

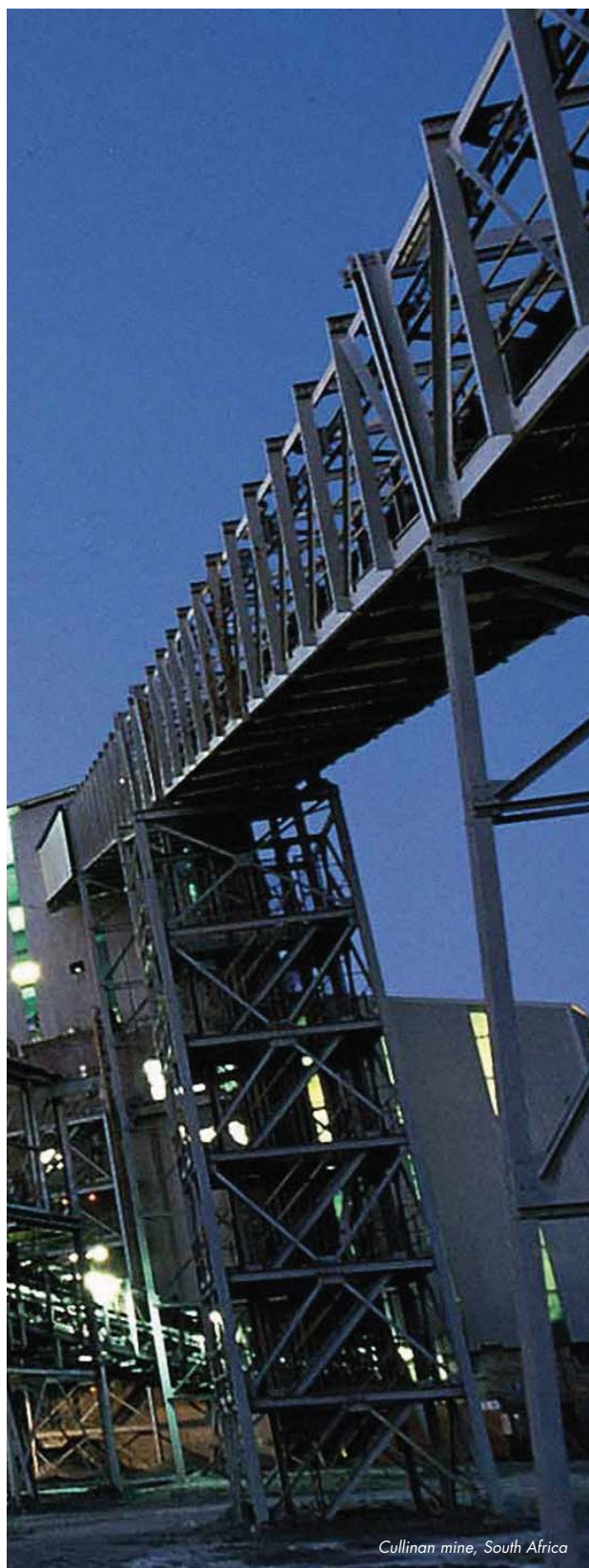


**Petra**Diamonds  
Annual Report 2008





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# CORPORATE PROFILE

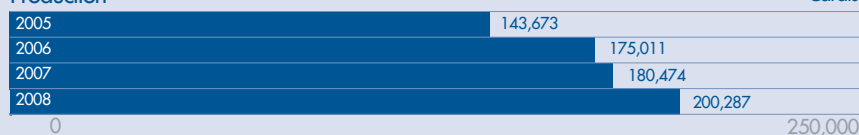
Petra Diamonds is a rapidly growing diamond mining group, focused on the African continent. A number of recent acquisitions have established Petra as one of the world's largest independent diamond groups by resource, with a gross resource base of 265 million carats, and an estimated value of US\$27.3 billion. Petra's objective is to continue to grow Group production, developing its stature as a leading diamond producer in all of the countries in which it operates.

In South Africa, Petra has five producing mines – Cullinan, Koffiefontein, Helam, Sedibeng and Star. The Group has also reached agreement to acquire two further assets from De Beers – the Kimberley Underground mines, also in South Africa, and the Williamson mine in Tanzania. The Group is on track to increase its annual production from 200,000 carats in the year to June 2008 to over 1 million carats in the year to June 2009. Complementing the Group's production is an exploration and development portfolio spread across the highly prospective diamond fields of Angola, Botswana and Sierra Leone.

Petra will only commit to working in countries which are members of the Kimberley Process and shareholders can remain assured that Petra's diamonds will only ever be 100% conflict free. Petra is listed in London under the share code PDL and is AIM's largest diamond group by market capitalisation.

*Cullinan mine, South Africa*

## Production



# 200,287 carats

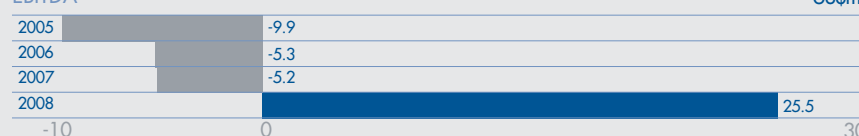
Production has grown steadily over the past four years. Taking into account the completion of the Cullinan acquisition, Petra is targeting over 1 million carats of production (gross) in the 2009 financial year. The first year of production at Koffiefontein contributed almost 90,000 carats, a significant portion of the total Group production figure of 200,287 carats.

## Revenue



# US\$76.9m

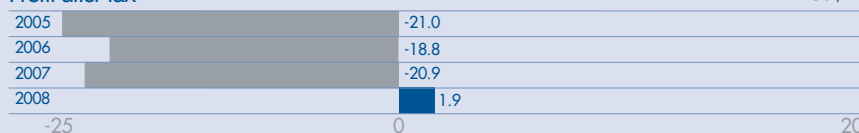
Petra's revenues increased by 352% during the period under review from US\$17 million in 2007 to US\$76.9 million in 2008. This substantial increase reflects the expansion of the business and the success of the Company's acquisition strategy.

EBITDA<sup>3</sup>

# US\$25.5m

EBITDA<sup>3</sup> for the period was US\$25.5 million compared to a prior year loss of US\$5.2 million. EBITDA<sup>3</sup> is stated before share-based expense and foreign exchange loss.

## Profit after tax



# US\$1.9m

In line with increased revenues, Petra posted a profit after tax of US\$1.9 million for the 2008 financial year. This is the first profit figure recorded by the Group and reflects the progression from an exploration into a production-focused group.

## Summary of results

	12 months to 30 June 2008	12 months to 30 June 2007
	US\$ million	US\$ million
Revenue <sup>1</sup>	76.9	17.0
Gross profit <sup>2</sup>	39.2	1.3
Other operating income	1.1	-
Exploration expense <sup>2</sup>	(9.5)	(1.2)
Other operating expense <sup>2</sup>	(5.3)	(5.3)
<b>EBITDA<sup>3</sup></b>	<b>25.5</b>	<b>(5.2)</b>
Depreciation	(7.1)	(6.5)
Amortisation	(3.8)	(3.7)
Share based expense	(1.6)	(0.4)
Foreign exchange loss	(4.0)	(4.8)
Net finance income/(expense)	0.2	(1.6)
Loss from discontinued operations	(1.4)	(0.6)
<b>Tax (charge)/credit</b>	<b>(5.9)</b>	<b>1.9</b>
<b>Net profit/(loss) after tax - Group</b>	<b>1.9</b>	<b>(20.9)</b>

## Notes:

1. The results for the year comprise Koffiefontein and Petra's fissure mines, Helam, Sedibeng and Star. The acquisition of the Cullinan mine by the Petra Diamonds Cullinan Consortium was completed on 15 July 2008 and Petra will account for its 37% interest in Cullinan from that date

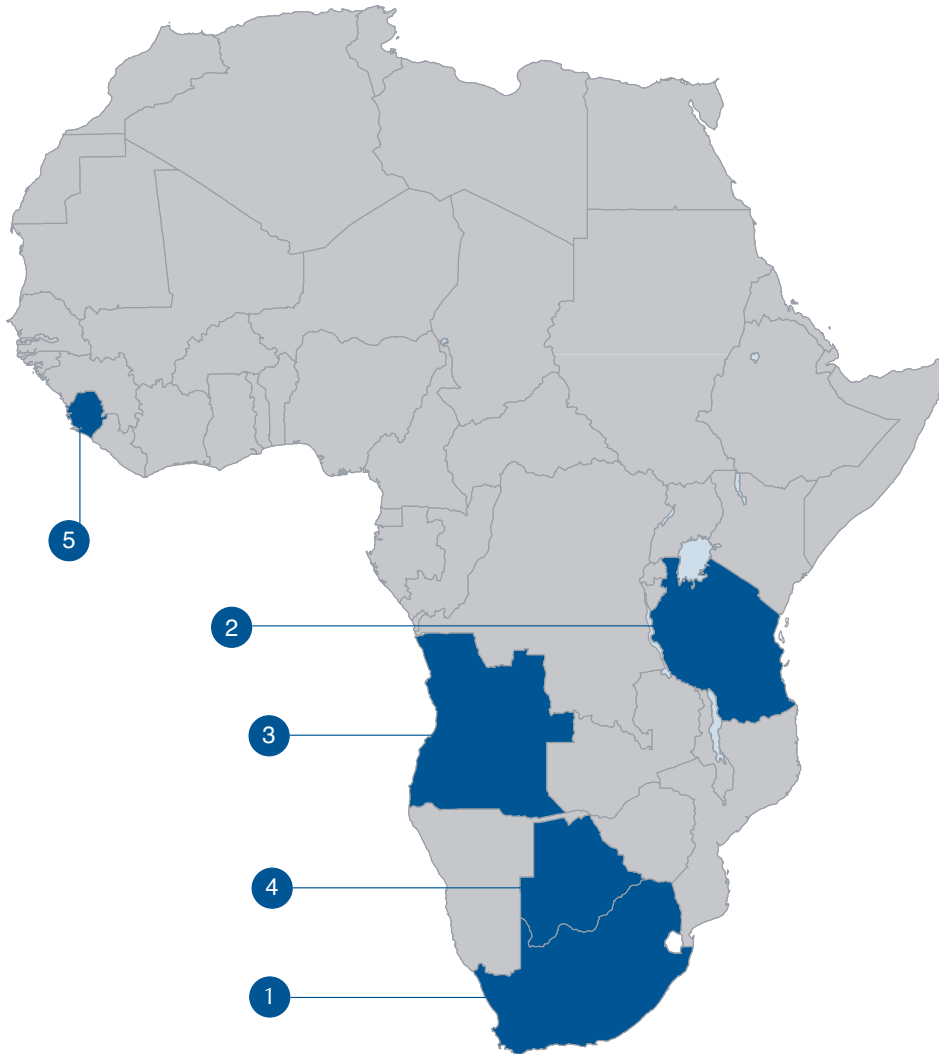
2. Stated before depreciation, amortisation of intangibles, interest paid, foreign exchange losses and share-based payments

3. All EBITDA disclosures are "adjusted EBITDA", being stated before share-based expense and foreign exchange loss

# 4

## Petra Diamonds at a glance

Petra is focused on Africa, with producing operations and exploration projects spanning the continent. Petra has five producing mines in South Africa – Cullinan, Koffiefontein, Helam, Sedibeng and Star, with a sixth operation to be added to the portfolio through the acquisition of the Kimberley Underground mines. A recent expansion into Tanzania through the acquisition of the Williamson mine from De Beers complements the Group’s exploration and development portfolio which is spread across the highly prospective diamond fields of Angola, Botswana and Sierra Leone.



①



### South Africa - Cullinan

- ◆ 37% initial interest through Petra-led consortium; purchase completed July 2008
- ◆ Second largest diamond resource in the world by in-situ value at 208 million carats (includes tailings)
- ◆ Source of spectacular diamonds, including the Cullinan, the world's largest ever found at 3,106 carats, a quarter of all the world's diamonds over 400 carats in size, and highly prized blue diamonds
- ◆ Current B-Cut operations support 1 million carats per annum production
- ◆ Infrastructure and resources in place provide opportunity to significantly uplift production
- ◆ BEE partners hold 26% through Thembinkosi Mining Investments (14%) and a Petra employee share trust (12%)
- ◆ Sale of a 39.19 carat blue diamond in October 2008 for US\$8.8 million

①



### South Africa - Koffiefontein

- ◆ 70% interest held; BEE partners, Re-Teng Diamonds holds 30%
- ◆ Purchase completed in July 2007
- ◆ Dramatic economic turnaround achieved in Petra's hands
- ◆ Now one of the world's top kimberlite mines by average value per carat, achieving US\$484 for the 2008 financial year
- ◆ Annual production of 80,000 carats

①



### South Africa - Kimberley Underground

- ◆ Acquisition expected to complete by end of 2008, currently operated by Petra on care and maintenance
- ◆ Diamond recoveries to commence in 2009
- ◆ Targeted production of 100,000 carats per annum at US\$160 per carat (based on historic information)

①



### South Africa - Fissure Mines

- ◆ Comprises the Helam, Sedibeng and Star mines
- ◆ Petra has a 74.5% interest in Sedibeng and a 100% interest in both Helam and Star.
- ◆ 110,665 carats produced in the 2008 financial year
- ◆ Average value achieved of US\$211 per carat for the 2008 financial year, vs world average of US\$90

②



### Tanzania - Williamson

- ◆ Petra to acquire a 75% interest; acquisition expected to complete November 2008
- ◆ Renowned for producing large, high value diamonds and fancy pink diamonds
- ◆ Open pit operation mining the 146 hectare Mwadui kimberlite pipe
- ◆ Major resource of approximately 40 million carats
- ◆ Initially will add 150,000 carats per annum to Petra Group production, with potential to ramp up to 500,000 carats per annum

③



### Angola - Alto Cuilo

- ◆ 41.2% kimberlite interest (on completion of BHP Billiton withdrawal)
- ◆ Major kimberlite exploration project in diamond-rich north-eastern Angola
- ◆ 81 kimberlites confirmed, 8 of which are high priority and targets for current mini bulk sampling campaign
- ◆ Fast-tracked work programme focusing on enriched, near-surface resedimented volcanoclastic kimberlite (RVK) deposits

③



### Angola - Luangue

- ◆ 39% kimberlite interest (on completion of BHP Billiton withdrawal)
- ◆ Contiguous to Alto Cuilo project, sharing same highly prospective geology
- ◆ Drilling programme started July 2008
- ◆ 9 kimberlites confirmed so far but 138 anomalies identified in total (to date)

④



### Botswana

- ◆ 100% interest in 48,500km<sup>2</sup> 'on craton' prospecting licence area
- ◆ Largest diamond exploration landholding in Botswana, the world's largest diamond producer by value
- ◆ 36 known kimberlites and many other highly prospective anomalies for investigation
- ◆ Encouraging results with new kimberlite discoveries, further testing and drilling in progress

⑤



### Sierra Leone

- ◆ 51% interest in Kono project, JV with Stellar Diamonds
- ◆ Advanced exploration, trial mining at two shafts
- ◆ First parcel of Pol-K diamonds achieved US\$152 per carat (September 2008)
- ◆ Exploration potential in surrounding area, electromagnetic survey completed

# CHAIRMAN'S STATEMENT



It is with great pleasure that I present to you the results for the year to June 2008, a period that completes Petra's transition from a junior mining company into a diamond producer of global significance.



We have completed the acquisitions of the Cullinan and Koffiefontein mines and reached agreement to acquire a further two major producing assets, the Kimberley Underground mines in South Africa as well as, post year end, the Williamson mine in Tanzania. As global diamond supply remains constrained, these major mines, together with their reserves and resources, underpin our future success as an important diamond producer.

