Petra Diamonds

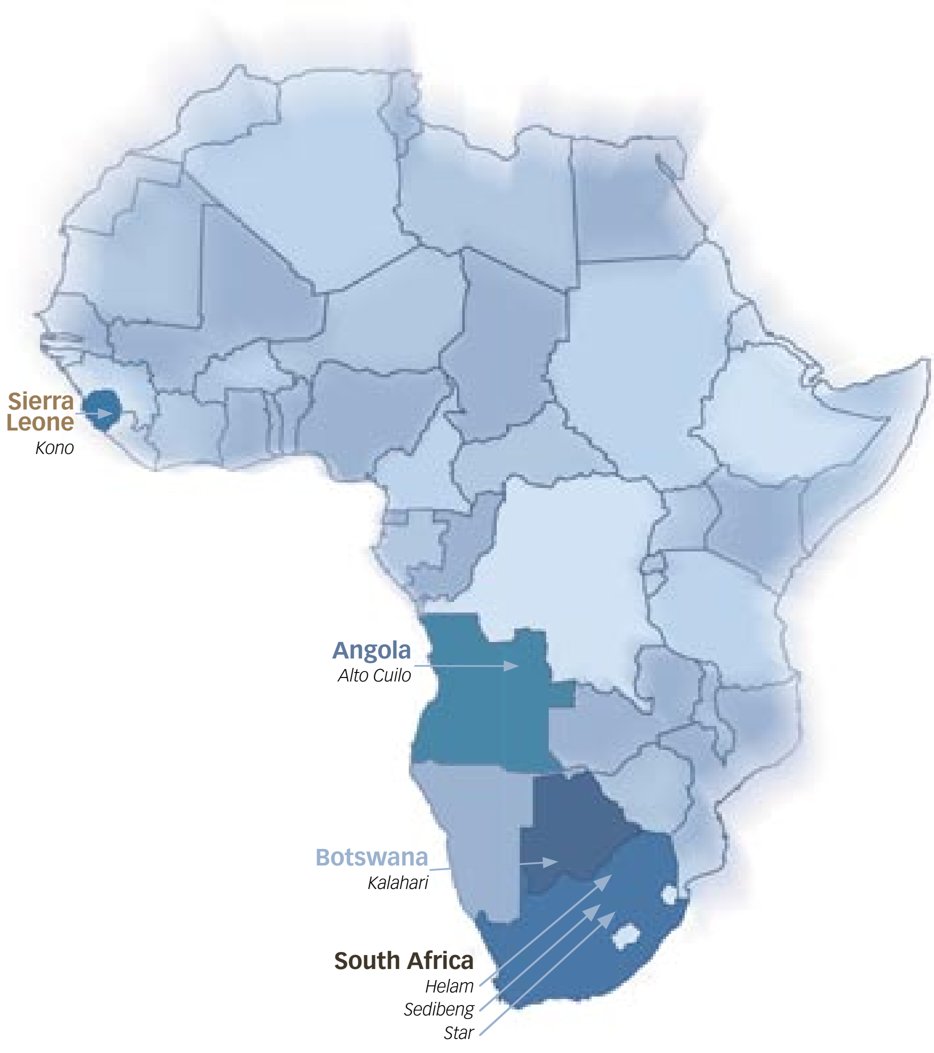
Annual Report 2006

CONTENTS

Petra Diamonds is a growing force in winning diamonds from Africa's rich resources.

Petra Diamonds

Adonis Pouroulis, Chairman; *"I am delighted to report on the progress we have made over the past year. Petra has continued to grow, strengthening our position within the market place whilst significantly expanding our prospects on the ground. We continue to be very encouraged by the favourable prospects for the diamond industry globally and believe that the diamond fields of Africa offer some of the most exciting opportunities available. I am confident that with the range of our portfolio and the depth of the skills base now within the group, we are positioned to maintain our rate of growth".*



Petra Diamonds

Angola

- Project Alto Cuilo ("Alto Cuilo") - exceptional exploration progress continued with a substantial increase in the number and surface area of kimberlite discoveries; analysis of drill core revealed exceptional indicator mineral chemistry, comparative to some of the world's major economic mines; as at 30 June 2006, funding of US$22.8 million advanced by BHP Billiton (budget of US$20 million approved for the year to June 2007, also to be funded by BHP Billiton)
- Petra enters into Strategic Cooperation Agreement with AIM-quoted Xceldiam Limited ("Xceldiam") with regard to Project Luangue

Botswana

- Acquisition of Kalahari Diamonds Limited in September 2005
- Petra's operations in Botswana fully integrated into the Petra Group
- Petra's technical team put in place a revised Kalahari exploration programme, with the focus on larger as well as smaller kimberlite identification

Sierra Leone

- Kono project in Sierra Leone commences small scale production in June 2006, on time and on budget
- Petra has met its funding requirements to earn a 51% interest in the project
- Work programme to accelerate in order to better determine the grade and extent of the resource, and to enable increased production

South Africa

- Production of 175,011 carats from the South African mines for the year to 30 June 2006 (2005: 143,673 carats), an increase of 21.8%
- The South African mines generated an operating cash flow of US$677,000 for the year to June 2006
- Diamonds of 76 and 67 carats recovered from the Sedibeng mine, the stones being sold for US$465,000 and US$704,265 respectively

Petra Diamonds

Post Year-end Highlights

- **Petra issued a US$20 million unsecured, interest free bond, convertible at 130 pence per share, to Al Rajhi Holdings W.L.L., a major Saudi Arabian based investment group; the financing strengthens Petra's treasury on an interest free basis, giving Petra the flexibility to act quickly on potential growth opportunities**

- **Project Alto Cuilo – identification of the 50th kimberlite; bulk sample drill and plant on site, with the bulk sample rig commissioned and drilling underway**

Summary of Results

	2006 US$	2005 US$
Revenue *	**20,868,757**	2,275,245
Gross profit on mine – South African operations **	**3,320,887**	768,258
Exploration expenses **	**(2,056,395)**	(6,422,352)
Administration expenses	**(6,481,669)**	(3,963,956)
Loss before depreciation, amortisation and foreign exchange movements	**(5,330,698)**	(9,954,745)
Loss for the year	**(18,864,456)**	(21,018,778)
CAPEX	**8,222,611**	2,722,187
Cash at bank	**7,019,644**	27,591,394

** 2005 Revenue – June only, post Crown merger effective 31 May 2005*
*** Gross profit and exploration expenses before depreciation and amortisation*

Loss per share (cents)	**(13.11)**	(28.43)
Production (carats)†	**175,011**	143,673

†Production for the 12 months to 30 June 2005

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

Angola *(full review on pages 10 to 12)*

Project Alto Cuilo

It is widely accepted that Angola may hold some of the world's best kimberlite diamond deposits. Petra's focus is the Alto Cuilo project in the north-east of the country.

Exploration activities at Project Alto Cuilo yield ever more exciting results; as at July 2006, 50 kimberlitic occurrences had been identified by drilling and highly encouraging diamond indicator minerals had been recovered, which are comparable to other economic kimberlite deposits around the world. Bulk sampling is now underway to ascertain grade and value from a selection of prioritised kimberlites.

BHP Billiton is Petra's JV partner at Alto Cuilo and, as at 30 June 2006, BHP Billiton had provided funding of US$22.8 million in respect of exploration activities.

Project Luangue

Petra has entered into a Strategic Cooperation Agreement with AIM-quoted Xceldiam with regards to Project Luangue, consolidating Petra's position in the Alto Cuilo region.

Petra holds warrants to acquire an effective 10% in Project Luangue for £14 million by way of warrants staggered to December 2008. Petra also has a right of first refusal over Xceldiam's interest in Luangue.

Botswana *(full review on pages 14 to 15)*

Kalahari Diamonds

Botswana is the world's number one producer of diamonds by value. In September 2005, Petra acquired Kalahari Diamonds, giving Petra access to the largest land area under diamond exploration in Botswana.

Kalahari Diamonds is the holder of approximately 55,000kms^2 of highly prospective diamond exploration licences. The acquisition of Kalahari represented a significant step forward in Petra's strategy of building a world class exploration base.

Since the acquisition of Kalahari Diamonds, Petra has refocused exploration to include both large kimberlites (greater than 20 hectares) as well as smaller kimberlites (approximately 10 hectares) that would not necessarily be detectable under deep Kalahari cover.

The acquisition of Kalahari also gave Petra access to the Gope kimberlite field that is known to host six or seven kimberlites. Petra's track record in the development of medium sized ore bodies will enable the efficient evaluation of such kimberlite occurrences and, if economic, to turn them to account.

Petra has technical support in Botswana from BHP Billiton and rights to deploy BHP Billiton's Falcon technology.

Sierra Leone (full review on pages 16 to 17)

Kono Project

The Kono Project area is located in the world renowned Koidu diamond field in the Kono district of east Sierra Leone. Petra Diamonds has a 51% interest in the Kono Project alongside AIM and TSX quoted Mano River Resources Inc.

The Kono Project is a kimberlite fissure project; early stage results are highly encouraging. The fissure strike length may be greater than that of Petra's South African production operations. Diamond recovery from the first bulk samples from the Lion fissures commenced in June 2006.

Petra believes that the Kono Project has the potential to yield high grades of approximately 100 carats per hundred tonnes, as indicated by the original Mano mini bulk sample of Lion 5 which returned an average grade of 94 carats per hundred tonnes (which Petra repeated with its own sampling results).

Sinking of the first two bulk sampling shafts on diamondiferous fissure combined with aggressive exploration trenching activities is underway. Bulk sampling infrastructure is in place alongside the pro–duction plant. Continuous exploration and information processing activities are providing a clearer picture of the multiplicity of fissures and their potential within the Kono licence area.

South Africa (full review on pages 18 to 20)

Helam, Sedibeng and Star mines

The South African mines are kimberlite fissure operations, each with a remaining life of mine greater than 15 years.

The mines produced 175,000 carats in the year to June 2006, an increase of 21.8% on the 2005 production of 143,673 carats. Petra plans to continue to further increase the carat production from South Africa in the year to June 2007 and beyond, giving the Group healthy production revenues. The current US$/Rand exchange rate gives further revenue upside.

After De Beers, Petra is South Africa's largest producer of diamonds by volume and the largest employer in diamond mining.

Diamonds of 76 and 67 carats were recovered from the Sedibeng mine during the year, the stones being sold for US$465,000 and US$704,265 respectively.

Dear Shareholder,

It is with great pleasure that I present the 2006 financial statements. The past financial year has seen your Company grow into an established and integrated diamond miner and explorer and we have continued to develop the various in-house skills that will enable us to further increase our production base.

These abilities are evident across all our mining operations – through our production in South Africa, the development of complex diamond exploration programmes in Botswana, the progress made at Alto Cuilo in Angola and the establishment of our mining operations in Sierra Leone. We have shown that Petra also possesses the corporate depth and principals required to develop a solid working relationship with a major, as is the case with BHP Billiton.

Petra is now a well-established mid-tier producer and explorer of diamonds. Our focus and expertise lie on the African continent, a continent that, although still mired in poverty, in 2005 produced around 62% by value of the world's rough diamond output. It is one of our main goals to create sustainable economic development by investing in projects with long economic lives. The economic benefit of discovering a large, economic kimberlite is substantial, not only to a company like Petra but also to the economy of the African countries in which we operate. The refocusing of international exploration dollars in Africa, whatever the commodity, makes for an exciting and often vibrant environment in which to work. It is pleasing to see Africa gaining mining and exploration momentum and that the investing community worldwide acknowledges Africa's natural resource wealth. We also welcome the wide-reaching reforms currently sweeping the diamond industry which promise to give more autonomy to Africa's producer nations and more direct employment down the diamond beneficiation chain, from mine to market.

Petra is the proud employer of over 2,000 people and actively contributes to the economic development of the African countries in which it operates. Petra only operates in countries that are committed to the Kimberley process for the marketing of diamond production; such sound, environmentally aware and responsible investment in the African diamond industry will only assist in the development of countries in which we operate and the continent as a whole.

Petra achieved a great deal during the year and some of the highlights are covered below.

Angola

Kimberlite Exploration

Alto Cuilo once again delivered excellent exploration results. The number of kimberlite occurrences discovered surpassed the 50 mark, a significant milestone. The rate of these discoveries increased as additional core drilling equipment was commissioned on site.

To date it is estimated that the surface area of kimberlite discovered at Alto Cuilo is in excess of 1,500 hectares. Furthermore, we have achieved an exceptional success rate of 83% of magnetic anomalies drilled being confirmed as kimberlitic. Of the total of 249 magnetic anomalies identified so far, 60 have now been drilled and a total of 50 have been confirmed as kimberlitic. This serves as a reminder of the size and extent of the project, together with the standard of exploration results. There are very few kimberlite projects anywhere in the world that have had such success in identifying kimberlites, but when the surface area of the discoveries at Alto Cuilo is taken into account, the results are even more remarkable.

At the same time, analysis of kimberlite core delivered some highly encouraging diamond indicator mineral results together with a favourable mantle geotherm conducive for diamond formation. Diamond indicator mineral chemistry is crucial in terms of assessing a kimberlite's likelihood of hosting diamonds. The results at Alto Cuilo are very exciting because they are comparable to other major economic kimberlite deposits around the world.

The large diameter drill rig has now been commissioned on site in anticipation of the mini-bulk sample programme scheduled for later this year. The results of this sampling campaign will give a better understanding of the kimberlite deposits and will start yielding critical data relating to grade and price per carat. Accompanying the drill rig is a 10 tonne per hour Dense Media Separation ("DMS") plant that will be used solely for the processing of kimberlite material retrieved from the large diameter drill rig. This rig will initially stockpile 200 tonne bulk samples and the DMS plant, which is a custom-made closed circuit unit designed specifically for kimberlite bulk sampling, will start treating the samples. A ranking of priority kimberlite targets for large diameter drilling has been drawn up and may be revised as more results become available. The ranking is based on mineral chemistry results, the surface area of the various kimberlites and the logistics of plant access to the various targets. Initial bulk sampling results are anticipated by December 2006.

Petra and BHP Billiton are working together at Alto Cuilo, with BHP Billiton funding the exploration and related costs. As at 30 June 2006, BHP Billiton had advanced funding of US$22.8 million to the project, and a budget of US$20 million has been approved for the year to June 2007, also to be funded by BHP Billiton. This is a substantial exploration spend for any mineral commodity, and we look forward to working with BHP Billiton to further develop Alto Cuilo over the coming year.

On 30 May 2006 the Company also announced a strategic cooperation alliance with Xceldiam Limited, an AIM listed diamond explorer with exploration rights at Project Luangue just north of Alto Cuilo. The projects share a common border and Petra notes with interest the early drilling success at Project Luangue as announced on 25 July 2006. Core drilling at Project Luangue returned excellent first results, with drilling on the first target intersecting kimberlite. This news supports Petra's belief that Project Luangue may host kimberlite geology similar to that of Alto Cuilo and Petra looks forward to further developments from Project Luangue. The agreement with Xceldiam puts Petra in a position to significantly increase its exploration interests in the area, should it choose to do so.

Alluvial Exploration

The alluvial programme continues in order to further evaluate the potential for economically viable alluvial deposits. A feasibility study has been commissioned on a small alluvial block of ground adjacent to the existing 65 tonne per hour DMS plant. Petra's initial investment in plant and earth moving equipment will serve as the infrastructure to process and mine these alluvial deposits. Alluvial exploration also continues elsewhere in the project area.

As shareholders may be aware, to date over 1 500 carats of kimberlite and alluvial diamonds have been recovered from the sampling operations. It is believed that apart from production of diamonds, invaluable exploration information will also be gleaned from these alluvial programmes.

I wish to acknowledge the important role BHP Billiton has played in the evolution of Alto Cuilo. We have found their work to be of the highest standard and their spirit of partnership to be one where all partners benefit. At the same time our Angolan partners have also been of the utmost assistance in taking Alto Cuilo to the next level and I thank both Endiama and Moyoweno for their ongoing support.

