUILO (8 August 2005)



ALTO CUILO
KIMBERLITE PROGRAMME

A low-level Midas helicopter survey was carried out in July and August this year, identifying new anomalies of 26, 60 and 125 hectares in surface area, these discoveries being in addition to the existing 109 hectares (115 million tonne) deposit identified by Petra in 2004. Petra had been aware of there being a small anomaly at the 125 hectare target and had previously drilled two holes confirming it was of kimberlitic nature but, since the anomaly is under sand cover and with a low magnetic signature, Petra was not aware of the magnitude as now defined by the helicopter survey. This anomaly is larger in surface area than the existing 115 million tonne (109 hectares) deposit at Alto Cuilo and is within 500 metres of it. The 40 tonne sample (processed in September 2004), which yielded a grade of 47 carats per hundred tonnes, was coincidentally taken from outcrops at the periphery of this new anomaly where a river had incised through the sand cover. Petra cannot yet confirm whether these outcrops are part of this major new anomaly.

The helicopter survey entailed the flying of 13,183 line kilometres, covering approximately 700km^2 (26%) of the total concession area. Initial results showed significantly more anomalies than the original 1998 aeromagnetic survey, due to the use of twin sensors at closer line spacing and lower flying height. It is anticipated that with completion of the necessary data processing work the number of anomalies will be substantially higher than the 69 identified in the 1998 aeromagnetic survey.

Drilling in excess of 12,119 metres on 94 holes has been undertaken to date, with 66 of these holes intersecting kimberlite; a success rate of 70%. Drilling results indicate the presence of kimberlites with preserved crater zones that have undergone very little erosion, thus underscoring the potential for large size discoveries. Analysis of barren holes using new data has shown that the siting of some of the previously drilled holes was not optimal; some of these holes have been re-drilled and have now intersected kimberlitic material. To date all the anomalies that have been drilled have intersected kimberlitic material, with some holes intersecting kimberlite to vertical depths of 280 metres, where drilling was stopped due to limitation of drilling capacity but the kimberlite continued.

The current drilling programme, to include a second core rig that is currently being mobilised due to the high number of magnetic anomalies that require further investigation, will continue with the expectation of significantly increasing the number of kimberlite discoveries. A third drill, capable of drilling large diameter holes, is scheduled to arrive by the middle of 2006. A 10 tonne per hour mobile plant has also been ordered. When this arrives it is intended that it will take 200 tonne mini bulk samples from the most prospective anomalies.

Great partnerships

In the period to 30 June 2005 all mines achieved record US$ prices for their goods and, looking forward, all South African operations are on track to achieve the expected revenue targets

and performance

BHP Billiton has completed a valuation of the diamonds recovered from the kimberlite sampling. Based on a preliminary result obtained from 310 carats, the diamonds recovered from the kimberlite samples averaged US$295 per carat. This is in excess of Petra's previous estimates of US$200 per carat.

ALLUVIAL PROGRAMME

A pitting and trenching programme on the river flats and hillsides is underway in order to further evaluate the potential for economically viable alluvial deposits. Along the Luangue River, 86 pits have been completed to date. Some of these pits have intersected good gravels, whilst others were poor or had to be abandoned due either to water or thick overburden. A trench sample of 735 tonnes was treated through the diamond recovery plant, yielding 104.63 carats for an in-situ grade of 0.26 carats per cubic metre. The average stone size was 0.28 carats (bottom screen size 2.0 mm) with two gem quality stones of 2.88 and 1.88 carats being recovered. A second trench sample was processed from which a good 5.6 carat stone was recovered. This produced 58 diamonds totaling 24.61 carats at an average stone size of 0.42 and an in-situ grade of 0.091 carats per cubic metre. The 65 tonnes per hour ("tph") diamond recovery plant (MB100 and DMS) continues to be used mainly for the treatment of alluvial bulk samples. A total of 4,987 diamonds totalling 1,255 carats at an average stone size of 0.25 carats have been recovered to date from both alluvial and kimberlitic sources. Work on the alluvial exploration programme will continue.

ENDIAMA/LOCAL PARTNERSHIPS

Petra's partnership with Endiama, the official representative of the Angolan State in the diamond industry, began with Petra's entry into Angola in 1996. The relationship has always been based on mutual corporate respect and it has grown substantially in strength and stature under the current leadership of Dr Manuel Calado. Petra is committed to this mutually beneficial relationship and believes that further cooperation between Petra and the Angolan Government will continue to be of benefit to all parties. Our local Angolan partner, Moyoweno, has also proven in the past to be a major source of support and Petra is confident that this relationship will continue to grow from strength to strength.

BHP BILLITON JOINT VENTURE

BHP Billiton has elected (effective from May 2005) to sole fund all kimberlite and alluvial exploration and related costs on behalf of Petra Diamonds Alto Cuilo Limited ("PDAC"), the Petra/BHP Billiton JV vehicle for the entire Alto Cuilo concession.

From 1 January 2005 (the date at which BHP Billiton elected to fund kimberlite exploration within the ML Complex, part of the Alto Cuilo concession) to the end of September 2005, BHP Billiton has advanced funding of approximately US$7.2 million to PDAC in respect of exploration at Alto Cuilo. BHP Billiton will start earning a direct interest in PDAC when it has advanced funding of US$7.5 million.

BOTSWANA

On 30 September Petra acquired Kalahari Diamonds Limited ("Kalahari") in a share-for-share transaction. The acquisition of Kalahari represents a significant step in Petra's strategy of building a quality exploration portfolio to complement its current producing mines and diversifying its asset base.

Kalahari, through its wholly owned Botswana subsidiary, Sekaka Diamonds, is the holder of approximately 77,000 km^2 of highly prospective diamond prospecting licences in Botswana.

Botswana is the world's largest diamond producer by value, with large producing mines at Jwaneng, Orapa, Letlhakane and Damatshaa. The Orapa and Jwaneng pipes are of exceptional size and host reserves and resources that support a life of mine in excess of 20 years at present mining rates. Botswana also offers a modern, highly developed, mining, commercial and financial environment.

Kalahari has an agreement with BHP Billiton to direct the deployment of BHP Billiton's proprietary Falcon technology as well as have access to an experienced Falcon data acquisition and geophysical team. The Falcon technology is a new dimension in diamond exploration as it is an airborne gravity system that can cover large remote areas rapidly and cost effectively, and is able to 'see through' the sand cover which overlies much of Botswana. Kalahari sand covers about 75% of Botswana and this, together with underlying Karoo lava, has meant that ordinary diamond exploration programmes have faced difficulties in the detection of kimberlites. Petra's access to the Falcon system will assist in overcoming these difficulties.

The acquisition of Kalahari also introduces to Petra kimberlites in the Gope area, as well as other potential kimberlites in Sekaka's licence areas. Petra's track record in the development of medium sized ore bodies will enable us to effectively evaluate the potential of these kimberlite occurrences and, if economic, quickly turn them to account.

Petra's work plan in Botswana over the next year will focus on systematically following up the large licence areas that were flown by Falcon prior to the acquisition of Kalahari. Petra will fly Falcon over additional selected prospecting licence areas, certain of which the Petra Board considers to be highly prospective. By working with the Falcon technical teams, the interpretation of the historical Falcon data, as well as data from the areas yet to be flown, will be augmented. Petra will also further investigate the Gope kimberlite field and will drill selected anomalies over the coming months and we look forward to updating our shareholders on what has the potential to be very exciting results.

SIERRA LEONE

Petra has a joint venture with Mano River Resources in Sierra Leone which allows Petra to earn a 51% profit and equity interest in the Kono diamond project by investing

US$3 million in the project over a three year period. The Kono project is a kimberlite project with several identified fissures from which production is expected during the next six months. The strike length of the Kono kimberlite dykes exceeds the total strike length of Petra's South African kimberlite dyke operations and Petra believes the Kono project has the potential to yield high grades of approximately 100 carats per hundred tonne.

Petra personnel visited the Kono site in April 2005 to plan for the establishment of a 75 tph production plant as well as to undertake further geological work on the dykes. Dykes were opened up to depths of 10m and samples taken.

Manufacture of the 75 tph production plant (DMS and crushing circuit) was completed in September 2005 and is to be shipped to Sierra Leone shortly. Petra's site establishment team will soon transfer to Sierra Leone to complete establishment of the site facilities. It is expected that the plant will be commissioned on site during the first quarter of 2006 with diamond production from the treatment of bulk samples to be expected during the first half of 2006.

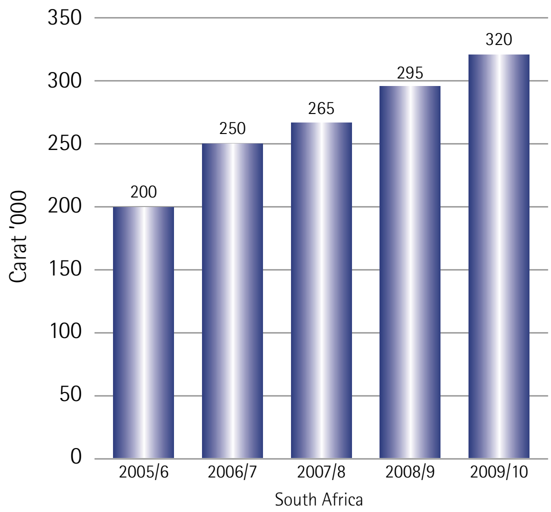
Petra plans to accelerate expenditure and development of the project so as to bring production online as early as possible.

SOUTH AFRICA

In the period to 30 June 2005 all mines achieved record US$ prices for their goods, carat sales and revenue for the six months to end June showed strong growth and, looking forward, all operations are on track to achieve the expected revenue targets as set out in the chart below.

The South African mines, acquired from Crown Diamonds NL with effect from 1 June 2005, have now been fully integrated into the Petra group. Production of 200,000 carats for the 2005/6 financial year is well on track and the Board is confident that this target will be met.

Production growth (estimated)



RESOURCE ESTIMATES

The South African reserves and resources confirm the potential for steady producing, long-life operations. Further studies to investigate production from new or additional areas at current operations have commenced.

In April 2005 Snowden Independent Mining Consultants published a Competent Persons Report on the Crown assets, prior to the merger with Petra. The proven and probable reserves together with the inferred resource Run Of Mine ("ROM") tonnes and corresponding ROM grade as arrived at by Snowden are set out below. The price per carat in the table is the average achieved for the six months to 30 June 2005 and the resulting resource value illustrates the potential of the South African mining operations to sustain growth expectations.

The South African mines have all been in existence for over 50 years and the deepest elevation at which operations are currently taking place is some 700 metres below surface. These ore bodies originated in the mantle of the earth approximately 140 kilometres below surface and with a planned ultimate mining depth of 1,000 to 1,200 metres, Petra is confident that economic mining will continue well beyond the 10-year reserve and resource statement below.

Positioned

All in all, we are delighted with the progress made across all our projects. I would like to take this opportunity to thank all our staff who have contributed to making this such a productive and exciting year for Petra

for growth

Resources (estimated)

	Messina/ Dancarl*	Star	Helam	Total
Proven, probable reserves & inferred resources ROM tonnes ('000)**	1,936	1,330	3,886	7,152
Grade ROM (cpht)**	28	44	81	60
Total carats ('000)**	542	585	3,147	4,274
Price/carat US$†	284	224	86	130
Value US$ (million)	154	131	271	556

**(Sedibeng) Petra has an effective 74.5% share via a JV with Sedibeng Mining and Bokone.*
***Adjusted from Snowden's report April 2005. In excess of 30 years of continuous production has displayed no variation in ROM grade for magnetic kimberlite for 700 vertical metres depth of mining.*
†Actual average prices achieved in six months to 30 June 2005.

A review of each of the South African operations to 30 June 2005 is set out below.

STAR

A total of 8,256 ROM fissure tonnes was delivered to the plant and returned 5,723 carats at a grade of 69 carats per hundred tonne ("cpht") for the quarter to end June. In the June 2004 quarter the ROM delivered to the plant was 9,698 tonnes, from which 4,314 carats were recovered to yield a grade of 45 cpht.

June sales (ROM production) of 2,126 carats averaged selling prices of US$287 per carat. This compares to an average for calendar year 2004 of US$182 per carat and for the six months to 30 June 2005 of US$224 per carat.

A 15 level at both Wynandsfontein and Burns has been established and both are in good ground conditions. At Burns the raise to the west has holed and stoping has commenced whilst the raise to the east should hole during the first month of the next quarter. At Wynandsfontein the zero cross-cut has intersected fissure and raising in both directions has begun. Stope production of fissure should commence during the next quarter. The establishment of these two levels has greatly enhanced our ability to achieve our production targets.