## The market for diamonds

Industry experts have forecast a significant and growing supply shortage of rough diamonds, expected to be worth some US\$5 billion by 2010 (source: BMO Capital Markets), and this shortfall has been reflected in the strength of the market. Diamond prices rose, on average, by 40% from January 2007 to September 2008 (source: BMO Capital, September 2008), whilst the very high end goods grew far more rapidly, rising by 70% or more in the same period. Since this time we have seen a correction in prices due to the current turbulence in the financial markets, however we remain confident about the medium to long term outlook.

Supply shortages grow more acute as demand continues to rise rapidly from emerging economies and, in particular, the ever wealthier consumers of China, India, Russia and the Gulf States. It is difficult to see how the industry will satisfy this rising demand, given the structural constraints on increasing production.

## Accelerated growth

We have delivered on our objective of growing our production base with the landmark agreements to acquire a further three major diamond mines: Cullinan, Kimberley Underground and Williamson. The acquisition of Cullinan completed in July 2008, and we expect the Williamson and Kimberley Underground acquisitions to complete in November and December 2008 respectively.

The Cullinan mine is a 'company maker' asset, in that it is the world's second largest indicated diamond resource by in-situ value. It is one of history's most celebrated diamond mines, having produced some of the most spectacular diamonds ever seen, including the Cullinan, the largest ever gem diamond at 3,106 carats. It is likewise renowned as the world's only significant source of blue diamonds, which are highly prized.

Kimberley Underground will add further substantial annual production (in excess of 100,000 carats) to the Group. Kimberley Underground comprises three mines – Bullfontein, Wesselton and Dutoitspan – and it is a little known fact that these mines have also historically produced famous and high-value diamonds, such as The Oppenheimer, a 253.7 carat diamond which was recovered at Dutoitspan in 1964.

A further achievement for Petra is the agreement, signed in September 2008, to acquire a majority stake (75%) in the Williamson mine. We are taking over the operation of Williamson as a going concern which will increase Group production and revenues from November 2008. Our plan is to ramp-up the operation to 7.5 million tonnes per annum over a two year period, at which point the mine is expected to dramatically enhance Group earnings. The Williamson acquisition also marks Petra's entry into stable and investor-friendly Tanzania, further diversifying the Group's geographical spread across Africa.

The successful integration and financial results of the Koffiefontein mine have proven our ability to take on a major mine and turn it to account, with the economic transformation of the mine being nothing short of spectacular. Koffiefontein now holds its head high as one of the world's top kimberlite mines by profit margin and by carat value, achieving an average value per carat of US\$484 for the Period.

With the acquisitions we have made, Petra is not only revitalising some of the world's great diamond mines, but is also breathing life into the surrounding communities, delivering true sustainable development. In South Africa, we have also complied fully with black economic empowerment ("BEE") legislation from the outset across each of our transactions.

We are proud of the strong relationships we have cultivated and, in particular, I would like to thank De Beers and the Department of Minerals and Energy for the work they have done to encourage growth and development in the diamond industry, helping to facilitate broad ownership and competition within the South African diamond sector.

## Exploration progress

In Angola, we have assumed control of the neighbouring Alto Cuilo and Luangue exploration projects following BHP Billiton's decision to withdraw from the respective joint ventures. Whilst our joint ventures with

BHP Billiton were rewarding, we are pleased to have the opportunity to take the exploration programmes forward under our own direction. As one of the first foreign mining companies to enter Angola, our long experience and history leaves us well positioned to be one of the country's prominent diamond mining groups in the future.

Botswana is the world's largest diamond producer by value and we hold the largest diamond exploration landholding in this highly prospective country. We continue to carry out a systematic and rigorous approach to exploration and we remain very excited by the opportunities Botswana offers. Our success at finding new kimberlites within areas which have previously been thoroughly explored proves that the country holds excellent exploration potential.

In Sierra Leone we continue to be encouraged by the results of exploration and trial mining at our Kono project, a joint venture with Stellar Diamonds.

We now expect to comfortably exceed our production target of 1 million carats in the year to June 2009. This increased production will be delivered on a sound, well-planned basis and always with the highest regard for safety and good practice.

### Focus on our core business

Petra announced on 23 September 2008 the disposal of Calibrated Diamonds Investment Holdings (Pty) Limited ("Calibrated") to Gem Diamonds Limited ("Gem Diamonds") for a consideration of R47 million. Following the substantial and successful growth of the Group's production and revenue base, Petra decided to dispose of the business to focus on its core skills of diamond production and exploration.

The transaction with Gem Diamonds gives Petra options with regards to access to Gem Diamonds' beneficiation facilities. Petra will continue to evaluate its beneficiation strategy over the medium term, particularly with regards to certain of its mines which are renowned for the production of high value and large diamonds.

### Continuing delivery

We now expect to comfortably exceed our production target of 1 million carats in the year to June 2009. This increased production will be delivered on a sound, well-planned basis and always with the highest regard for safety and good practice.

Our production portfolio complements Petra's world-class international exploration projects. These exploration projects, along with organic growth from our existing mines, form the building blocks of future production.

Petra has now evolved into a diamond group of global significance with the acquisitions of Cullinan, Kimberley Underground and most recently Williamson. Further, the success at Koffiefontein clearly demonstrates our distinctive ability to turn such mines to account, and we look forward to achieving similar results at the recent acquisitions. We have now established a world-class gross resource base of 265 million carats, worth US\$27.3 billion. I am confident that our exploration projects will, in time, increase this resource base still further.

The transformation of Petra is due to the unwavering efforts of our management team in what have been, at times, very challenging circumstances. I thank them for everything that has been achieved, and look forward to the results that I have no doubt will be delivered from Petra's enlarged asset base.



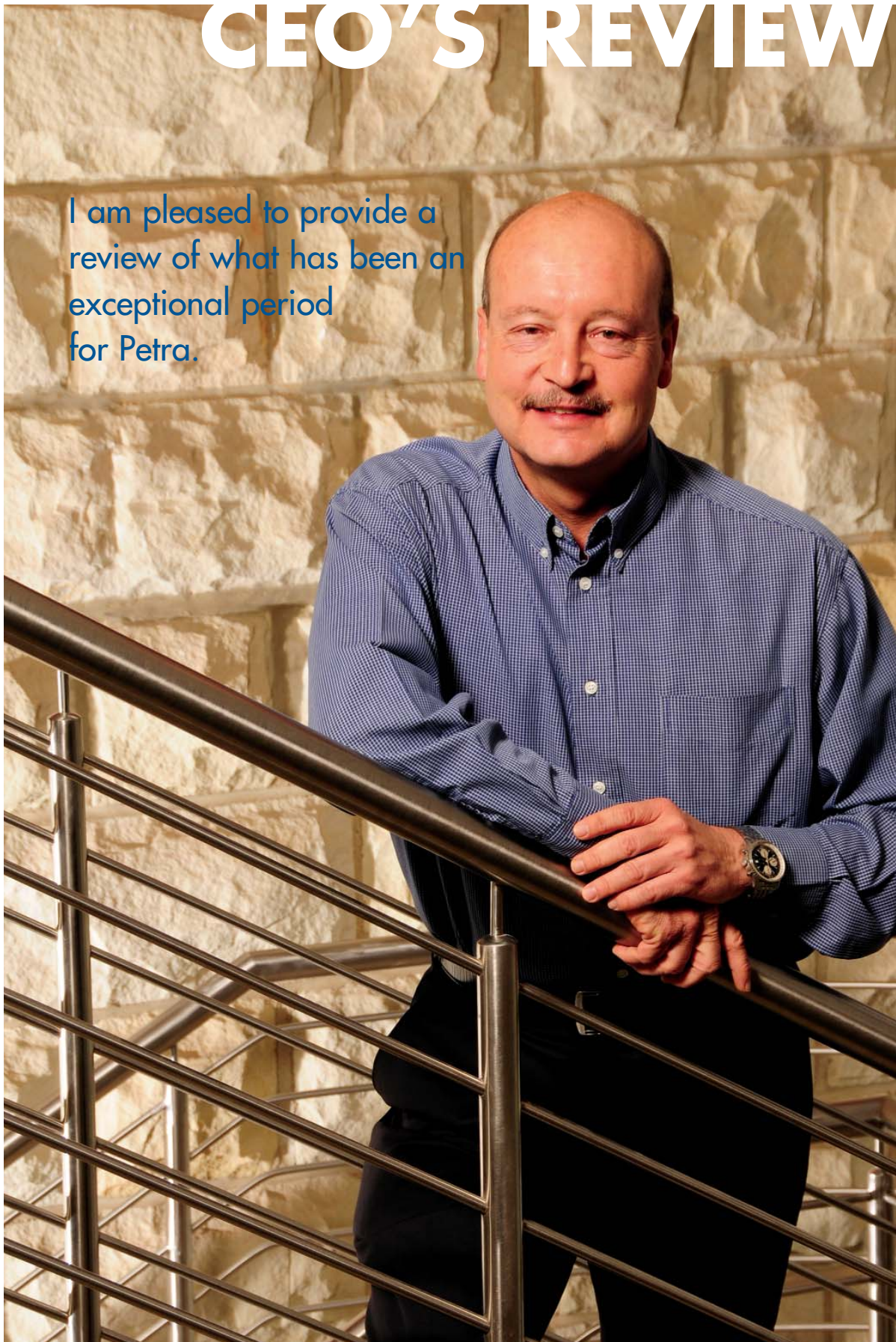
Adonis Pouroulis  
Chairman  
7 November 2008



*A rare 39.19 carat blue diamond recovered from Cullinan mine, South Africa*

# CEO'S REVIEW

I am pleased to provide a review of what has been an exceptional period for Petra.



In the period under review, we were successful in acquiring three more mines, each from De Beers, being Cullinan, Kimberley Underground, and post year end, Williamson. Our revenues and margins have grown substantially, largely due to the success at the Koffiefontein mine, enjoying its first year of production in our hands and we have taken control of our highly prospective exploration projects in Angola; Alto Cuilo and Luangue.

## Results

Revenue for the Period of US\$76.9 million was recorded, an increase of 352% over the US\$17.0 million for 2007. This growth was largely due to the first full year's results from Koffiefontein, contributing revenue of US\$51 million to the Group. The increased revenue combined with sound control of mining costs led to a gross profit on mine (before depreciation) of US\$39.2 million, a substantial number for the Group (2007; US\$1.3 million) and provides evidence of the increasing quality of the assets in the Petra stable and management's success in turning them to account.

Adjusted EBITDA (stated before share-based expense and foreign exchange loss) of US\$25.5 million (2007; US\$ 5.2 million loss) was impacted by Petra's decision to take up control and sole funding of the Angolan joint ventures, following BHP Billiton's decision to withdraw. Petra's spend in Angola for the year was US\$7.8 million, and as previously announced, Petra will review the work programmes and associated spend early in 2009 on the basis of exploration results.

The Group prides itself in its well-managed cost culture and this came across in the contained group operating expenses, a remarkable achievement given the increasing size of the Group's operations and corporate support requirements.

The Group net profit for the year amounted to US\$1.9 million (2007: US\$20.9 loss) and is stated after;

- (i) depreciation of US\$7.1 million (2007: US\$6.5 million);
- (ii) amortisation of intangibles of US\$3.8 million (2007: US\$3.7 million), which is in respect of the Botswana prospecting licences;
- (iii) share-based expenses of US\$1.6 million (2007: US\$0.4 million);
- (iv) exchange losses of US\$4.0 million (2007: US\$4.8 million), the majority of which are due to unrealised foreign exchange losses on the annual restatement of foreign subsidiary inter-company loans;
- (v) the operating expenses of Calibrated (US\$1.4 million), which the Group announced on 23 September 2008 has been disposed of; and
- (vi) a tax charge of US\$5.9 million, being tax payable of US\$1.4 million relating to Koffiefontein and Sedibeng and the balance of US\$4.5 million being deferred tax.

## Production - South Africa

Production and sales summary – combined Koffiefontein and Fissures Mines			
	Unit	Year ended 30 June 2008	Year ended 30 June 2007
<b>Production</b>			
Diamonds produced	Carats	200,287	180,474
<b>Sales</b>			
Revenue	US\$m	77.3 <sup>2</sup>	16.7
Diamonds sold	Carats	230,172	122,821
Average price per carat	US\$	336	136

Note 1: All production and sales figures are stated gross

Note 2: Group revenue of US\$76.9 is lower due to inter-company transactions between the mines and Calibrated

## Cullinan

In November 2007, Petra signed a landmark deal (as part of the Petra-led Petra Diamonds Cullinan Consortium ("PDCC") to acquire the Cullinan diamond mine from De Beers for a cash consideration of R1 billion. As with the acquisitions of Koffiefontein and the Kimberley Underground mines, this agreement followed a rigorous and competitive tender process. Cullinan is renowned for producing many of the world's most famous diamonds, including the largest ever gem diamond, the 'Cullinan' at 3,106 carats rough, as well as more than a quarter of all the world's diamonds weighing more than 400 carats.

The PDCC comprises Petra Diamonds Limited (37% initial interest), Al Rajhi Holdings W.L.L. ("Al Rajhi") (37% initial interest) and PDCC's BEE partners (26% interest). Importantly, the agreements in place between Petra and Al Rajhi, who provided the majority of the funding for the transaction, give Petra the right to increase its interest in PDCC (from Al Rajhi) to 60% based on performance of the mine and pre-agreed option payments. The Cullinan transaction was structured to meet the requirements of the Minerals and Petroleum Resources Development Act in that it supports broad-based BEE.

In July 2008, the acquisition of this iconic mine was completed. Petra has been operating the mine for four months (at the time of writing this report), and all hand-over and integration projects have been concluded very satisfactorily. I thank De Beers' management, as well as the on-the-ground and legal teams from both parties, for the smooth and effective implementation of this transaction.

During our first year of operation, we will focus on establishing the new economics of the mine, including grade, value per carat, cost per tonne and overall production capacity of the infrastructure. For FY 2009, we initially expected to mine the B-Cut at a planned rate of 1.4 to 1.8 million tonnes per annum, yielding between 600,000 and 750,000 carats of diamonds. We then planned to progressively ramp up production levels to around 1 million carats per annum from financial year 2010, which has the potential to deliver annual revenues of some US\$100 million (all figures are stated gross to the PDCC). However, based on actual production to date from underground and the Optical Sorting Plant, we now expect production at Cullinan to reach just short of 1 million carats for this financial year, 2009.

We are currently in the process of making major alterations to the processing of ore by implementing changes within the plant, with the objective of improving the grade and placing emphasis on the recovery of the whole spectrum of diamonds. By attending to projects such as these while applying a similar formula as we did successfully at Koffiefontein – that is, flat management structures, lower overheads, in-house capital development and project management – we are confident that we will turn in strong financial performances at Cullinan and deliver the corresponding returns to shareholders.

In September, we held our first tender of goods from Cullinan and achieved an average value of US\$100 per carat for the parcel of 66,127 carats. The parcel included a 26.54 carat white diamond, which sold for US\$1,625,000. In the second tender held in October 2008, a 39.19 carat blue diamond was sold for US\$8.8 million. These values bode very well for the economic future of the mine and we look forward to values increasing further as we bring our production enhancements to account.

## Koffiefontein

Petra completed the acquisition of the Koffiefontein mine from De Beers in July 2007 and Petra has now been producing at the mine for just over one year. Bringing this operation back into production has gone exceptionally well and our mine management team has successfully turned Koffiefontein into a highly profitable operation.

Production for the year at Koffiefontein was 89,622 carats, with an average value per carat achieved of US\$484, making it one of the world's top kimberlite mines by value. Recovered grade for the first year of operation was 9.1 cph, a reflection of the encouraging changes made by Petra in the treatment plant as well as underground mining practices. This is a significant improvement on the grade modelled in the original business plan of 7.4 cph.

One of the ways in which Petra is able to add value to its operations is to focus on overhead cost structures and, at the same time, ensure the optimisation of plant throughput. At Koffiefontein, for example, not only are we running at higher grades than anticipated, but we are also achieving a good size distribution, especially in the 'special' stones that in turn command an excellent price.