South Africa

The South African operations increased production by 21.8% from 143,673 carats for the year to June 2005 to 175,011 carats for the year to June 2006. The Company is targeting to increase production from its existing operations again this year.

The year also saw some exceptionally large and beautiful stones being mined. Diamonds of 76 and 67 carats were recovered from the Sedibeng mining complex and the stones sold for US$465,000 and US$704,265 respectively.

Tight costs and increased efficiencies were achieved on the operations as further investments in mining mechanisation were made which will result in increased efficiencies for the coming year.

Although two of the three mines operated well, technical difficulties were experienced at the Star mine. These problems, mainly the construction of the new ventilation shaft, will be overcome in the coming year and it is anticipated that Star will achieve its production target and contribute to Group results.

Botswana

Kalahari Diamonds Limited, which was acquired effective 30 September 2005, is now a fully integrated part of the Petra Group giving your Company a prime position in Botswana, the world's largest diamond producer by value. The Kalahari ground is situated in what we believe to be highly prospective diamond territory and the period under review has seen encouraging exploration results.

Field exploration in Botswana gained momentum whilst a shift was made in philosophy to include the search for those kimberlites

less than 20 hectares in size. Anomalies were identified in the Gope, Orapa and Mabutsane/Thswaane blocks. The coming year will see follow-up ground work including drilling of various anomalies in these areas. Concurrently, existing kimberlite deposits on our ground will be further examined for possible economic viability.

Sierra Leone

Developments on the Kono project moved ahead apace during the year. In just under a year of establishing a foothold in Sierra Leone, Petra commenced trial mining operations. This entailed the construction in-house of a 75 tonne per hour DMS as well as the sinking of shafts to access the diamond bearing kimberlite fissures. All of this was done within budget and on time. Kono produced its first diamonds from the project on schedule in June of this year.

In terms of Petra's joint venture agreement with Mano River Resources, Petra has met the requirement to spend US$3 million on the project to earn a 51% interest, and the parties are now funding project expenditure on a 51/49 basis.

The coming year will see an increased rate in shaft sinking which will allow increased access to different kimberlite dyke faces. This will in turn enable a better determination of grade and quality and ultimately lead to an increase in diamond production. The aggressive rolling exploration and trenching method has proven to be both very effective and cost efficient and it is envisaged that six additional trenches will be opened, the fissure penetrated and the results evaluated by December 2006. This approach will provide Petra with a better understanding of the diamondiferous fissures available, their potential and the project strategy ahead.

The relationship between Petra management and the various relevant authorities in Sierra Leone, in particular in the Kono district, remains strong and we thank the Sierra Leonean authorities for being openly accommodative of foreign investment. Also, our joint venture partner, Mano River Resources Inc, has been very supportive in our efforts and I thank them for their valuable assistance.

Results

As the principal functional currency of the Group's business transactions in Angola, Botswana and Sierra Leone is US Dollars and in South Africa diamond sales are made in US Dollars, the Group has decided to adopt US Dollars as its reporting currency with effect from 1 July 2005.

The gross profit on mine from the South African mines' operations for the year to 30 June 2006 was US$3,320,887 (2005: US$768,258). After exploration expenses, Group administration expenses and financing costs, the loss before depreciation, amortisation and foreign exchange movements for the year was US$5,330,698 (2005: US$9,954,745). After unrealised foreign exchange losses on intercompany loans of US$6,114,780 (2005: US$892,065), amortisation of intangibles of US$2,832,355 (2005: US$8,186) and depreciation of US$5,706,977 (2005: US$1,125,260), the loss after tax for the year to 30 June 2006 was US$18,864,456 (2005: US$21,018,778).

Group net cash outflow for the year is stated after taking account of the investment in Xceldiam Limited of US$1,271,410 (2005: Nil), repayment of all outstanding convertible loan notes of US$1,239,403, cash inflow from the acquisition of Kalahari Diamonds of US$5,560,464 as well as the settlement in July 2005 of the Helam mine acquisition costs and various term loans.

A charge of US$2,832,355 has been recognised in respect of the amortisation of licences during the year, being the accounting adjustment in accordance with IFRS of intangible assets of US$17,620,258, which were brought into the balance sheet following the acquisition of Kalahari Diamonds Limited in September 2005.

The results from the Crown South African production operations acquired were consolidated into the Petra Group results from 1 June 2005. Therefore, the comparative period to June 2005 includes results of the South African operations acquired for one month and the period to 30 June 2006 includes a full 12 months results.

The results for the year to 30 June 2005 have been restated, as with effect from 1 July 2005 the Company has complied with IFRS 2 *Share-Based Payments*, in respect of share options granted to management.

Funding

On 18 September 2006, Petra announced the issue of a US$20 million unsecured, interest free convertible bond, convertible at 130 pence per share, to Al Rajhi Holdings W.L.L., a major Saudi Arabian based investment group. This financing strengthens Petra's treasury on an interest free basis, without dilution to existing shareholders, and gives Petra the ability to actively consider revenue and production growth opportunities that have the potential to fast-track Petra's development and further entrench the Company as a mid-tier diamond producer. The financing will also serve to underpin our funding should we decide to expand our exploration interests by exercising our warrants as part of the Xceldiam cooperation agreement.

Nabera

Both Petra and Nabera continue to work with Alexkor and the South African Government with regards to the "value add" and management fees that are due to the Nabera consortium, in which Petra is a 29.5% shareholder. Whilst, for reasons outside of Petra's control, progress has been disappointing, the Board remains focused on an acceptable resolution to the outstanding claims.

Objectives and strategy

Petra's objective is to become an independent world-class gemstone diamond producer. This will be achieved by holding a highly prospective exploration portfolio ensuring future growth, organically expanding the Group's production profile and by geographically diversifying the country spread and risk. Our focus, however, will remain on the African continent.

Our strategy is therefore to explore and develop our projects in Angola, Botswana and Sierra Leone whilst increasing production from the South African operations. Production is expected to slowly build-up from Sierra Leone as greater knowledge is gained from the various kimberlite fissures. We will also continue to analyse other opportunities, which meet our strict acquisition criteria, for future inclusion to enhance the growth of the business.

The diamond industry remains robust on the fundamentals of supply and demand. With an increase in demand and without the commensurate increase in global production the outlook for any new diamond mine is good. Whilst operating on the African continent key partnerships are vital and we as a group will foster our existing partnerships further and seek to strengthen new ones.

Social development

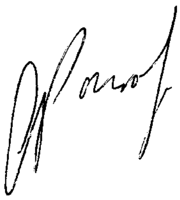
Petra believes it important to improve the lives of the communities in the areas in which we operate. For example, at Alto Cuilo we have assisted in the introduction of primary and secondary health care, education, sustainable job creation, health and safety training and social awareness programmes. The local population has access to a fully funded and well equipped clinic where all first line consultations are available, the clinic being staffed by Angolan doctors and nurses as well as expatriate trauma paramedics. A local primary school has been built and currently there are around 100 learners from the community attending. Local farmers have also been assisted to produce agricultural products using more modern methods and then giving them a market in terms of the project's consumption and requirements.

Such development is not only applicable to our Angolan operations and there are similar examples of other similar social development projects in other countries in which the Group operates.

Staff

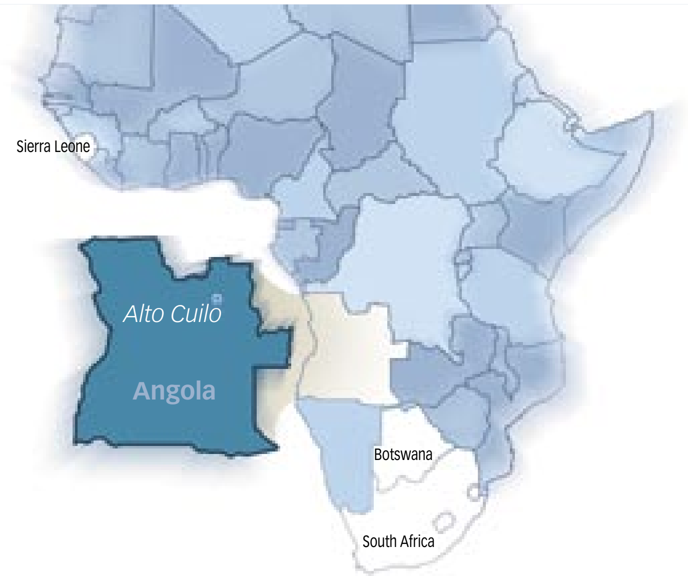
I wish to thank our staff for their continued dedication and hard work. The core team of the Company (both Petra and Crown pre-merger) has remained intact and I am grateful for this. It is with this staff continuity that we have managed to grow the business and withstand the ups and downs of the resources sector. We all share the same goal of seeing Petra become an independent, strong voice and contributor to the diamond industry. Without the employees of Petra this is not possible. Some of our people work in difficult situations, as often deposits are found in remote parts of the world. They do this with an enthusiasm and pride in their work and I am extremely proud to be a part of this flourishing and dynamic business.

I would like to thank two directors who left the Company during the past year. Charles Finkelstein made a significant contribution over the years as a non-executive director; he not only assisted your Company through difficult times in its formative stages but was also a window into the ever-changing diamond world. I would also like to thank Kevin Dabinett for the dedication and support he gave to your Company and wish him every success for the future.



Adonis Pouroulis
Chairman
26 October 2006

Angola



Diamonds – Contributing to 'The African Renaissance'

Petra Diamonds' focus remains on the diamond fields of Africa, where we have operated successfully for nearly 10 years, and where there is the opportunity to discover new and rich deposits. Whilst the diamond industry in South Africa is relatively mature, developing countries such as Angola and Sierra Leone are open again for business and offer some of the most prospective hunting ground for diamonds in the world. At the same time, modern exploration techniques could uncover dramatic new finds in Botswana, home already to the world's largest producing diamond mine.

Petra views Angola as one of the most prospective countries for diamonds globally and the Company's flagship Project Alto Cuilo, a joint venture with BHP Billiton, lies in the north-east of the country. Petra has two further Angolan projects in the same region, Medio Kwanza and Muriege, though the Company is not currently active at these concessions, with its focus being on the development of Alto Cuilo.

Alto Cuilo

Petra's exploration programme at Alto Cuilo over the last year has further substantiated its potential as a major diamond project. Exploration continues to make solid progress, with further increases in the number of kimberlites identified and analysis of drill core revealing exceptional indicator mineral chemistry.

Ongoing drilling of the anomalies identified by the Midas low level helicopter aeromagnetic survey resulted in the exploration at Alto Cuilo reaching a special milestone during July 2006 with the discovery of the 50th kimberlite at the project. It is now estimated that the surface area of kimberlite discovered at Alto Cuilo is in excess of 1,400 hectares, ranking the project firmly by size as one of the most important diamond projects in development today.

Kimberlite Programme

Petra currently has three core drill rigs working full time on site, which have accelerated the exploration programme significantly, and as at the date of this review core drilling totals 26,000 metres on 190 holes. Drilling has also commenced in the previously untested north east of the project area where 4 of the 50 kimberlites discovered to date have recently been identified.

The importance of this accelerated drilling programme is evident when it is considered that of the total 249 magnetic anomalies, 60 have now been drilled and 50 have been confirmed as kimberlitic. This success rate of 83% is exceptional and surpasses the norms for global kimberlite exploration.

Analysis of diamond indicator mineral chemistry is very important in terms of predicting whether or not a kimberlite is likely to hold an economic deposit of diamonds. It is accepted by the world's kimberlite experts that the higher the count of the acknowledged diamond stability field indicators, the higher the likelihood of the kimberlite hosting economic grades. Petra has therefore been highly encouraged to discover that kimberlite core tested so far at Alto Cuilo has returned results that are consistent with diamond-producing kimberlites globally.

Key data revealed was as below:

(i) Chrome diopside analysis has returned a favourable mantle geotherm, indicating that there is a high probability that the kimberlite will have sampled material derived from the earth's diamond stability field at a temperature favourable for the formation of diamonds;

(ii) Peridotitic garnet analysis revealed pressure-temperature conditions compatible with the presence of diamond stability field G10 garnets derived from well within the diamond stability field; and

(iii) Eclogitic garnet analysis also gave excellent results, with an abundance of high sodium eclogitic garnets in some kimberlites, further increasing the potential for quality diamondiferous kimberlite.

The stage is now set to commence first bulk sampling at Alto Cuilo utilising a large diameter drill rig and the diamond indicator mineral analysis has assisted in a more informed identification of the priority kimberlite targets for this programme. The programme will generate a better understanding of the kimberlite deposits as well as producing critical data relating to grade and value per carat.

The large diameter drill rig ("LDD rig") has commenced operation and will initially stockpile 200 tonne bulk samples from each selected kimberlite, to be treated by the 10 tonne per hour Dense Media Separation ("DMS") plant which is expected to be commissioned in November 2006. This lead time will enable the exploration team to stockpile sufficient material to enable the DMS plant to go directly to full capacity treatment of the samples when it is commissioned. Priority targets have already been identified and ranked for LDD drilling according to mineral chemistry, surface area and logistical considerations.

The LDD rig is a RB40 drill rig from Prakla Bohrtechnic in Germany and will be drilling holes with a diameter of 43 centimetres (17 inches) to depths of up 350 metres. The LDD rig is able to extract volumes of material large enough to enable Petra to evaluate macro diamonds that may be contained therein, as well as giving more accurate data relating to overall grade and carat value.

The commencement of bulk sampling is a significant step in the development of Alto Cuilo, following the extensive exploration that has been carried out to date.

Alluvial Programme

The potential for Alto Cuilo to host economic alluvial deposits continues to be explored and an ongoing pitting and trenching programme continues in order to further evaluate this possibility. Valuable exploration information is also recorded from these activities.

Preliminary Diamond Valuation

To date over 1,500 carats of kimberlite and alluvial diamonds have been recovered from the sampling operations at Alto Cuilo. BHP Billiton previously completed a preliminary valuation, based on an initial 310 carats recovered from the kimberlite samples, which determined an average value of US$295 per carat. This is an excellent result and in excess of Petra's previous estimates of US$200 per carat.

Endiama / Local Partnerships

Petra Diamonds Alto Cuilo Limited ("PDAC"), the Petra/BHP Billiton JV company, is in partnership at Alto Cuilo with Endiama, the official state diamond mining company of Angola, and Moyoweno, a local Angolan company. The good relationships with our local partners have contributed enormously to the success at the Alto Cuilo project and we appreciate their input and support. PDAC is proud to be working in partnership with both Endiama and Moyoweno to help develop an exciting and vibrant diamond industry in Angola, which in turn will contribute to the socio-economic development of the country as a whole. It is our experience that Angola is receptive to, and indeed welcoming of, foreign investment and we will continue to work in close harmony with our local partners going forward.

BHP Billiton Joint Venture

BHP Billiton continues to sole fund exploration at Alto Cuilo and as at 30 June 2006 had advanced funding of US$22.8 million to PDAC in respect of exploration at Alto Cuilo, equating to a 53.3% interest in PDAC. In addition, a budget of circa US$20 million, to be funded by BHP Billiton, has been approved for the year to June 2007.

The partnership with BHP Billiton is of great importance to Petra and has enabled us to dramatically accelerate the progression of this unique project, and we will continue to work together to build upon the mutually beneficial association.

Xceldiam - Strategic Cooperation

On 30 May 2006 Petra entered into a Strategic Cooperation Agreement with Xceldiam Limited with regard to the Luangue and Alto Cuilo diamond exploration projects. The projects share a common border and it is the area within 20 kilometres either side of this common border where exploration activities are focused, based on the geological and diamond prospectivity. Xceldiam and Petra will share information and cooperate on technical, operational and other related matters with regard to the development of these projects.