The Burns 13E return ventilation airway holing to the 10 level has been established through the bad ground conditions. This holing suffered temporary collapse due to wet and poor ground during the quarter. However it has now been reopened, dried and robustly supported and should not suffer any further collapse.

Additional ventilation is being planned in the form of raisebore holings so as to further secure the ventilation of the mine. The raiseboring operation should commence during the next quarter. The ventilation holing from 10 to 9 level suffered continual collapse and has been abandoned.

On 14 level the horizontal distance remaining between Burns east drive and Wynandsfontein west drive is 645 metres (distance between the two shafts is 1,400 metres). This represents approximately another 18 months before these two tunnels meet and we can abandon the high maintenance 10 level drive in the shales.

HELAM

June sales (ROM production) of 10,162 carats averaged selling prices of US$92.90 per carat. This compares to an average for calendar year 2004 of US$74 per carat and for the six months to 30 June 2005 of US$86 per carat.

For the quarter to end June 2005, a total of 29,662 ROM fissure tonnes was delivered to the plant and returned 26,907 carats at a grade of 90 cpht. An additional 797 tonnes of tailings was treated, delivering 104 carats giving a total of 27,011 carats.

The mechanisation programme is progressing well, with the John main shaft now equipped to 18 level. The pilot raise from 20 to 19 level has been completed and stoping has commenced. The pilot raise from 21 to 20 level is now 70% completed. All other aspects of this capital programme are on schedule.

The re-establishment of Second Lease as a separate mining entity is also progressing well and on schedule. It is expected to see the first production from this programme during the last quarter of this year.

At the Edward shaft the mechanisation process is progressing well, with all previously planned ore passes having been completed and commissioned. In addition to the originally planned programme, two ore passes have been established between 13 and 14 level on the main shaft. This increases our hoisting flexibility and ability to produce increased tonnes. Modifications to the single-drum sub-shaft are being investigated so as to fill up the capacity created by establishment of the abovementioned ore passes.

The plant upgrades are complete and no further changes are envisaged in the near future.

SEDIBENG (MESSINA AND DANCARL OPERATIONS)

June sales (ROM production) of 1,994 carats averaged selling prices of US$330 per carat. This compares to an average for calendar year 2004 of US$259 per carat and for the six months to 30 June 2005 of US$283 per carat.

Mining at the Sedibeng Joint Venture has progressed well with the delivery of 31,081 ROM fissure tonnes from the combined operation, which were treated through the Messina plant, delivering 5,685 carats at a ROM grade of 18 cpht. Messina's share of the delivered carats was 4,235.

The decreased production and grade at Sedibeng has been due to a number of unforeseen circumstances:

- the redevelopment of 20 level necessitated the drawdown of large amounts of waste in the stope to re-establish ventilation
- the re-establishment of 14 level on Dancarl also necessitated the drawdown of large amounts of waste-bearing material so as to re-establish ventilation

- 14 level north on Dancarl only produced stringers for the first 30m of mining

These problems have now all been overcome and production is returning to the projected levels.

In the June 2004 quarter the ROM delivered was 26,114 tonnes, from which 6,018 carats were recovered at a grade of 23 cpht.

At the Messina section, 23 level has been established and stope production has commenced. Sinking of the shaft to 24 level has commenced and should be complete by year-end. On 20 level, development into the Dancarl section has progressed well with seven cross-cuts now on fissure. Now that ventilation has been re-established, production from this stope can commence.

At the Dancarl section, progress has been good with the main and sub-shafts having been cleared to 15 level. Fissure raising to 14 level has begun and production should commence during the third quarter. The Dancarl tailings plant is now running at a comfortable 10,000 tonnes per month and yields a grade of approximately 6 cpht. A new 928G Caterpillar FEL has been purchased and is now operational in feeding this tailings plant. The throughput of this plant will now be gradually increased.

Plans are being put in place to upgrade the Messina plant so as to take the total combined increased production from both Messina and Dancarl.

All in all, we are delighted with the progress made across all our projects. I would like to take this opportunity to thank all our staff who have contributed to making this such a productive and exciting year for Petra.

JOHAN DIPPENAAR
Chief Executive Officer
25 October 2005

RESULTS FOR THE YEAR

The Group loss for the year before the impairment of goodwill, which arose due to the restatement of the Crown fixed assets acquired, was £6,487,258 (2004: £4,219,863).

After the goodwill impairment charge of £4,832,025 (2004: nil), the loss for the year amounted to £11,319,283 (2004: £4,219,863). The loss for the year includes £3,510,106 (2004: £2,499,983) of expenditure related to exploration activities at Alto Cuilo paid for by Petra that will no longer be incurred from May 2005 due to BHP Billiton's election to fund all exploration and related expenditure at Alto Cuilo.

GOODWILL

The goodwill impairment of £4,832,025 arises from the restatement of the fixed assets acquired from Crown Diamonds NL when the merger with Petra completed, effective 31 May 2005. The Competent Persons Report prepared by Snowden Mining Consultants gave low, preferred and high valuations for Crown's mining assets. The Petra Board decided to take a prudent accounting approach and state the mining assets, comprising mineral properties, plant and equipment and exploration and evaluation, in the Petra balance sheet at the preferred Snowden valuation of £37,324,028 (US$58,400,000).

MINING ACTIVITIES

The South African production operations, as acquired in the Crown merger, contributed a 'profit on mine' before depreciation of £413,732 for the month of June 2005 alone. All three mining operations (Helam, Star and Sedibeng) achieved record US$ diamond prices during the year and recorded revenue of US$2.2 million from sales of 14,282 carats for the month of June 2005 and revenue of US$10.7 million from sales of 77,295 carats for the six months to 30 June 2005.

Comparing the operating results for the South African operations for the six months to 30 June 2005 to the results for the six months to 31 December 2004 it is evident that the drive to curtail costs and increase operating efficiencies and production output is starting to bear fruit. Revenue increased by 36% from US$7.9 million to US$10.7 million. Cash costs of production increased by 15% from US$7.1 million to US$8.2 million. Cash generation (EBITDA) also benefited from the strong operating results and increased by 380% from US$0.5 million to US$2.4 million.

The Company's financial strategy with regards to the South African operations will be to focus on initiatives to reduce costs and improve operating efficiencies.

EXPLORATION ACTIVITIES

The loss for the year is stated after the inclusion of the exploration expenditure of £3,799,608 (2004: £2,499,983). The vast majority of these expenses were related to the ongoing developments at Alto Cuilo prior to BHP Billiton's election to fund PDAC's future exploration activity in full from May 2005 and therefore exploration expenditure with regards to Alto Cuilo and the joint venture with BHP Billiton will not be incurred by Petra in the 2006 financial year. Petra's costs with regards to its current Angolan interests are expected to be approximately £0.25 million for the 2006 financial year.

Shareholders should note that the Company expenses exploration expenditure in the year in which it is incurred. This best practice policy aligns Petra with the large mining groups; we understand that we are among the first junior mining exploration companies to adopt this approach and believe it to be in the best long term interest of the Company and its shareholders. Therefore the Company's significant expenditure on Alto Cuilo has not been recognised in the balance sheet and hence no accounting recognition is given to the potential of this world-class exploration asset.

FUNDING DURING THE YEAR

In June 2005, the Company raised £17.1 million (£15.3 million net of placing fees and merger costs) by placing 20,084,352 ordinary shares at 85 pence per share. The funds were raised to settle deferred acquisition costs in respect of the Helam mine, develop the Sierra Leone joint venture properties, investigate new business opportunities in Southern Africa and Sierra Leone, settle various term loans, secure the outstanding Crown loan notes, settle the costs and fees related to the Crown merger and placing and provide working capital to the Group.

In July 2005 the Company settled outstanding Helam acquisition costs of £2,116,036, repaid the outstanding loan to Photon Global Limited ('Photon') of £2 million plus interest of £104,713, settled the bridging loan with ABN Amro Bank of £2,509,452 and paid the professional advisers and other fees in respect of the Crown merger.

On 3 February 2005, the Company issued 833,333 new shares at a price of 57.54 pence per share, following the exercise of warrants by Photon. On 8 February 2005, Photon exercised further warrants, resulting in the issue of an additional 833,333 new shares at a price of 57.54 pence per share.

On 14 January 2005, the Company issued 1,953,762 new shares at a price of 47.5 pence per share following the exercise of an option by Societe Diamantaire Finkelstein CH & Co NV.

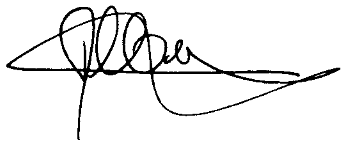
On 12 January 2005, the Company issued 518,500 new shares at a price of 50 pence per share following the exercise of options by Williams de Broë, the Company's Broker and NOMAD.

On 30 November 2004 the Company issued 901,060 new shares at a price of 88.2 pence per share. These shares were issued to BHP Billiton World Exploration Inc ("BBWEI") on the execution of the joint venture agreement with BBWEI regarding the Company's Alto Cuilo project.

FUNDING SUBSEQUENT TO YEAR END

On 28 July 2005 the Sedibeng Joint Venture, in which the Company has an effective interest of 74.5%, entered into a loan agreement with the Industrial Development Corporation of South Africa for a loan facility of R30 million to fund the future capital expenditure on plant and earthmoving equipment and the sinking and upgrading of new and existing shafts at the Sedibeng mines. As at the date of this review no draw down on this loan facility had been made.

On 27 October 2004 Crown Diamonds ("Crown"), together with its BEE partners (Sedibeng and Bokone), entered into an agreement with De Beers for the acquisition of Dancarl. The acquisition was funded by borrowings, secured by Crown, from ABN AMRO of R30 million. Of this loan Crown loaned R16,5 million to Sedibeng and Bokone to finance their share of the acquisition, the interest rate being the same as the rate for the loan from ABN AMRO to Crown Diamonds. The R30 million loan from ABN AMRO was repaid in July 2005 and on 28 July 2005 a loan agreement was entered into with FirstRand Bank, South Africa for an amount of R16,5 million, replacing the Sedibeng and Bokone loan portions advanced by Crown, as noted above.



DAVID ABERY
Finance Director
25 October 2005

The Directors present their Report together with the audited financial statements of the Group for the year ended 30 June 2005.

PRINCIPAL ACTIVITIES

Petra is a diamond mining group focused on the exploration and mining of diamonds in Africa. Petra's strategy is to build a portfolio of revenue producing and exploration assets, achieving the objective of becoming a successful mid-tier diamond producer and explorer. As at 30 September 2005, Petra operated in Angola, Botswana, South Africa and Sierra Leone.

BUSINESS REVIEW

A detailed review of the Group's operations and finances for the year and events subsequent to the year-end are set out in the Chairman's Statement on pages 5 to 9 and in Note 28.

RESULTS AND DIVIDENDS

The Group loss for the year amounted to £11,319,283 (2004: loss £4,219,863). The Directors do not recommend the payment of a dividend for the year (2004: £nil).

BOARD OF DIRECTORS AND THEIR INTERESTS

The interests of the Directors and their families in the issued share capital of the Company (other than in respect of options to acquire ordinary shares which are detailed in the Remuneration Report on pages 26 and 27 and Note 17 to the financial statements) were as follows:

	Number of shares at 30 June 2005	Number of shares at 30 June 2004
A Pouroulis	**7,535,000**	7,535,000
C Finkelstein	**6,143,706**	4,189,944
V Ruffer	**2,407,122**	2,407,122
J Dippenaar	**640,000**	–
J Davidson	**640,000**	–
D Abery	**10,000**	10,000
C Segall	**2,000**	2,000

On 14 October 2005 D Abery purchased a further 40,000 shares in the Company.

7,500,000 ordinary shares in the Company are held by a trust of which A Pouroulis is a beneficiary.

C Finkelstein is a director of Finkelstein Ch & Co NV, which has entered into mutual put and call option arrangements to subscribe for ordinary shares in the Company. Further details are set out in Note 17 to the financial statements.

Other than as disclosed above, there were no changes in Directors' share interests between the year-end and the date of this report.

SHARE CAPITAL

Details of changes to share capital during the year can be found in Note 17 to the financial statements.

SUBSTANTIAL SHAREHOLDINGS

At 30 September 2005 the following interests in the ordinary shares of the Company represented more than 3% of the issued share capital (other than interests set out in the Board of Directors and their interests).