Costs and capital expenditure ("Capex") were both in line with management expectations. The cash costs at Koffiefontein ran at approximately R90 per tonne, a level which (other than inflation-based increases) we expect to maintain. Capex for the Period was US\$3.7 million, with total Capex spend at the mine for the 12 months to June 2009 expected to be US\$5.0 million, including the installation of electricity generation capacity.



Ebenhaezer pipe, Koffielontein mine, South Africa

Notable recoveries during the Period included a 74.7 carat diamond which was sold in September 2007 for just over US\$1 million and a 41.67 carat diamond sold in June 2008 for US\$1.8 million. We were also encouraged by the recovery of a fine quality, fancy pink diamond of 4.13 carats at Koffiefontein and this was sold in our recent tender for US\$226,666.

Koffiefontein mine		Year ended 30 June 2008	Year ended 30 June 2007
	Unit		
<b>Production</b>			
Diamonds produced	Carats	89,622	44,423
Grade	Cpht	9.1	7.7
<b>Sales</b>			
Revenue	US\$m	51.0	–
Diamonds sold	Carats	105,479	–
Average price per carat	US\$	484	–

Note 1: All production and sales figures are stated gross; Petra's interest is 70%

### Kimberley Underground

In September 2007 Petra reached agreement, following a competitive tender process, to acquire Kimberley Underground from De Beers, for a total consideration of R78.5 million. The acquisition is expected to complete in December 2008. Kimberley Underground comprises Wesselton, Dutoitspan and Bultfontein, three historic mines which were at the heart of South Africa's diamond rush in the late 1800s.

As Kimberley Underground last produced under De Beers in August 2005, Petra is currently operating the mines on a care and maintenance basis on behalf of De Beers until all required mining authorisations are received from the South African authorities. Sound progress has been made towards the commissioning of the operations and we have been conducting a range of rehabilitation and maintenance activities at the mine, such as the rehabilitation of the underground infrastructure, to ready the mine for production.

We decided that it would serve our purpose better to build our own custom plants at Kimberley Underground, rather than purchase the old NTP plant, in keeping with the Petra ethos of carrying out such construction work in-house wherever possible. To this end, fabrication is nearly complete and erection of the plants at site will begin shortly. Commissioning is now scheduled for January 2009 and production build-up will commence in February 2009. The plants have been designed to cater for the large diamonds known to exist in the Kimberley mines, the largest of which previously recovered exceeded 800 carats. Petra expects diamond recoveries and sales to begin in the first quarter of 2009.

Based on historical production and sales information, we expect annual sales in excess of 100,000 carats at an average value of US\$160 per carat once full production resumes, giving gross annual revenues in excess of US\$16 million and a mine life of at least 12 years.

### Fissure Mines (Helam, Sedibeng and Star)

At the fissure mines, our attention has shifted from volume of carats produced to optimisation of revenues by focus on grade and final recovery, resulting in the average value per carat achieved increasing from US\$136 for the year ending 30 June 2007 to US\$211 for the Period. Average cash costs per tonne ran at approximately R530 per tonne overall for the three fissure mines, a level which management is confident can be substantially improved upon. Capex for the Period was US\$3.45 million.

Production for the year at the fissure mines was 110,665 carats, lower than production for the financial year to June 2007 of 136,051 carats. This was due to reduced tonnages hauled at the Helam mine, which is the smallest contributor of our producing operations by value. Given the power issues with which we have had to contend, management has at all times chosen to focus resources on those assets which add most value to shareholders – being our larger and higher value kimberlite pipe mines. The skills shortages and power supply situations in South Africa have meant that the Company is redirecting management attention towards improving efficiencies via further mechanisation and other initiatives.



The portfolio of fissure mines also produces diamonds of exceptional quality. A number of such stones were recovered in the last year, including a 126.69 carat diamond which sold in our most recent tender (post period end) for US\$5.25 million.

Fissure Mines (Helam, Sedibeng and Star)			
	Unit	Year ended 30 June 2008	Year ended 30 June 2007
<b>Production</b>			
Diamonds produced	Carats	110,665	136,051
Grade	Cpht	41.9	42.1
<b>Sales</b>			
Revenue	US\$m	26.3	16.7
Diamonds sold	Carats	124,693	122,821
Average price per carat	US\$	211	136

Note 1: All production and sales figures are stated gross

### Results from September 2008 tender

The Company held the first tender since the year end in September. The tender included approximately four weeks of production from Cullinan (after the ownership of the mine was transferred to PDCC on 16 July 2008) and eight weeks of production for the remaining South African operations. Although this tender was held in a period during which softer market conditions were prevalent, prices remained firm. The results were as follows:

	Carats sold	Total revenue (US\$)	Value per carat (US\$)
Cullinan	66,127	6,597,291 <sup>1</sup>	100
Koffiefontein	17,930	8,241,803	460
Fissure mines	15,770	8,349,392 <sup>2</sup>	529
Total SA operations	99,827	23,188,486	232

Notes: 1. Includes a 26.54 carat diamond which sold for US\$1,625,000 (US\$61,228 per carat)

2. Includes a 126.69 carat diamond which sold for US\$5,251,000 (US\$41,448 per carat)

## Production – Tanzania

### Williamson

In September 2008 (post year end), we announced that we had reached agreement to acquire a majority stake in the legendary Williamson diamond mine in Tanzania, again from De Beers. The acquisition is expected to complete in November 2008 and will give us a 75% shareholding in the mine, with the Government of the United Republic of Tanzania holding the remaining 25%.

The Williamson mine is the largest kimberlite ever to be mined economically (at 146 hectares) and it also holds the title of the world's longest running diamond mine in continuous operation, as it has been producing uninterrupted now for 68 years. With this transaction, we will ensure a new and prosperous future for the mine, where there remains a major resource of some 40 million carats.

This mine is renowned for regularly producing large and high-value diamonds, and it is also a significant source of fancy, pink diamonds. The most famous example is the Williamson Pink, a 54.5 carat rough diamond which was recovered in 1947. It was polished to form a round 'brilliant' cut and was presented to the then Princess Elizabeth of England as the centre piece of a floral brooch for her forthcoming wedding to Prince Phillip. At 23.6 carats, it is one of the largest polished diamonds of this colour ever recovered.

Williamson will initially add 150,000 carats a year to our production. However, our plan is to increase throughput to around, or above, 7.5 million tonnes per annum, reducing unit operating costs and resulting in an estimated annual production of some 500,000 carats and a mine life in excess of 20 years.

## Exploration – Angola

While for the most part it was a year of achievements, it has not been without its challenges. Foremost among these must be our assumption of full responsibility for the direction of our Angolan exploration projects following the exit of BHP Billiton from our two joint ventures in May 2008. While we were disappointed with BHP Billiton's decision, we are pleased to have the opportunity to increase our ownership in Alto Cuilo and Luange. These are two major exploration projects of enormous scope and scale, with similar kimberlite cluster geology. Due to the large number of kimberlites and anomalies to be investigated on our concessions, the prospect of establishing an economic diamond deposit remains much higher here than in other diamond exploration regions.

### Alto Cuilo

Alto Cuilo is a major exploration project, with a total of 249 anomalies identified using a Midas gradient array low-level helicopter aeromagnetic survey. To date the drilling programme has tested 104 priority targets of which 81 were confirmed to be kimberlites, an unusually high success rate in terms of kimberlite exploration.

The Alto Cuilo joint venture with BHP Billiton had previously focused on delineating economically viable, large-tonnage kimberlite vents containing diatreme-facies volcanoclastic or tuffisitic kimberlite. Once we took control of operations in April 2008, we chose to refocus the programme on the diamond-bearing potential of crater-facies resedimented volcanoclastic kimberlite ("RVK"), and specifically the RVK typically encountered along the rims of kimberlite craters.

We believe this exploration strategy gives us the best possible chance of finding a world-class kimberlite deposit in this region of Angola, and our drilling campaign at Alto Cuilo has already yielded encouraging results. The first kimberlite to have its RVK rim tested by our new bulk sampling campaign, AC16, achieved a grade three times higher than that recorded in the primary tuffisitic material sampled previously from its vent.

Our work programme is now investigating the RVK rims of eight high-priority targets and kimberlite AC9 is of particular interest, where our drilling has established large continuous areas of RVK. AC9 is now our first ranked kimberlite based on heavy mineral analysis and proximity of RVK to surface. Should potentially economic RVK deposits be discovered through bulk sampling, a more detailed work programme will follow to quantify grades and tonnages.

Kimberlite AC16 (with a geophysically estimated surface area of 120 hectares) is one of Petra's lower-ranked kimberlites, but, due to ease of access and the presence of diamonds from previous sampling, Petra decided to take a bulk sample from the RVK rim. Treatment of the bulk sample taken from kimberlite AC16 has now been completed. The sample measured at 2,877 dry tonnes was taken from a five metre thick layer of outcropping crater rim RVK and processed through a 10 tonne per hour Dense Media Separation plant (bottom cut-off 1mm). A total of 273.38 carats has been recovered from the sample, giving a grade of 9.5 carats per hundred tonnes ("cph") for the total material processed.

This result, as previously announced in July 2008 when the first part of the sample had been treated, is highly significant as it is almost treble the grade achieved from BHP Billiton's sampling of this kimberlite, where primary tuffisitic kimberlite was sampled from the kimberlite vent and a grade of 3.6 cph was recorded from 214 tonnes of material processed.

The full bulk sample results are listed in the table below:

AC16 – Bulk Sample Results													
Sieve Size	-1	+1	+3	+5	+7	+9	+11	+13	+15	+17	+19	+21	Total
mm	-0.82	+0.82	+1.15	+1.47	+2	+2.35	+2.86	+3.85	+4.62	+4.93	+5.56	+7.09	
No. of Stones	0	322	782	975	352	230	137	27	6	14	7	1	2,853
Total Carats	0	5.16	22.63	57	39.18	41.21	45.56	20.64	5.78	17.47	14.76	3.99	273.38

An initial work programme budget of US\$10 million is being funded from Petra's internal cash resources over the period to end December 2008. The exploration results will then be reviewed and a decision will be made with regards to further investment at that time.

## Luangue

At the neighbouring Luangue, our work programme for the year confirmed its status as a world-class diamond exploration project. A low-level, high-resolution "towed bird" aeromagnetic survey identified no less than 138 targets, with a total surface area estimated to be in excess of 8,000 hectares.

As with Alto Cuilo, we are targeting the RVK close to surface at the estimated crater rim locality, which has been shown by exploration at Alto Cuilo to be the area most likely to host economic mineralisation, due to diamond concentration and upgrade in stone size.

The budget of US\$12 million for our initial work programme is being funded from our internal cash resources over the period to end April 2009. The exploration results will then be reviewed and a decision will be made with regards to further investment at that time.

Five kimberlites have already been identified by previous exploration work and an extensive narrow diameter drilling ("NDD") programme, which commenced in July 2008, is now underway to test 49 prioritised targets, of which 26 total an estimated 1,800 hectares.

The first phase of the NDD programme has been designed to intersect near-surface proximal RVK deposits based on the magnetic response from the airborne magnetic survey carried out late last year. To date 1,700 metres have been drilled in 12 narrow diameter holes on eight anomalies, resulting in the discovery of four new kimberlites: L60, L76, L87 and L90. We have also confirmed that one kimberlite drilled previously, L67, is significantly larger than was previously thought with its size now estimated to be 234 hectares.

Highlights of the drilling programme to date are three holes into anomaly L87 in the north-west corner of the concession. The L87 anomaly covers 228 hectares in size, representing an elongate body that appears to be made up of three lobes. Three narrow diameter drill holes positioned to test each lobe of the body have all intersected RVK, with the best intersection to date occurring in BH L87-2 where RVK has been intersected from 56 metres to 150 metres below surface.

## Exploration – Botswana

In Botswana, we have achieved a number of notable successes with regards to our exploration programme, including the discovery of two new kimberlites in previously heavily prospected terrain.

One such kimberlite is BK1S, which is contiguous to Debswana's Damtshaa mining licence. The kimberlite discovery extends northwards into the Damtshaa mining licence and the portion in our licence areas could represent 20 to 30 percent of the total kimberlite, and we have therefore been in contact with Debswana in relation to this discovery.

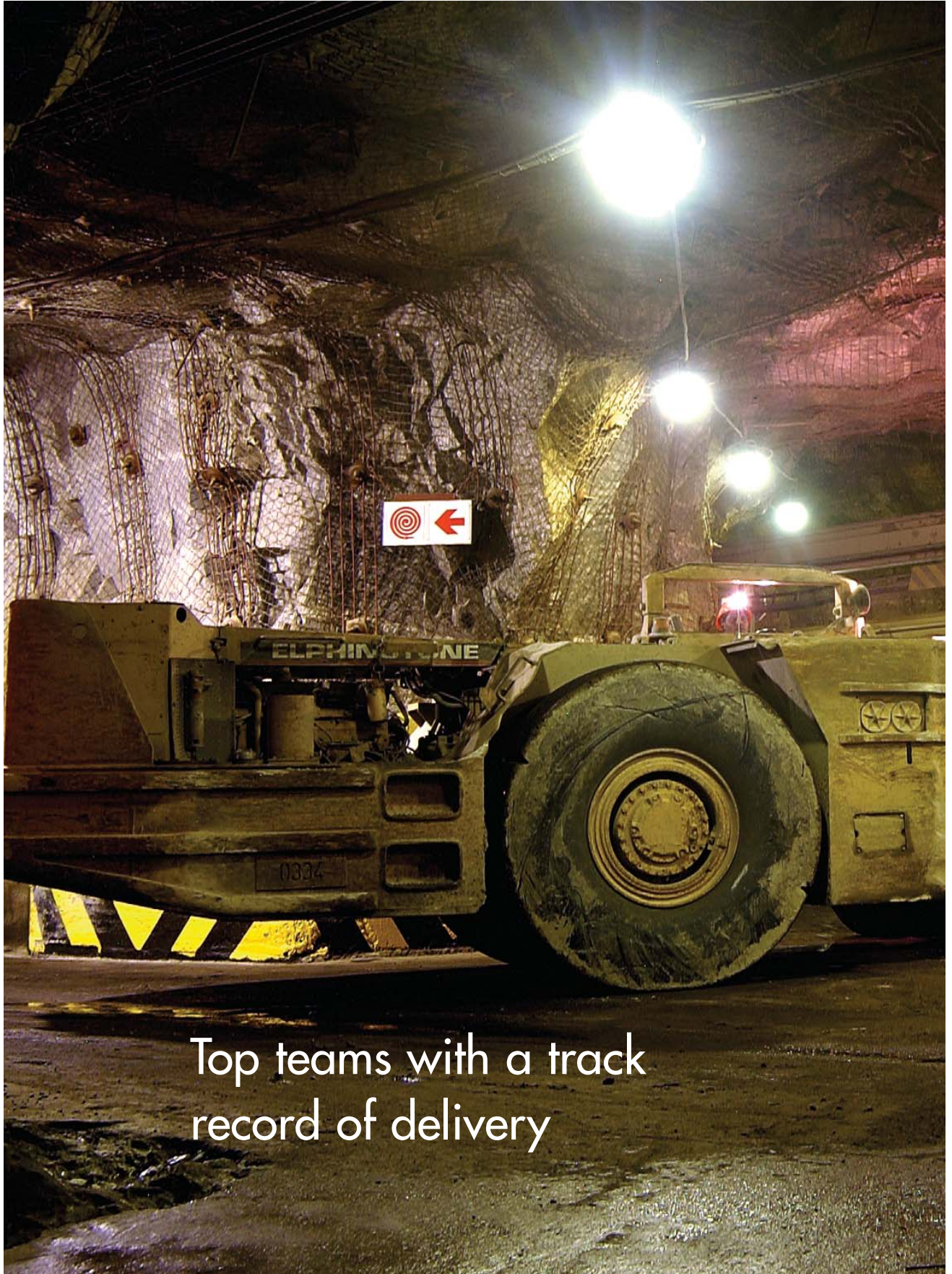
Our Botswana programme will continue to yield information as we get results back from the drilling campaign underway in the Kukama project area. Targets include the GO173S kimberlite cluster which has been modelled as a "champagne glass" shaped kimberlite with a potential estimated surface area of approximately 25 hectares.