Petra notes with interest the early drilling success at Project Luangue as announced on 25 July 2006. Core drilling returned excellent first results, with drilling on the first target intersecting kimberlite. This news supports Petra's belief that Project Luangue may host kimberlite geology similar to that of Project Alto Cuilo and Petra looks forward to further developments from Project Luangue.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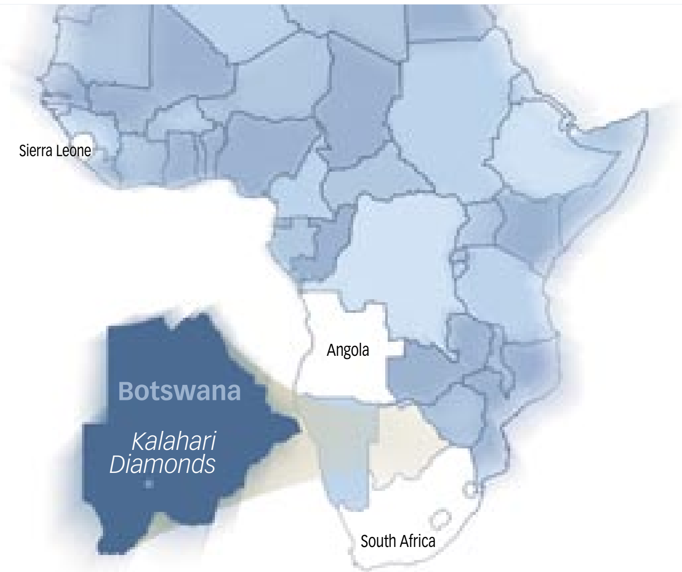
Botswana



On 30 September 2005 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.

Botswana is the world's largest diamond producer by value, with large producing mines at Jwaneng, Orapa, Letlhakane and Damatshaa. The Orapa and Jwaneng kimberlite 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 offers a modern and highly developed mining, commercial and financial environment. Diamonds contribute 70% to Botswana's export earnings and these revenues ensure that 90% of Botswanans have access to education and that there is near universal health coverage. The real benefits brought to Botswana by its diamond industry serve as an encouraging prototype for other African countries with emerging diamond potential.

Further to the acquisition of Kalahari, Petra is one of the largest holders of diamond exploration ground in Botswana, with approximately 55,000 km^2 of highly prospective licences held through its wholly owned Botswana subsidiary, Sekaka Diamonds (Pty) Limited.

Modern exploration techniques mean it is now possible to identify kimberlite anomalies covered by Kalahari sand cover which has previously prevented the discovery of new diamond deposits in Botswana. Petra has an agreement with BHP Billiton to direct the deployment of the proprietary Falcon technology, an airborne gravity system which assists in identifying anomalies through the sand cover.

Petra's exploration field effort has gathered momentum this year as management has extended the exploration remit to search for smaller kimberlites as well as larger kimberlite targets.

Gope

The acquisition of Kalahari gave Petra access to the Gope kimberlite field, that was already known to host six or seven kimberlites. Geophysical targets from Xcalibur and Falcon surveys flown by Petra in this area have been prioritised for further investigation and their geophysical 'responses' compared to the known kimberlites from the orientation survey conducted

during the year. Their spatial relationship has also been compared to the known kimberlitic indicator minerals ("KIM") anomaly that was identified by previous exploration companies. This KIM halo is offset from the known Gope kimberlites by at least 12 kilometres, and is therefore probably not related to the known bodies, implying that there could be potentially large, undiscovered kimberlites in the Gope field.

A total of 41 targets have now been investigated in the Gope area by follow up ground geophysics, identifying a number of co-incident gravity and magnetic anomalies with similar characteristics to known Gope kimberlites within, and directly adjacent to, the KIM halo. A drilling programme to test these anomalies will commence in the latter part of this year.

Orapa South

Ground follow-up geophysics has started on the 13 anomalies in the north of the Orapa South flight blocks, directly south of the producing Orapa kimberlite field, and a mere 10 kilometres from AK6, a diamondiferous kimberlite which is currently being evaluated by De Beers and African Diamonds. This locality has a Kalahari sand cover of up to 50 metres and thus a dedicated KIM survey will also be undertaken, so as to assist in the selection and interpretation of anomalies.

Orapa North

Trenching on 9 anomalies was chosen as the preferred method of ground follow-up for the Orapa North area as Kalahari sand cover is negligible and calcrete horizons seldom exceed 3 metres in thickness. Samples were taken from all trenches for heavy mineral extraction at Petra's preparation laboratory at Swartruggens, South Africa.

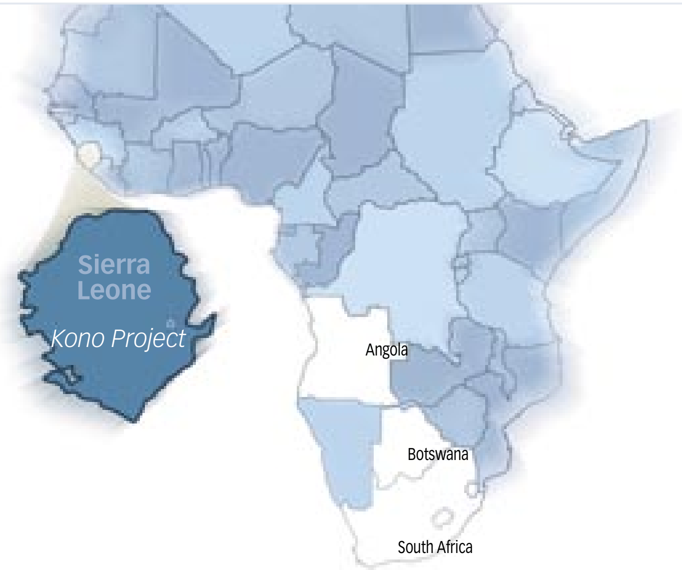
Mabutsane / Tshwane

A ground gravity survey was carried out over the large gravity-only anomaly previously drilled in the Mabutsane/Tshwane area. This was considered the best mode of follow up as specific gravity determinations on cuttings recovered from this hole failed to explain the cause of the anomaly and to facilitate geophysical modeling of the causative body. Modeling was carried out by the BHP Billiton Falcon unit in Melbourne, and the 3D SolidEarth™ model produced indicates a large pipe-like 'unit' extending from about 200 metres depth to about 1800 metres depth. This was confirmed by a model produced by Xcalibur using magnetic data from this anomaly. The top of this unit is deeply concave and was not penetrated by the borehole drilled by Petra in 2005.

If a kimberlite model is to be assumed, the model suggests about 4 lobes of low density material, coalescing at depth. One may expect these lobes to form one very large crater, which, given the absence of kimberlite indicator minerals in the drill hole and surrounds, could have been infilled by late Karoo group rocks and later, covered again by the Kalahari sand beds seen today. A decision will be made during this year whether to deepen the existing hole in the centre of the anomaly, or to drill on the edge of the anomaly where the causative body could be closer to surface.

The final Tshwane data has been received from BHP Billiton and anomalies are in the process of being selected for ground follow-up work.

Sierra Leone



Petra has a joint venture with Mano River Resources in Sierra Leone which allowed Petra to earn a 51% equity interest in the Kono diamond project by investing US$3 million in the project over a three-year period. This threshold has been surpassed during the year, with total spend by Petra as of 30 June 2006 of US$4.4 million, and Mano is now contributing funding to maintain their 49% share.

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.

First Diamond Production

Petra had set a target for first diamond production from Kono by mid 2006, less than a year after the Company had begun operations in Sierra Leone, and this target was met due to the completion on time of a number of key objectives. The construction of the central base camp in Yengema Village was completed on schedule in May 2006. Petra constructed in-house a 75 tonne per hour Dense Media Separation ("DMS") plant and this was successfully commissioned in early June 2006. The Company was subsequently able to commence the treatment of samples comprising mixed and diluted material from exploration and shaft sinking operations. First diamonds were duly recovered from the Kono project on schedule in June 2006.

The recovery of 44 diamonds, totaling 5.6 carats and including a 1.4 carat stone, from the small amount of material processed was highly encouraging, though the scale of the test work means that Petra is not in a position yet to arrive at any representative grade. Sample testing continues and Petra will report on further findings when available.

Exploration Development

Shaft sinking operations continue to proceed well and a sound infrastructure is in place alongside the DMS plant. Two shafts, both of which are on kimberlite fissure, are in progress, Black Rock and Lost Shaft. The shafts will be sunk to a depth of around 30 metres before stopes are prepared to access production test tons of fissure.

In addition, exploration trenching has uncovered two very promising diamondiferous fissure strikes at Levuma on the Lion 5 dyke extensions and Yendema,

south west of the original Lion 2 dyke strike. Exploration trenching is underway at Bundofulahan, a fissure strike north of Lion 4. At Bardu, a south-west extension of the Lion 5 dyke extension also exists, with exploration results expected by September 2006.

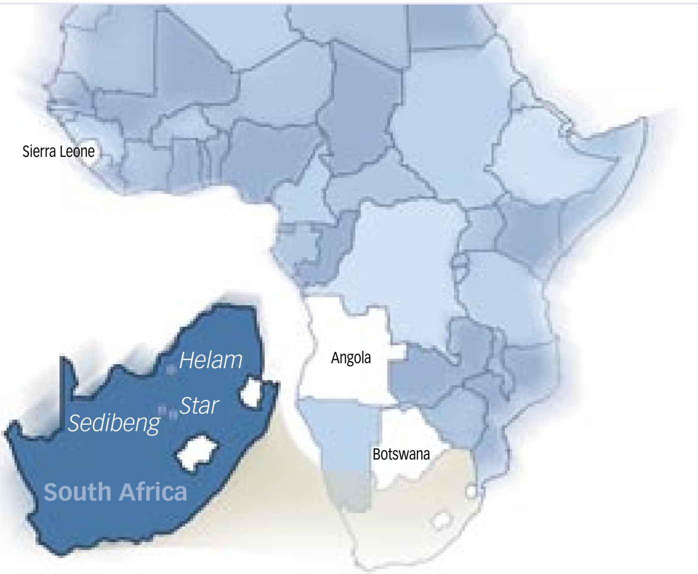
The shaft sinking programme will be significantly stepped up by the implementation of a second shift supported by additional shaft sinking specialists from Petra's South African operations. The aim is to phase over from shaft sinking to stoping activities as soon as possible in order to gain access to production test tons in the quarter to December. This is necessary in order to accurately determine the grade of the deposit and to get a sample of diamonds large enough to ascertain the quality of the diamonds by December 2006.

The roll out of three test shafts up to a depth of 20 metres on the most promising diamondiferous dyke strikes recently uncovered by exploration trenching will enable Petra to gain access to mini-bulk samples in order to identify and determine the most promising kimberlite dykes. If the results are favourable the test shafts could be seamlessly converted into bulk sampling and mining shafts.

The aggressive rolling exploration trenching method has proven to be a very effective and cost efficient method of quickly exploring the fissures surrounding the central base camp and processing infrastructure. It is envisaged that six additional trenches will be opened, the fissure penetrated and the results evaluated by December 2006.

The integrated result of the above mentioned activities will provide Petra with a better understanding of the diamondiferous fissures available, their potential and the project strategy ahead. Petra is faced with a large quantity of diamondiferous fissures available on the Kono concessions but is confident that the strong progress made in the last year has helped enormously to refine and prioritise the bulk sampling and exploration focus going forward.

South Africa



Petra has increased production from its three mines in South Africa from 143,673 carats (year to June 2005) to 175,011 carats (year to June 2006). This production increase is notable as it was achieved despite severe operational problems presented by power outages, heavy rainfall and occasionally poor ground conditions. Management is confident that the ongoing operational improvement of the mines will ensure steady production in the coming years.

Helam

At the Helam mine, several major steps toward the semi-mechanisation of the mine have been completed which will result eventually in a reduction in labour cost. Foremost among these achievements is the finalisation of the skip-hoisting system at John shaft, which enables the Company to hoist unrestricted tons from underground as they become available. In addition, the second lease incline hoisting system has been fully commissioned and tonnage build-up from this section will now commence as additional levels are added on. The deepening of John main shaft is now complete to 20 level and the further deepening of this shaft system to 25 level is on a 3-year schedule. In the interim, the build-up tons will be delivered from second lease as set out above.

At Edward shaft, a surface ore handling system similar to John shaft is nearing completion and will assist in reducing costs. Underground shaft sinking has progressed to 25 level (23 and 24 are the active levels) so as to ensure continued production from this section. Instead of sinking another subshaft, innovative engineering solutions are being applied to enhance the duty cycle of the existing sub-winder (other than the sinking of another sub-shaft).

In the semi-mechanisation drive a fleet of 14 mechanised loaders is now operational, complete with the air and electrical reticulation as well as the maintenance to keep these loaders operational.

Surface exploration has been stepped up at Helam so as to identify and possibly develop a new shaft system from surface to the western extensions of the Edward shaft fissures.

Unfortunately, Petra had to contend with severe thunderstorms over the year which resulted in power outages and flood interruptions. The Company's electrical standby system currently only allows for emergency services and is therefore being upgraded so as to better cope during the next wet season. Minor labour disruptions also led to some lost production but Petra will continue to work towards managing such eventualities going forward.

Star

At the Star production lagged behind projected levels, mainly due to issues concerning ventilation, and work is continuing to improve this situation. The raise bore drilling from surface to 13 level (a vertical hole some 520 metres with a diameter of 1.4 metres) has been completed by the contractor. The required return-ventilation airway has been completed on 13 level and ventilation districts in the Burns operational sections will be established after Petra has completed the support of the bad ground conditions in certain sections of the raise bore hole. This work is expected to be completed during the first half of FY 2007 to further improve the underground ventilation conditions. The improved conditions will assist in increasing production from underground operations.

Further problems relating to loss of production resulted from power outages during thunderstorms with attendant flooding, as well as power outages due to cable theft on the national electric supply grid. The abovementioned further resulted in ore being drawn preferably from the Wynandsfontein section (due to the fact that the Burns section floods first), resulting in a depression of grade.

In all other respects, the mine is on track with 15 level on both the Burns and Wynandsfontein sections well established. The 14 level main access haulage to Wynandsfontein has been rescheduled for completion by June 2007 and will assist in depressing operational costs. Sinking (slyping) of the main shaft from 12 to 14 level is continuing and deepening to 16 level is soon to commence.

The building of the plant front-end crushing section has been completed and commissioned. Star mine has an extremely hard ore so the introduction of a rolls crusher will assist in the reduction of diamond breakage and subsequently increase the grade of diamond recovery.

Sedibeng (Messina and Dancarl operations)

Production is going well at Sedibeng, although slightly behind schedule. The delays in production have resulted from power outages during the afore mentioned periods of severe thunderstorm activity, resulting in flooding of the lower levels, as well as poor ground conditions on 23 level where anticipated fissure development did not materialise and gave only "stringers". Stope development on this level has now, however, been achieved.

In all other respects the mine is performing well. Shaft sinking on the Messina section is progressing and at year-end the shaft was 8 metres short of 24 level.

Development of the 20 south drive is on track and at year-end was 50m short of being vertically beneath the Dancarl main shaft. The next step is to raise bore from this level into the bottom of Dancarl shaft at 16 level. Once this is done, the shaft will be deepened to 21 level and a new winder will be installed on surface to handle the increased duty cycle with greater tonnage from the Dancarl section. In the interim, production from Dancarl is progressing well with 15 level solidly established and the re-establishment of the shaft to 16 level in progress.

In terms of brownfields exploration, a 2,000 tonne test was conducted on the southern portions of the Dancarl fissures. Results returned grades compatible with the thin nature of the fissures in this locality, with grade being depressed by large amounts of sidewall dilution and resultant low kimberlite percentage. Exploration in the lower levels is also being executed to determine the grade of the known "magazine fissure" which is some 60 metres distant from our current operations.