	Number of ordinary shares	Percentage of issued capital
Kalahari Diamond Resources Plc	16,166,529	10.97%
ANZ Nominees Limited	14,738,665	10.00%
Dresdner Bank AG London	10,285,480	6.98%
Credit Suisse First Boston Client Nominees Limited	10,145,229	6.88%
Saad Investments Limited	7,956,473	5.40%
BNY (OCS) Nominees Limited	5,605,704	3.80%
WB Nominees Limited	4,757,215	3.23%

EMPLOYEES

The Group's employment policies have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment that rewards achievement, enthusiasm and team spirit. Effective communication and consultation is key to this and the Group endeavours to ensure the appropriate level of employee involvement and communication.

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

CREDITORS PAYMENT POLICY

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

GOING CONCERN

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

DIRECTORS' RESPONSIBILITIES

Bermudan company law and generally accepted best practice require the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period. In preparing these accounts the Directors are required to:

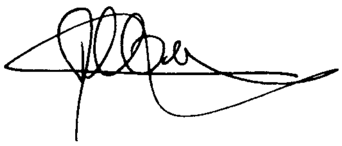
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

In accordance with section 89 of the Bermuda Companies Act, a resolution for the re-appointment of KPMG Audit plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



DAVID ABERY
Director
25 October 2005

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

REMUNERATION POLICY

The remuneration policy aims to attract and retain executives who are incentivised to achieve performance therefore serving the best interests of the shareholders. In framing and implementing the Directors' remuneration policy, consideration has been given to matters set out in the Combined Code.

BASE SALARIES

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

PERFORMANCE RELATED BONUSES

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

SHARE OPTIONS

The Board believes that the granting of share incentives encourages a broad alignment of the interests of the executive Directors with the earnings growth of the Company to the mutual benefit of both shareholders and participants. As at 30 June 2005 the following options for current employees were in place to subscribe for ordinary shares in the Company.

	Exercise price	Date of grant	Expiry date	**At 30 June 2005**	At 30 June 2004
Adonis Pouroulis	30.0p	22 April 1997	11 April 2007	**100,000**	100,000
	35.0p	22 April 1997	11 April 2007	**100,000**	100,000
	40.0p	22 April 1997	11 April 2007	**100,000**	100,000
	45.0p	22 April 1997	11 April 2007	**100,000**	100,000
	44.0p	5 September 2003	5 September 2013	**750,000**	750,000
	85.0p	16 June 2005	16 June 2015	**250,000**	–
David Abery	44.0p	5 September 2003	5 September 2013	**750,000**	750,000
	85.0p	16 June 2005	16 June 2015	**250,000**	–
Kevin Dabinett	54.5p	28 June 2004	28 June 2014	**750,000**	750,000
	85.0p	16 June 2005	16 June 2015	**250,000**	–
Johan Dippenaar	85.0p	16 June 2005	16 June 2015	**750,000**	–
Jim Davidson	85.0p	16 June 2005	16 June 2015	**750,000**	–
Senior management	44.0p	5 September 2003	5 September 2013	**385,000**	385,000
	54.5p	28 June 2004	28 June 2014	**133,334**	500,000
	56.75p	13 September 2004	13 September 2014	**50,000**	–
	A$1.12	24 September 2004	24 September 2014	**276,375**	–
	A$1.36	28 January 2005	28 January 2015	**86,250**	–

No share options held by current employees were exercised during the year.

Subsequent to the merger with Crown Diamonds NL ("Crown"), all Crown management share options were converted to Petra share options in a ratio of one Petra share option for every eight Crown share options held. The expiry dates of the Crown options were left unchanged.

NON-EXECUTIVE DIRECTORS

The Board determines the fees of the non-executive Directors in the absence of the relevant non-executive Director. The fees for their services in the financial year to 30 June 2005 were £25,000.

DIRECTORS' REMUNERATION

The following table gives a breakdown of the remuneration of the individual Directors who held office during the year ended 30 June 2005.

	Base remuneration £	Performance related bonus £	Other £	**2005 Total £**	2004 Total £
Executive Directors					
A Pouroulis	118,092	46,667	–	**164,759**	133,888
K Dabinett	140,302	10,000	–	**150,302**	39,415
D Abery	126,503	75,000	–	**201,503**	109,815
J Dippenaar*	11,875	30,000	–	**41,875**	–
J Davidson*	11,875	30,000	–	**41,875**	–
	408,647	191,667		**600,314**	283,118

	Fees £	Performance related bonus £	Other £	**2005 Total £**	2004 Total £
Non-executive Directors					
C Segall#	15,000	–	–	**15,000**	15,000
C Finkelstein	5,000	–	–	**5,000**	5,000
V Ruffer#	5,000	–	–	**5,000**	5,000
	25,000	–	–	**25,000**	25,000

**J Dippenaar and J Davidson joined the Company on 1 June 2005 and were appointed to the Board on Admission to AIM on 16 June 2005*

 # member of the Remuneration and Audit Committees

During the period under review, each of the executive Directors entered into a service agreement with the Company for a gross base remuneration package of £142,500 per annum. The service agreements were effective from 8 March 2005 for A Pouroulis, K Dabinett and D Abery, and 1 June 2005 for J Dippenaar and J Davidson. The executive Directors service agreements include a 12 month notice period upon termination.

During the period under review, each of the non-executive Directors entered into a service agreement with the Company for a per annum fee, as disclosed in the table above.

It is estimated that under arrangements currently in force, the aggregate base remuneration and benefits to be paid to the executive and non-executive Directors for the financial year end 30 June 2006 will be £737,500.

By order of the Board

DAVID ABERY
Director
25 October 2005

CORPORATE GOVERNANCE STATEMENT

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles of corporate governance as set out in the Combined Code ("the Code"). Under the rules of the Alternative Investment Market ("AIM") the Company is not required to comply with the Code and the Board considers that the size of the Group does not warrant compliance with all of the Code's requirements. The Board fully supports the principles on which the Combined Code is based and considers that the Company has complied with a number of key requirements. This statement also outlines the main corporate governance practices which comply with the Australian Stock Exchange Limited ("ASX") Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations ("ASX CGC Recommendations").

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing goals for management and monitoring the achievement of these goals, and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

Board process

To assist in the execution of its responsibilities, the Board has established an Executive Committee to manage the Company on a day to day basis. Members of this Committee are A Pouroulis, J Dippenaar, D Abery, J Davidson and K Dabinett. Members of this committee meet informally from time to time and no minutes are kept of proceedings.

The full Board holds scheduled meetings, and any extraordinary meetings at such other times as may be necessary to address any significant matters that may arise. In between meetings, decisions are adopted by way of written resolutions.

The agenda for scheduled meetings is prepared in conjunction with the Chairman, Chief Executive Officer and Finance Director. Standing items include the Chief Executive Officer's report, Finance Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

Details of the Board's procedures in respect to each of these areas are further outlined below.

Director education

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

Composition of the Board

The composition of the Board is determined using the following principles:

- The Board should comprise directors with a broad range of expertise both nationally and internationally.
- Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting and thereafter directors are subject to re-election at least every three years.

The Board has accepted the following definition of an independent Director:

"An independent Director is a director who is not a member of management (a non-executive director) and who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- is not a principal of a professional adviser to the Company or another group member;
- is not a significant consultant, supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a significant consultant, supplier or customer;
- has no significant contractual relationship with the Company or another group member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company."

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities and then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

The Board consists of five executive Directors and three non-executive Directors. Of the three non-executive Directors, C Segall is considered independent. While the majority of the Board is not considered independent for the purpose of the definition above, the Board considers that the composition is appropriate given the size of the Company. In particular, the Board is of the opinion that this composition gives the necessary mix of industry specific and broad business experience necessary for the effective governance of the Company, for setting the Company's strategic direction, and for creating shareholder value. The executive Directors are responsible for the day-to-day running of the Company.

All executive and non-executive Directors may take independent advice, at the expense of the Company, if considered necessary in the performance of their duties. Directors are expected to bring an independent judgement to bear on issues of strategy, performance, resource and standards of conduct.

Nomination Committee

The Board has not established a Nomination Committee as the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. The Board assesses the experience, knowledge and expertise of potential directors before any appointment is made and adheres to the principle of establishing a board comprising directors with a blend of skills, experience and attributes appropriate to the Company and its business. The main criterion for the appointment of directors is an ability to add value to the Company and its business. All Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting of the Company. The Board will review the utility of a Nomination Committee as it enters the next stage of its development, and one will be established if and when considered appropriate by the Board.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. The Board has developed policies to assist Directors to disclose potential conflicts of interest.

Director dealings in company shares

The Constitution permits directors to acquire shares in the Company. Company policy prohibits directors and senior management from dealing in Company shares or exercising options whilst in possession of price sensitive information, and except in unusual circumstances, only 42 days after either the release of the Company's half-year and annual results, the annual general meeting or any major announcement.

Directors and senior management must notify the Chairman of the Board before they sell or buy shares in the Company.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Group's expense.

Remuneration of non-executive Directors

When setting fees and other compensation for non-executive Directors, the Board takes independent advice and applies international benchmarks. Director's fees cover all main Board activities and membership of committees. Further information is contained in the Directors' Remuneration Report on page 26.

AUDIT COMMITTEE

The Audit Committee comprises Charles Segall, Volker Ruffer and Charles Finkelstein, all being non-executive Directors, and is chaired by Charles Segall. The Committee may take independent advice, at the expense of the Company, if considered necessary. The Committee makes recommendations to the Board on the appointment of the external auditors, their independence and the level of their fees; it reviews the findings of the external auditors and ensures appropriate action is taken by management; it reviews the Group's interim and annual financial statements prior to submission to the Board; it reviews the Group's statement on internal control systems, considers the effectiveness of internal financial controls and any internal audit resource, making recommendations for changes if appropriate, and institutes and reviews special projects and investigations on any matter as it sees fit.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Charles Segall and Volker Ruffer, both being non-executive Directors, and is chaired by Charles Segall. The committee may take independent advice, at the expense of the Company, if considered necessary. The main responsibilities of the Remuneration Committee are to determine on behalf of the Board and shareholders the overall policy for executive remuneration; to determine the base salary, benefits, performance related bonus and any equity participation schemes (including share options) for each of the executive Directors and other senior management of the Group; and to approve all Directors' service contracts. The Committee ensures that a significant proportion of the executive Directors' remuneration is directly related to the performance of the Group.

INTERNAL CONTROL FRAMEWORK

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

The Combined Code requires that the effectiveness of the system of internal control be reviewed by the Directors, including financial, operational and risk management. In September 1999 the Turnbull report was published which offered guidance to directors on complying with the internal control requirements of the Combined Code. Although the Board considers that the size of the Group does not warrant compliance with all the Code's requirements, the Board has implemented a reporting structure, as detailed below, to review all aspects of internal control and will continue to develop the process throughout the 2006 financial year:

- *Financial reporting* – the Company will report to shareholders quarterly and half-yearly, as required by the ASX Listing Rules. The Chief Executive Officer and Finance Director state in writing to the Board that the Company's financial reports present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. They also state the Company's financial reports are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board and that this system is operating efficiently and effectively in all material respects.
- *Continuous disclosure* - the Company has a policy, based on existing policies and practices as a company dual listed on the AIM and ASX, that all shareholders and investors have equal access to the Company's information and has procedures to ensure that all price sensitive information will be disclosed to the AIM and ASX in accordance with the continuous disclosure requirements of the AIM and ASX Listing Rules. All information provided to the AIM and ASX will be immediately posted to the Company's website:
  - a comprehensive process is in place to identify matters that may have a material effect on the price of the Company's securities;
  - the Chief Executive Officer and Finance Director are responsible for interpreting the Company's policy and where necessary informing the Board;
  - the Finance Director is responsible for all communications with AIM and ASX.

- *Overview of the risk management system* – the Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the Group.
- *Risk profile* – the Group has not established a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board will draw on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

  Major risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on diamond sales, difficulties in sourcing goods and services, environment, occupational health and safety, financial reporting, and the purchase, development and use of information systems.
- *Risk management and compliance and control* – the Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board's internal control processes are comprehensive and comprise:
  - *Operating unit controls* – operating units confirm compliance with financial controls and procedures including information system controls.
  - *Functional speciality reporting* – key areas subject to regular reporting to the Board include operations, safety, environment and legal matters.

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

- *Environmental regulation* – the Group's operations are subject to significant environmental regulation under international law and the laws of the jurisdictions in which the Company's operations are based in relation to its exploration and mining activities. The Company's exploration and mining activities are concentrated in Africa. The Group has an Environmental Management Programme in place for each prospecting and mining permit.

  The Group is committed to achieving a high standard of environmental performance. The Board is responsible for the regular monitoring on environmental exposures and compliance with environmental regulations.