The drilling campaign will also test kimberlites DK4 and DK6, in the near vicinity of the Jwaneng diamond mine. Both kimberlites have been proven to be diamondiferous and our interpretation of the modelled data suggests that they are larger than originally expected.

## Exploration – Sierra Leone

Exploration and trial mining operations at our Kono project in Sierra Leone, a joint venture with Stellar Diamonds, continue to yield encouraging results. The first parcel of Kono test production (1,064 carats) was sold on tender this September, with the Pol-K shaft parcel of 866 carats achieving an average value per carat of US\$152. As diamond production from the trial mining increases over the coming months, we will be able to offset total project expenditure against the revenues generated by regular diamond sales as well as further establishing the parameters for a production decision.

Due to the considerable exploration potential at Kono, a 3,167 line km airborne electromagnetic geophysical survey has been completed by Fugro Airborne Surveys, the objective being the discovery of kimberlite pipes and blows. Processing of the data, which we outsourced to an external expert, is complete and final interpretations will be available by the end of this year.



Top teams with a track record of delivery



Cullinan mine, South Africa

## Cutting & Polishing

Petra announced on 23 September 2008 the disposal to Gem Diamonds of its entire interest in Calibrated, a business it acquired in November 2006 for R47.0 million (US\$5.9 million). This disposal follows the substantial growth of Petra's production and revenue base, and the Board's decision to focus on the Group's core skills of diamond production and exploration.

Petra originally acquired Calibrated with the objective of growing Group revenues by cutting and polishing ('beneficiating') Petra's own rough diamond production using Calibrated's proprietary technology processes. However, since the acquisition of Calibrated, Petra has transformed its diamond production operations with the acquisitions of the Cullinan, Koffiefontein, Kimberley Underground and Williamson diamond mines, with a corresponding expected increase in Group production from 200,000 carats in FY 2008 to over 1 million carats for FY 2009. Petra is expecting substantial revenue and cash flow growth from these assets and the increased focus will enable the Company to maximise returns.

Petra will continue to evaluate its beneficiation strategy over the medium term, particularly with regards to certain of its mines which are renowned for the production of high-value and large diamonds. Indeed, the transaction agreement with Gem Diamonds includes an option which gives Petra future exposure to Gem Diamonds' beneficiation businesses soon to be established in Mauritius and Dubai.

Petra's option (exercisable for a period of 30 months) to access these facilities is subject to capacity (after the processing of Gem Diamonds' own rough production) and payment at commercial rates.

In addition, Petra has an option (exercisable for a period of 24 months) to enter into separate negotiations with Gem Diamonds to establish, using the Calibrated technology, a diamond analysis, cutting and polishing facility at Cullinan, or elsewhere in South Africa, which Petra could then use for processing its production in the longer term.

Petra has retained ownership of the polished stones (594 carats) that have been cut by Calibrated Diamonds from November 2006 to date and these diamonds will be sold by Petra in the near future.

## Challenges

### Rising costs

Rising costs in our operating environments have proved to be a challenge during the year. Inflation in South Africa was pegged at around 12% for the duration of our financial year, with our primary input costs for consumables such as fuel, steel, timber and explosives, for example, rising at a rate significantly in excess of that. With labour accounting for around 55% of our on-mine cost base, the inflationary environment in South Africa, combined with skills shortages, resulted in wage settlements of between 11% and 18%.

### Energy

The power shortages that struck South Africa in early 2008 affected us, but less so than many of our industry peers. While there was an impact on the rate of development at the Helam mine, the smallest contributor of our producing operations by value, at our other operations we were able to stay on track and meet our operational targets. We are in the process of installing diesel-powered standby electricity at all our operations to counter any emergency cut-backs in the future and energy conservation strategies have been put in place to operate within the constraints imposed by the power utility in the year ahead.

### Skills shortages

The skills shortage being experienced across the industry in southern Africa has not abated, with a great deal of competition between employers in attracting and retaining suitable staff. Fortunately, at Cullinan a highly-skilled workforce was transferred to Petra and one which we believe will stand us in good stead across our operations. At Kimberley Underground, we have had a reasonable amount of time leading up to production and have staffed the mine appropriately.

Our experience at Petra, though, has shown that the internal development of resources is an important function, along with the development of local school leavers. Most of our operations are based near small, rural towns where there is very little opportunity for employment. By providing training and skills development, we not only make a contribution to that community, but we develop our own valuable human capital resource. We have taken great care in building and retaining the correct team to match the management and skills requirements of our growing portfolio.

## Making a difference in the communities

In respect of the communities surrounding our operations, we are strongly committed to creating sustainable economic activity and investing, responsibly, in those projects that have a meaningful impact on individuals. As an emerging company, operating on a very different cost structure to the majors and bringing into or sustaining production at operations that have been closed, or that might otherwise close, our greatest contribution to any community must be that of job creation. Whilst at year-end we employed 4,000 people, often the sole breadwinners in an extended family, the indirect job creation generated through local expenditure by the company and employees is also important.

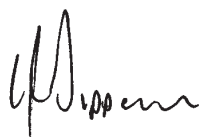
It is neither in Petra's nor our communities' interests to raise expectations that cannot be met. Rather, we have chosen the route of engagement and often it is the non-financial contribution that cements our local relationships. Examples of this approach include assistance with the maintenance of local police stations and making available premises for a local orphanage.

## Outlook

I would like to extend my thanks to our Board, management team and all of our employees as our success during the year is a tribute to their collective efforts.

I am confident that the future development of Petra will continue to be exciting, and that in the year ahead we will consolidate our acquisitions by turning in further substantial increases in revenue and margin.

I look forward to the year ahead and to reporting to shareholders on a very successful 2009.



**Johan Dippenaar**  
Chief Executive Officer  
7 November 2008

# BOARD OF DIRECTORS



We are investing in new facilities and the most efficient working practices to mine diamonds.



## Executive Chairman

### 1. Adonis Pouroulis

Adonis Pouroulis, aged 38, is a mining entrepreneur whose expertise lies in the discovery and exploration of mineral resources such as diamonds, gold, platinum, coal and base metals - including iron ore, copper and bauxite - and bringing these assets into production. Mr Pouroulis founded Petra Diamonds in 1997 and it became the first diamond company to float on AIM. Mr Pouroulis has, with his fellow directors, built Petra into South Africa's second largest diamond producer, with a balanced portfolio combining major producing mines and world-class exploration.

## Chief Executive Officer

### 2. Johan Dippenaar

Johan Dippenaar (CA), aged 51, has nearly 20 years experience in the leadership and management of diamond mining companies. Prior to his appointment as Chief Executive Officer (CEO) of Petra, he was CEO of Crown Diamonds which merged with Petra in 2005. Since the merger with Crown, Mr Dippenaar and his colleagues have led Petra through a period of extraordinary growth, during which time the Company reached agreement to acquire four major mines from De Beers. Petra now has a production base of global significance as well as a world-class diamond resource base. Mr Dippenaar is a chartered accountant by profession and a member of the South African Institute of Chartered Accountants.

## Finance Director

### 3. David Abery

David Abery (ACA), aged 46, is a Chartered Accountant (ICAEW), who brings to Petra extensive experience as a Chief Financial Officer in both the South African and UK business environments, as well as an in-depth knowledge of AIM. Mr Abery has been integral to the structuring and deliverance of strategic group corporate development at Petra, as well as the instigation of a number of innovative financing mechanisms, which have limited dilution for Petra's shareholders. Mr Abery is an instrumental member of the Petra team, driving strategic and commercial business development and linking in closely with the London market.

## Technical Director

### 4. Jim Davidson

Jim Davidson, aged 63, is an acknowledged world authority on kimberlite geology and exploration, having spent in excess of 30 years associated with diamond exploration and mining, of which 20 years have included mine management in South Africa. As Head of Diamond Exploration in Southern Africa for BP Minerals (subsequently Rio Tinto) in the 1980's, Mr Davidson pioneered research into kimberlite indicator mineral chemistry and microdiamond analysis, thereby establishing criteria for the prediction of diamond grade based on these parameters, and set up an international database of kimberlites/lamproites before doing inter-group disseminations on this subject matter. He is a qualified geologist and a member of the Geological Society of South Africa and registered with the SACNSP.

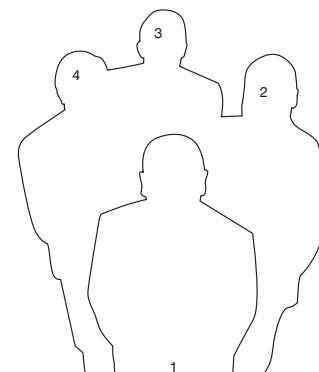
## Non-Executive Directors

### Charles Segall

Charles Segall, aged 67, 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. He is the Chairman of Petra's Audit and Remuneration committees.

### Volker Ruffer

Volker Ruffer, aged 69, 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. He is a member of Petra's Audit and Remuneration committees.



# REVIEW OF OPERATIONS

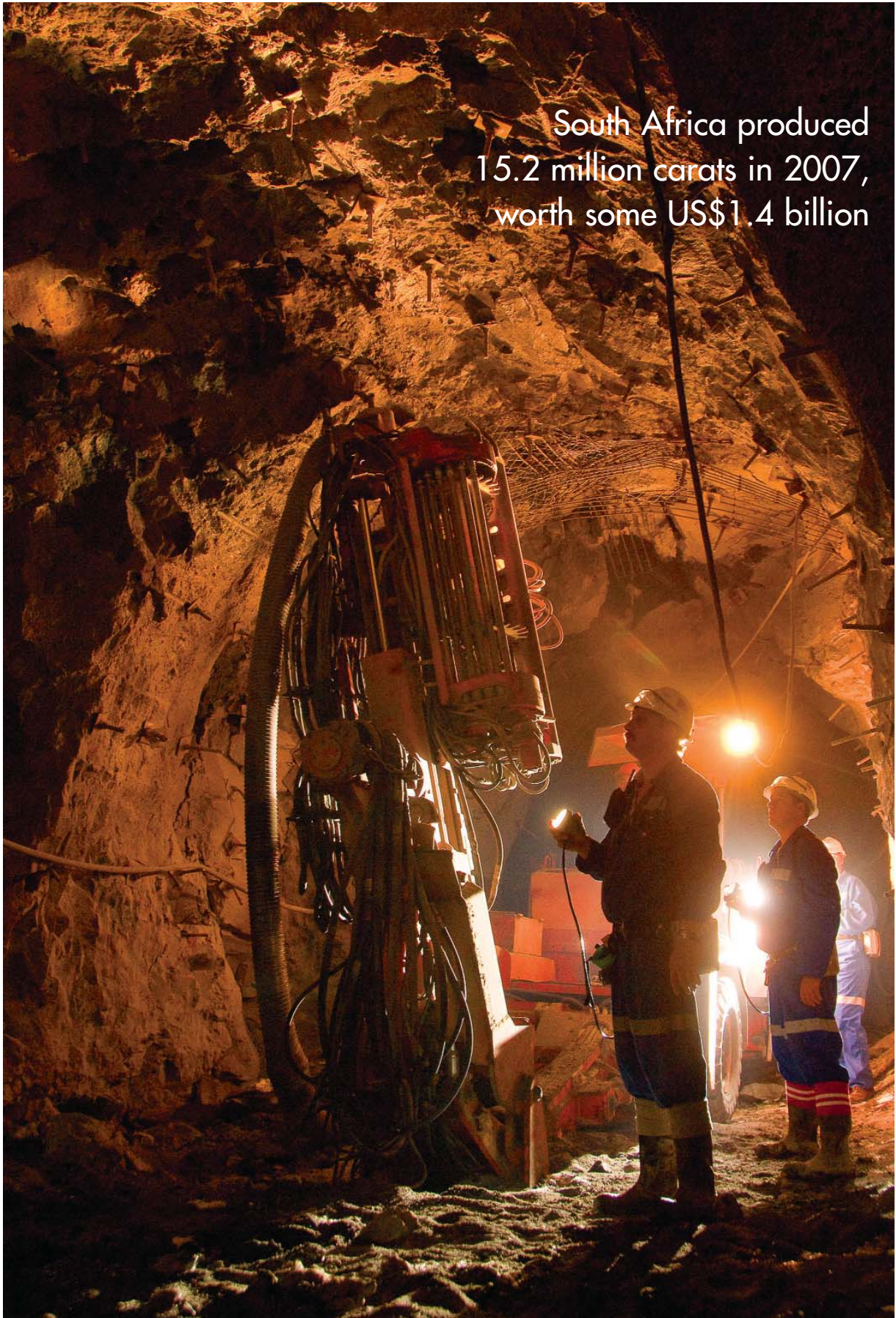




Targeting production of 1.5 to  
2 million carats a year by 2010

*A 51.88 carat stone, recovered from Koffiefontein and sold for  
US\$780,580 in December 2007*

South Africa produced  
15.2 million carats in 2007,  
worth some US\$1.4 billion



## Production

The Petra Group's production increased in the year to June 2008 by 11% from 180,474 carats (June 2007) to 200,287 carats for the year to 30 June 2008. These figures incorporate Koffiefontein and the three fissure mines, Helam, Sedibeng and Star. The acquisition of the Cullinan mine by the Petra Diamonds Cullinan Consortium was completed on 15 July 2008, with the further acquisition of a 75% interest in the Williamson mine in Tanzania announced in September 2008. Both of these operations will therefore be included in our next set of financial results.

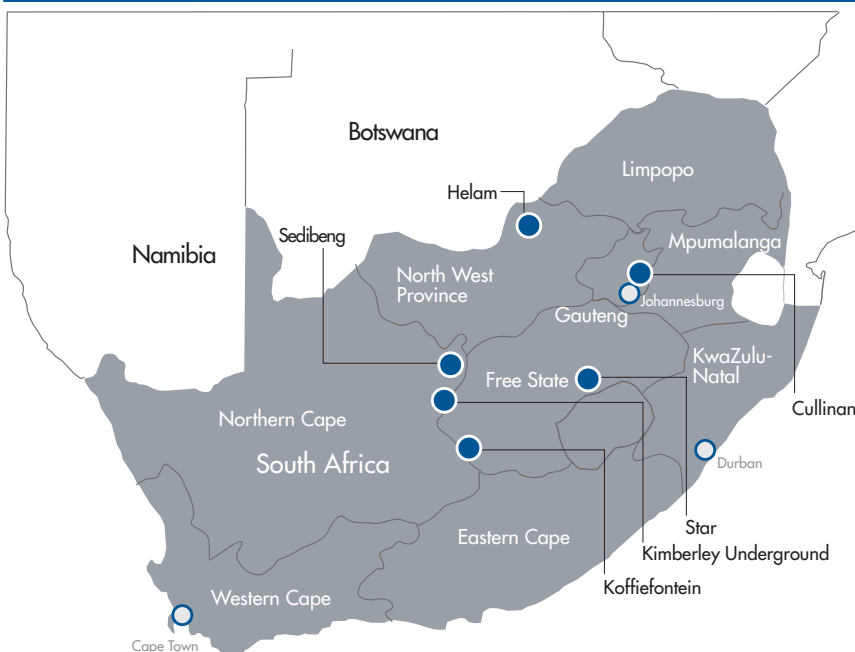
Petra expects production for FY 2009 to rise substantially, due to Cullinan and Williamson coming on stream, combined with the completion of the Kimberley Underground acquisition towards December 2008. Petra has put in place an accelerated production plan at Cullinan, with the objective of the Group reaching its production target of over 1 million carats per annum in the financial year to June 2009. This is a whole year earlier than originally planned and demonstrates how Petra has over-delivered against market expectations.