Capex has been approved for the construction of a complete new 100 tonne per hour DMS diamond recovery plant, which will cater for all production from the Sedibeng mining and tailings. It will incorporate all the modifications that we have learnt will be of benefit to our operation, in particular ensuring the protection of large diamonds. The plant is being fabricated at the Helam mine facility and is planned to be commissioned in the third quarter of FY 2007. It is anticipated that the new plant will result in a dramatic reduction in operating costs and a significant improvement in diamond security.

RESOURCE ESTIMATES

The South African reserves and resources confirm the potential for long-life production operations. Further, "brownfields" exploration has the potential to identify new areas of production from the current operations and work in this area has been intensified.

Resources (estimated)

	Helam	Sedibeng	Star	Total
Proven, probable reserves & inferred resources ROM tonnes ('000)**	1,936,000	1,700,000	3,886,000	7,522,000
Grade ROM (cpht)**	28	44	81	59
Total carats ('000)**	542,000	748,000	3,147, 000	4,437,000
Price/carat US$	250	200	74	117
Value US$ (million)	135.5	149.6	232.8	517.9

**Adjusted from Snowden's report dated 1st February 2005

BLACK ECONOMIC EMPOWERMENT

The Company views Black Economic Empowerment ("BEE") as an essential process to address historic wrongs and give previously disadvantaged groups in South Africa the opportunity to participate in and benefit from the exceptional mineral wealth of their country. However, BEE is a pragmatic growth strategy, as well as a moral initiative, and affords Petra the opportunity to forge new partnerships in South Africa and acquire further projects. Good progress has been made to achieve the objectives of South African legislation through the 25.5% BEE ownership of Sedibeng. Legislation requires 15% ownership by 2009 and 26% ownership by 2014 across Petra's South African operations. More transactions are planned for the year to June 2007.

In summation, I am delighted with the progress we have made across all our projects over the past year. This progress could not have been achieved without the skills, work ethic and dedication of our staff and I would like to extend management's sincere thanks to our hard working and spirited team. We are proud to have developed a group of the highest calibre and in our people we have perhaps our greatest asset.

Johan Dippenaar
Chief Executive Officer
26 October 2006

Although diamonds have been discovered in well over 35 countries, the bulk of the production (by value) comes from just six countries, Botswana, Russia, Canada, South Africa, Angola and DRC. Over 60% of the world's production (by value) comes from the African continent; even so, Africa has still been relatively under-explored and Petra believes it therefore holds significant promise. There are regions within Africa that have produced alluvial diamonds for well over half a century without the primary kimberlite sources of the alluvial deposits having yet been discovered, so there is a real opportunity for exploration companies using modern techniques.

The diamond value chain (or diamond pipeline) consists of exploration, mining, sorting, distribution, trading of rough stones, processing (converting the rough into polished), grading for polished sales and/or retail consumption, jewellery manufacturing, and retail. Presently, we find ourselves in a "constructive upheaval" in which a myriad of contemporary corporate and consumer values are progressively having a profound impact on the very foundations of the diamond value chain from the miners to the consumers.

The progression of diamonds through the pipeline takes global rough diamond production of around US$12.7 billion to around US$19.3 billion in polished diamonds at polished wholesale prices. Ultimately, on the downstream end of the pipeline, the activity translates into around US$65 billion in worldwide diamond jewellery retail sales, including the non-diamond components such as precious metals, semiprecious stones, designs, distribution costs, marketing and advertising.

Recognising the Aspirations of Producer Governments

The major producer governments are now investigating other opportunities that arise from having substantial diamond resources and corresponding production. From an economic perspective, sustainable and equitable management of diamond resources needs to be applied in a responsible manner so that the countries in question derive benefits corresponding to their mineral wealth.

Government policies are now shifting focus to diamond beneficiation and economic diversification. For example, several new diamond cutting factories are expected to become operational in countries like Botswana, which has traditionally not been the case.

South Africa has put in place measures to structurally change the way diamond wealth is shared among corporate entities and the state. The South African Diamond Amendment Act has the objective of ensuring significantly higher levels of diamond beneficiation with the country. Mutually beneficial results require corporate and political stewardship and dialogue between government and producers; provided that competitive conditions are maintained and that policies are consistent, enabling producers to sell at internationally competitive prices that recognise the inherent risk of mine development, Petra supports the South African Government's objectives to increase the level of beneficiation activities.

From Supply Controlled to Demand Driven Environment

In today's corporate environments, it has become an imperative to align legal and ethical compliances with business and marketing strategies and to ensure a similar focus on the entire value chain.

Diamond miners have always recognised the "value" of their marketing rights – but they rarely considered using their leverage to secure part of the downstream revenues. Petra's management is closely following these international trends as we recognise that Petra may well become far more than "just" an explorer and miner. We now witness the successful development and integration of new marketing methods, such as branding, internet, vertical integration, franchising, joint-ventures with manufacturers and a range of other innovative and potentially very rewarding options.

These new marketing methods are transforming the industry into a truly competitive, fully demand-driven market, accompanied by an accelerated growth in retail demand for diamond jewellery.

Fundamental structural changes of an entire value chain are not without risk. The players involved are comforted by the widely accepted forecast that worldwide diamond demand will significantly exceed supply in the final years of this decade, especially for the better, more 'exceptional' goods. The pursuit for vertical integration has caused the industry to make considerable investments in downstream marketing and promotion, brand development, and investments in jewellery manufacturing and retail stores.

Throughout the past few years we have seen consecutive year-on-year growth in consumer demand;

indeed, the first part of this decade recorded better growth rates than the industry saw throughout the 1990s. Consumer demand is healthy, especially in emerging markets such as India, the Gulf countries (enjoying high oil revenues), and China.

The diamond industry traditionally relied on controlling supply to the market. Diamond producers are now adopting business models aimed at making the industry more responsive to the increasingly sophisticated and brand-conscious consumer preferences and at creating accelerated growth in consumer demand. The transformation from a supply controlled to demand driven approach requires the entire industry to dramatically change its marketing approaches. This is a major transformation and all role players will watch the transformation with interest.

There are other external factors impacting the value chain as well. In a business environment post Enron and with the past concerns surrounding conflict diamonds, we see greater transparency, greater corporate accountability, and a renewed commitment to ethical and legal compliance issues throughout the pipeline. All these developments will further heighten consumer confidence in the industry and bolster investor confidence in the companies involved in the value chain. The changes are bold, innovative and exciting - the diamond business of tomorrow presents challenges, promises and opportunities and each and every player will have to consider their strategies and business model accordingly.

Johan Dippenaar
Chief Executive Officer
26 October 2006

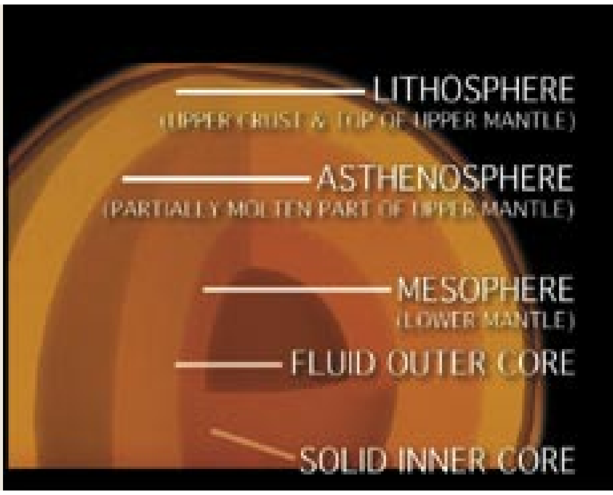
This market review has been compiled with the assistance of Chaim Even-Zohar and his staff at Tacy Limited, Diamond Industry Consultants.

Mining, processing, distribution and marketing

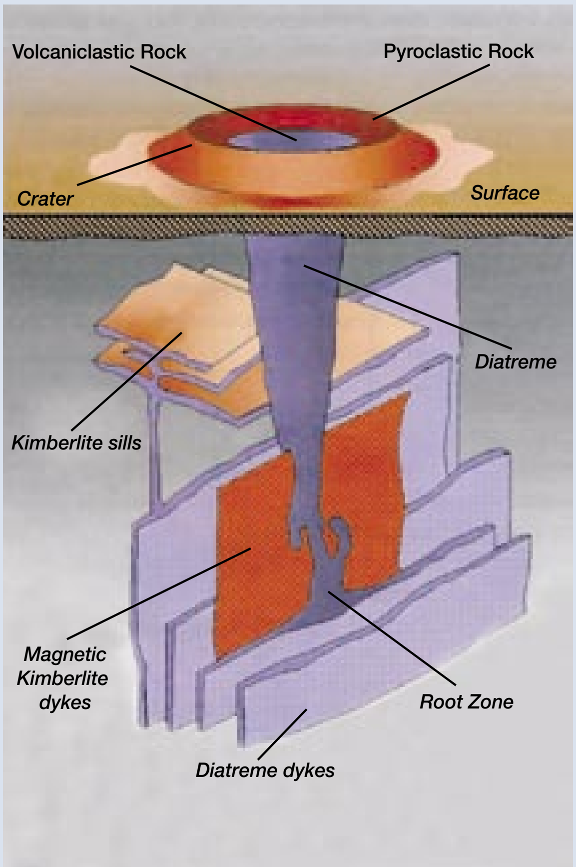
The demand for rough diamonds is predicted to rise by at least five percent each year until the end of the decade. We aim to be a world-class diamond group and mid-tier producer of gemstone diamonds.

1 Geology:

The cross section shown here provides a closer look at the earth's crust and underlying mantle. Just below the crust is the portion of the mantle called the lithosphere, which is rigid and acts like rock. Below this is the asthenosphere, a more plastic, flowing region that enables the overlying crustal plates to move in what is known as plate tectonics.



The demand for rough diamonds is predicted to rise by at least five percent each year until the end of the decade. We aim 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 production from the mines in South Africa.



2 Surfacing:

Diamonds ascend to the earth's surface in rare molten rock, or magma, that originates at great depths. Carrying diamonds and other samples from the earth's mantle, this magma rises and erupts in small but violent volcanoes. The magma itself does not contain diamond; instead, it acts as an elevator that carries deep-formed rocks and material upward.

The magma for such a volcano must originate at a depth where diamonds can be formed, 90 miles (150 km) deep or more (three times or more the depth of source magma for most volcanoes); this is a relatively rare occurrence.

Just beneath such volcanoes is a carrot-shaped "pipe" filled with volcanic rock, mantle fragments, and some embedded diamonds.

The rock is called kimberlite after the city of Kimberley, South Africa, where the pipes were first discovered in the 1870s. Another rock that provides diamonds is lamproite.

Kimberlite deposits are known as blue ground for the deeper serpentinized part of the deposits, or as yellow ground for the near surface smectite clay and carbonate weathered and oxidized portion.

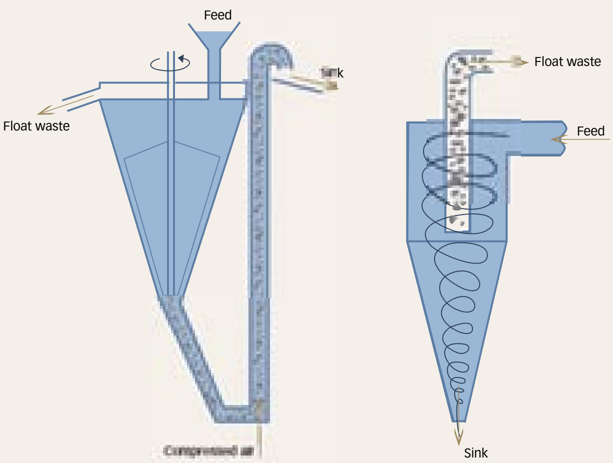
3 Mining a kimberlite pipe:

Mining of a diamond-bearing pipe starts with the excavation of a pit into the pipe. In this process, called "open-pit" or "open-cast" mining, the initially loose and eventually hard ore material is removed with large hydraulic shovels and ore trucks. Hard rock is drilled and blasted with explosives so the broken material can be removed. When deep, rich ore warrants it, the mining goes underground with vertical shafts descending to horizontal drifts, or passageways that enter the pipe.

In bedrock adjacent to the pipe, shafts are sunk and drifts are tunneled into the pipe. This is known as block caving. Concrete-lined tunnels are excavated under a large vertical section, perhaps 140 to 180 meters of kimberlite. Along the tunnels are draw points, or openings in the concrete casing where kimberlite is drilled and blasted to cave in a section above the tunnel. Broken kimberlite falls through the draw points and is scraped out of the tunnel with a drag or scraper bucket attached to a cable and winch, working much like a clothes line on a pulley. The kimberlite above the tunnels falls under its own weight and leads to a slow, continuous caving of ground that is removed through the draw points. The scraped kimberlite rubble is loaded into cars on a lower level and moved to a crusher underground. The crushed ore is then conveyed to skips that carry the ore up the vertical shaft for processing.

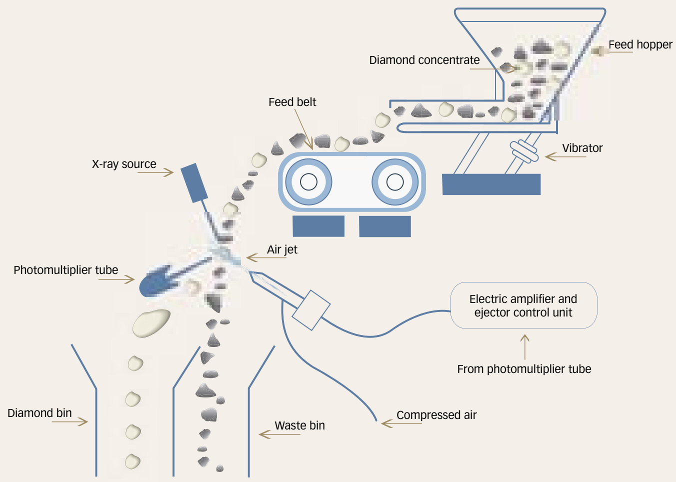
4 Processing diamond ore:

Once a mining operation yields ore, the diamonds must be sorted from the other materials. This process relies primarily on diamond's high density. An old but effective method is to use a washing pan, which forces heavy minerals like diamond to the bottom and waste to the top. Cones and cyclones use swirling heavy fluids mixed with crushed ore to achieve density separations.



LEFT: This diagram shows how cones (left) and cyclones (right) use heavy-media separation. Diamond-bearing concentrate is mixed with a fluid near the density of diamond. Separation occurs in cones and cyclones by swirling the mixture at low and high velocities respectively. In the cone, rotational mixing permits lighter minerals to float to the top and run out as overflow, while diamonds and dense minerals sink to the bottom and are sucked out with a compressed air siphon. In the cyclone, fast rotation of the suspension drives heavy minerals to the conical wall, where they sink to the bottom and are extracted, while float waste minerals are sucked from the center of the vortex. Cyclones are about 99.999% efficient at concentrating diamonds and similarly dense minerals from the original ore.

RIGHT: The x-ray separator system acts on a thin stream of particles from the concentrate accelerated off a moving belt into the air, where they encounter an intense beam of x-rays. Any diamond fluoresces in the x-rays, activating a photomultiplier that triggers a jet of air, deflecting the diamonds into a collector bin



Diamonds are the most coveted of all precious gems. The diamond will likely continue to be a highly coveted jewel, because, well, "A Diamond is Forever."

5

Sorting and distributing:

The ultimate purpose of sorting is to estimate an asking price for the rough diamonds. Diamonds then are sold off to either diamond dealers and jewellers who sell the gems, or are sold for industrial use.

Diamonds are the most coveted of all precious gems. While this has not always been the case, diamonds are nonetheless exquisite gems that go through a long, tedious refining process from the time they are pulled from the ground to when you see them in the jewellery store. And, while some of the mystique of diamonds may be gone - they're just carbon, after all - the diamond will likely continue to be a highly coveted jewel, because, well, "A Diamond is Forever."