  The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

- *Internal audit* – the Group does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.
- *Ethical standards* – all Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer issues arising from their employment.
- *Conflict of interest* – Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.
- *Code of conduct* – the Group has established a documented Code of Conduct. The Group has adopted certain induction procedures to inform newly appointed Directors, managers and employees of their rights and their duty to act with utmost integrity and objectivity. The Code of Conduct is designed to guide compliance with legal and other obligations to the Company's stakeholders.
- *Performance assessment* – the Company has adopted self-evaluation processes to measure Board performance. The performance of all directors is assessed through analysis, review and specific discussion by the Board of issues relating to individual Director's attendance at and involvement in Board meetings, interaction with management, performance of allocated tasks and any other matters identified by the Board or other Directors. Any significant issues identified are actioned by the Board on an ongoing basis. Due to the Board's assessment of the effectiveness of these processes, the Board has not formalised qualitative performance indicators to measure Director's performance.

  The evaluation of key executives is carried out by the Chief Executive Officer via ongoing monitoring of management performance. The Company has established an Employee Share Option Scheme, whereby it can issue options to eligible employees to subscribe for shares in the Company at set prices.

COMMUNICATION WITH SHAREHOLDERS

Whilst the Board has not formally documented the Group's continuous disclosure procedures, the Board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the AIM and ASX, posting them on the Company's website, and issuing media releases.

In summary, the continuous disclosure processes operate as follows:

- The Finance Director is responsible for all communications with the AIM and ASX. Matters that may have an effect on the price of the Company's securities will be advised to the AIM and ASX on the day they are discovered. Senior executives monitor all areas of the Company's internal and external environment.

- The Annual Report is distributed to all shareholders. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, as well as all required disclosures.
- Notices of all meetings of shareholders.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market, and related information (including information provided to analysts and the media), will be released to the AIM and ASX and placed on the Company's website.
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website, along with results of such meetings.

All documents that are released publicly will be made available on the Group's internet website at www.petradiamonds.com.

The Board encourages full participation of shareholders at shareholders' meetings to ensure a high level of accountability and identification with the Group's strategy and goals.

The shareholders are requested to vote on the appointment of Directors and changes to the Company's bye-laws (constitution). Copies of the bye-laws are available to any shareholder who requests it.

The Board ensures that the external auditors attend the Company's Annual General Meeting and other meetings where it is appropriate to do so.

EXTERNAL AUDITORS

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

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

Directors

Adonis Pouroulis

EXECUTIVE CHAIRMAN (35)

is a mining engineer with a mining degree from the University of the Witwatersrand in Johannesburg. On leaving university he was involved for one year working in South African gold mines thereafter for a further year investigating mining propositions in the former Soviet Union. In 1997 he created and founded Petra Diamonds Limited and floated the company on the AIM of London Stock Exchange in April of the same year. Mr Pouroulis was instrumental in the creation of the Nabera mining consortium which led the successful bid for the management contract on Alexkor, the State-owned diamond mine.

Johan Dippenaar

CHIEF EXECUTIVE OFFICER (48)

was previously the CEO of Crown Diamonds. He is a chartered accountant by profession and a member of the South African Institute of Chartered Accountants (SAICA) with over 17 years' experience in the management of companies of which 15 years has been in the management of mining companies.

David Abery

FINANCE DIRECTOR (43)

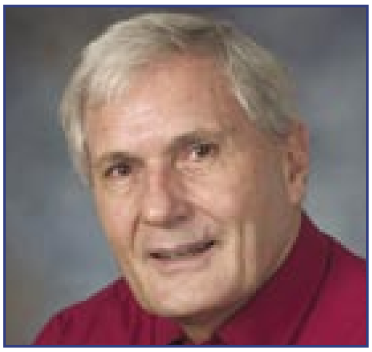
is a Chartered Accountant (ICAEW), who brings to Petra extensive experience as a Finance Director in both the South African and UK business environments, as well as an in-depth knowledge of AIM. Prior to Petra, Mr Abery was Finance Director of Mission Testing plc, the software testing consultancy successfully floated on AIM in December 2000. Before that, he was Head of Finance for Tradepoint Financial Networks plc (consequently renamed Virt-x plc), the high-tech electronic stock exchange which was also quoted on AIM.

Directors

Kevin Dabinett

CHIEF OPERATING OFFICER (50)

was born in Zambia and educated in England, graduating with an Honours Degree in Mining Engineering in 1976 from the Royal School of Mines, London. He has since gained extensive operational and management experience within the mining industry across southern Africa. Throughout his career, he has successfully managed various mining operations in southern Africa, often in difficult conditions. Most recently, Mr Dabinett was with Impala Platinum Ltd as General Manager of the Marula platinum project. Whilst at Auridiam Zimbabwe (Pvt) Ltd as General Manager, he oversaw the feasibility study and commissioning of a pilot plant at the River Ranch diamond project in Zimbabwe, managing the expansion of the project into a 2 million tonne per annum operating mine.



Jim Davidson

TECHNICAL DIRECTOR (60)

was previously Technical Director of Crown Diamonds. He is responsible for all Petra geological matters and, with Kevin Dabinett, group technical development. He is a qualified geologist and a member of the Geological Society of South Africa with over 20 years experience in mine management.

Non-executive Directors

Charles Finkelstein

NON-EXECUTIVE DIRECTOR (45)

is a member of the Antwerp Diamond Bourse and a director of SC Diamantaire CH Finkelstein and Co NV, one of the world's leading diamond traders. CH Finkelstein's head office is in Antwerp and the business has been in existence for more than 100 years.

Volker Ruffer

NON-EXECUTIVE DIRECTOR (66)

consults for KPMG Frankfurt where he specialises in international tax planning, mergers, acquisitions and company re-organisations. He was previously managing partner from 1972 to 1994. He holds a Masters degree in business administration from the University of Munster, Germany.

Charles Segall

DEPUTY CHAIRMAN AND NON-EXECUTIVE DIRECTOR (64)

is a director of the Atlantic Trust Company Limited of South Africa where he specialises in providing trustee services. He is admitted as an attorney of the High Court of South Africa.

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We have audited the financial statements on pages 38 to 69.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to it in our Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report. As described on page 25, this includes responsibility for preparing the financial statements in accordance with applicable Bermudan law and International Financial Reporting Standards. Our responsibilities, as independent auditors, are established by Bermudan law, the Auditing Practices Board of the United Kingdom and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Bermudan law.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2005 and of its loss for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with Bermudan law.

KPMG Audit Plc

KPMG AUDIT PLC
Chartered Accountants
Registered Auditor
Reading
25 October 2005

	Notes	2005 £	2004 £
Revenue		**1,225,292**	–
Cost of sales	4	**(1,060,954)**	–
Gross profit		**164,338**	–
Other operating income		**–**	4,424
Exploration expenditure	5	**(3,799,608)**	(2,499,983)
Operating expenditure - other	6	**(2,503,010)**	(1,478,477)
Operating expenditure - impairment of goodwill	12	**(4,832,025)**	–
Financial income		**19,636**	16,099
Financial expense		**(333,106)**	(261,926)
Net financing costs	7	**(313,470)**	(245,827)
Loss before tax		**(11,283,775)**	(4,219,863)
Income tax expense	8	**(35,508)**	–
Loss for the year		**(11,319,283)**	(4,219,863)
Basic and diluted loss per share – pence	10	**(15.31)**	(7.45)

The Group's income and expenses all relate to continuing operations in the current and previous years.

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 June 2005

	2005 £	2004 £
Loss for the year	**(11,319,283)**	(4,219,863)
Exchange adjustments on translation of subsidiary and branch undertakings recognised directly in equity	**647,083**	153,094
Total recognised gains and losses relating to the year	**(10,672,200)**	(4,066,769)

	Notes	2005 £	2004 £
ASSETS			
Property, plant and equipment	11	**40,938,217**	1,782,408
Intangible assets	12	**187,199**	79,576
Investment in associates	13	**–**	–
Trade and other receivables	15	**89,960**	–
Total non-current assets		**41,215,376**	1,861,984
Inventories	14	**782,996**	–
Trade and other receivables	15	**1,563,640**	550,838
Cash and cash equivalents	16	**15,374,678**	3,766,852
Total current assets		**17,721,314**	4,317,690
Total assets		**58,936,690**	6,179,674
EQUITY AND LIABILITIES			
Equity			
Issued capital	17	**13,094,946**	6,784,998
Share premium account	18	**56,711,873**	18,834,587
Foreign currency translation reserve	18	**2,286,161**	1,639,078
Accumulated loss	18	**(34,767,466)**	(23,578,125)
Total equity	19	**37,325,514**	3,680,538
Liabilities			
Interest-bearing loans and borrowings	20	**239,470**	2,000,000
Trade and other payables	21	**1,114,737**	13,620
Provisions	22	**956,758**	–
Deferred tax liabilities	23	**6,648,166**	–
Total non-current liabilities		**8,959,131**	2,013,620
Interest-bearing loans and borrowings	20	**6,464,162**	–
Trade and other payables	21	**5,049,297**	166,412
Provisions	22	**1,138,586**	319,104
Total current liabilities		**12,652,045**	485,516
Total liabilities		**21,611,176**	2,499,136
Total equity and liabilities		**58,936,690**	6,179,674

The financial statements were authorised for issue by the Directors on 25 October 2005

	Notes	2005 £	2004 £
Loss after taxation for the year		**(11,319,283)**	(4,219,863)
Depreciation of property plant and equipment – exploration		**340,966**	44,402
Depreciation of property plant and equipment – mining		**249,394**	–
Depreciation of property plant and equipment – other		**15,628**	7,783
Amortisation of intangible assets		**4,409**	4,250
Profit on sale of property plant and equipment		**(866)**	–
Impairment of intangible assets		**73,710**	–
Impairment of goodwill		**4,832,025**	–
Interest received		**(19,636)**	(16,099)
Interest paid		**216,585**	113,700
Foreign exchange loss		**497,083**	218,432
Operating loss before working capital changes		**(5,109,985)**	(3,847,395)
(Increase) in trade and other receivables		**(563,539)**	(383,855)
Increase in trade and other payables		**1,088,439**	107,308
(Increase) in inventories		**(28,860)**	–
Cash utilised in operations		**(4,613,945)**	(4,123,942)
Interest paid		**(216,585)**	(113,700)
Net cash utilised by operating activities		**(4,830,530)**	(4,237,642)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**866**	–
Acquisition of subsidiary net of cash acquired	3	**57,688**	–
Interest received		**19,636**	16,099
Acquisition of property, plant and equipment	11	**(1,414,606)**	(1,776,097)
Development expenditure	12	**(102,270)**	–
Net cash from investing activities		**(1,438,686)**	(1,759,998)
Cash flows from financing activities			
Proceeds from the issue of share capital		**18,106,789**	7,577,133
(Decrease)/increase in long-term borrowings		**(218,837)**	1,923,410
Net cash from financing activities		**17,887,952**	9,500,543
Net increase in cash and cash equivalents		**11,618,736**	3,502,903
Cash and cash equivalents at beginning of the year		**3,766,852**	263,949
Effect of exchange rate fluctuations on cash held		**(10,910)**	–
Cash and cash equivalents at end of the year	16	**15,374,678**	3,766,852

1. ACCOUNTING POLICIES

Petra Diamonds Limited is a company registered and domiciled in Bermuda. The financial statements incorporate the principal accounting policies set out below, which are consistent with those adopted in the previous financial year.

1.1 Statement of compliance

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

1.2 Basis of preparation

The Group financial statements are prepared on the historical cost basis and are presented in Pounds Sterling.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements by all Group entities.

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.

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.

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.

1. ACCOUNTING POLICIES *(continued)*

1.3 Basis of consolidation *(continued)*

Associates *(continued)*

Additional losses are only recognised to the extent that the Group has incurred obligations or made payments on behalf of the associate. Where the Group does not exercise any significant influence the investment is stated at cost less any impairment.

Joint ventures

Joint ventures are arrangements where the Group has joint control, established by contractual agreement. Where this is through a separate legal entity, the consolidated financial statements include the Group's proportionate share of the entities assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases. Where the arrangement is through a pooling of assets the Group maintains ownership of the assets and records its share of revenue and expenses.

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.

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

Exploration 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
Mining assets	
Plant, machinery and equipment	Units of production method
Mineral properties	Units of production method

1. ACCOUNTING POLICIES *(continued)*

1.4 Property, plant and equipment *(continued)*

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 asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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 income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

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 in 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 balance sheet.

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.

1.6 Intangible assets

Evaluation and exploration costs 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 whereupon it is amortised on a unit of production basis.