## South Africa

South Africa, Africa's southernmost nation, is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors; a stock exchange that ranks in the top twenty globally; and modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the region. Growth has been robust since 2004, as South Africa has reaped the benefits of macroeconomic stability and a global commodities boom. South Africa's main exports include gold, diamonds, metals and minerals, cars and machinery.

One of the leading diamond-producing nations, currently ranked number three in the world after Botswana and Russia, South Africa produced 15.2 million carats in 2007, worth some US\$1.4 billion (source: Kimberley Process Certification Scheme).

Petra's South African operations



## South Africa - Cullinan

### Name of operation: Cullinan

**Description:** Cullinan is one of the world's most celebrated diamond mines and is renowned for producing many of the most spectacular diamonds ever seen. It earned its place in history with the discovery of the Cullinan diamond in 1905, the largest gem diamond ever found at 3,106 carats rough, and it has produced more than a quarter of all the world's diamonds weighing more than 400 carats. It is also the world's only significant source of truly rare and highly valuable blue diamonds.

The Cullinan kimberlite pipe is the second largest indicated diamond resource in the world by in-situ value and totals some 208 million carats (including tailings).

In July 2008, Petra (as part of a Petra-led consortium) completed the landmark acquisition of the Cullinan mine from De Beers for a total cash consideration of R1 billion. It has transformed Petra into one of the world's largest diamond groups on a gross resource basis and provides the opportunity for substantial production growth going forward.

Cullinan vital statistics	
Size of kimberlite pipe	32 hectares at surface
Commencement of mining	1903
Acquisition by Petra Diamonds	July 2008
Ownership	Petra Diamonds Limited: initial 37% (option to increase to 60%) Al Rajhi Holdings W.L.L.: initial 37% Thembinkosi Mining Investments (Pty) Ltd: 14% Petra Diamonds Employee Share Trust: 12%
Operator	Petra Diamonds
Total resources	207.9 million carats
Type of mining	Underground block cave
Depth of mining (metres underground)	747
Status	Initial production will be expanded as the mine is fully assessed and operational parameters established. A ramp-up mine plan will follow this initial period of evaluation.

**Ownership:** The Petra Diamonds Cullinan Consortium ("PDCC") acquired Cullinan as a going concern on 16 July 2008 and Petra is the technical operator of the mine on behalf of PDCC. PDCC comprises Petra Diamonds Limited (37% initial interest), Al Rajhi Holdings W.L.L. (Al Rajhi) (37% initial interest) and various BEE partners (26% interest), which include a 12% employee share trust stake. Petra can increase its interest in PDCC (from Al Rajhi) to 60% based on performance of the mine and pre-agreed option payments.

**Location:** Cullinan is located some 30 kilometres east of Pretoria, in Gauteng Province, South Africa. The mine is accessed by a tar road, and water and power facilities are readily available and in place.

**Geology:** The Cullinan Kimberlite pipe occurs within the stable, three billion year old Kaapvaal Craton and intrudes rocks of the Transvaal Supergroup (Pretoria and Rooiberg Groups), Bushveld Complex and the younger Waterberg Group.

**Mining methods:** The large pipe has allowed a variety of mining methods to be utilised in exploiting the orebody. Open pit mining was carried out to a depth of 189 metres. Other mining methods used above the gabbro sill included open benching and block caving. Initially, underground mining used the sub-level open bench mining method but over time methods and systems were adapted according to differing ground conditions. In the early 1970s cave mining using scrapers was implemented and sub-level open stoping was implemented in the early 1980s. Petra is currently mining the B-Cut levels at a depth of 747 metres using mechanised trackless block-cave mining.

**Operating review:** Petra completed the acquisition of Cullinan on 15 July 2008 and immediately assumed control as operator of the mine. In September, Petra held the first tender of Cullinan diamonds and achieved

an average value of US\$100 per carat for the parcel of 66,127 carats. The parcel included a 26.54 carat white diamond, which sold for US\$1,625,000. In October a 39.19 carat blue diamond was sold for US\$8.8 million.

**Outlook for 2009:** During the first year of operation, Petra will focus on establishing the new economics of the mine, including grade, value per carat, cost per tonne and overall production capacity of the infrastructure. Due to this focus in the first financial year to June 2009, Petra will mine from the B-Cut at a rate of 1.7 to 2.0 million tonnes per annum, which is expected to yield between 750,000 and 850,000 carats. This will be augmented by production from the Optical Sorting Plant ("OSP") tailings of approximately 100,000 carats. The OSP deposit of approximately 1.2 million tonnes cannot be included in the resource statement, however since taking control of Cullinan, Petra has completed a series of OSP plant modifications resulting in an initial recovered grade of 78 cpht, compared with the historic recovery rate of 28 cpht. Further investigations to increase both grade and throughput are underway.

Production levels at the mine will be maintained at around 1 million carats per annum from financial year 2010, which has the potential to deliver annual revenues of some US\$100 million. Further information on the production plans from the OSP tailings and main tailings resource (16.8 million carats) will follow in due course when Petra has further developed its mine planning in that regard.

Petra is in the process of making major alterations to the processing of ore by making changes within the plant, with the objective of improving the grade while placing emphasis on the recovery of the whole spectrum of diamonds. The mine is renowned for the production of large, high-value diamonds, including prized blue diamonds, and all care will be taken to ensure the best possible chance of their recovery.

R400 million has been budgeted for the mine's initial working capital and capex requirements and this has been funded through the purchase financing package.

Reserves and Resources							
Category	Gross			Net attributable <sup>4</sup>			Operator
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	
<b>Ore/Diamond Reserves</b>							
Proven	–	–	–	–	–	–	Cullinan
Probable	16.188	52.12	8.437	5.990	52.12	3.122	Diamond Mine
<b>Total Diamond Reserves</b>	<b>16.188</b>	<b>52.12</b>	<b>8.437</b>	<b>5.990</b>	<b>52.12</b>	<b>3.122</b>	(Pty) Ltd
<b>Diamond Resources</b>							
Measured							
Indicated	255.825	71.42	182.706	94.656	71.42	67.602	Cullinan
Inferred	165.369	10.15	16.780	61.186	10.15	6.208	Diamond Mine
<b>Total Diamond Resources</b>	<b>421.194</b>	<b>47.36</b>	<b>199.486</b>	<b>155.842</b>	<b>47.36</b>	<b>73.810</b>	(Pty) Ltd
<b>Total Carat Base (million)</b>		<b>207.923</b>			<b>76.931</b>		
<b>Estimated Value<sup>1</sup> (US\$ million)</b>		<b>\$17,874</b>			<b>\$6,613</b>		

Notes:

- Value calculated on US\$90 / run of mine carat and US\$40 / tailings carat.
- Cullinan reserves and resources have been taken from the De Beers October 2006 internal scorecard classification (considered to be a conservative classification) and depleted by mining conducted by De Beers from October 2006 to July 2008. Reserves and resources have been re-classified in compliance with JORC 2004.
- Optical Sorting Plant tailings are not included in the reserves and resources statement as they have not been systematically sampled and thus do not have inferred status and are regarded as a deposit by Petra. However, a deposit of 1.16 million tonnes exists which has historically been processed and which Petra is continuing to process, and Petra is achieving a grade in excess of 70 cpht.
- Petra currently has a 37% interest in Cullinan. Petra can increase its interest in Cullinan to 60% based on the performance of the mine and the payment of pre-agreed option payments.

## Cullinan – An illustrious history

### The discovery of the Cullinan diamond

The pear-shaped,  
530.20 carat  
Great Star of Africa,  
now resides in the  
Tower of London and  
is set in the British  
Royal Sceptre.

On January 26 1905, during his morning inspection, mine superintendent Captain Frederick Wells' eye was caught by a glint of light on a wall shaft. Only nine metres from the surface, he thought it was a piece of broken glass, placed there as a practical joke, and so he used a pocket knife to pry it out. It was in fact a 1.5 pound crystal, measuring 2¼ inches wide, 2⅝ inches high and 3⅞ inches long.

Still thinking it of limited value, but in order to check, he sent it for analysis only to discover that it was a perfectly clear and colourless diamond weighing 3,106 carats - twice the size of the largest diamond found in the world at that point. The diamond was named Cullinan and bought for £150,000 by the Transvaal Government.

Legend persists that the stone was only half of its original size as its one smooth side indicates a natural cleaving process having happened in the rock.

Transvaal Prime Minister Louis Botha's proposal to give the Cullinan to King Edward VII was approved by Parliament and accepted by the King in a 66<sup>th</sup> birthday presentation on 9 November 1907.

## Historic developments

### 1902

- ◆ Elandsfontein farm purchased for £52,000 by Sir Thomas Cullinan, a Johannesburg building contractor
- ◆ Premier (Transvaal) Diamond Mining Company Limited registered on 1 December
- ◆ Cullinan kimberlite pipe discovered. At 32ha surface area, the largest diamondiferous kimberlite ever found in South Africa

### 1903

- ◆ Cullinan village created around the Premier Mine
- ◆ The Premier Mine commences production

### 1904

- ◆ Premier Mine established as one of South Africa's most productive mines
- ◆ Colloquially known as Cullinan Diamond Mine
- ◆ More than 2,000 employees by the end of the year

### 1905

- ◆ 26 January Superintendent Captain Frederick Wells discovers rough diamond weighing 3,106 carats
- ◆ Diamond named The Cullinan and sold to Transvaal Government for £150,000
- ◆ Diamond sent to England in unmarked postal box - while a replica was publicly accompanied by defectives on a steamer from South Africa as a diversion

### 1914

- ◆ By the outbreak of WW1 Premier Mine employed c.14,000 people

### 1930

- ◆ De Beers acquired controlling interest in Premier through an arrangement with Anglo American

### 1937

- ◆ Current Imperial State Crown of Great Britain created by Garrad & Co using the Cullinan II, set centre front, for the coronation of King George VI on 12 May

### 1985

- ◆ Golden Jubilee Diamond discovered at the Premier Mine
- ◆ Cut to 545.67 carats, it supplants Cullinan I as the largest cut diamond in the world



### Cutting the enormous stone

The Amsterdam firm of I. J. Asscher and Company was awarded the job and the firm's principal, Joseph Asscher studied the stone for three months, assessing the optimum facets on which to cut.

After deciding the approach, on 10 February 1908, at 2:45 pm, Asscher was ready. His first strike broke the cutter blade, with no damage to the diamond, but his second stroke was perfect and split the stone as planned. It is reported that Mijnheer Asscher promptly fainted with relief.

The two stones, weighing 1,977 and 1,040 carats respectively, were then further cleaved into nine major stones, 96 brilliants and 9.5 carats of unpolished pieces, with a total weight of 1,063 carats – 65 per cent having been lost in the cutting process.

The two main stones, Cullinan I (The Great Star of Africa) and Cullinan II (The Lesser Star of Africa) were given to King Edward VII, who also bought the 11.5 carat 'sixth Cullinan chip' for Queen Alexandra.

The pear-shaped, 530 carat Great Star of Africa, now resides in the Tower of London and is set in the British Royal Sceptre.

The 317 carat Lesser Star of Africa is also in the Tower of London in the centre front band of the Imperial State Crown of Great Britain.



*Cullinan is the world's only reliable source of blue diamonds*

## 1907

- ◆ The Cullinan presented to England's King Edward VII on 9 November for his 66th birthday

## 1908

- ◆ I. J. Asscher and Company (Amsterdam) appointed as diamond cutter on 10 February
- ◆ Cullinan I (530.2 carats) named as the Great Star of Africa, incorporated into British Royal Sceptre with the Cross (originally created in 1661)
- ◆ Cullinan I is the second largest polished diamond in the world and is the largest of nine large stones cut from the Cullinan Diamond as well as 96 smaller brilliants and 9.5 carats of unpolished pieces
- ◆ Cullinan II (317.4 carats) named as the Lesser Star of Africa and is the fourth largest polished diamond in the world

## 1911

- ◆ Sceptre first used as part of the British Crown Jewels in coronation of King George V on 22 June

## 1997

- ◆ Premier (Transvaal) Diamond Company amalgamated into De Beers Consolidated

## 2003

- ◆ Premier renamed The Cullinan mine by owners De Beers to mark the mine's centenary

## 2007

- ◆ Petra Diamonds Cullinan Consortium (PDCC) announces proposed acquisition of the Cullinan mine for R1 billion

## 2008

- ◆ Cullinan mine acquisition completed on 15 July following regulatory and Ministerial approval

## South Africa – Koffiefontein

### Name of operation: Koffiefontein

**Description:** Koffiefontein is one of the world's top kimberlite mines by average value per carat. The mine produces high-value diamonds, a regular proportion of which are beautiful white diamonds between 5 and 30 carats in size, and the average value per carat achieved in the financial year to June 2008 was US\$484, against a world average of US\$90. In 1994, a 232.34 carat diamond was recovered at Koffiefontein, being the largest rough diamond ever produced by the mine.

Petra acquired Koffiefontein in July 2007 from De Beers for R81.9 million and, having conducted care and maintenance activities at the mine in the 12 months prior to completion, was able to bring the mine on stream immediately. This acquisition marked the initial implementation of Petra's strategy to become a significant diamond producer as historically, production had been solely from the fissure mines. The acquisition has proved to be exceptional for the Petra Group as Koffiefontein is now a major contributor to group revenue, and its high-value production is highly sought after in the international diamond market.

#### Koffiefontein vital statistics:

Size of kimberlite pipe	11.1 hectares at surface
Commencement of mining	1870 (mining started in the form of small claims which were then amalgamated into the Koffiefontein mine)
Acquisition by Petra Diamonds	2007
Ownership	Petra Diamonds: 70% Re-Teng Diamonds (Pty) Limited: 30%
Operator	Petra Diamonds
Total resources	6.0 million carats
Type of mining	Underground front cave
Depth of mining (metres underground)	490
Status	Full production

**Location:** The mine is located at Koffiefontein, in the Free State Province of South Africa, 110 kilometres southeast of Kimberley.

**Geology:** The local geology consists of Karoo age shale and carbonaceous shale with intercalated dolerite overlying granite gneiss basement. The main deposit is a kimberlite ore body known as the Koffiefontein pipe which forms part of a cluster of kimberlite pipes and dykes that intrude Dwyka shales and Karoo dolerites. Adjacent to the Koffiefontein pipe is a second kimberlite ore body known as the Ebenhaezer pipe, which is approximately half the size, with a surface area of approximately six hectares.

**Mining methods:** The Koffiefontein pipe was originally mined as an open pit operation until 1981. On completion of the open pit operations, the pit had a surface area of 44 hectares and a diameter of 750 metres, plus a depth in excess of 270 metres. Thereafter underground development began and the ore is now mined from the underground workings using the front cave mining method to extract a 100 metre high block of ore between 37 level and 48 level/49 level. Petra is currently mining Block 1 at a depth of 490 metres. Block 2 extends down from 490 metres to 590 metres. In addition, the kimberlite pipe has been investigated by a drilling programme to a depth of 720 metres. Petra expects there to be significant additional resources below the 690 metre level (current resource statement depth) which should extend the existing mine life considerably.

Access to the underground operations is via the roadway decline down to 52 level (520 metres below surface) and via No.2 Main Rock Shaft. Hoisting is via a vertical shaft that extends to a depth of 620 metres. Preparation and execution for the next mining block at 59 level (590 metres below surface) is well advanced with the decline development already underway. This new mining area is scheduled to begin production by 2012. Sufficient development has been completed through the year to secure ongoing production until the new mining block comes online.

Koffiefontein: production for the year was 89,622 carats, and the average value per carat achieved was US\$484, positioning Koffiefontein as one of the world's top kimberlite mines by value.