Charles Greig & Son

6

Gem diamond industry

Diamonds do not show all of their beauty as rough stones; instead, they must be cut and polished to exhibit the characteristic fire and brilliance that diamond gemstones are known for.

Diamonds are cut into a variety of shapes that are generally designed to accentuate these features. Diamonds which have been prepared as gemstones are sold on diamond exchanges called bourses. There are 24 registered diamond bourses. This is the final tightly controlled step in the diamond supply chain; wholesalers and even retailers are able to buy relatively small lots of diamonds at the bourses, after which they are prepared for final sale to the consumer.

Diamonds which are not cut to the specifications of Tolkowsky's round brilliant shape (or subsequent variations) are known as "fancy cuts." Popular fancy cuts include the baguette (from the French, meaning rod or loaf of bread), marquise, princess (square outline), heart, briolette (a form of the rose cut), and pear cuts.

A large trade in gem-grade diamonds exists. One hallmark of the trade in gem-quality diamonds is its remarkable concentration: wholesale trade and diamond cutting is limited to a few locations.

The Directors present their Report together with the audited financial statements of the Group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

Petra is focused on the mining and exploration 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.

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 6 to 9 and in Note 32.

RESULTS AND DIVIDENDS

The Group's loss for the year amounted to US$18,864,456 (2005: loss US$21,018,778). The Directors do not recommend the payment of a dividend for the year (2005: US$ nil).

BOARD OF DIRECTORS AND THEIR INTERESTS

The interests of the Directors and their families in the issued share capital of the Company (other than in respect of options to acquire ordinary shares which are detailed in the Remuneration Report on pages 30 and 31 and Note 19 to the financial statements) were as follows:

	Number of shares at 30 June 2006	Number of shares at 30 June 2005
A Pouroulis	**7,535,000**	7,535,000
V Ruffer	**2,407,122**	2,407,122
J Dippenaar	**640,000**	640,000
J Davidson	**640,000**	640,000
D Abery	**50,000**	10,000
C Segall	**2,000**	2,000

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

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

An option was granted on 25 June 2004 to J Dippenaar and J Davidson to acquire the game farm situated on and around the Helam Diamond Mine for R2,500,000 (US$343,874). The option expires on 15 October 2011.

SHARE CAPITAL

Details of changes to share capital during the year can be found in Note 19 to the financial statements.

SUBSTANTIAL SHAREHOLDINGS

At 30 September 2006 the following interests in the ordinary shares of the Company represented more than 3% of the issued share capital (other than interests set out above in the Board of Directors Interests).

	Number of ordinary shares	Percentage of issued capital
Saad Investments Company Limited	**22,651,387**	15.05%
Kalahari Diamond Resources Plc	**16,166,529**	10.74%
ANZ Nominees Limited	**11,093,955**	7.37%
Al Rajhi Holdings W.L.L.	**8,853,333**	5.88%
Chase Nominees Limited	**8,142,700**	5.41%
Credit Suisse Client Nominees Limited	**6,767,744**	4.50%
HSBC Global Custody Nominees Limited	**5,900,000**	3.92%
Euroclear Nominees Limited	**5,756,885**	3.83%
BNY (OCS) Nominees Limited	**5,594,204**	3.72%
WB Nominees Limited	**5,401,701**	3.59%

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

The Directors appointed BDO Stoy Hayward LLP as auditors to the Company with effect from the audit for the year to June 2006. The Directors thank KPMG Audit plc for their audit services in previous years.

In accordance with Section 89 of the Bermuda Companies Act, a resolution to confirm the appointment of BDO Stoy Hayward LLP as auditors of the Company is to be proposed at the Annual General Meeting to be held on 8 December 2006.

By order of the Board

David Abery

Director

26 October 2006

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 and senior management with the earnings and asset growth of the Company to the mutual benefit of both shareholders and participants. During the year the Company adopted IFRS 2 with respect to the treatment of employee share options, details of which can be found in Notes 30 and 31 to the financial statements.

As at 30 June 2006 the following options for employees were in place to subscribe for ordinary shares in the Company.

	Exercise Price	Date of grant	Expiry date	**At 30 June 2006**	At 30 June 2005
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**	250,000
	79.5p	31 May 2006	31 May 2016	**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**	250,000
	79.5p	31 May 2006	31 May 2016	**250,000**	—
Johan Dippenaar	85.0p	16 June 2005	16 June 2015	**750,000**	750,000
	79.5p	31 May 2006	31 May 2016	**250,000**	—
Jim Davidson	85.0p	16 June 2005	16 June 2015	**750,000**	750,000
	79.5p	31 May 2006	31 May 2016	**250,000**	—
Senior management	44.0p	5 September 2003	5 September 2013	**385,000**	385,000
	54.5p	28 June 2004	28 June 2014	**—**	133,334
	56.75p	13 September 2004	13 September 2014	**50,000**	50,000
	A$1.12	24 September 2004	24 September 2014	**238,875**	276,375
	A$1.36	28 January 2005	28 January 2015	**72,500**	86,250
	65.75p	27 November 2005	27 November 2015	**500,000**	—
	79.5p	31 May 2006	31 May 2016	**500,000**	—

The following share options were exercised and lapsed during the year.

	Exercise price	Date of grant	Date of exercise	Number of options exercised/lapsed
Estate of W Roberts	30.0p	11 April 1997	22 July 2005	50,000
	35.0p	11 April 1997	22 July 2005	50,000
	40.0p	11 April 1997	22 July 2005	50,000
	45.0p	11 April 1997	22 July 2005	50,000
Kevin Dabinett	54.5p	28 June 2004	31 May 2006	250,000
	54.5p	28 June 2004	Lapsed*	500,000
Senior management	A$1.12	24 September 2004	12 June 2006	9,375
	A$1.36	28 January 2005	12 June 2006	3,438
	A$1.12	24 September 2004	Lapsed*	28,125
	A$1.36	28 January 2005	Lapsed*	10,312
	54.5p	28 June 2004	31 March 2006	133,334
	54.5p	28 June 2004	Lapsed*	266,666

**These share options lapsed due to the employees leaving the Company.*

DIRECTORS' REMUNERATION

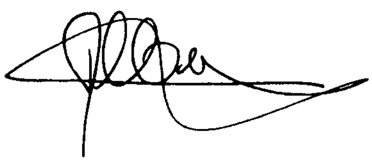
The following table gives a breakdown of the remuneration of the individual Directors who held office during the year ended 30 June 2006.

	Base remuneration US$	**Performance related bonus US$**	**Other US$**	**2006 Total US$**	2005 Total US$
Executive Directors					
A Pouroulis	253,448	64,706	–	**318,154**	305,941
K Dabinett*	237,254	–	186,314	**423,568**	279,096
D Abery	253,448	64,706	–	**318,154**	374,171
J Dippenaar	253,448	64,706	–	**318,154**	77,758
J Davidson	253,448	64,706	–	**318,154**	77,758
	1,251,046	258,824	186,314	**1,696,184**	1,114,724
Non-executive Directors**					
C Segall #	26,679	–	–	**26,679**	27,854
C Finkelstein***	7,410	–	_	**7,410**	9,285
V Ruffer #	8,893	–	–	**8,893**	9,285
	42,982	–	–	**42,982**	46,424

* *K Dabinett left the company effective 31 May 2006*
** *The Board determines the non-executive Directors' fees in the absence of the relevant non-executive Director*
*** *C Finkelstein resigned as a non-executive director effective 30 April 2006*
\# *Member of the Remuneration and Audit Committees*

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 2007 will be US$1,050,000.

By order of the Board



David Abery

Director

26 October 2006

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 management, 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 and J Davidson. 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 four executive Directors and two non-executive Directors. Of the two 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 strategic direction, and for creating shareholder value. The executive Directors are responsible for the day-to-day running of the Group.

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 shares or exercising options whilst in possession of price sensitive information except in unusual circumstances, 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 and get approval from the Chairman of the Board before they deal in shares or exercise options in the Company.

Independent professional advice and access to company information

Each Director has the right of access to all relevant Company information and to the Company's 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 31.

AUDIT COMMITTEE

The Audit Committee comprises Charles Segall and Volker Ruffer (both being non-executive Directors) and is chaired by Charles Segall. The Committee may, if considered necessary, take independent advice at the expense of the Company. 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, if considered necessary, take independent advice at the expense of the Company. 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 2007 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. These procedures include;
  - A comprehensive process to identify matters that may have a material effect on the price of the Company's securities;
  - The Chief Executive Officer and Finance Director being responsible for interpreting the Company's policy and where necessary informing the Board;
  - The Finance Director being responsible for all communications with AIM and ASX;
  - All information provided to the AIM and ASX being immediately posted to the Company's website at www.petradiamonds.com.
- *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* – the Group's operations are subject to significant environmental regulation under international law and the laws of the jurisdictions in which the Group's operations are based in relation to its exploration and mining activities. The Group's exploration and mining activities are concentrated in Africa. The Group has an Environmental Management Programme in place for each 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 Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.
- *Internal audit* – the Group 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.

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.
- 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 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.

Adonis Pouroulis, aged 36, 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 the London Stock Exchange in April of the same year.

Executive Chairman
Adonis Pouroulis

Johan Dippenaar (CA), aged 49, 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 with over 18 years experience in the management of companies of which 16 years has been in the management of mining companies.

Chief Executive Officer
Johan Dippenaar

David Abery (ACA), aged 44, 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 Gatwick based 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.

Finance Director
David Abery

Jim Davidson, aged 61, was previously Technical Director of Crown Diamonds. He is responsible for all Petra's geological matters and 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

Technical Director
Jim Davidson

Non-executive Directors

Non-executive Director
Volker Ruffer

Volker Ruffer, aged 67, 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.

Deputy chairman and non-executive Director
Charles Segall

Charles Segall, aged 65, 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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Petra Diamonds

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PETRA DIAMONDS LIMITED

We have audited the Group financial statements (the financial statements) of Petra Diamonds Limited for the year ended 30 June 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1981 as currently enacted in Bermuda. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the report to consider whether it is consistent with the audited financial statements. The other information comprises Highlights and Summary of Results, Activities at a Glance, Chairman's Statement, Chief Executive Officer's Statement, Diamond Market Review, Mining, processing, distribution and marketing, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

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

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 June 2006 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the provisions of the Companies Act 1981 as enacted in Bermuda;

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants
London
26 October 2006

Consolidated Income Statement *for the year ended 30 June 2006*

	Notes	2006 US$	Restated 2005 US$
Revenue		20,868,757	2,275,245
Cost of sales	4	(23,178,587)	(1,970,087)
Gross (loss)/profit		(2,309,830)	305,158
Exploration expenditure	5	(4,924,437)	(7,063,678)
Operating expenditure – other	6	(12,596,449)	(4,856,021)
Impairment of goodwill		—	(8,972,587)
Financial income		411,107	36,462
Financial expense		(565,201)	(402,177)
Net financing costs	7	(154,094)	(365,715)
Loss before tax		(19,984,810)	(20,952,843)
Income tax expense	8	1,120,354	(65,935)
Loss for the year		(18,864,456)	(21,018,778)
Basic and diluted loss per share – cents	10	(13.11)	(28.43)

Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2006

	2006 US$	Restated 2005 US$
Loss for the year	(18,864,456)	(21,018,778)
Exchange adjustments on translation of subsidiary and branch undertakings recognised directly in equity	1,561,653	1,161,255
Total recognised income and expense relating to the year	(17,302,803)	(19,857,523)

The notes on pages 45 to 76 form part of the annual financial statements.

Consolidated Balance Sheet *at 30 June 2006*

	Notes	2006 US$	Restated 2005 US$
ASSETS			
Property, plant and equipment	11	66,045,627	73,467,724
Intangible assets	12	13,105,561	335,947
Investment in associates	13	—	—
Investments – listed	14	1,271,410	—
Investments – unlisted	15	4,785,697	—
Trade and other receivables	17	164,402	161,442
Total non-current assets		85,372,697	73,965,113
Inventories	16	2,197,605	1,405,165
Trade and other receivables	17	2,760,378	2,806,105
Cash and cash equivalents	18	7,019,644	27,591,394
Total current assets		11,977,627	31,802,664
Total assets		97,350,324	105,767,777
EQUITY AND LIABILITIES			
Equity			
Issued capital	19	27,031,103	23,500,190
Share premium account	20	123,189,903	101,775,127
Foreign currency translation reserve	20	2,541,087	4,102,740
Share-based payment reserve	20	972,962	354,670
Accumulated loss	20	(81,608,667)	(62,748,364)
Total equity		72,126,388	66,984,363
Liabilities			
Interest-bearing loans and borrowings	22	2,914,960	429,753
Trade and other payables	23	867,823	2,000,507
Provisions	24	1,697,756	1,716,998
Deferred tax liabilities	25	9,932,634	11,930,797
Total non-current liabilities		15,413,173	16,078,055
Interest-bearing loans and borrowings	22	1,149,646	11,600,585
Trade and other payables	23	6,658,735	9,061,468
Provisions	24	2,002,382	2,043,306
Total current liabilities		9,810,763	22,705,359
Total liabilities		25,223,936	38,783,414
Total equity and liabilities		97,350,324	105,767,777

The notes on pages 45 to 76 form part of the annual financial statements.
The financial statements were authorised for issue by the Directors on 26 October 2006.

Consolidated Cash Flow Statement *for the year ended 30 June 2006*

	Notes	2006 US$	Restated 2005 US$
Loss after taxation for the year		(18,864,456)	(21,018,778)
Depreciation of property plant and equipment – exploration		35,687	633,140
Depreciation of property plant and equipment – mining		5,630,717	463,100
Depreciation of property plant and equipment – other		40,573	29,020
Amortisation of intangible assets		2,832,355	8,186
Loss/(profit) on sale of property plant and equipment		26,717	(1,607)
Impairment of intangible assets		—	136,872
Impairment of goodwill		—	8,972,587
Interest received		(411,107)	(36,462)
Interest paid		565,201	402,177
Present value adjustment on rehabilitation provision		140,783	—
Foreign exchange loss		6,114,780	892,065
Operating loss before working capital changes		(3,888,750)	(9,519,700)
Decrease/(increase) in trade and other receivables		140,515	(1,011,327)
(Decrease)/increase in trade and other payables		(3,604,742)	1,953,312
Increase in inventories		(792,440)	(51,792)
Cash utilised in operations		(8,145,417)	(8,629,507)
Interest paid		(565,201)	(402,177)
Taxation movement		(1,120,354)	—
Net cash utilised by operating activities		(9,830,972)	(9,031,684)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		41,447	1,607
Acquisition of subsidiary net of cash acquired	3	5,560,464	103,527
Interest received		411,107	36,462
Increase in investments		(1,271,410)	—
Acquisition of property, plant and equipment	11	(4,152,748)	(2,538,654)
Development expenditure	11	(4,069,863)	(183,533)
Net cash from investing activities		(3,481,003)	(2,580,591)
Cash flows from financing activities			
Net proceeds from the issue of share capital		469,404	32,494,444
Decrease in long-term borrowings		(7,605,319)	(392,723)
Net cash from financing activities		(7,135,915)	32,101,721
Net (decrease)/increase in cash and cash equivalents		(20,477,890)	20,489,446
Cash and cash equivalents at beginning of the year		27,591,394	6,808,208
Effect of exchange rate fluctuations on cash held		(123,860)	293,740
Cash and cash equivalents at end of the year	18	7,019,644	27,591,394

The notes on pages 45 to 76 form part of the annual financial statements.

1. ACCOUNTING POLICIES

Petra Diamonds Limited is 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, other than the adoption of IFRS 2, as detailed below.

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 International Financial Reporting Interpretations Committees of the IASB.

1.2 Basis of preparation

The Group financial statements are prepared on the historical cost basis and are presented in US Dollars. For the year to 30 June 2005 the Group reported in Pounds Sterling and during the current year the Group adopted US Dollars as its functional reporting currency.

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.