Mineral rights are capitalised at cost and are amortised on a unit of production basis for operating mines and over twenty years for prospecting rights.

Goodwill for all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on acquisition is recognised directly in profit or loss.

1. ACCOUNTING POLICIES *(continued)*

1.7 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet 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. For intangible assets that are not yet available for use, goodwill or intangible assets with an indefinite useful life, an impairment test is performed at each balance sheet date.

In assessing value in use, the expected future 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 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. For goodwill a recognised impairment loss is not reversed.

1.8 Financial instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Trade and other receivables

Trade and other receivables originated by the Group are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Derivative instruments

Derivative instruments are measured at fair value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

1. ACCOUNTING POLICIES *(continued)*

1.8 Financial instruments *(continued)*

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Gains and losses from measuring the hedging instruments relating to a fair value hedge at fair value are recognised immediately in net profit or loss.

Gains and losses from remeasuring the hedging instruments relating to a cash flow hedge to fair value are initially recognised directly in equity. If the hedged firm commitment or forecast transaction results in the recognition of an asset or a liability, the cumulative amount recognised in equity up to the transaction date is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is included in net profit or loss in the period when the commitment or forecast transaction affects profit or loss.

Where the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in the income statement immediately.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Revenue

Revenue comprises net invoiced diamond sales, option fees, and management fees to customers excluding VAT, investment income and other non-operating income. 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.

1.10 Investment income

Interest is recognised on a time proportion 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.

1.11 Tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet 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.

1. ACCOUNTING POLICIES *(continued)*

1.11 Tax *(continued)*

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

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.

1.12 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.

Environmental rehabilitation

The estimated cost of environmental rehabilitation is based on current legal requirements and existing technology. A provision is raised for the present value of environmental damage incurred on the initial set-up of assets and other long-term projects. 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 income statement. The cost of the ongoing current programmes to prevent and control pollution 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 sites based on studies conducted by independent technical advisers.

1.13 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 balance sheet date. Gains and losses arising on translation are credited to or charged against income.

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. Goodwill and 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 balance sheet date. Exchange differences arising from the translation of foreign entities are taken directly to a foreign currency translation reserve. The Group financial statements are presented in sterling which is also the measurement currency of Petra Diamonds Limited, the Company. For the Australian and South African subsidiaries the measurement currencies are Australian dollars and South African rand. For British Virgin Island and Angolan subsidiaries, the measurement currency is United States dollars.

1. ACCOUNTING POLICIES *(continued)*

1.14 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, annual and sick leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

1.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Group unless otherwise stated.

1.16 Share-based payments

The Company utilises share options and warrants. 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.

1.17 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 price 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.

1.18 Convertible note

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. 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 issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

1.19 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.

2. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The primary format is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income 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.

Business and Geographical segments

The Group comprises the following business segments:

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

Exploration – exploration operations carried out in Angola, Sierra Leone and South Africa.

Business segments 2005	Mining £	Exploration £	Eliminations £	Consolidated £
Revenue from external customers	1,225,292	–	–	1,225,292
Segment result	164,338	(11,007,711)	–	(10,843,373)
Operating profit	37,406	(11,007,711)	–	(10,970,305)
Net financing income/(costs)	72,058	(385,528)	–	(313,470)
Income tax expense	(35,508)	–	–	(35,508)
Profit/(loss) for year	73,956	(11,393,239)	–	(11,319,283)
Segment assets	45,065,076	43,718,814	(29,847,200)	58,936,690
Total assets	45,065,076	43,718,814	(29,847,200)	58,936,690
Segment liabilities	18,553,530	3,258,949	(201,303)	21,611,176
Total liabilities	18,553,530	3,258,949	(201,303)	21,611,176
Cash flows from operations	339,461	(5,169,991)	–	(4,830,530)
Cash flows from investing	(81,054)	(1,357,632)	–	(1,438,686)
Cash flows from financing	(245,582)	18,133,534	–	17,887,952
Capital expenditure	188,992	1,225,614	–	1,414,606
Depreciation and amortisation	249,394	361,003	–	610,397
Impairment losses	(4,832,025)	(73,710)	–	(4,905,735)

Geographical segments 2005	Angola £	South Africa £	Sierra Leone £	Consolidated £
Revenue from external customers	–	1,225,292	–	1,225,292
Segment assets	2,879,685	55,869,806	187,199	58,936,690
Cash flows from operations	(3,072,044)	(1,758,486)	–	(4,830,530)
Cash flows from investing	(1,167,925)	(168,491)	(102,270)	(1,438,686)
Cash flows from financing	4,856,812	12,928,870	102,270	17,887,952
Capital expenditure	1,225,614	188,992	–	1,414,606
Impairment losses	–	(4,905,735)	–	(4,905,735)

2. SEGMENTAL INFORMATION *(continued)*

Business segments 2004	**Mining £**	**Exploration £**	**Eliminations £**	**Consolidated £**
Revenue from external customers	–	–	–	–
Segment result	–	(3,974,036)	–	(3,974,036)
Operating profit	–	(3,974,036)	–	(3,974,036)
Net financing costs	–	(245,827)	–	(245,827)
Income tax expense	–	–	–	–
Loss for year	–	(4,219,863)	–	(4,219,863)
Segment assets	–	6,179,674	–	6,179,674
Total assets	–	6,179,674	–	6,179,674
Segment liabilities	–	2,499,136	–	2,499,136
Total liabilities	–	2,499,136	–	2,499,136
Cash flows from operations	–	(4,237,642)	–	(4,237,642)
Cash flows from investing	–	(1,759,998)	–	(1,759,998)
Cash flows from financing	–	9,500,543	–	9,500,543
Capital expenditure	–	1,776,097	–	1,776,097
Depreciation and amortisation	–	56,435	–	56,435
Impairment losses	–	–	–	–

Geographical segments 2004	**Angola £**	**South Africa £**	**Eliminations £**	**Consolidated £**
Revenue from external customers	–	–	–	–
Segment assets	2,122,150	4,057,524	–	6,179,674
Cash flows from operations	(2,828,032)	(1,409,610)	–	(4,237,642)
Cash flows from investing	(1,762,332)	2,334	–	(1,759,998)
Cash flows from financing	4,208,434	5,292,109	–	9,500,543
Capital expenditure	1,762,332	13,765	–	1,776,097
Impairment losses	–	–	–	–

3. ACQUISITION OF SUBSIDIARY

Effective 31 May 2005, the Company acquired all the shares in Crown Diamonds NL ("Crown"), an Australian listed entity, for £25,814,334, satisfied by the issue of 37,962,256 shares. Crown operated three diamond mines in South Africa and had an exploration interest in Sierra Leone. In the one month to 30 June 2005 the subsidiary contributed a mining profit, before depreciation, of £413,732. If the acquisition had occurred on 1 July 2004, the Group revenue would have been £9,570,839 and the loss would have increased by £1,743,555.

Effect of the acquisition

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

Crown's net assets at acquisition date	Book values £	Fair value adjustments £	Carrying values £
Consolidated fair value of net assets of entity acquired:			
Mineral properties	15,202,872	3,450,111	18,652,983
Plant and equipment	7,877,282	10,711,196	18,588,478
Exploration and evaluation	82,567	–	82,567
Cash assets	57,688	–	57,688
Inventories	754,136	–	754,136
Receivables	406,140	–	406,140
Receivables from related parties	133,083	–	133,083
Deferred tax liabilities	(6,423,275)	–	(6,423,275)
Settlement of purchase consideration	(3,849,972)	–	(3,849,972)
Bank loans – secured	(805,554)	–	(805,554)
Bank loans – unsecured	(2,439,659)	–	(2,439,659)
Convertible notes – secured	(1,276,717)	–	(1,276,717)
Loans from directors of Crown	(356,918)	–	(356,918)
Accruals and payables	(929,409)	–	(929,409)
Interest on interest-bearing liabilities	(43,620)	–	(43,620)
Payables to related party	(116,182)	–	(116,182)
Provision for rehabilitation	(924,251)	–	(924,251)
Other provisions	(527,209)	–	(527,209)
	6,821,002	14,161,307	20,982,309
Goodwill			4,832,025
Consideration paid satisfied in shares			25,814,334

	2005 £	2004 £
4. COST OF SALES		
Raw materials and consumables used	**395,958**	–
Employee expenses	**470,364**	–
Depreciation of mining assets	**249,394**	–
Changes in inventory of finished goods	**(54,762)**	–
	1,060,954	–
5. EXPLORATION EXPENDITURE		
Employee expenses	**994,315**	479,350
Depreciation of exploration assets	**340,966**	44,402
Drilling costs	**953,356**	361,240
Equipment hire	**570,305**	120,010
Other exploration costs	**940,666**	1,494,981
	3,799,608	2,499,983
6. OPERATING EXPENDITURE – OTHER		
Auditors' remuneration		
– audit services	**117,796**	60,534
Amortisation of intangible assets	**4,409**	4,250
Depreciation of property plant and equipment	**15,628**	7,783
Operating lease rentals	**187,822**	216,548
Staff costs	**967,310**	537,839
Bid expenditure	**–**	33,394
Impairment of intangible assets	**73,710**	–
Profit on disposal of property plant and equipment	**866**	–
Other charges	**1,135,469**	618,129
	2,503,010	1,478, 477
In addition to the above, fees paid to the auditors during 2005 amounting to £121,099 in respect of non-audit services, largely in respect of the merger with Crown Diamonds NL, have been charged to the share premium account as share issue costs.		
7. NET FINANCING COSTS		
On bank loans and overdrafts	**(29,395)**	(74)
Other debt finance costs	**(187,190)**	(113,626)
Foreign exchange losses	**(116,521)**	(148,226)
Financial expense	**(333,106)**	(261,926)
Interest received	**19,636**	16,099
	(313,470)	(245,827)

	2005 £	2004 £
8. TAXATION		
Current taxation		
– Current tax expense	**–**	–
Deferred taxation		
– Current period	**35,508**	–
	35,508	–

	2005 %	2005 £	2004 %	2004 £
Reconciliation of tax rate				
Loss before taxation		**(11,283,775)**		(4,219,863)
Tax at UK corporate rate	**(30.00)**	**(3,385,132)**	(30.00)	(1,265,959)
Effects of:				
Non-deductible expenses	**12.83**	**1,447,708**	2.9	120,560
Non-taxable income	**(0.02)**	**(2,256)**	–	–
Assessed loss not utilised	**3.81**	**429,912**	–	–
Effect of tax rates in foreign jurisdictions	**13.07**	**1,474,260**	27.1	1,145,399
Total tax charge	**(0.31)**	**(35,508)**	–	–

	2005 £	2004 £
9. DIRECTORS AND EMPLOYEES		
Staff costs (excluding the non-executive Directors) during the year were as follows:		
Wages and salaries – mining	**470,364**	–
Wages and salaries – exploration	**994,315**	479,350
Wages and salaries – administration	**865,159**	488,223
Social security costs	**3,848**	696
Provident fund costs	**98,303**	48,920
	2,431,989	1,017,189
	Number	Number
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 1,832 (2004:102), employed as follows:		
Mining and exploration	**1,776**	76
Administration	**56**	26
	1,832	102

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

	Base remuneration £	Performance related bonus £	Other £	2005 Total £	2004 Total £
Executive Directors					
A Pouroulis	118,092	46,667	–	**164,759**	133,888
K Dabinett	140,302	10,000	–	**150,302**	39,415
D Abery	126,503	75,000	–	**201,503**	109,815
J Dippenaar	11,875	30,000	–	**41,875**	–
J Davidson	11,875	30,000	–	**41,875**	–
	408,647	191,667		**600,314**	283,118

	Fees £	Performance related bonus £	Other £	2005 Total £	2004 Total £
Non-executive Directors					
C Segall	15,000	–	–	**15,000**	15,000
C Finkelstein	5,000	–	–	**5,000**	5,000
V Ruffer	5,000	–	–	**5,000**	5,000
	25,000	–	–	**25,000**	25,000

	2005 £	2004 £
10. LOSS PER SHARE		
The calculation of loss per share is based on the loss for the financial year of £11,319,283 (2004: £4,219,863) and on a weighted average of 73,937,847 (2004: 56,682,704) ordinary shares of 10p each in issue during the year.		
Loss for the year	**11,319,283**	4,219,863
	Shares	Shares
Basic weighted average number of ordinary shares in issue	**73,937,847**	56,682,704
	Pence	Pence
Basic loss per share – pence	**(15.31)**	(7.45)
Due to the Group's loss for the year, the diluted loss per share is the same as the basic loss per share		
Weighted average number of ordinary shares		
As at 1 July 2004	**67,849,976**	51,638,496
Effect of shares issued during the period	**6,087,871**	5,044,208
Weighted number at 30 June 2005	**73,937,847**	56,682,704

	Plant and machinery Mining assets £	Plant and machinery Exploration assets £	Computers and office equipment £	Motor vehicles £	Mineral properties £	Total £
11. PROPERTY, PLANT AND EQUIPMENT						
Cost						
At 1 July 2004	–	1,598,572	100,816	176,706	–	1,876,094
Exchange differences	531,563	15,385	(2,178)	36,926	533,620	1,115,316
Business combination	18,581,076	–	7,402	–	18,652,986	37,241,464
Additions	164,732	140,602	65,225	1,041,355	2,692	1,414,606
Disposals	–	–	–	(6,860)	–	(6,860)
At 30 June 2005	**19,277,371**	**1,754,559**	**171,265**	**1,248,127**	**19,189,298**	**41,640,620**
Depreciation						
At 1 July 2004	–	28,980	28,201	36,505	–	93,686
Exchange differences	–	8,310	(1,071)	2,350	–	9,589
Disposals	–	–	–	(6,860)	–	(6,860)
Provided in the year	152,984	258,901	21,854	72,555	99,694	605,988
At 30 June 2005	**152,984**	**296,191**	**48,984**	**104,550**	**99,694**	**702,403**
Net book amount						
30 June 2005	**19,124,387**	**1,458,368**	**122,281**	**1,143,577**	**19,089,604**	**40,938,217**
Net book amount 30 June 2004	–	1,569,592	72,615	140,201	–	1,782,408

The Group leases plant and machinery under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the plant and equipment. At 30 June 2005, the net carrying amount of leased plant and machinery was £378,559 (2004: £Nil). The leased equipment secures lease obligations (see Note 20).