*A 4.13 carat pink stone from the Koffiefontein mine*

**Operating review:** The Petra team has now recorded its first full year of production at Koffiefontein, following completion of the mine acquisition in July 2007. The mine management team has successfully turned Koffiefontein from a loss-making mine into an economically viable and highly profitable operation. This has been made possible by bringing the cost structure in line with the Petra Group, which as a smaller company has much lower overheads in comparison with De Beers, and by right-sizing throughput and production. The team also made key modifications in the plant, with the emphasis placed on recovery of the whole spectrum of diamonds. Finally, Petra used its internal skills base wherever possible, rather than external contractors, leading to substantial savings in areas such as engineering, development, support, plant design and construction.

Production for the year was 89,622 carats, and the average value per carat achieved was US\$484, positioning Koffiefontein as one of the world's top kimberlite mines by value. Recovered grade for the first year of operation was 9.1 cpht, a reflection of the encouraging changes made to the treatment plant as well as underground mining practices. This is a significant improvement on the grade modelled in Petra's original business plan of 7.4 cpht.

Koffiefontein is renowned for the production of exceptional diamonds. Such stones are scarce worldwide and therefore achieve high prices. In the year to June 2008, Koffiefontein produced a 74.7 carat diamond which was sold in September 2007 for US\$1,010,000 (equivalent to US\$13,556 per carat) and a 41.6 carat diamond which was sold in June 2008 for US\$1,790,000, (US\$43,028 per carat). After the year end, a 4.13 carat fancy pink diamond from Koffiefontein sold for US\$226,666 (US\$54,882 per carat) on tender in September 2008. Our strategy at Koffiefontein is to ensure that we have the best possible chance of recovering the better quality and larger diamonds and every step of our processing system is geared towards this.

Costs and capex were both in line with management expectations. The cash costs at Koffiefontein ran at approximately R90 per tonne, a level which (other than inflation based increases) we expect to maintain. Capex for the Period was US\$3.7 million, with total capex spend at the mine for the 12 months to June 2009 expected to be US\$5.0 million, including the installation of electricity generation capacity.

Koffiefontein production:			
	Unit	Year ended 30 June 2008	Year ended 30 June 2007
<b>Production</b>			
Diamonds produced	Carats	89,622	44,423
Grade	Cpht	9.1	7.7
<b>Sales</b>			
Revenue	US\$m	51.0	–
Diamonds sold	Carats	105,479	–
Average price per carat	US\$	484	–

*Note 1: All production and sales figures are stated gross; Petra's interest is 70%*

The only other economically important pipe in the kimberlite cluster at the Koffiefontein mine is the Ebenhaezer pipe, which abuts against the Koffiefontein pipe and was mined by De Beers toward the end of their tenure. The leading excavations of the pipe are only at a depth of 35 metres. This pipe is six hectares in surface area and of a lower grade than the Koffiefontein pipe. Petra's strategy will be to evaluate the potential of this kimberlite and the current opinion is that it could be an economically viable open pit operation.

**Outlook for 2009:** The new tailings treatment plant at Koffiefontein is in the process of being commissioned and once this is operational, Petra will commence the recovery of diamonds from the tailings resources.

Reserves and Resources:							
Category	Gross			Net attributable			Operator
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	
<b>Ore/Diamond Reserves</b>							
Proven	18.385	3.69	0.678	12.869	3.69	0.475	Koffiefontein
Probable	18.482	8.76	1.619	12.938	8.76	1.133	JV
<b>Total Diamond Reserves</b>	<b>36.867</b>	<b>6.23</b>	<b>2.297</b>	<b>25.807</b>	<b>6.23</b>	<b>1.608</b>	
<b>Diamond Resources</b>							
Measured	–	–	–	–	–	–	Koffiefontein
Indicated	12.518	7.82	0.978	8.763	7.82	0.685	JV
Inferred	90.486	3.04	2.753	63.340	3.04	1.926	
<b>Total Diamond Resources</b>	<b>103.004</b>	<b>3.62</b>	<b>3.731</b>	<b>72.103</b>	<b>3.62</b>	<b>2.611</b>	
<b>Total Carat Base (million)</b>		<b>6.028</b>			<b>4.219</b>		
<b>Estimated Value (US\$ million)</b>		<b>\$2,162</b>			<b>\$1,513</b>		

Note: 1. Value calculated on US\$450 / run of mine carat and US\$70 / tailings carat.

2. Petra has a 70% interest in Koffiefontein.

## South Africa – Kimberley Underground

### Name of operation: Kimberley Underground

**Description:** Kimberley Underground comprises Bultfontein, Dutoitspan and Wesselton, three historic diamond mines which were at the heart of the diamond rush in the Kimberley region of South Africa in the late 1800's. As with Cullinan and Koffiefontein, these mines have also produced spectacular diamonds in the past, such as The Oppenheimer, a nearly perfectly-formed 253.7 carat yellow diamond crystal. The Oppenheimer is one of the largest uncut diamonds in the world and was discovered in the Dutoitspan mine in 1964.

In September 2007 Petra reached agreement to acquire Kimberley Underground from De Beers and the acquisition is expected to complete by the end of 2008. As Kimberley Underground ceased production in August 2005, Petra is currently operating the mines under care and maintenance with ore being stockpiled for processing once the acquisition is complete. Petra expects diamond recoveries and sales to begin in the first few months of 2009.

Kimberley underground vital statistics	
Size of kimberlite pipe	Bultfontein: 9.7 hectares Dutoitspan: 10.8 hectares Wesselton: 8.7 hectares
Commencement of mining	Bultfontein: 1869 Dutoitspan: 1869 Wesselton: 1890
Acquisition by Petra Diamonds	To be completed by end 2008
Ownership	Petra Diamonds: 74% (once acquisition completes) Sedibeng Mining: 26% (once acquisition completes)
Operator	Petra Diamonds
Total resources	6.4 million carats
Type of mining	Bultfontein: rim loading section and block cave Dutoitspan: slusher drift block caving Wesselton: slusher drift block caving
Depth of mining (metres underground)	Bultfontein: 845 Dutoitspan: 870 Wesselton: 995
Status	Care and maintenance until acquisition completes

**Location:** The Kimberley Underground mines are located within the historic city of Kimberley, the provincial capital of the Northern Cape Province in South Africa.

**Geology:** The kimberlite pipes in the Kimberley area have intruded into the horizontally bedded, black and grey carbonaceous shales of the Karoo Supergroup, with minor interbedded sandstone and siltstone layers. This formation conformably overlies an erratically developed Dwyka tillite, which seldom exceeds three metres in thickness. This sequence has been intruded by a dolerite sill up to 30 metres thick. Locally this sill has acted as a barrier to kimberlite intrusion with the resultant formation of kimberlite sills at or near the base of the dolerite sill. The Karoo rocks unconformably overlie the Ventersdorp Supergroup strata of variable thickness. The Ventersdorp Lavas in turn unconformably overlie the uneven Basement Granite.

**Mining methods:** Each kimberlite pipe has been mined using various mining methods. Bullfontein was most recently mined by means of a rim loading section and a block cave. The Dutoitspan and Wesselton pipes most recently employed slusher drift block caving prior to cessation of operations.

Kimberley Underground Mines are serviced by two separate shaft infrastructures. Joint Shaft services the Bullfontein and Dutoitspan mines, which are close to each other. Wesselton is approximately five kilometres away from Joint Shaft and is serviced by its own shaft infrastructure.

**Operating review:** The Kimberley Underground mines are currently operated by Petra under care and maintenance with ore being stockpiled for processing once the acquisition is complete and all regulatory approvals received. The rehabilitation of the block caves is continuing well. With the rehabilitation of a closed mine, extreme care must be taken during the ramp-up process, and presently everything is going according to plan.

**Outlook for 2009:** Petra anticipates that the acquisition of Kimberley Underground will complete by the end of 2008, following which the Company can immediately commence diamond recoveries. The new plants, which Petra is building in-house, have been designed to cater for the large diamonds known to exist in the Kimberley mines, the largest of which previously recovered was over 800 carats in size. Petra expects diamond recoveries and sales to begin in the first quarter of 2009.

Based on historical production and sales information, Petra expects annual sales from Kimberley Underground in excess of 100,000 carats at an average of US\$160 per carat once full production is renewed, giving gross annual revenues in excess of US\$16 million. It should be noted that the average value of US\$160 per carat is based on the last sales of Kimberley Underground production which was some three years ago and Petra expects prices to now be substantially above this level.

Reserves and Resources:							Operator
Category	Gross			Net attributable <sup>3</sup>			
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	
<b>Ore/Diamond Reserves</b>							Kimberley Mines JV
Proven	–	–	–	–	–	–	
Probable	3.073	19.96	0.614	2.274	19.96	0.454	
<b>Total Diamond Reserves</b>	<b>3.073</b>	<b>19.96</b>	<b>0.614</b>	<b>2.274</b>	<b>19.96</b>	<b>0.454</b>	
<b>Diamond Resources</b>							Kimberley Mines JV
Measured	–	–	–	–	–	–	
Indicated	5.794	20.00	1.159	4.287	20.00	0.858	
Inferred	48.113	9.68	4.655	35.604	9.68	3.444	
<b>Total Diamond Resources</b>	<b>53.907</b>	<b>10.79</b>	<b>5.814</b>	<b>39.891</b>	<b>10.79</b>	<b>4.302</b>	
<b>Total Carat Base (million)</b>	<b>6.428</b>			<b>4.756</b>			
<b>Estimated Value<sup>1</sup> (US\$ million)</b>	<b>\$995</b>			<b>\$736</b>			

Notes: 1. Value calculated on US\$160 / run of mine carat.

2. Kimberley Underground reserves and resources have been taken from the De Beers October 2006 internal scorecard classification (considered to be a conservative classification). No processing has taken place since that date. Reserves and resources have been re-classified in compliance with JORC 2004.

3. The acquisition of Kimberley Underground is expected to complete by the end of 2008, at which point Petra will hold a 74% interest.

At Kimberley Underground Petra has rehabilitated all infrastructure to such an extent that underground mining production has commenced. The rehabilitation of the block caves is continuing well.



*Wesselton pipe, Kimberley Underground mine, South Africa*

## South Africa – Fissure Mines

The fissure mines – Helam, Sedibeng and Star – were acquired when Petra merged with ASX quoted Crown Diamonds NL in May 2005. The average value per carat for Petra's three fissure mines is running at US\$211, which is high compared with the world average of US\$90 for a hard rock mine. The fissure mines also regularly produce exceptional diamonds, including a number of stones which have sold for over US\$1 million each in the last few years. In September 2008, a 126.69 carat diamond from the fissures sold for \$5,251,000 (or \$41,448 per carat).

Average cash costs per tonne ran at approximately R530 overall for the three fissure mines, a level which management is confident can be substantially improved upon. Capex for the Period was US\$3.45 million.

Fissure mines vital statistics:	
Commencement of mining	Helam: 1933 Sedibeng: 1952 Star: 1952
Acquisition by Petra Diamonds	May 2005 (further to merger with Crown Diamonds NL)
Ownership	Helam: 100% Petra Diamonds Sedibeng: 74.5% Petra Diamonds, 25.5% BEE partners Star: 100% Petra Diamonds
Operator	Petra Diamonds
Type of mining	Helam: Full shrinkage overhand stoping Sedibeng: Full shrinkage overhand stoping Star: Open stope underhand
Total resources	4.8 million carats
Type of mining	Underground fissure mining
Depth of mining (metres underground)	Helam: 750 Sedibeng: 750 Star: 600
Status	Full production

Fissure mines combined production:			
	Unit	Year ended 30 June 2008	Year ended 30 June 2007
<b>Production</b>			
Diamonds produced	Carats	110,665	136,051
Grade	Cpht	41.9	42.1
<b>Sales</b>			
Revenue	US\$m	26.3	16.7
Diamonds sold	Carats	124,693	122,821
Average price per carat	US\$	211	136

Note 1: All production and sales figures are stated gross



Reserves and Resources							
Category	Gross			Net attributable <sup>3</sup>			Operator
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	
<b>Ore/Diamond Reserves</b>							
Proven	1.435	56.49	0.810	1.326	58.79	0.779	Petra /
Probable	2.050	70.31	1.441	1.990	71.54	1.423	Sedibeng
<b>Total Diamond Reserves</b>	<b>3.485</b>	<b>64.62</b>	<b>2.251</b>	<b>3.316</b>	<b>66.44</b>	<b>2.202</b>	Mine JV
<b>Diamond Resources</b>							
Measured	–	–	–	–	–	–	
Indicated	–	–	–	–	–	–	Petra /
Inferred	1.453	175.42	2.549	1.415	178.22	2.523	Sedibeng
<b>Total Diamond Resources</b>	<b>1.453</b>	<b>175.42</b>	<b>2.549</b>	<b>1.415</b>	<b>178.22</b>	<b>2.523</b>	Mine JV
<b>Total Carat Base (million)</b>	<b>4.800</b>			<b>4.725</b>			
<b>Estimated Value (US\$ million )</b>	<b>\$640</b>			<b>\$595</b>			

Notes:

1. Value calculated on US\$420 / carat for Sedibeng, US\$220 / carat for Star and US\$85 / carat for Helam.

2. Fissure mines; grades and fissure widths are extrapolated downwards below working levels from detailed historical records collected over many decades of mining, with confirmation of fissure continuity by diamond drilling where necessary.

3. Petra has a 74.5% interest in Sedibeng and a 100% interest in both Helam and Star.

### Name of operation: Helam

**Location:** Helam is located in the Swartruggens District of the North West Province in South Africa.

**Geology:** The fissure array consists of three kimberlite types which occur in four mining units. The fissures have been exploited over a strike length of 7,000 metres and to a depth of 750 metres below surface at the deepest point.

**Mining methods:** The three kimberlite fissures are accessed through an underground shaft system which covers the four mining units: the John, Edward, Second Lease and Third Lease units. The mining method used is full shrinkage overhand stoping and the mine continues to move towards greater mechanisation with the deepening of the John shaft down to 23 level, with a planned depth to 26 level. The commissioning of this shaft to these levels should be accomplished by 2010 and will make the two shafts that currently hoist ore to 14 level for transfer and hoisting to surface redundant, thereby making a significant reduction in double handling, one of the biggest challenges at Helam.

**Operating review:** Mine infrastructure is being upgraded to support a 150,000 tonnes per annum operation and the mechanisation programme is progressing well. The John main shaft has been deepened to the 23 level and is on target to reach full production down to the 26 level by the end of 2010. The shaft has been modified from cage hoist to skip hoist. Electrical locomotives are being installed, allowing multiple loads to be moved more quickly. A decline was driven from the 10 level to near the 19 level to open up the Second Lease fissure to the existing main shaft. In addition, development is in progress to link Second Lease to the existing deepened John shaft on the 22 level.

**Outlook for 2009:** The mechanisation process underway at Helam is expected to reduce operating costs and increase productivity by the 2010 financial year.

### Name of operation: Sedibeng

**Location:** The Sedibeng operation includes the Messina and Dancarl mines and is located in the Warrenton District, Northern Cape Province in South Africa.

**Geology:** At surface the kimberlite fissures are intruded into flatlying dolomitic limestones of the Campbell-Rand Series of the Transvaal Supergroup. At a vertical depth of approximately 400 metres, the Black Reef shales and quartzites of the Chuniespoort Series are encountered, which in turn unconformably overlie andesitic lavas of the Ventersdorp Supergroup. At the deepest point of the mine (approx 750 metres) the host rock is still the same.

**Mining methods:** Full shrinkage overhand stoping

**Operating review:** The mechanisation process at Sedibeng is the most advanced of all of Petra's fissure mining operations and continues to be upgraded. Raise boring is now being undertaken to deepen the Dancarl shaft to 21 level. Drilling of the pilot hole to 21 level has been completed and the reaming process to one metre is 50% complete, whereafter the slyping process to full shaft dimension will be executed. This process should be completed by March 2009. A winder and headgear have already been secured for the new duty cycle on this shaft and should be operational by mid 2009, opening up a block of ground in excess of half a million tonnes for mining access. This ore will be hoisted directly into the new plant mentioned below, enhancing mechanisation and security.