Currency reporting

The Group changed its functional currency during the 2006 financial year from Pounds Sterling to US Dollars. The principal functional currency of the Group's business transactions in Angola, Botswana and Sierra Leone is US Dollars; in South Africa diamond sales are made in US Dollars. In order to provide comparatives in US Dollars the audited financial statements as at 30 June 2005 were translated at a rate of US$1.79 to £1 for balance sheet items and an average rate of US$1.86 to £1 for income statement items.

Change in accounting policy

During the year to 30 June 2006 the Company adopted IFRS 2 with respect to the treatment of employee share options. In order to comply with IFRS 2, the Company now expenses the fair value of share-based employee options with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The comparative numbers have been appropriately restated. Note 30 discloses the financial impact on the Company's results as a result of the adoption of IFRS 2.

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.

1. ACCOUNTING POLICIES (continued)

1.3 Basis of consolidation (continued)

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

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

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

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

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. ACCOUNTING POLICIES (continued)

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 the estimated useful life for prospecting rights.

Goodwill for all business combinations is 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.

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

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the 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. ACCOUNTING POLICIES (continued)

1.8 Financial instruments

Measurement

Financial instruments are initially recorded at cost, which includes transaction costs. Subsequent to initial recognition these instruments are reported 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. Non-current trade and other receivables are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are stated 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 stated at fair value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost 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.

Gains and losses on subsequent measurement of financial instruments

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 re-measuring 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. ACCOUNTING POLICIES (continued)

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.

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.

Decommissioning, mine closure and environmental rehabilitation

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

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

1.13 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.

The results of operations not reporting in US Dollars are translated at the average rates of exchange during the period as this is considered to be a reasonable approximation of the actual rates during the year and the operations balance sheets are translated at exchange rates ruling at the balance sheet date. Exchange differences which arise from the translation of the results and balance sheets of foreign subsidiary operations are taken to reserves.

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.

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 and annual 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 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 Employee defined contribution schemes

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

1.17 Share-based payments

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

1.18 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.

1.19 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.

1.20 Segment reporting

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

1.21 Investments

Investments are stated at cost. The carrying value of the investments is reviewed at each balance sheet date to determine whether there is any indication of impairment.

2. SEGMENT 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. Eliminations consist of those inter-group transactions associated with acquisitions of business combinations.

Business and geographical segments

The Group comprises the following business segments:

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

Exploration – exploration activities in Angola, Sierra Leone and South Africa.

Business segments 2006	Mining US$	Exploration US$	Eliminations US$	Consolidated US$
Revenue from external customers	20,868,757	—	—	20,868,757
Segment result	(2,309,829)	(14,968,544)	—	(17,278,373)
Operating loss	(4,862,172)	(14,968,544)	—	(19,830,716)
Net financing income/(costs)	(1,178,884)	1,024,790	—	(154,094)
Income tax	1,120,354	—	—	1,120,354
Loss for year	(4,920,702)	(13,943,754)	—	(18,864,456)
Segment assets	64,677,253	32,673,071	—	97,350,324
Total assets	64,677,253	32,673,071	—	97,350,324
Segment liabilities	19,436,688	5,787,248	—	25,223,936
Total liabilities	19,436,688	5,787,248	—	25,223,936
Cash flows from operations	677,480	(10,508,452)	—	(9,830,972)
Cash flows from investing	(3,529,914)	1,544,211	(1,495,300)	(3,481,003)
Cash flows from financing	(712,276)	(6,423,639)	—	(7,135,915)
Capital expenditure	8,118,313	104,298	—	8,222,611
Depreciation and amortisation	5,630,717	2,908,615	—	8,539,332
Impairment losses	—	—	—	—

Geographical segments 2006	Angola US$	Botswana US$	South Africa US$	Sierra Leone US$	Jersey US$	Consolidated US$
Revenue from external customers	—	—	20,868,757	—	—	20,868,757
Segment assets	4,785,697	13,380,911	74,777,905	4,405,811	—	97,350,324
Cash flows from operations	—	(357,262)	(9,473,710)	—	—	(9,830,972)
Cash flows from investing	—	—	(3,529,914)	(4,069,864)	4,118,775	(3,481,003)
Cash flows from financing	—	357,254	(712,276)	4,069,864	(10,850,757)	(7,135,915)
Capital expenditure	—	60,472	4,092,276	4,069,863	—	8,222,611
Impairment losses	—	—	—	—	—	—

2. SEGMENT INFORMATION (continued)

Business segments – Restated 2005	Mining US$	Exploration US$	Eliminations US$	Consolidated US$
Revenue from external customers	2,275,245	—	—	2,275,245
Segment result	305,158	(20,440,219)	—	(20,135,061)
Operating profit/(loss)	69,459	(20,656,587)	—	(20,587,128)
Net financing income/ (costs)	133,804	(499,519)	—	(365,715)
Income tax	(65,935)	—	—	(65,935)
Profit/(loss) for year	137,328	(21,156,106)	—	(21,018,778)
Segment assets	80,873,782	80,501,594	(55,607,599)	105,767,777
Total assets	80,873,782	80,501,594	(55,607,599)	105,767,777
Segment liabilities	33,296,165	5,848,510	(361,261)	38,783,414
Total liabilities	33,296,165	5,848,510	(361,261)	38,783,414
Cash flows from operations	630,346	(9,662,028)	—	(9,031,684)
Cash flows from investing	(43,388)	(2,537,203)	—	(2,580,591)
Cash flows from financing	(381,066)	32,482,787	—	32,101,721
Capital expenditure	350,939	2,187,715	—	2,538,654
Depreciation and amortisation	463,100	670,346	—	1,133,446
Impairment losses	(8,972,587)	(136,872)	—	(9,109,459)

Geographical segments restated 2005	Angola US$	Botswana US$	South Africa US$	Sierra Leone US$	Jersey US$	Consolidated US$
Revenue from external customers	—	—	2,275,245	—	—	2,275,245
Segment assets	5,167,883	—	100,263,947	335,947	—	105,767,777
Cash flows from operations	(5,704,479)	—	(3,327,205)	—	—	(9,031,684)
Cash flows from investing	(2,168,720)	—	(325,493)	(189,905)	103,527	(2,580,591)
Cash flows from financing	8,716,035	—	(9,789,503)	183,536	32,991,653	32,101,721
Capital expenditure	2,187,715	—	350,939	—	—	2,538,654
Impairment losses	—	—	(9,109,459)	—	—	(9,109,459)

The Group commenced activities in Botswana effective 1 October 2005 on the acquisition of Kalahari Diamonds Ltd. Therefore there are no comparative numbers for the year to June 2005.

3. ACQUISITION OF SUBSIDIARY

The Company acquired the issued share capital in Kalahari Diamonds Limited ("Kalahari"), for US$21,997,991, effective 30 September 2005. The consideration was satisfied by the issue of 16,166,529 Petra shares. Kalahari, through its wholly owned Botswana subsidiary, Sekaka Diamonds (Pty) Limited, is the holder of a substantial number of diamond prospecting licences in Botswana. In the nine months to 30 June 2006, Kalahari recorded an exploration loss, before depreciation and amortisation, of US$ 2,177,756. If the acquisition had occurred on 1 July 2005, the Group's loss for the year to 30 June 2006 would have increased by US$1,391,374.

Effect of the acquisition

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

Kalahari's net assets at acquisition date:	Book values US$	Fair value adjustments US$	Carrying values US$
Consolidated fair value of net assets of entity acquired:			
Plant and equipment	176,384	—	176,384
Prospecting licences	1,283,470	16,336,788	17,620,258
Cash assets	5,560,464	—	5,560,464
Receivables	95,394	—	95,394
Accruals and payables	(1,454,509)	—	(1,454,509)
Consideration amount satisfied in shares	5,661,203	16,336,788	21,997,991

The fair value adjustment of US$16,336,788 arose as a result of the revaluation of the Prospecting licences purchased from Sekaka Diamonds (Pty) Limited.

	2006 US$	2005 US$
4. COST OF SALES		
Raw materials and consumables used	6,292,071	735,256
Employee expenses	12,214,540	873,419
Depreciation of mining assets	5,630,717	463,100
Changes in inventory of finished goods	(958,741)	(101,688)
	23,178,587	1,970,087
5. EXPLORATION EXPENDITURE		
Employee expenses	313,182	1,846,344
Depreciation of exploration assets	35,687	633,140
Amortisation of intangible assets	2,832,355	8,186
Drilling costs	1,277,973	1,770,287
Equipment hire	207,689	1,058,999
Other exploration costs	257,551	1,746,722
	4,924,437	7,063,678

	2006 US$	2005 US$
6. OPERATING EXPENDITURE – OTHER		
Auditors' remuneration		
Current auditors		
– audit services	—	—
– other services	—	—
Previous auditors		
– audit services	368,132	218,735
Depreciation of property plant and equipment	40,573	29,020
Foreign exchange losses	6,114,780	892,065
Operating lease rentals	222,257	348,767
Staff costs	1,804,326	1,796,198
Bid and project expenditure	359,743	—
Impairment of intangible assets	—	136,872
Profit on disposal of property plant and equipment	26,717	(1,608)
Administration expenses – mining operations	1,421,192	90,778
Other charges	2,238,729	1,345,194
	12,596,449	4,856,021
In addition to the above, the 2006 audit fee payable by the Group to its newly appointed auditors is $172,549.		
7. NET FINANCING COSTS		
On bank loans and overdrafts	(412,485)	(54,584)
Other debt finance costs	(152,716)	(347,593)
Financial expense	(565,201)	(402,177)
Interest received	411,107	36,462
	(154,094)	(365,715)

	2006 US$	2005 US$
8. TAXATION		
Current taxation		
– Current tax expense	—	—
Deferred taxation		
– Current period	(1,120,354)	65,935
	(1,120,354)	65,935

	2006 %	2006 US$	2005 %	2005 US$
Reconciliation of tax rate				
Loss before taxation		(19,984,810)		(20,952,843)
Tax at UK corporate rate	(30.00)	(5,995,443)	(30.00)	(6,285,853)
Effects of:				
Non-deductible expenses	0.53	105,613	12.83	2,688,249
Non-taxable income	(0.05)	(9,102)	(0.02)	(4,189)
Assessed loss not utilised	1.43	286,204	3.81	798,304
Effect of tax rates in foreign jurisdictions	33.69	6,733,082	13.07	2,737,554
Total tax charge	5.61	1,120,354	(0.31)	(65,935)

	2006 US$	2005 US$
9. DIRECTORS AND EMPLOYEES		
Staff costs (excluding the non-executive Directors) during the year were as follows:		
Wages and salaries – mining	12,214,540	873,419
Wages and salaries – exploration	313,182	1,846,344
Wages and salaries – administration	1,631,632	1,606,514
Social security costs	1,722	7,145
Provident fund costs	170,972	182,539
	14,332,048	4,515,961
	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 1,853 (2005:1,832), employed as follows:		
Mining and exploration	1,793	1,776
Administration	60	56
	1,853	1,832

9. DIRECTORS AND EMPLOYEES (continued)

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

	Base remuneration US$	Performance related bonus US$	Other US$	2006 Total US$	2005 Total US$
Executive Directors					
A Pouroulis	253,448	64,706	—	**318,154**	305,941
K Dabinett	237,254	—	186,314	**423,568**	279,096
D Abery	253,448	64,706	—	**318,154**	374,171
J Dippenaar	253,448	64,706	—	**318,154**	77,758
J Davidson	253,448	64,706	—	**318,154**	77,758
	1,251,046	258,824	186,314	**1,696,184**	1,114,724

	Fees US$	Performance related bonus US$	Other US$	2006 Total US$	2005 Total US$
Non-executive Directors					
C Segall	26,679	—	—	**26,679**	27,854
C Finkelstein	7,410	—	—	**7,410**	9,285
V Ruffer	8,893	—	—	**8,893**	9,285
	42,982	—	—	**42,982**	46,424

	2006 US$	2005 US$
10. LOSS PER SHARE		
Loss for the year	**(18,864,456)**	(21,018,778)
	Shares	Shares
Basic weighted average number of ordinary shares in issue	**143,916,416**	73,937,847
	Cents	Cents
Basic loss per share – cents	**(13.11)**	(28.43)
Due to the Group's loss for the year, the diluted loss per share is the same as the basic loss per share. The adoption of IFRS 2 during the year did not have a significant impact on the basic loss per share calculation.		
Weighted average number of ordinary shares		
As at 1 July 2005	**73,937,847**	67,849,976
Effect of shares issued during the period	**69,978,569**	6,087,871
Weighted number at 30 June 2006	**143,916,416**	73,937,847

11. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery Mining assets US$	Plant and machinery Exploration assets US$	Computers and office equipment Exploration assets US$	Motor vehicles Exploration assets US$	Mineral properties Mining assets US$	Total US$
Cost						
Balance at 1 July 2004	—	2,889,259	182,215	319,378	—	3,390,852
Exchange differences	953,943	7,148	(5,199)	64,006	957,631	1,977,529
Business combination	33,345,599	—	13,284	—	33,474,649	66,833,532
Additions	295,628	252,324	117,052	1,868,816	4,834	2,538,654
Disposals	—	—	—	(12,311)	—	(12,311)
Balance at 30 June 2005	34,595,170	3,148,731	307,352	2,239,889	34,437,114	74,728,256
Balance at 1 July 2005	34,595,170	3,148,731	307,352	2,239,889	34,437,114	74,728,256
Exchange differences	(2,867,505)	(2,160)	(12,968)	(2,216)	(2,808,768)	(5,693,617)
Business combination	—	—	98,847	77,537	—	176,384
Additions	8,118,313	—	82,287	22,011	—	8,222,611
Disposals	(5,552)	—	(26,168)	(9,265)	—	(40,985)
Transfer from intangible assets	335,947	—	—	—	—	335,947
Transfer to investments	—	(3,122,653)	(149,811)	(2,230,948)	—	(5,503,412)
Balance at 30 June 2006	**40,176,373**	**23,918**	**299,539**	**97,008**	**31,628,346**	**72,225,184**
Depreciation						
Balance at 1 July 2004	—	52,378	50,970	65,979	—	169,327
Exchange differences	—	(11,118)	(3,644)	(6,554)	—	(21,316)
Disposals	274,545	490,284	40,581	140,938	178,911	1,125,259
Provided in the year	—	—	—	(12,738)	—	(12,738)
Balance at 30 June 2005	274,545	531,544	87,907	187,625	178,911	1,260,532
Balance at 1 July 2005	274,545	531,544	87,907	187,625	178,911	1,260,532
Exchange differences	(22,756)	(2,148)	(6,776)	48	(14,829)	(46,461)
Disposals	—	—	(15,437)	(8,338)	—	(23,775)
Provided in the year	3,420,604	147	48,541	27,571	2,210,113	5,706,976
Transfer to investments	—	(505,821)	(31,270)	(180,624)	—	(717,715)
Balance at 30 June 2006	**3,672,393**	**23,722**	**82,965**	**26,282**	**2,374,195**	**6,179,557**
Carrying amounts						
At 1 July 2004	—	2,836,881	131,245	253,399	—	3,221,525
At 30 June 2005	34,320,625	2,617,187	219,445	2,052,264	34,258,203	73,467,724
At 1 July 2005	34,320,625	2,617,187	219,445	2,052,264	34,258,203	73,467,724
At 30 June 2006	**36,503,980**	**196**	**216,574**	**70,726**	**29,254,151**	**66,045,627**

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 machinery. At 30 June 2006, the net carrying amount of leased plant and machinery was US$151,972 (2005: US$679,362). The leased equipment secures finance lease obligations (as discussed in Note 22).