An option was granted on 15 October 2003 to J Dippenaar and J Davidson to acquire the game farm situated on and around the Helam Diamond Mine for R2,500,000 (£209,121). The option expires on 15 October 2011.

	Goodwill £	Pre-production expenditure £	Mineral rights £	Total £
12. INTANGIBLE ASSETS				
Cost				
At 1 July 2004	–	–	89,817	89,817
Exchange differences	–	2,362	(4,608)	(2,246)
Acquisition by business combination	4,832,025	82,567	–	4,914,592
Expenditure on exploration	–	102,270	–	102,270
At 30 June 2005	**4,832,025**	**187,199**	**85,209**	**5,104,433**
Amortisation				
At 1 July 2004	–	–	(10,241)	(10,241)
Exchange differences	–	–	3,151	3,151
Impairment	(4,832,025)	–	(73,710)	(4,905,735)
Provided in the year	–	–	(4,409)	(4,409)
At 30 June 2005	**(4,832,025)**	**–**	**(85,209)**	**(4,917,234)**
Net book amount 30 June 2005	–	187,199	–	187,199
Net book amount 30 June 2004	–	–	79,576	79,576

Goodwill has been impaired according to a preferred fair valuation of the net realisable assets of the acquired business combination as determined by an independent valuation.

Mineral rights have been impaired as the estimated future cash flows do not support the net book value of the asset.

13. INVESTMENTS IN ASSOCIATES

Interests in associates
At year end the Group had interests in the following:

	Country	Ownerships 2005 %	Ownerships 2004 %
Namibia Mining House (Pty) Ltd	Namibia	**35.0**	35.0
Nabera Mining (Pty) Ltd	South Africa	**29.5**	29.5

Summary of financial information on associates – 100 per cent

2005	**Assets**	**Liabilities**	**Equity**	**Revenues**	**(Loss)**
Namibia Mining House (Pty) Ltd	**–**	**–**	**–**	**–**	**–**
Nabera Mining (Pty) Ltd	**5,743**	**(161,830)**	**156,087**	**–**	**(38,326)**
2004					
Namibia Mining House (Pty) Ltd	–	–	–	–	–
Nabera Mining (Pty) Ltd	23,492	(96,387)	72,895	–	(28,488)

	2005 £	2004 £
If the investments in associates had been included at cost, they would have been included at the following amounts:		
Cost	**463**	463
Amounts written off	**(463)**	(463)
Net book amount	–	–

	2005 £	2004 £
14. INVENTORIES		
Diamonds held for resale	**604,487**	–
Consumables and stores	**178,509**	–
	782,996	–
15. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	**414,098**	–
Other receivables	**1,059,656**	501,984
Prepayments	**89,886**	48,854
	1,563,640	550,838
Non-current		
Rehabilitation guarantee	**89,960**	–
	89,960	–
The rehabilitation guarantee comprises a risk policy which is anticipated to be recovered upon closure and rehabilitation of one of the Group's mines.		
16. CASH AND CASH EQUIVALENTS		
Unsecured		
Cash at bank and on hand	**13,989,636**	3,766,852
Secured		
Fixed and floating charge deposit	**1,385,042**	–
	15,374,678	3,766,852
As security for the Company's obligations to the Convertible Note Holders, the Company has pledged A$3,3 million (£1,385,042) in a fixed and floating charge deposit (Refer Note 20 (iv)).		

	Number of shares	2005 £	Number of shares	2004 £
17. ISSUED CAPITAL				
Authorised – ordinary shares of 10p each				
As at 1 July 2004 and 30 June 2005	**200,000,000**	**20,000,000**	120,000,000	12,000,000
Issued and fully paid				
At 1 July	**67,849,976**	**6,784,998**	51,638,496	5,163,849
Allotments during the year	**63,086,597**	**6,308,660**	16,211,480	1,621,149
Conversion of convertible notes	**12,883**	**1,288**	–	–
At 30 June	**130,949,456**	**13,094,946**	67,849,976	6,784,998

All the allotments during the year were in respect of the merger with Crown Diamonds NL and in respect of funds raised to further grow the business into Africa.

17. ISSUED CAPITAL *(continued)*

Warrants and Options

Put and call options

Holder	Exercise price	Total value	Expiry
Williams de Broë Plc	85.0p	£170,716	17 June 2008
Societe Diamantaire Finkelstein CH & Co NV	67.5p	US$1.75m	31 October 2005

Williams de Broë Plc have an option over 200,843 ordinary shares in the Company exercisable for a period of three years from 17 June 2005 at an exercise price of 85p.

The Company and Societe Diamantaire Finkelstein CH & Co NV ("Finkelstein") have granted each other a mutual put and call option for Finkelstein to subscribe US$1.75 million for ordinary shares in the Company, such option being exercisable once the market value of Petra's ordinary shares equals or exceeds 75p respectively for at least 15 consecutive trading days. The subscription price will be equal to a 5% discount to that market price. The option is renewable at the Company's choice on an annual basis. Charles Finkelstein, a director of the Company, is also a director of Finkelstein.

Warrants

Holder	Shares	Exercise price	Expiry
Photon Global Limited	1,500,000	30p	31 December 2007
Photon Global Limited	1,000,000	100p	31 December 2007
Photon Global Limited	833,333	55.85p	14 August 2006
Photon Global Limited	833,333	55.85p	14 August 2006

Employee share options

Holder	Number of shares	Exercise price	Expiry
Estate of W Roberts	50,000	30.0p	22 July 2005
	50,000	35.0p	22 July 2005
	50,000	40.0p	22 July 2005
	50,000	45.0p	22 July 2005
A Pouroulis	100,000	30.0p	11 April 2007
	100,000	35.0p	11 April 2007
	100,000	40.0p	11 April 2007
	100,000	45.0p	11 April 2007
	750,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
D Abery	750,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
K Dabinett	750,000	54.5p	28 June 2014
	250,000	85.0p	16 June 2015
J Dippenaar	750,000	85.0p	16 June 2015
J Davidson	750,000	85.0p	16 June 2015
Senior management	385,000	44.0p	5 September 2013
	133,334	54.5p	28 June 2014
	50,000	56.75p	13 September 2014
	276,375	A$1.12	24 September 2014
	86,250	A$1.36	28 January 2015

On 11 July 2005 all of the options held by the Estate of W Roberts were exercised.

	Share premium account £	Foreign currency translation reserve £	Accumulated loss £
18. RESERVES			
At 1 July 2004	18,834,587	1,639,078	(23,578,125)
Loss for the year	–	–	(11,319,283)
Transfer from reserves of subsidiary	–	–	129,942
Exchange differences	–	647,083	–
Premium allotments during the year	39,500,928	–	–
Share issue costs	(1,628,873)	–	–
Convertible Notes issued	5,231	–	–
At 30 June 2005	56,711,873	2,286,161	(34,767,466)

	2005 £	2004 £
19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Loss for the year	**(11,319,283)**	(4,219,863)
Transfer from subsidiaries reserves	**129,942**	–
New share capital subscribed	**44,187,234**	7,577,133
Movement in foreign currency translation reserves	**647,083**	153,094
Net movement in shareholders' fund	**33,644,976**	3,510,364
Opening shareholders' funds	**3,680,538**	170,174
Closing shareholders' funds	**37,325,514**	3,680,538
20. INTEREST BEARING LOANS AND BORROWINGS		
Current		
Bank overdraft – secured (i)	**179,434**	–
Bank loan – secured (i)	**16,655**	–
Bank loan – secured (ii)	**70,729**	–
Bank loan – unsecured (iii)	**2,509,452**	–
Convertible note - secured (iv)	**1,229,621**	–
Loan unsecured (v)	**2,000,000**	–
Loan unsecured (vi)	**370,358**	–
Lease and instalment purchase liabilities (vii)	**228**	–
Lease and instalment purchase liabilities (vii)	**87,685**	–
	6,464,162	–
Non-current		
Bank loan – secured (i)	**160,337**	–
Bank loan – secured (ii)	**47,153**	–
Loan unsecured (v)	**–**	2,000,000
Lease and instalment purchase liabilities (vii)	**31,980**	–
	239,470	2,000,000

20. INTEREST BEARING LOANS AND BORROWINGS *(continued)*

(i) Bank loans – secured

First National Bank

A controlled entity, Helam Mining Pty Ltd ("Helam"), has a R10,000,000 (£836,484) overdraft facility with First National Bank, a division of FirstRand Bank Limited. At year end the overdraft was drawn down to R2,145,098 (£179,434). The weighted average interest rate for the overdraft as at 30 June 2005 is 11.02%.

Helam has a term loan facility with First National Bank and at year end an amount of R2,115,907 (£176,992), R199,106 (£16,655) payable within the next 12 months and R1,916,801 (£160,337) payable over a period of seven years, was drawn on the term loan. The interest rate for the term loan at 30 June 2005 is 11.02% and the final instalment is due on 30 November 2012.

The above facilities are secured against properties of Helam for up to R7,850,000 (£656,640) and a R8,000,000 (£669,187) 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 R2,000,000 (£167,297) from Directors J Dippenaar and J Davidson. The facilities with First National Bank are subject to annual review.

(ii) Bank loan – secured

Industrial Development Corporation of South Africa

A controlled entity, Messina Investment Limited, has a R1,409,260 (£117,883) interest free loan, R845,556 (£70,729) payable within the next 12 months and R563,704 (£47,153) payable over a period greater than 12 months, with the Industrial Development Corporation of South Africa Limited. The loan has a final repayment date of 28 February 2007. The loan is guaranteed by two controlled entities, Star Diamonds Pty Ltd and Messina Diamonds Pty Ltd.

(iii) Bank loan – unsecured

ABN Amro Bank BV

A controlled entity, Crown Resources Pty Ltd, has a R30,000,000 (£2,509,452) bridging loan with ABN Amro Bank NV. The loan is guaranteed by Directors, A Pouroulis and C Finkelstein of the Company. Interest is payable at the South African Prime lending rate less 0.5% per annum. At 30 June 2005 the effective interest rate was 10.47%. The loan was repaid on 15 July 2005.

(iv) Convertible note – secured

A controlled entity, Crown Diamonds NL, has 16,078,191 (£1,229,621) convertible notes on issue at 30 June 2005. During the month of June 2005, 85,000 Crown Diamonds NL convertible notes were converted into 12,883 ordinary shares of the Company. The notes bear interest at 11% per annum and are secured by a fixed charge over $A3,300,000 (£1,385,042) of funds held on deposit with Barclays Bank Plc. The notes are convertible into ordinary shares of the Company, at the option of the note holder or repayable on 30 November 2005. The conversion price is the lesser of $A1.44 or 85% of the average price of the Company's shares for the past 10 trading days.