Petra's internal equipment manufacturing arm completed the construction of a new 100 tph DMS diamond recovery plant during 2007, which now caters for all production from Sedibeng mining and tailings. This plant is resulting in a reduction in operating costs and a significant improvement in diamond recovery, as evidenced by the recovery of the 126.69 carat diamond.

**Outlook for 2009:** The mechanisation process underway at Sedibeng will enable Petra to decrease the cost of mining by the 2010 financial year and modestly increase production.

### Name of operation: Star

**Location:** Star is located in the Theunissen District of the Free State Province in South Africa.

**Geology:** The Star mine property covers approximately 1,034 hectares and is composed of a combination of mining leases, mining licences, diamond rights and free holdings on various segments and portions of farms in the Free State. The mine exploits a series of kimberlite fissure segments over an east-west trending strike length of 4.5 kilometres which is part of a more extensive 15 kilometre long series of fissures. The individual fissures range in width between 5 centimetres and 80 centimetres, and average 45 centimetres.

**Mining methods:** Open stope underhand

**Operating review:** A series of upgrades have been implemented at the mine, including the manufacture of a new plant and new ventilation shafts. The main shaft sinking programme has been successfully completed to 15 level. The cover drilling for the deepening of the main shaft to 16 level has been completed and the commencement of shaft sinking is imminent. The decommissioning of the sub-shaft winder will thus occur in the near future, thereby removing the cost of double handling. The ventilation shaft from surface to 13 level has been secured as well as a second return ventilation raise between 14 and 13 level in the event of emergencies. This greatly assists in handling the methane intersections that frequently occur in this mine. The mine is currently producing at an annual rate of 32,000 tonnes.

**Outlook for 2009:** The mechanisation process underway at Star will enable Petra to increase production by the 2010 financial year.

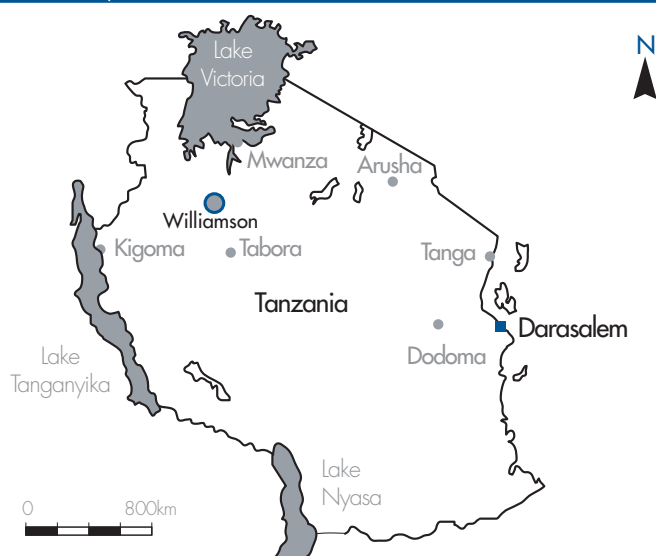
## Tanzania

Tanzania's robust economy reflects its stable political situation. Annual growth rate between 2000 and 2006 averaged 5.8%, one of the best performers in sub-Saharan Africa. In 2007 the country's GDP amounted to US\$16.18 billion with a growth rate of 7.3%. In 2007 the GDP per capita amounted to US\$1,300.

According to the World Bank, Tanzania ranked as the seventh most popular destination for foreign capital out of the 47 sub-Saharan African countries listed, having attracted over US\$2.8 billion of foreign direct investment between 2000 and 2006.

In 2007, Tanzania produced nearly 280,000 carats, worth some US\$28.3 million (source: Kimberley Process Certification Scheme).

### Petra's Tanzanian operation



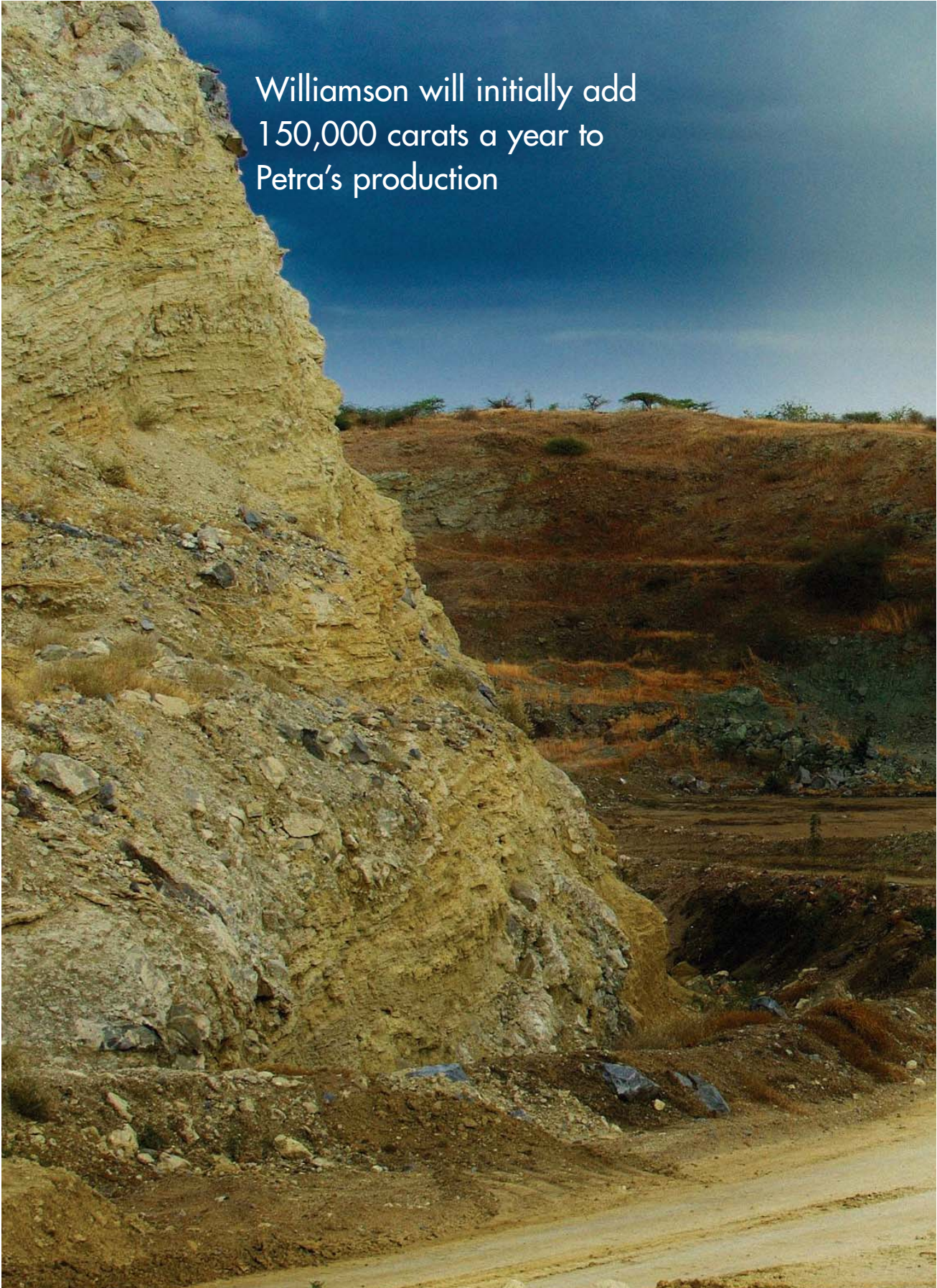
### Name of operation: Williamson Mine

**Description:** The Williamson mine is an open pit diamond mine at Mwadui in the Shinyanga Province of northern Tanzania. At 146 hectares, Williamson is the largest kimberlite pipe ever to be mined economically, having been operated continuously as an open pit mine for almost 70 years. During this time it has produced over 20 million carats, and there remains a major resource of some 40 million carats. The mine regularly produces large, high-quality stones and is a source of rare and extremely valuable fancy pink diamonds.

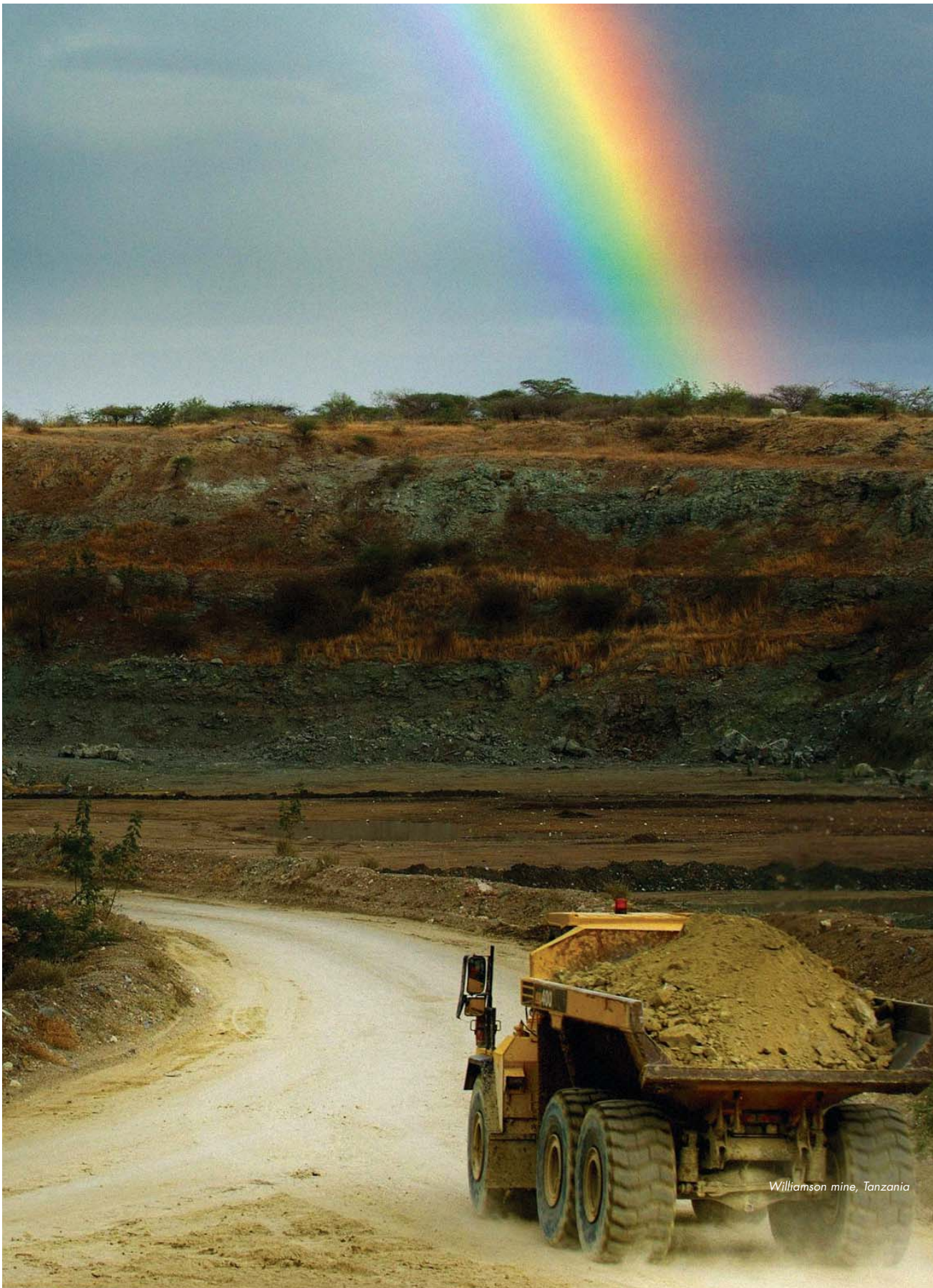
In September 2008 Petra reached agreement to acquire Williamson from De Beers and the acquisition is expected to complete in November 2008.

#### Williamson vital statistics:

Size of kimberlite pipe	146 hectares
Commencement of mining	1940
Acquisition by Petra Diamonds	To be completed November 2008
Ownership	Petra Diamonds: 75% (once acquisition completes) Government of the United Republic of Tanzania: 25%
Operator	Petra Diamonds
Total resources	40.2 million carats
Type of mining	Open pit
Depth of mining	90 metres at deepest point
Status	Producing



Williamson will initially add  
150,000 carats a year to  
Petra's production



*Williamson mine, Tanzania*

**Location:** Williamson is located at Mwadui, 40 kilometres north east of Shinyanga, the capital of the Shinyanga Region in Tanzania.

**Geology:** The geology of the Mwadui deposit consists of a shale basin, Turbidite (Bouma) facies, granite breccia, reworked volcanistic kimberlite deposits, and primary pyroclastic kimberlite (Stiefenhofer 2000). The country rock consists of granite and gneiss. The Mwadui Pipe was emplaced in Archaean granitic basement and meta-sediments. The meta-sediments include schists, phyllites, occasional quartzites and rare banded iron stones. Many of the kimberlite occurrences in and around Shinyanga are characterised by the presence of crater deposits, suggesting that minimal erosion has taken place in this region since the Tertiary period when the kimberlites were emplaced. The country rock geology in the immediate vicinity of the pipe is dominated by granites which can be divided into two distinct types; a younger porphyritic variety which intruded an older gneissic suite.

Williamson is an example of a major diamond mine where operations are focused on the higher-grade resedimented volcanoclastic kimberlite ("RVK") material close to the rim of the kimberlite crater. Petra's exploration model at its Alto Cuilo and Luangue projects in Angola is similarly based upon delineating one or more RVK deposits of significant size.

**Mining methods:** The Williamson mine is a large open-pit operation, with a very low stripping ratio. The current operation comprises the open-pit mine feeding the main plant (3.7 million tonnes per annum capacity). There is also a dense media separation, multi-purpose plant and a pan plant on site. In 2007, the mine treated approximately 3.2 million tonnes of ore, recovering 220,000 carats at a grade of 6.9 carats per hundred tonnes. Total waste mined during 2007 was approximately 0.8 million tonnes, yielding a stripping ratio of approximately 0.24 tonnes of waste per tonne of ore.

**Operating review:** Petra expects to complete the acquisition of Williamson in November 2008, and will begin production at Williamson from this date. Operating activities and results will be included in the 2009 financial year.

**Outlook for 2009:** Williamson will initially add 150,000 carats a year to Petra's production. During the first year of operation the Company will focus on establishing the new economics of the mine, including grade, value per carat, cost per tonne and overall production capacity of the infrastructure. Once these new operating parameters have been established, Petra will consider an appropriate expansion programme which will include autogenous milling so as to capitalise on the economies of scale offered by the large size of the Mwadui resource. Indications are that the introduction of the new technology could increase throughput to around, or above, 7.5 million tonnes per annum, reducing unit operating costs and resulting in an estimated annual production of some 500,000 carats.

Reserves and Resources:							Operator
Category	Gross		Net attributable <sup>3</sup>				
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	
<b>Ore/Diamond Reserves</b>							
Proven	–	–	–	–	–	–	Williamson
Probable	–	–	–	–	–	–	Diamonds
<b>Total Diamond Reserves</b>	–	–	–	–	–	–	Limited
<b>Diamond Resources</b>							
Measured	–	–	–	–	–	–	Williamson
Indicated	92.623	4.98	4.616	69.467	4.98	3.462	Diamonds
Inferred	902.417	3.94	35.546	676.813	3.94	26.660	Limited
<b>Total Diamond Resources</b>	<b>995.040</b>	<b>4.04</b>	<b>40.162</b>	<b>746.280</b>	<b>4.04</b>	<b>30.122</b>	
<b>Total Carat Base (million)</b>		<b>40.162</b>			<b>30.122</b>		
<b>Estimated Value<sup>1</sup></b>							
<b>(US\$ million)</b>		<b>\$5,623</b>			<b>\$4,217</b>		

Notes:

1. Value calculated on US\$140 / run of mine carat.
2. Williamson resources have been taken from the De Beers December 2007 internal scorecard classification (considered to be a conservative classification). Resources have been classified in compliance with the JORC code.
3. The acquisition of Williamson is expected to complete in November 2008, at which point Petra will hold a 75% interest.