12. INTANGIBLE ASSETS

	Goodwill US$	Pre-production expenditure US$	Mineral rights US$	Prospecting licences US$	Total US$
Cost					
Balance at 1 July 2004	—	—	162,335	—	162,335
Exchange differences	—	4,239	(9,419)	—	(5,180)
Transfer to property plant and equipment	—	—	—	—	—
Acquisition by business combination	8,671,552	148,175	—	—	8,819,727
Development expenditure	—	183,533	—	—	183,533
Balance at 30 June 2005	8,671,552	335,947	152,916	—	9,160,415
Balance at 1 July 2005	8,671,552	335,947	152,916	—	9,160,415
Exchange differences	—	—	—	(1,692,720)	(1,692,720)
Transfer to property plant and equipment	—	(335,947)	—	—	(335,947)
Acquisition by business combination	—	—	—	17,620,258	17,620,258
Development expenditure	—	—	—	—	—
Balance at 30 June 2006	**8,671,552**	**—**	**152,916**	**15,927,538**	**24,752,006**
Amortisation					
Balance at 1 July 2004	—	—	(18,510)	—	(18,510)
Exchange differences	—	—	10,652	—	10,652
Impairment	(8,671,552)	—	(136,872)	—	(8,808,424)
Provided in the year	—	—	(8,186)	—	(8,186)
Balance at 30 June 2005	(8,671,552)	—	(152,916)	—	(8,824,468)
Balance at 1 July 2005	(8,671,552)	—	(152,916)	—	(8,824,468)
Exchange differences	—	—	—	10,378	10,378
Impairment	—	—	—	—	—
Provided in the year	—	—	—	(2,832,355)	(2,832,355)
Balance at 30 June 2006	**(8,671,552)**	**—**	**(152,916)**	**(2,821,977)**	**(11,646,445)**
Carrying amounts					
At 1 July 2004	—	—	143,825	—	143,825
At 30 June 2005	—	335,947	—	—	335,947
At 1 July 2005	—	335,947	—	—	335,947
At 30 June 2006	**—**	**—**	**—**	**13,105,561**	**13,105,561**

The amortisation of intangible assets has arisen due to the Board taking the view that Kalahari's prospecting licences have an average remaining life of four years. Therefore the intangible asset recorded on the acquisition of Kalahari of US$17,620,258 (Note 3) has been amortised for the nine month period from 1 October 2005 to 30 June 2006. The amortisation charge is recognised in exploration expenditure in the income statement.

13. INVESTMENTS IN ASSOCIATES

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

	Country	Ownerships 2006	Ownerships 2005
Namibia Mining House (Pty) Ltd	Namibia	**35.0%**	35.0%
Nabera Mining (Pty) Ltd	South Africa	**29.5%**	29.5%
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	**47.0%**	100.0%

Summary of financial information on associates – 100 percent

2006	Assets	Liabilities	Equity	Revenues	(Loss)
Namibia Mining House (Pty) Ltd	—	—	—	—	—
Nabera Mining (Pty) Ltd	**4,173**	**(921,600)**	**917,427**	—	**(50,674)**
Petra Diamonds Alto Cuilo Ltd	**40,985,151**	**(41,760,383)**	**775,232**	**2,718,171**	**(701,796)**
2005					
Namibia Mining House (Pty) Ltd	—	—	—	—	—
Nabera Mining (Pty) Ltd	10,306	(290,420)	280,114	—	(68,780)
Petra Diamonds Alto Cuilo Ltd	27,264,695	(27,338,127)	(73,432)	—	(74,432)

	2006 US$	2005 US$
If the investments in associates had been included at cost, they would have been included at the following amounts:		
Cost	**20,453,042**	831
Amounts written off	**(20,453,042)**	(831)
Net book amount	—	—

	30 June 2006 US$	30 June 2005 US$
14. INVESTMENTS – LISTED		
Balance at beginning of year	—	—
Purchased during the year	**1,271,410**	—
Balance at the end of year	**1,271,410**	—

The Company purchased 1,555,555 ordinary shares in Xceldiam Ltd at a placing price of 45 pence (US$0.82) per share. The market value at 30 June 2006 was US$1,200,776

	30 June 2006 US$	30 June 2005 US$
15. INVESTMENT – UNLISTED		
Balance at beginning of year	—	—
Transfer from property plant and equipment at net book value	4,785,697	—
Balance at the end of year	4,785,697	—
The investment comprises the assets, previously disclosed under Note 11, contributed by the Company to the Joint Venture project with BHP Billiton at Alto Cuilo in Angola.		
16. INVENTORIES		
Diamonds held for resale	1,843,967	1,084,812
Consumable and stores	353,638	320,353
	2,197,605	1,405,165
17. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	46,565	743,140
Other receivables	2,689,916	1,901,659
Prepayments	23,897	161,306
	2,760,378	2,806,105
Non-current		
Rehabilitation guarantee	164,402	161,442
	164,402	161,442
The rehabilitation guarantee comprises a risk policy which is anticipated to be recovered upon successful rehabilitation of one of the Group's mines.		
18. CASH AND CASH EQUIVALENTS		
Unsecured		
Cash at bank and on hand	7,019,644	25,105,799
Secured		
Fixed and floating charge deposit	—	2,485,595
	7,019,644	27,591,394

As security for the Company's obligations to the Convertible Note Holders the Company had pledged A$3,3 million (US$2,485,595) in a fixed and floating charge deposit. The Company's obligations to the Convertible Note Holders was satisfied on 30 November 2005.

A controlled entity, Helam Mining Pty Ltd, has a R10,000,000 (US$1,375,496) overdraft facility with First National Bank, a division of FirstRand Bank Limited. At year end the overdraft, which forms part of the above cash balances, was drawn down to R1,950,239 (US$268,255). The weighted average interest rate for the overdraft as at 30 June 2006 is 11.57%

	Number of shares	2006 US$	Number of shares	2005 US$
19. ISSUED CAPITAL				
Authorised – ordinary shares of 10p each				
As at 1 July 2005 and 30 June 2006	200,000,000	35,892,000	200,000,000	35,892,000
Issued and fully paid				
At 1 July	130,949,456	23,500,190	67,849,976	12,176,357
Allotments during the year	16,863,649	3,347,105	63,086,597	11,321,521
Conversion of convertible notes	1,011,993	183,808	12,883	2,312
At 30 June	148,825,098	27,031,103	130,949,456	23,500,190

Allotments during the year were in respect of shares issued for the acquisition of Kalahari Diamonds Limited, the conversion of Convertible Note Holders into ordinary shares and the exercise by employees of Company share options.

Options

Holder	Exercise price	Total value	Expiry
Williams de Broë Plc	85.0p	US$308,771	17 June 2008

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 option over 200,843 shares was exercised in full on 3 October 2006.

Warrants

Holder	Shares	Exercise price	Expiry
Photon Global Limited	1,500,000	30.0p	31 December 2007
Photon Global Limited	1,000,000	100.0p	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	Shares	Exercise price	Expiry
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
	250,000	79.5p	31 May 2016
D Abery	750,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
J Dippenaar	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
J Davidson	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
Senior management	385,000	44.0p	5 September 2013
	50,000	56.75p	13 September 2014
	238,875	A$1.12	24 September 2014
	72,500	A$1.36	28 January 2015
	500,000	65.75p	27 November 2015
	500,000	79.5p	31 May 2016

	Share premium account US$	Foreign currency translation reserve US$	Share-based payment reserve US$	Accumulated loss US$
20. RESERVES				
Balance at 1 July 2004	34,041,633	2,962,470	—	(42,615,103)
Implementation of IFRS 2 (refer note 30)	—	—	140,833	(140,833)
Restated balance at 1 July 2004	34,041,633	2,962,470	140,833	(42,755,936)
Loss for the year	—	—	—	(21,018,778)
Transfer from reserves of subsidiary	—	—	—	233,194
Equity based share options	—	—	213,837	(213,837)
Exchange differences – adoption of US$ reporting currency	(241,084)	(20,985)	—	1,006,993
Exchange differences – translation of subsidiaries	—	1,161,255	—	—
Premium allotments during the year	70,888,365	—	—	—
Share issue costs	(2,923,175)	—	—	—
Convertible notes issued	9,388	—	—	—
Balance at 30 June 2005	101,775,127	4,102,740	354,670	(62,748,364)
Balance at 1 July 2005	101,775,127	4,102,740	—	(62,393,694)
Implementation of IFRS 2 (refer note 30)	—	—	354,670	(354,670)
Restated balance at 1 July 2005	101,775,127	4,102,740	354,670	(62,748,364)
Loss for the year				(18,864,456)
Equity based share options	—	—	618,292	—
Transfer from reserves of subsidiary	—	—	—	—
Exchange differences	—	(1,561,653)	—	4,153
Premium allotments during the year	20,550,930	—	—	—
Share issue costs	(57,472)	—	—	—
Convertible notes issued	921,318	—	—	—
Balance at 30 June 2006	123,189,903	2,541,087	972,962	(81,608,667)

Share premium reserve

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

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities.

Share-based payment reserve

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

	2006 US$	2005 US$
21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Opening shareholders' funds	66,984,363	6,652,204
Implementation of IFRS 2	—	140,833
Restated opening shareholders' funds	66,984,363	6,793,037
Loss for the year	(18,864,456)	(21,018,778)
Transfer from subsidiaries reserves	—	233,194
Exchange differences – adoption of US$ reporting currency	4,153	744,924
Movement in share-based payment reserve	618,292	213,837
New share capital subscribed	24,945,689	78,856,894
Movement in foreign currency translation reserves	(1,561,653)	1,161,255
Net movement in shareholders' funds	5,142,025	60,191,326
Closing shareholders' funds	72,126,388	66,984,363
22. INTEREST BEARING LOANS AND BORROWINGS		
Current		
Bank overdraft – secured	—	322,012
Bank loan – secured (i)	29,423	29,889
Bank loan – secured (ii)	77,537	126,930
Bank loan – secured (iii)	386,395	—
Bank loan – secured (iv)	567,392	—
Convertible note – secured (v)	—	2,206,678
Loan unsecured (vi)	41,200	664,644
Loan unsecured	—	3,589,200
Bank loan unsecured	—	4,503,463
Lease and instalment purchase liabilities (vii)	—	409
Lease and instalment purchase liabilities (vii)	47,699	157,360
	1,149,646	11,600,585
Non-Current		
Bank loan – secured (i)	234,856	287,741
Bank loan – secured (ii)	—	84,621
Bank loan – secured (iii)	952,482	—
Bank loan – secured (iv)	1,722,374	—
Lease and instalment purchase liabilities (vii)	5,248	57,391
	2,914,960	429,753

(i) Bank loans secured

First National Bank

Helam has a term loan facility with First National Bank and at year end an amount of R1,921,331 (US$264,279) was drawn on the loan, R213,906 (US$29,423) payable within the next 12 months and R1,707,425 (US$234,856) payable over a period of five years. The effective interest rate for the term loan at 30 June 2006 was 11.57% 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 (US$1,079,765) and a R8,000,000 (US$1,100,398) 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 (US$275,100) from Directors Mr J Dippenaar and Mr J Davidson. The facilities with First National Bank are subject to annual review.

22. INTEREST BEARING LOANS AND BORROWINGS (continued)

(ii) Bank loan – secured

Industrial Development Corporation of South Africa

A controlled entity, Messina Investment Limited, has a R563,704 (US$77,537) interest free loan with the Industrial Development Corporation of South Africa Limited. The loan is payable within the next 12 months and 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 – secured

Industrial Development Corporation of South Africa

The Sedibeng Joint Venture ("Sedibeng JV"), which comprises subsidiaries of the Company, Messina Diamonds (Pty) Limited ("Messina") and Dancarl Diamonds (Pty) Limited ("Dancarl"), has a loan facility of R30,000,000 (US$4,126,490) with the Industrial Development Corporation of South Africa ("IDC") to fund future capital expenditure at the Messina and Dancarl mines. The drawdown value of the loan facility at 30 June 2006 is R9,733,766 (US$1,338,877), R2,809,128 (US$386,395) payable within the next 12 months and R6,924,638 (US$952,482) payable over a period greater than 12 months. The loan is repayable over 60 months at 0.5% below the prevailing South African prime lending interest rate. The effective interest rate for the loan facility at 30 June 2006 is 11.57% and the final instalment is due on 01 August 2011.

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

(iv) Bank loan – secured

Rand Merchant Bank

A controlled entity, Autumn Star Investment Holdings (Pty) Ltd ("Autumn Star") has a loan agreement with FirstRand Ltd ("FirstRand") for a loan facility of R16,500,000 (US$2,269,570). At 30 June 2006 an amount of R16,646,831 (US$2,289,766) was outstanding on the loan facility, R4,125,000 (US$567,392) payable within the next 12 months and R12,521,831 (US$1,722,374) payable over a period of four years. The loan is repayable in annual instalments of R4,125,000 (US$567,392) commencing 1 August 2006. Interest is payable biannually at 0.5% below the prevailing South African prime lending interest rate. The effective interest rate for the loan facility at 30 June 2006 is 11.30% and the final instalment is due on 1 August 2009. Autumn Star and Messina Investments Limited have signed suretyship for the loan in favour of FirstRand.

(v) Convertible note – secured

A controlled entity, Crown Diamonds NL, had 16,078,191 (US$2,206,678) convertible notes on issue at the beginning of the year. During the year, 6,660,430 Crown Diamonds NL convertible notes were converted into 1,011,993 ordinary shares of the Company. The notes were convertible into ordinary shares of the Company, at the option of the note holder or repayable on 30 November 2005.

Movements in secured convertible notes	30 June 2006 Number	30 June 2005 Number	30 June 2006 US$	30 June 2005 US$
Balance at beginning of year	16,078,191	—	2,206,678	—
Balance acquired through business combination	—	17,034,750	—	2,291,196
Exchange differences	—	—	(94,399)	45,475
Redeemed during the year	(9,417,761)	(871,559)	(1,239,403)	(118,442)
Converted to ordinary shares	(6,660,430)	(85,000)	(872,876)	(11,551)
Balance at the end of year	—	16,078,191	—	2,206,678

22. INTEREST BEARING LOANS AND BORROWINGS (continued)

(vi) Loan – unsecured

A controlled entity, Helam Mining (Pty) Ltd, is indebted to Directors Mr J Dippenaar and Mr J Davidson for a total of R299,529 (US$41,200). The loan is unsecured and earns interest at 11% pa. In July 2005 a repayment of R4,128,027 (US$622,850) was made against these Directors' loans, reducing the balance from R4,427,556 (US$664,050).

(vii) Lease and hire purchase liabilities

The lease and hire purchase liabilities are secured over plant and equipment with a net carrying value of US$151,972. The effective interest rate varies between 11.02% and 11.30% with monthly instalments varying between R11,560 (US$1,590) and R29,504 (US$4,508). The remaining periods range from 1 month to 13 months.

	2006 US$	2005 US$
23. TRADE AND OTHER PAYABLES		
Current		
Trade payables	3,457,178	3,055,506
Settlement of purchase consideration for controlled entity (i)	—	549,628
Settlement of purchase consideration for controlled entity (ii)	—	3,800,000
Settlement of purchase consideration for controlled entity (ii)	1,750,000	750,000
Provident fund contributions	117,724	197,978
Other creditors	1,333,833	486,046
Interest on loans	—	222,310
	6,658,735	9,061,468
Non-current		
Amounts owing to associates	11,546	52,038
Settlement of purchase consideration for controlled entity (i) and (ii)	1,500,000	2,502,381
Reduction for deferred settlement (ii)	(643,723)	(553,912)
	867,823	2,000,507

(i) The residual purchase price of US$549,628 (AUD$711,489) with regards to the acquisition of Messina Investments Limited was settled in full on 5 July 2005.

(ii) The settlement of part of the purchase price of the Helam Diamond mine (as defined) of US$3,800,000 was paid on 5 July 2005. The balance of US$3,250,000 is payable from 50% of the cash surplus of the Helam Diamond mine (as defined) over three years as follows:

Current

US$1,750,000
for the year ending 31 December 2006 payable by 30 April 2007

Non-current

US$1,500,000
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 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 US$770,160. During the year, the reduction in the acquisition price was increased by US$320,384. The reduction in the acquisition price will be amortised over the three-and-half-year term commencing from the date of acquisition of the Helam Diamond mine by Crown Diamonds NL. For the year to 30 June 2006 the amount of interest was US$230,573.