	30 June 2005	30 June 2004	**30 June 2005**	30 June 2004
Movements in secured convertible notes	**Number**	Number	**£**	£
Balance at beginning of year	**–**	–	**–**	–
Balance acquired through business combination	**17,034,750**	–	**1,276,717**	–
Exchange differences	**–**	–	**25,340**	–
Converted to Crown Diamonds NL shares	**(871,559)**	–	**(65,999)**	–
Converted to ordinary shares	**(85,000)**	–	**(6,437)**	–
Balance at the end of year	**16,078,191**	–	**1,229,621**	–

(v) Loan – unsecured

The Company has a loan facility with Photon Global Limited for £2,000,000. The loan is unsecured and bears interest at LIBOR plus 2% payable bi-annually in March and September each year. At 30 June 2005 the effective interest rate was 7.09%. The loan was repaid in full on 5 July 2005.

(vi) Loan – unsecured

A controlled entity, Helam Mining Pty Ltd, is indebted to Directors J Dippenaar and J Davidson for a total of R4,427,556 (£370,358). The loan is unsecured and earns interest of 11% pa. In July 2005 a repayment of R4 million was made on these Directors' loans.

(vii) Lease and hire purchase liabilities

The lease and hire purchase liabilities are secured over plant and equipment with a written down value of £378,559. The effective interest rate varies between 9.92% and 10.75% with monthly instalments varying between R4,700 (£393) and R29,505 (£2,468). The remaining periods range from 2 months to 25 months.

	2005 £	2004 £
21. TRADE AND OTHER PAYABLES		
Current		
Trade payables	**1,702,611**	47,053
Settlement of purchase consideration for controlled entity (i)	**306,268**	–
Settlement of purchase consideration for controlled entity (ii)	**2,116,036**	–
Settlement of purchase consideration for controlled entity (ii)	**417,642**	–
Provident fund contributions	**110,319**	24,928
Other creditors	**272,544**	94,431
Interest on loans	**123,877**	–
	5,049,297	166,412
Non current		
Amounts owing to associates	**28,997**	13,620
Settlement of purchase consideration for controlled entity (i) and (ii)	**1,394,395**	–
Reduction for deferred settlement (ii)	**(308,655)**	–
	1,114,737	13,620

(i) The settlement of the residual purchase price of Messina Investments Limited acquired by Crown Diamonds NL in July 2003 to the major shareholder, Star Mining Limited of $711,489 (£306,268) was due following the completion of the capital expansion programme commenced in 2003. The residual purchase price was paid in full on 5 July 2005.

(ii) The settlement of part of the purchase price of US$3,800,000 (£2,116,036) to Carminda Limited, a company associated with Star Mining Limited was due upon the successful completion by the Company of a capital raising. The US$3,800,000 was paid in full on 5 July 2005. The balance of US$3,250,000 (£1,812,037) is payable from 50% of the cash surplus of the Helam Diamond mine (as defined) over three years as follows:

Current
US$750,000 (£417,642) for the year ending 31 December 2005 payable by 30 April 2006

Non current
US$1,000,000 (£557,757) for the year ending 31 December 2006 payable by 30 April 2007
US$1,500,000 (£836,638) for the year ending 31 December 2007 payable by 30 April 2008

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$3,250,000 (£1,812,037) has been extinguished.

The reduction in the acquisition price from the deferred settlement is determined in accordance with IFRS 3 – Business Combinations. The deferred settlement value has been determined after applying a cost of funding rate of 8.5% pa to the three year repayment schedule detailed above. The reduction in the acquisition price from the deferred settlement at the date of acquisition by a controlled entity, Crown Diamonds NL in July 2004 was determined to be £429,154. This amount will be amortised over the three and half year term commencing from the date of acquisition of the Helam Diamonds Mine by Crown Diamonds NL. For the month of 30 June 2005 the amount of interest was £10,878.

	Employee entitlements and other provisions £	Rehabilitation £	Total £
22. PROVISIONS			
Balance at 1 July 2004	319,104	–	319,104
Acquired by business combination	517,076	924,251	1,441,327
Net provisions made during the year	287,614	6,067	293,681
Exchange differences	14,792	26,440	41,232
Balance at 30 June 2005	1,138,586	956,758	2,095,344
Current	1,138,586		1,138,586
Non current	–	956,758	956,758
	1,138,586	956,758	2,095,344

Employee entitlements and other provisions

The provision includes employee entitlements relating to accrued leave, provident fund contributions, medical and bonuses and other accruals. The provision is based on estimates made, where appropriate, from historical information. The Group expects to incur the liability over the next 12 months.

Rehabilitation

The provision is the estimated cost of the environmental rehabilitation at each site, which is based on current legal requirements and existing technology.

	2005 £	2004 £
23. DEFERRED TAXATION		
Balance at beginning of the year	**–**	–
Acquisition of Crown Diamonds NL	**6,423,275**	–
Income statement charge	**35,508**	–
Foreign currency translation difference	**189,383**	–
Balance at the end of year	**6,648,166**	–
Comprising:		
– capital allowances	**8,404,189**	2,290
– provisions	**(360,435)**	(2,436)
– prepayments and accruals	**481**	(146)
– forex allowances	**(376,614)**	–
– tax losses	**(12,427,041)**	(2,101,308)
	(4,759,420)	(2,101,600)
Deferred tax not raised	**11,407,586**	2,101,600
Deferred tax liability	**6,648,166**	–

Deferred tax assets as above, have not been raised due to the uncertainty over the future recoverability of these assets.

24. FINANCIAL INSTRUMENTS

Exposure 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.

Credit risk

The Group disposes of its product through a tender process on a recognised bourse. This mitigates the need to undertake credit evaluations. Where the final product is not disposed of on a tender basis the Directors undertake suitable credit evaluations before passing ownership of the product.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of the financial asset in the balance sheet.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchase and borrowings that are denominated in a currency other than pound sterling. The currencies giving rise to this risk are primarily United States dollars, South African rands and Australian dollars. At the end of the year the Company held £439,805 of monetary assets in US dollars, £57,943 in South African rands and £99,731 in Australian dollars. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement. From time to time the Group may acquire a forward contract to fix the exchange rate on a future transaction.

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.

Effective interest rates and re-pricing analysis

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 reprices based on the respective country specific prime lending rates as disclosed in Note 20, with the exception of the convertible notes and the secured loan from the Industrial Development Corporation of South Africa which are fixed rate and interest free respectively.

24. FINANCIAL INSTRUMENTS *(continued)*

30 June 2005

Cash and cash equivalents (£'000)

	Notes	Effective Interest rate	Total	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Cash	16	4.50%	15,374	15,374	–	–	–	–
Interest bearing loans and borrowings								
Bank								
– Overdraft secured	20(i)	11.02%	179	179	–	–	–	–
– Term facility secured	20(i)	11.02%	177	8	9	18	69	73
– Loan secured	20(ii)	–	118	36	36	46		
– Loan unsecured	20(iii)	10.47%	2,509	2,509	–	–	–	–
Convertible notes	20(iv)	11.00%	1,230	1,230	–	–	–	–
Loan unsecured	20(v)	7.09%	2,000	2,000	–	–	–	–
Loan unsecured	20(vi)	11.00%	370	370	–	–	–	–
Finance leases	20(vii)	10.75%	120	44	44	30	2	–
			6,703	6,376	89	94	71	73

30 June 2004

Cash and cash equivalents (£'000)

	Notes	Effective Interest rate	Total	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Cash	16	–	3,768	–	–	–	–	–
Interest-bearing loans and borrowings								
Bank								
– Overdraft secured			–	–	–	–	–	–
– Loan – secured			–	–	–	–	–	–
– Loan – secured			–	–	–	–	–	–
– Loan – unsecured			–	–	–	–	–	–
Convertible notes								
Loan unsecured	20(v)	6.62%	2,000	–	–	2,000	–	–
			2,000	–	–	2,000	–	–

25. EMPLOYEE BENEFITS

The Group participates in a defined contribution provident fund scheme for the benefit of the employees and executive Directors. The assets of the scheme are administered by trustees in a fund independent from the Group.

	2005 £	2004 £
26. COMMITMENTS		
Operating leases		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**115,995**	249,117
Between one and five years	**44,579**	62,851

The Group leases its offices under operating leases. The leases run for periods of between one and three years, and included options to renew after that date. Lease payments are increased annually to reflect market rentals. The leases do not include contingent rentals.

During the year ended 30 June 2005 £187,822 was recognised as an expense in the income statement in respect of operating leases, as disclosed in note 6.

27. CONTINGENT LIABILITIES

Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, 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 not considered remote

	2005 £	2004 £
Performance bond with government instrumentalities which are secured by way of fixed charges over realty, a general notarial bond over movable assets and a guarantee from two Directors in respect of various mining licences and supply contracts.	**561,398**	–
Performance bond with government instrumentality secured by way of a deposit in respect of a mining licence.	**89,060**	–
Delayed settlement of $US1,450,000 to Star Mining Limited within 30 days of lodgement of the 2006 annual financial statements if Messina Investments Ltd and its controlled entities ("Messina") earns net profit after tax at the South African level of at least $6,000,000 for the financial year ending 2006. If Messina earns between 70% and 100% of the $6,000,000 the $US1,450,000 will be apportioned accordingly. Star Mining Limited may elect to receive any settlement due in shares being 85% of the average share price prior to settlement.	**807,979**	–
Delayed settlement of $US1,450,000 to Star Mining Limited within 30 days of lodgement of the 2007 annual financial statements if Messina earns net profit after tax at the South African level of at least $6,000,000 for the financial year ending 2007. If Messina earns between 70% and 100% of the $6,000,000 the $US1,450,000 will be apportioned accordingly. Star Mining Limited may elect to receive any settlement due in shares being 85% of the average share price prior to settlement.	**807,979**	–

27. CONTINGENT LIABILITIES *(continued)*

Contingent liabilities considered remote

A former Director of Crown Diamonds NL has lodged a claim for $1,193,407 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.

New legislation

In South Africa the Mineral and Petroleum Resources Development Act 28 of 2002 (the MRDA) was signed into law on 3 October 2002 and was promulgated on 1 May 2004.

The MRDA seeks to facilitate participation by historically disadvantaged South Africans in mining ventures and to ensure that unexploited mineral rights are turned to account by applying the 'use it and keep it' principle. To give effect to these two broad objectives, the right to prospect and mine for all minerals vests in the State and applications will be made directly to the State for those rights.

The transitional provisions of the MRDA facilitate the conversion of prospecting and mining rights currently held at common law and under the Minerals Act (termed, old order rights in the MRDA) to the new forms of prospecting and mining rights contemplated by the MRDA (new order rights). The conversion applicant will have two years in the case of prospecting and five years in the case of mining to lodge their rights for conversion. For successful conversion, applicants will be required to be in possession of a valid prospecting permit or mining authorisation and to have been physically prospecting or mining (as the case may be) on the area to which their application relates as at the promulgation date.

Furthermore, conversion applicants will have to satisfy the specified criteria for conversion, which in the case of the conversion of a mining right requires, among other things, the applicant to submit an undertaking as to how it will give effect to the black economic empowerment provisions of the MRDA. The substance and detail for these black economic empowerment provisions are contained in a document entitled, "broad-based socio-economic empowerment charter" (the "empowerment charter"), which empowerment charter was agreed upon by the South African Government, representatives of the South African mining industry and organised labour and which empowerment charter was issued in October 2002.

The empowerment charter embraces a set of criteria such as ownership, human resource development, employment equity and procurement. Specifically, on the issue of ownership, the empowerment charter requires mining companies to achieve 26% ownership in mining companies by historically disadvantaged South Africans within ten years of the promulgation date. Compliance will be assessed by reference to a "score-card", a draft of which was circulated to key stakeholders in the mining industry on 21 January 2003 and was released for public comment on 19 February 2003.

At this stage the potential financial impact of this new legislation on the consolidated entity's operations, if any, cannot be determined.

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 material new provision will not be required as a result of new information or regulatory requirements with respect to known mines operations or identification of new remedial obligations at other mine operations.

28. POST-BALANCE SHEET EVENTS

Kalahari

On 6 September 2005 Petra Diamonds entered into an agreement to acquire, in a share-for-share transaction, the entire issued share capital of Kalahari Diamonds Limited ('Kalahari') from Kalahari Diamonds Resources Plc ('KDR'). On 30 September 2005 Petra Diamonds issued 16,166,529 shares to KDR in consideration for the sale of Kalahari's entire issued share capital. On completion of the transaction Kalahari will therefore become a wholly owned subsidiary of Petra Diamonds.

Kalahari is a diamond exploration company which explores for diamonds in Botswana through a strategic alliance with BHP Billiton. Kalahari (through its wholly owned Botswana subsidiary, Sekaka Diamonds (Pty) Limited) is the holder of approximately 77,000 km^2 of highly prospective diamond prospecting licences in Botswana and has a relationship with BHP Billiton giving Kalahari rights to direct the deployment of BHP Billiton's proprietary Falcon technology.

Mano River Resources

On 3 October 2005 the Group announced that it had signed a preliminary agreement whereby the businesses of the Group and Mano River Resources Inc ("Mano") would be combined to create an enlarged diamond exploration and mining group. The transaction will be effected by an offer of new Petra ordinary shares to Mano shareholders in a share for share transaction, on the basis of one new Petra ordinary share for each 5.5 Mano common shares. The transaction remains subject to the satisfaction of certain conditions precedent and is expected to be complete by 28 February 2006.

Convertible Noteholders

Since 30 June 2005, 677,500 November 2005 Convertible Notes worth A$121,950 (£10,201) were converted to 98,132 Petra Diamonds Limited ordinary shares.

Financing

On 20 July 2005, the Sedibeng Joint Venture (Sedibeng JV), which comprises Messina Diamonds (Pty) Limited ("Messina") and Dancarl Diamonds (Pty) Limited ("Dancarl"), entered into a loan agreement with the Industrial Development Corporation of South Africa (IDC) for a loan facility of R30 million to fund future capital expenditure at the Messina and Dancarl mines. The loan is repayable over 60 months at 0.5% below the prevailing South African prime lending interest rate. As security for the loan, Messina and Dancarl have each signed suretyship as co-principal debtor and, a general notarial bond has been registered over each of Dancarl's and Messina's movable assets in favour of the IDC.

On 28 July 2005 Autumn Star Investment Holdings (Pty) Ltd ("Autumn Star"), in which the Company has an interest of 40%, signed a loan agreement with FirstRand Ltd ("FirstRand") for a loan facility of R16,500,000. The loan is repayable in annual instalments of R4,125,000 (£345,050) commencing 1 August 2006. Interest is payable biannually at 0.5% below the prevailing South African prime lending interest rate with the first interest payment due on 31 December 2005. Star Diamonds (Pty) Ltd, Messina Diamonds (Pty) Ltd, Crown Resources (Pty) Ltd and Messina Investments Limited have signed suretyship for the loan in favour of FirstRand.

During July 2005 a total repayment of R4 million was made on the director loans from J Dippenaar and J Davidson. The total outstanding balance on director loans were reduced from R4.4 million to R0.4 million.

29. RELATED PARTIES

Subsidiaries and associates

Details of subsidiaries are disclosed in Note 30.

Directors

Details relating to Directors' emoluments and shareholdings in the Company are disclosed in Note 9 and the Directors Report respectively.

Shareholders

The principal shareholders of the Company are detailed in the Directors Report on page 24.

Contingent liabilities

Details of contingent liabilities are disclosed in Note 27.

RELATED PARTY TRANSACTIONS

Nabera Mining (Pty) Limited

The Company is a 29.5% shareholder in Nabera Mining (Pty) Limited ("Nabera"), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2005 Petra Diamonds paid expenses on behalf of Nabera amounting to R672,056, the expenses were incurred in relation to the recovery of the management fee and value-added 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 added.

Finkelstein Ch & Co NV

Societe Diamantaire Finkelstein Ch & Co NV, of which Charles Finkelstein is a director, has entered into mutual put and call option arrangements with Petra to subscribe for ordinary shares in the Company. Further details are set out in Note 17 to the financial statements.

Transactions with related parties take place at terms and conditions no more favourable than to third parties.

30. SUBSIDIARIES AND ASSOCIATES

At 30 June 2005 the Group held 20% or more of the allotted share capital of the following:

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Afropean Diamonds (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Dimeng Diamond Holdings (Pty) Ltd	South Africa	Ordinary	59%	Mining and exploration
Engiminas Consultoria e Enginharia LDA	Angola	Ordinary	100%	Mining and exploration
Nabera Holdings (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Nabera Mining (Pty) Ltd	South Africa	Ordinary	29.5%	Mining and exploration
Namibia Mining House (Pty) Ltd	Namibia	Ordinary	35%	Dormant
Pagvlei Mining (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	Ordinary	100%	Mining and exploration
Petra Diamonds Angola Services Ltd	British Virgin Islands	Ordinary	100%	Mining and exploration
Petra Diamonds Namibia (Pty) Ltd	Namibia	Ordinary	100%	Mining and exploration
Petra Diamonds Southern Africa (Pty) Ltd	South Africa	Ordinary	100%	Services provision
Power Corporation Angola (Pty) Ltd	Bermuda	Ordinary	70%	Exploration

30. SUBSIDIARIES AND ASSOCIATES *(continued)*

In addition, subsidiaries acquired as a result of the merger with Crown Diamonds NL in May 2005

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Alltop Investments Pty Ltd	Australia	Ordinary	100%	Dormant
Autumn Star Trading 192 (Pty) Ltd	South Africa	Ordinary	40%	Mining and exploration
Compass Mining Services Pty Ltd	Australia	Ordinary	100%	Dormant
Crown Resources (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Crown Diamonds NL	Australia	Ordinary	100%	Dormant
Dalestar Corporation Pty Ltd	Australia	Ordinary	100%	Dormant
Dancarl Diamonds (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Helam Mining (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Ida Valley Pty Ltd	Australia	Ordinary	100%	Dormant
Johannesburg Diamond Trading Corporation (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Kamara Holdings Pty Ltd	Australia	Ordinary	100%	Dormant
Madeline Alluvial Diamonds and Mineral Development (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Majestic Resources Pty Ltd	Australia	Ordinary	100%	Investment
Majestic Resources South Africa (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Messina Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Messina Investments Limited	South Africa	Ordinary	100%	Investment holding
Nooitgedacht Diamonds (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Paardekraal Properties (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Santara Holdings Pty Ltd	Australia	Ordinary	100%	Dormant
Sedibeng Diamond Mine JV	South Africa	Ordinary	57.5%	Mining and exploration
Star Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Union Investments Corporation (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Vulcan Mining Pty Ltd	Australia	Ordinary	100%	Dormant

Although the Company owns only 40% of Autumn Star Trading 192 (Pty) Ltd ("Autumn"), the Company has consolidated its investment in Autumn on the basis of respective risks and obligations. The Company will continue to consolidate the results of Autumn until such time that the other equity shareholders start to proportionately share in the associated risks.

Notice is hereby given that the eighth Annual General Meeting of Petra Diamonds Limited (the Company) will be held on Friday, 2 December 2005 at 11:00 am at the offices of Memery Crystal, 44 Southampton Buildings, London, WC2A 1AP for the purpose of considering and, if thought fit, passing the following resolutions:

1. STATUTORY ACCOUNTS

That the financial statements of the Company for the year ended 30 June 2005, together with the Reports of the Directors and Auditors, be received.

2. APPOINTMENT OF AUDITORS

That KPMG Audit plc of Arlington Business Park, Theale, Reading, England RG7 4SD be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid, or until their successors are appointed and that the Directors be authorised to fix the remuneration of the auditors.

3. RE-ELECTION OF DIRECTORS

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

4. RATIFICATION OF SHARE ISSUE

That the Company ratifies the issue of a total of 16,166,529 fully paid ordinary shares in the Company on 30 September 2005 at an issue price of 74.75 pence per share to Kalahari Diamond Resources plc for the acquisition of the entire issued share capital of Kalahari Diamonds Limited.

By order of the Board

A POUROULIS

Chairman

25 October 2005

Registered office

Clarendon House, 2 Church Street, Hamilton HM11, Bermuda

Company registration number: EC23123

EXPLANATORY NOTES

These explanatory notes form part of the Notice of Meeting.

NOTES

A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote in their stead on a show of hands or on a poll. A proxy need not be a member of the Company. A member who is entitled to cast 2 or more votes at the meeting may appoint up to 2 proxies.

To be valid, the form of the proxy must be lodged with:

- the Company's UK branch registrars, Capita IRG plc (Proxies), PO Box 25, Beckenham, Kent BR3 4TU; or
- the Company's Australian share registrars, Computershare Registry Services Pty Ltd, Level 2 Reserve Bank Building, 45 St Georges Terrace, Perth WA 6000 (fax (08) 9323 2033),

not less than 48 hours before the time appointed for the meeting or any adjournment thereof.

ITEM 3. RE-ELECTION OF DIRECTORS

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

ITEM 4. RATIFICATION OF SHARE ISSUE

On 7 September 2005, the Company advised ASX that it had entered into a conditional agreement for the acquisition of the entire issued share capital of Kalahari Diamonds Limited (Kalahari) from its parent company Kalahari Diamond Resources plc (Acquisition). The Acquisition was completed on 30 September 2005 (Completion Date).

Under the Acquisition, a total of 16,166,529 fully paid ordinary shares in the Company were issued to Kalahari Diamond Resources plc on the Completion Date at the average quoted share price of the Company of 74.75 pence per share on the Completion Date (Consideration Shares). This represented approximately 12.3% of the Company's then issued share capital. From their date of issue, the Consideration Shares ranked equally in all respects with the Company's then existing fully paid ordinary shares.

Item 4 seeks member approval under ASX Listing Rule 7.4 to ratify the issue of the Consideration Shares. The effect of such ratification will be that the Consideration Shares will not be counted as reducing the number of securities which the Company can issue in the future without member approval under the 15% limit imposed by ASX Listing Rule 7.1 (i.e. the 15% limit is "renewed" to the extent of the ratification).

Kalahari, through its wholly-owned Botswana subsidiary, Sekaka Diamonds (Pty) Limited, is the holder of approximately 77,000 km^2 of highly prospective diamond prospecting licences in Botswana. The acquisition represents a significant step in Petra's strategy of building a quality exploration portfolio to complement its current producing mines, as Petra continues its objective of becoming a significant player in the diamond industry.

Further details on the Acquisition are contained in announcements made by the Company to the London Stock Exchange and ASX.

The Directors of the Company believe the resolution is in the best interests of the Company and its members and unanimously recommend that members vote in favour of it.

VOTING EXCLUSION STATEMENT

Under Rule 14.11 of the Listing Rules of Australian Stock Exchange Limited, the Company will disregard any votes cast on the resolution by Kalahari Diamond Resources plc or any of its associates. However, the Company need not disregard a vote if it is cast by a Kalahari Diamond Resources plc or any of its associates as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form.

PETRA DIAMONDS LIMITED

I/We ____

of ____

being a member(s) of Petra Diamonds Limited (the Company) hereby appoint

the Chairman of the Meeting or ____

as my/our proxy to vote on my/our behalf on the resolutions to be proposed at the 2005 Annual General Meeting of the members of the Company to be held on Friday, 2 December 2005 and at every adjournment thereof as indicated below or, in the absence of any such indication, my/our proxy shall vote or abstain as he/she thinks fit:

The resolutions	**For**	**Against**	**Abstain**
Item No. 1 Statutory accounts			
Item No. 2 Appointment of auditors			
Item No. 3 Re-election of directors			
3(a) Re-election of Johan Dippenaar			
3(b) Re-election of Jim Davidson			
3(c) Re-election of David Abery			
3(d) Re-election of Volker Ruffer			
3(e) Re-election of Charles Finkelstein			
Item No. 4 Ratification of share issue			

Signed this ____________________ day of ____________________ 2005

Signature ____

1. Proxies are entitled to vote on a poll or on a show of hands.

2. Members shall place an 'X' in the box indicating the way in which their vote is to be cast.

3. If the member is a corporation, the proxy should be signed either by a duly authorised officer or attorney or be completed under the common seal of the company.

4. Members wishing to appoint their own proxy, who need not be a member, should fill in the name of their proxy in the space provided with or without deleting the words 'the chairman of the meeting or'.

5. This proxy should be completed and dispatched so as to arrive at:
   - the Company's UK branch registrars, Capita IRG plc (Proxies), PO Box 25, Beckenham, Kent BR3 4TU; or
   - the Company's Australian share registrars, Computershare Registry Services Pty Ltd, Level 2 Reserve Bank Building, 45 St Georges Terrace, Perth WA 6000 (fax (08) 9323 2033),

   not less than 48 hours before the time appointed for the meeting or any adjournment thereof.

6. A member may vote for or against the re-election of the directors as a whole by placing an 'X' in the appropriate box. If a member wishes to vote for or against the re-election of one or more of the directors he/she should place an 'X' indicating those directors he/she is voting for or against, as the case may be, in the appropriate box.

7. Any alterations to this Form of Proxy should be initialled by the member.