	Employee entitlements US$	Rehabilitation US$	Total US$
24. PROVISIONS			
Balance at 1 July 2004	576,749	—	576,749
Acquired by business combination	927,944	1,658,661	2,586,605
Net provisions made during the year	516,152	10,888	527,040
Exchange differences	22,461	47,449	69,910
Balance at 30 June 2005	2,043,306	1,716,998	3,760,304
Current	2,043,306	—	2,043,306
Non-current	—	1,716,998	1,716,998
Balance at 30 June 2005	2,043,306	1,716,998	3,760,304
Balance at 1 July 2005	2,043,306	1,716,998	3,760,304
Acquired by business combination	—	—	—
Net provisions made during the year	(40,924)	(19,242)	(60,166)
Balance at 30 June 2006	2,002,382	1,697,756	3,700,138
Current	2,002,382	—	2,002,382
Non-current	—	1,697,756	1,697,756
Balance at 30 June 2006	2,002,382	1,697,756	3,700,138

Employee entitlements

The provision for employee entitlements relates to accrued leave, provident fund contributions, performance 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.

	2006 US$	2005 US$
25. DEFERRED TAXATION		
Balance at beginning of the year	11,930,799	—
Acquisition of business combination	—	11,527,209
Income statement charge	(1,120,354)	65,935
Foreign currency translation difference	(877,811)	337,655
Balance at the end of year	9,932,634	11,930,799
Comprising:		
– capital allowances	12,884,658	15,082,158
– provisions	(625,511)	(646,837)
– prepayments and accruals	1,313	863
– forex allowances	(314,666)	(675,871)
– tax losses	(29,286,079)	(22,301,568)
	(17,340,285)	(8,541,255)
Deferred tax not raised	27,272,919	20,472,054
Deferred tax liability	9,932,634	11,930,799

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

26. 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, purchases and borrowings. The currencies giving rise to this risk are primarily Pounds Sterling and South African Rands. At the end of the year the Company held US$2,941,290 of monetary assets in Pounds Sterling, US$304,382 in South African Rands and US$62,399 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 forward contracts to fix the exchange rate on future transactions.

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 22, 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.

26. FINANCIAL INSTRUMENTS (continued)

30 June 2006

Cash and cash equivalents (US$ '000)

	Notes	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Cash	18	4.03%	7,020	7,020	—	—	—	—
Interest bearing loans and borrowings								
Bank loan – secured	22(i)	11.57%	264	14	15	40	138	57
Bank loan – secured	22(ii)	—	77	38	39	—	—	—
Bank loan – secured	22(iii)	11.57%	1,340	283	284	242	531	—
Bank loan – secured	22(iv)	11.30%	2,289	567	—	567	1,155	—
Convertible note – secured	22(v)	—	—	—	—	—	—	—
Loan – unsecured	22(vi)	11.30%	41	41	—	—	—	—
Finance leases – secured	22(vii)	11.30%	54	24	25	5		
			4,065	967	363	854	1,824	57

30 June 2005

Cash and cash equivalents (US$ '000)

	Notes	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Cash	18	4.50%	27,591	27,591	—	—	—	—
Interest bearing loans and borrowings								
Bank overdraft secured	22	11.02%	322	322	—	—	—	—
Bank loan – secured	22(i)	11.02%	317	14	16	32	124	131
Bank loan – secured	22(ii)	—	213	65	65	83	—	—
Bank loan – secured	22(iii)	10.47%	4,503	4,503	—	—	—	—
Convertible note – secured	22(v)	11.00%	2,207	2,207	—	—	—	—
Loan – unsecured	22	7.09%	3,589	3,589	—	—	—	—
Loan – unsecured	22(vi)	11.00%	664	664	—	—	—	—
Finance leases – secured	22(vii)	10.75%	215	79	78	54	4	—
			12,030	11,443	159	169	128	131

27. 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.

	2006 US$	2005 US$
28. COMMITMENTS		
Operating leases:		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**94,003**	208,165
Between one and five years	**—**	80,001
The Group leases its offices under operating leases. The leases run for periods of three years with an option to renew after that date. The leases are currently on a month to month basis with a three month notice period. Lease payments are increased annually to reflect market rentals. The leases do not include contingent rentals. During the year ended 30 June 2006 US$222,257 was recognised as an expense in the income statement in respect of operating leases, as disclosed in note 6.		
29. 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		
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.	**923,151**	1,007,485
Performance bond with government instrumentality secured by way of a deposit in respect of a mining licence.	**163,768**	159,827
Delayed settlement of US$1,450,000 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 AUD$6,000,000 for the financial year ending 2006. If Messina earns between 70% and 100% of the AUD$6,000,000 the US$1,450,000 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.	**1,450,000**	1,450,000
Delayed settlement of US$1,450,000 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 AUD$6,000,000 for the financial year ending 2007. If Messina earns between 70% and 100% of the AUD$6,000,000 the US$1,450,000 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.	**1,450,000**	1,450,000

29. CONTINGENT LIABILITIES (continued)

Contingent liabilities considered remote

A former Director of Crown Diamonds NL has lodged a claim for AUD$1,193,407 (US$871,036) 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 MPRDA) was signed into law on 3 October 2002 and was promulgated on 1 May 2004.

The MPRDA 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 MPRDA 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 MPRDA. 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 mining operations or identification of new rehabilitation obligations at other mine operations.

30. ADOPTION OF IFRS 2 (SHARE-BASED EMPLOYEE OPTIONS)

During the year, the Company adopted IFRS 2 with respect to the treatment of employee share options. In order to comply with IFRS 2, the Company now expenses the fair value of share-based employee options with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The comparative numbers have been appropriately restated. The effect of the change is as follows:

	Gross US$	Taxation US$	Net US$
Increase in net loss due to increase in personnel costs following the adoption of IFRS 2:			
– 30 June 2004	(140,833)	—	(140,833)
– 30 June 2005	(213,837)	—	(213,837)
Restatement of opening accumulated losses in respect of prior year adjustment	(354,670)	—	(354,670)

31. SHARE-BASED OPTIONS

The Company has an established share option programme that entitles the Remuneration Committee, at its discretion, to grant share options to directors and senior management. The terms and conditions of the share options granted during the year ended 30 June 2006 are disclosed below. Share options granted prior to 7 November 2002 have, in accordance with the transitional provisions and recognition and measurement principles in IFRS 2, not been taken into account. The share-based option expense has been calculated using the Black-Scholes model.

Fair value of share options and assumptions for the 12 months ended 30 June 2006:

	Directors	Senior management
Fair value at measurement date	21.7p – 41.9p	9.6p – 30.5p
Exercise price	44p – 85p	44p – 79.5p
Share price 30 June 2006	99.50p	99.50p
Expected volatility	50%	50%
Option life	10 years	1 – 10 years
Expected dividends	—	—
Risk-free interest rate (based on national government bonds)	4.73%	4.82% - 5.25%

The expected volatility is based on historic volatility, adjusted for any extreme changes in the share price during the historic period. During the year 596,147 options were exercised and the Company expensed US$602,246 related to the fair value of employee share options (refer to Note 30 for prior year adjustments).

31. SHARE-BASED OPTIONS (continued)

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

Employees entitled	Grant date	Number	Vesting conditions	Remaining life of options (years)
Options granted to directors	22 April 1997	400,000	1/3 rd per annum from grant date	1
	5 September 2003	1,500,000	1/3 rd per annum from grant date	7
	16 June 2005	2,000,000	Subject to performance of share price	9
	31 May 2006	1,000,000	1/3 rd per annum from grant date	10
Options granted to senior management	5 September 2003	385,000	1/3 rd per annum from grant date	7
	13 September 2004	50,000	1/3 rd per annum from grant date	8
	24 September 2004	238,875	25% from grant date for 2 years, then 50% in 3rd year	8
	28 January 2005	72,500	25% from grant date for 2 years, then 50% in 3rd year	9
	27 November 2005	500,000	1/3 rd per annum from grant date	9
	31 May 2006	500,000	1/3 rd per annum from grant date	10

	2006 Weighted average price	2006 Number	2005 Weighted average price	2005 Number
31. SHARE-BASED OPTIONS (continued)				
Outstanding at beginning of the year	60.66p	6,030,959	46.47p	3,735,000
Forfeited during the year	63.97p	(788,437)	54.50p	(366,666)
Exercised during the year	48.71p	(596,147)	—	—
Granted during the year	76.06p	2,000,000	79.71p	2,662,625
Outstanding at the end of the year	65.97p	6,646,375	60.66p	6,030,959
Exercisable at the end of the year		2,417,844		1,611,667

The options outstanding at 30 June 2006 have an exercise price in the range of 44p to 85p and a weighted average contractual life of eight years.

32. POST-BALANCE SHEET EVENTS

Convertible Bond Issue

On 19 September 2006 the Company issued a US$20 million unsecured interest free convertible bond ("the Convertible") as well as the grant of warrants over 2 million shares ("the Warrant"). The Convertible and Warrant agreements were completed on 18 September 2006 and were issued to Al Rajhi Holdings W.L.L., a member of the Al Rajhi group, a major Saudi Arabian based investment group.

The Convertible and the Warrant are convertible or exercisable at an exercise price of 130 pence per Petra share. If not converted, the Convertible is repayable in full on 18 September 2009. The Warrant is exercisable any time from date of drawdown under the Convertible and expires on 18 September 2009. On 5 October 2006 the Company drew down US$20 million under the terms of the Convertible.

New Shares Issued

On 6 July 2006 the Company issued 1,666,666 new shares at a price of 55.85p following the exercise of warrants by Photon Global Limited.

33. RELATED PARTIES

Subsidiaries and associates

Details of subsidiaries are disclosed in Note 34.

Directors

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

Details relating to Directors' loans are disclosed in Note 22(vi) and the Directors' Report.

Shareholders

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

Contingent liabilities

Details of contingent liabilities are disclosed in Note 29.

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 2006 Petra Diamonds paid expenses on behalf of Nabera amounting to R5,811 (US$799) (30 June 2005 R672,056 (US$100,795)). 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.

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

34. SUBSIDIARIES AND ASSOCIATES

At 30 June 2006 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
Alltop Investments (Pty) Ltd	Australia	Ordinary	100%	Dormant
Autumn Star Trading 192 (Pty) Ltd	South Africa	Ordinary	40%	Mining and exploration
Basama Diamonds Ltd	Seychelles	Ordinary	51%	Mining and exploration
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration
Compass Mining Services (Pty) Ltd	Australia	Ordinary	100%	Dormant
Crown Diamonds NL	Australia	Ordinary	100%	Dormant
Crown Resources (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Dalestar Corporation (Pty) Ltd	Australia	Ordinary	100%	Dormant
Dancarl Diamonds (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
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
Kalahari Diamonds Ltd*	United Kingdom	Ordinary	100%	Services provision
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 holding
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
Nabera Holdings (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Nabera Mining (Pty) Ltd	South Africa	Ordinary	29.50%	Mining and exploration
Namibia Mining House (Pty) Ltd	Namibia	Ordinary	35%	Dormant
Nooitgedacht Diamonds (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Paardekraal Properties (Pty) Ltd	South Africa	Ordinary	100%	Dormant
Pagvlei Mining (Pty) Ltd	South Africa	Ordinary	100%	Mining and exploration

34. SUBSIDIARIES AND ASSOCIATES (continued)

	Country of incorporation	Class of share capital held	Proportion held	Nature of business
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	Ordinary	47%	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 Ltd	Bermuda	Ordinary	70%	Exploration
Santara Holdings (Pty) Ltd	Australia	Ordinary	100%	Dormant
Sedibeng Diamond Mine JV	South Africa	Ordinary	57.5%	Mining and exploration
Sekaka Diamonds (Pty) Ltd*	Botswana	Ordinary	100%	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

** Kalahari Diamonds Ltd and Sekaka Diamonds (Pty) Ltd are subsidiaries acquired as a result of the Kalahari Diamonds Ltd acquisition in September 2005.*

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.

The following additional information is required by the Australian Stock Exchange Limited Listing Rules.

SHAREHOLDINGS

The information is made available up to 30 September 2006.

SUBSTANTIAL SHAREHOLDERS

Twenty Largest Holders as at 30 September 2006:

	Fully Paid Ordinary	Percentage of Capital Held
Saad Investments Company Limited	22,651,387	15.05%
Kalahari Diamond Resources Plc	16,166,529	10.74%
ANZ Nominees Limited	11,093,955	7.37%
Al Rajhi Holdings W.L.L.	8,853,333	5.88%
Credit Suisse Client Nominees Limited	6,767,744	4.50%
HSBC Global Custody Nominees Limited	5,900,000	3.92%
Euroclear Nominees Limited	5,756,885	3.83%
BNY (OCS) Nominees Limited	5,594,204	3.72%
WB Nominees Limited	5,401,701	3.59%
Artemis Nominees Limited	4,762,802	3.16%
Chase Nominees Limited	4,278,000	2.84%
Societe Diamantaire CH Finkelstein and Company NV	4,189,944	2.78%
Chetwynd Nominees Limited	3,500,000	2.33%
Vidacos Nominees Limited	2,662,500	1.77%
Mellon Nominees (UK) Limited	2,502,406	1.66%
Barclays Nominees (Geurnsey) Limited	2,467,833	1.64%
Dartington Portfolio Nominees Limited	2,055,658	1.37%
HSBC Global Custody Nominee (UK) Limited	1,627,274	1.08%
Dresdner Bank AG London Branch Account	1,553,982	1.03%
HSBC Global Custody Nominee (UK) Limited	1,503,062	1.00%
	119,289,199	79.27%

DISTRIBUTION OF HOLDERS

	Listed Fully Paid Ordinary
1 – 1,000	936
1,001 – 5,000	781
5,001 – 10,000	190
10,001 – 100,000	200
100,001 and over	77
	2,184

The number of shareholders holding less than a marketable parcel of ordinary shares on the Australian Stock Exchange at 30 September 2006 was 113.

Voting Rights

The voting rights attaching to ordinary shares ("shares") are set out in Clauses 4.4, 4.5 and 4.7 of the Company's Bye-Laws.

In summary, subject to the provision of Companies Act (1981) of Bermuda, ASX Listing Rules, the Company's Bye-Laws and any rights or restrictions for the time being attached to any class of shares, at a general meeting of shareholders:
(a) each shareholder is entitled to vote and may vote in person or by proxy;
(b) on a show of hands, every person present who is a shareholder or a proxy has one vote; and
(c) on a poll, every person present who is a shareholder or as a proxy shall, in respect of each fully paid share held, or in respect of which they act as a proxy, have one vote.

Notice is hereby given that the ninth Annual General Meeting of Petra Diamonds Limited (the Company) will be held at 11:00 am on Friday, 8 December 2006 at the offices of Memery Crystal LLP, 44 Southampton Buildings, London, WC2A 1AP for the purpose of considering and, if thought fit, passing the following resolutions:

1. STATUTORY ACCOUNTS
   That the financial statements of the Company for the year ended 30 June 2006, together with the Reports of the Directors and Auditors, be received.

2. APPOINTMENT OF AUDITORS
   That BDO Stoy Hayward LLP of 8 Baker Street, London, W1U 3LL be 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) Adonis Pouroulis and (b) Charles Segall (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.

By order of the Board

A Pouroulis
Chairman
26 October 2006

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 two or more votes at the meeting may appoint up to two proxies.

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

- the Company's UK branch registrars, Capita 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 George's 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.

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.

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 2006 Annual General Meeting of the members of the Company to be held at 11:00 am on Friday, 8 December 2006 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 Adonis Pouroulis			
3 (b) Re-election of Charles Segall			

Signed this ____________________ day of ____________________ 2006

Signature ____

Notes

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.