In addition to the abovementioned resource, there are deposits yet to be classified, that include 41 million tonnes of tailings dump and 14 million tonnes of alluvial gravels. The gravels are currently being worked on a tribute basis and the tailings dumps have been processed in the past. As Petra's new parameters for the mine are established, programmes will be put into place to quantify these deposits.

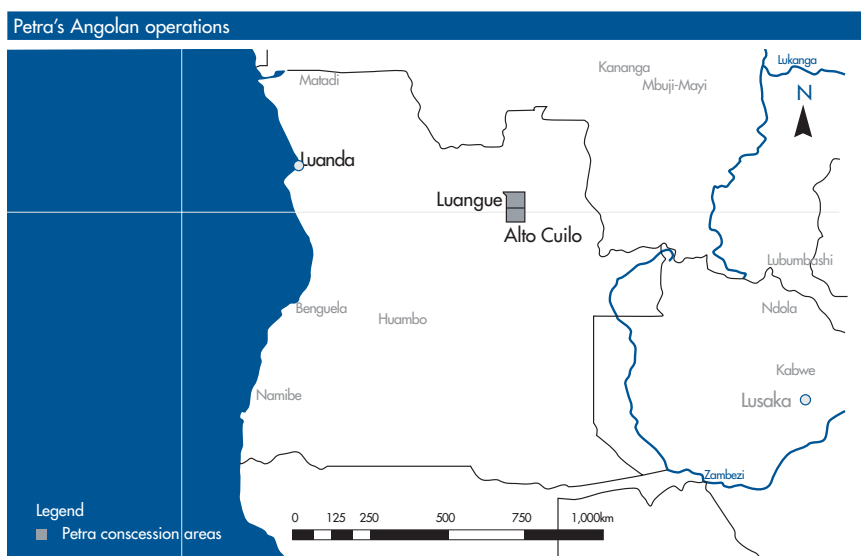
## Exploration

Complementing the Group's production is an exploration and development portfolio spread across some of the world's most prospective diamond fields. Petra has a range of projects at varying stages of development and it is these assets which will form the building blocks of future production.

## Angola

Angola is one of the most prospective countries in Africa for diamond exploration, as evidenced by the fact that certain of the diamond majors, such as De Beers, BHP Billiton and Alrosa, have active exploration activities in the country, and it is expected by many to yield the world's next large kimberlite diamond mine. The north-east area of the country is rich in kimberlites, and the country's major kimberlite mine, Catoca, is approximately 35 kilometres from Petra's assets. At 60 hectares in size, Catoca is the world's fourth largest kimberlite mine and it produces over 7 million carats per annum.

Currently ranked fifth in the world league of diamond producing countries, Angola aims to be among the world's three leading diamond producers in 2010. The country's state-run diamond company, Endiama, has indicated that Angola's production could reach 10 million carats in 2008, compared with the 9.7 million carats (worth US\$1.2 billion) of 2007 (source: Kimberley Process Certification Scheme).



### Name of operation: Alto Cuilo

**Description:** Alto Cuilo has been identified by analysts as one of the most exciting diamond exploration projects in development today. It is a world-class exploration project, as evidenced by the large number of kimberlites which have been discovered to date and the large size of these kimberlites (ranging up to 175 hectares).

Alto Cuilo vital statistics:	
Size of concession	2,670km <sup>2</sup>
Date acquired by Petra Diamonds	1997
Interest (kimberlite contract)	Petra Diamonds: 41.2% (upon completion of BHP Billiton's withdrawal) Endiama: 51% Moyoweno: 7.8%
Operator	Petra Diamonds
Status	Advanced exploration – narrow diameter drilling and mini bulk sampling underway

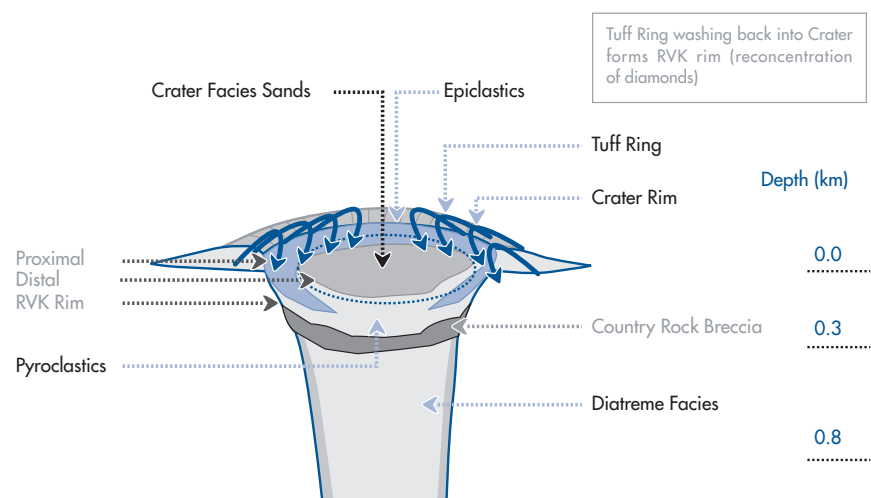
**Location:** Alto Cuilo is located in the Lunda Sul province of Angola, some 850 kilometres by road southeast of Luanda, Angola's capital.

**Geology:** The Alto Cuilo exploration project lies within the Lucapa corridor – a structural trend that hosts most of the known kimberlites and alluvial diamond deposits in north-eastern Angola. Granite/gneiss basement is overlain by Karoo sandstones and mudstones whose thickness is fault controlled and highly variable. Karoo and basement lithologies are overlain by Cretaceous Calonda sands that are the same age as the kimberlite intrusions, and a lack of significant erosion of Calonda and kimberlite lithologies has resulted in almost complete preservation of the kimberlite craters. Calonda and kimberlites have been covered by as much as 60 metres of Kalahari sands that have been incised by the current river systems, resulting in kimberlites outcropping in some river valleys.

**Review of progress:** Alto Cuilo is a project of major scope and scale, with a total of 122 anomalies greater than 8 hectares in size, which were identified across the licence area using a Midas gradient array low level helicopter aeromagnetic survey. To date the drilling programme has tested 104 priority targets of which 81 were confirmed to be kimberlites, an unusually high success rate in terms of kimberlite exploration.

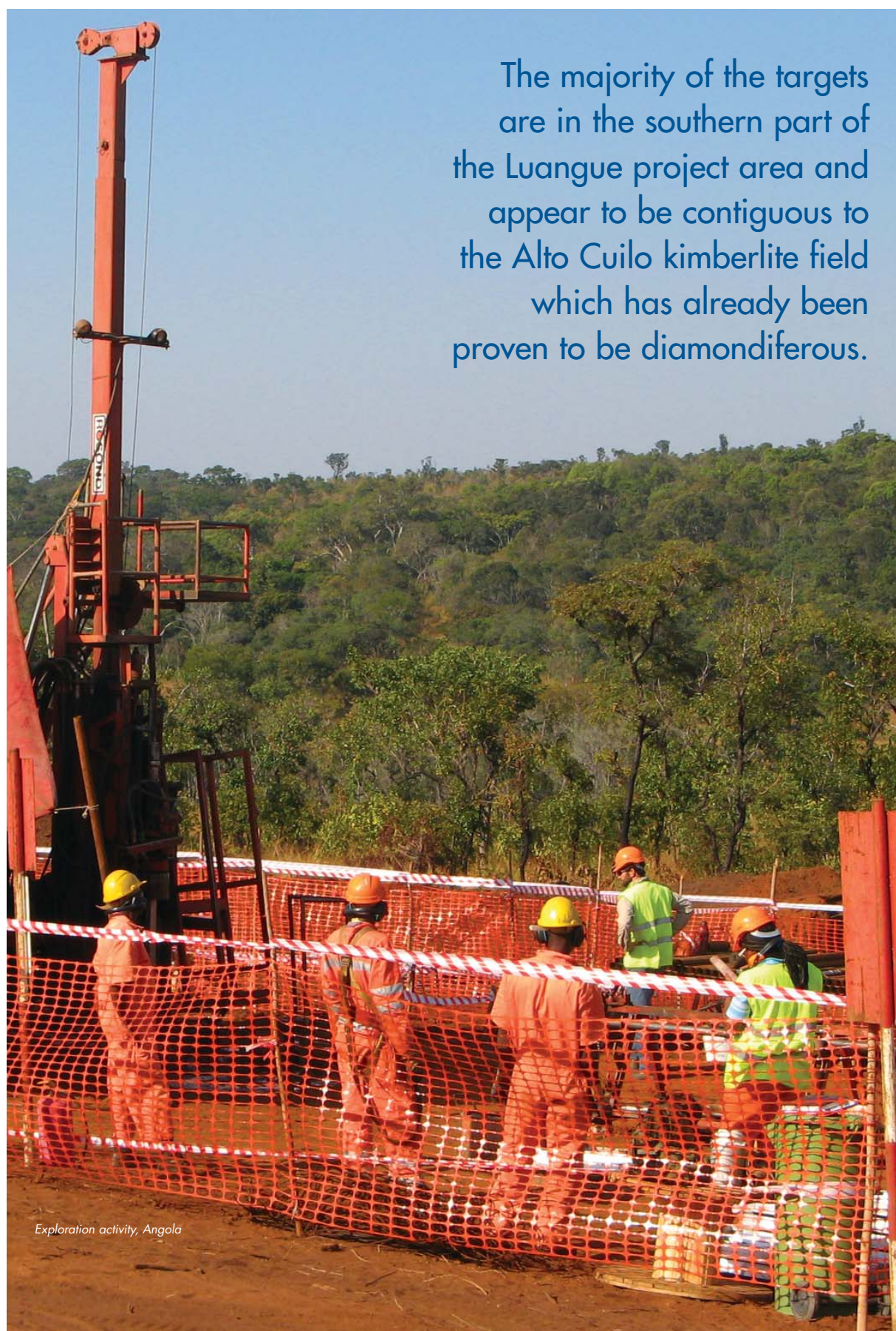
The Alto Cuilo JV with BHP Billiton had previously focused on delineating economically-viable, large-tonnage kimberlite vents containing diatreme-facies volcanoclastic or tuffitic kimberlite. Once Petra took control of operations in April 2008, the Company chose to refocus the programme on the diamond-bearing potential of crater-facies RVK, and specifically the RVK typically encountered along the rims of kimberlite craters. The volcanoclastic and sedimentary processes that redistribute kimberlitic material during and directly after volcanic eruptions often cause significant enhancement in both grade and stone size within the RVK layers, especially where concentrated RVK lies close to the crater rim. These crater rims have the potential to contain substantial deposits of economic diamond-bearing material, as is the case at other diamond mines with similar mineralisation, such as Catoca in Angola and Williamson in Tanzania.

#### RVK rims in Kimberlites





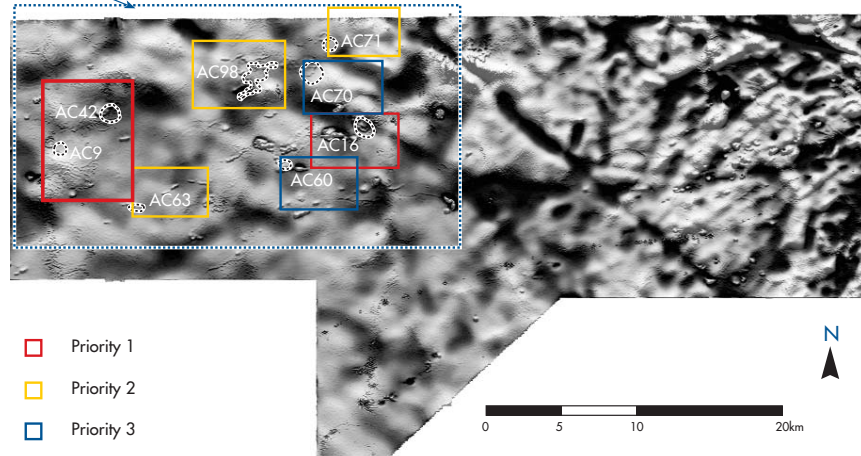
The majority of the targets are in the southern part of the Luangue project area and appear to be contiguous to the Alto Cuilo kimberlite field which has already been proven to be diamondiferous.



Exploration activity, Angola

Petra's new work programme to the end of 2008 is focused on a 276km<sup>2</sup> area, targeting eight of the 81 kimberlites identified. These eight, ranging from an estimated 30 to 175 hectares in estimated surface area, form a cluster and could be mined individually or together using a central process plant. The programme will investigate the considerable amount of RVK that has been indicated by narrow diameter drilling ("NDD") at the rims of these eight targeted kimberlites. All of these kimberlites, where accessible, have supported substantial levels of artisanal mining activity in the past.

Area of accelerated work programme



Kimberlite AC16 (with a geophysically estimated surface area of 120 hectares) is one of Petra's lower ranked kimberlites, but, due to ease of access and the presence of diamonds from previous sampling, Petra decided that it would be the first priority kimberlite to have a bulk sample taken from its RVK rim. Treatment of this bulk sample has now been completed. The sample measured at 2,877 dry tonnes was taken from a five metre thick layer of outcropping crater rim RVK and processed through a 10 tph dense media separation plant (bottom cut-off 1 mm). A total of 273.38 carats were recovered from the sample, giving a grade of 9.5 cpht for the total material processed.

Final results for the RVK sample from AC16 are summarised in the table below.

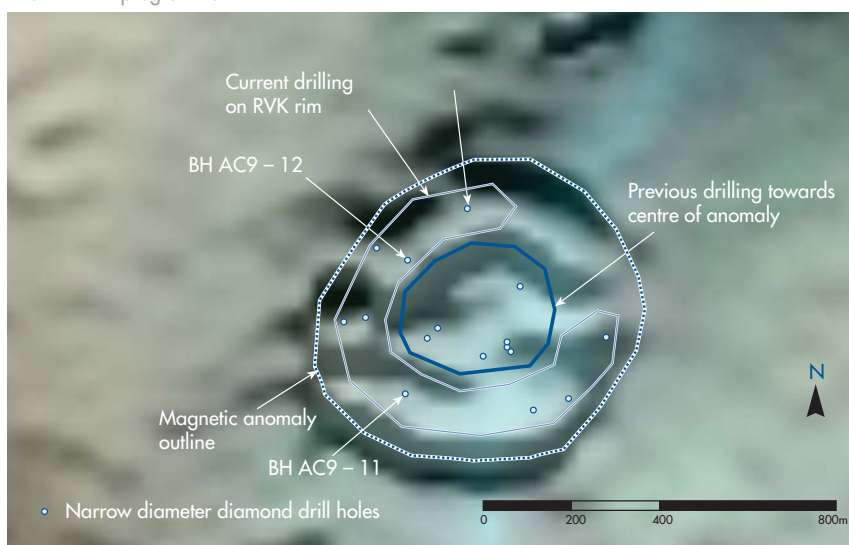
AC16 – Bulk Sample Results													
Sieve Size	-1	+1	+3	+5	+7	+9	+11	+13	+15	+17	+19	+21	Total
mm	-0.82	+0.82	+1.15	+1.47	+2	+2.35	+2.86	+3.85	+4.62	+4.93	+5.56	+7.09	
No. of Stones	0	322	782	975	352	230	137	27	6	14	7	1	2,853
Total Carats	0	5.16	22.63	57	39.18	41.21	45.56	20.64	5.78	17.47	14.76	3.99	273.38

This result is highly significant as it is almost treble the grade achieved from BHP Billiton's sampling of this kimberlite, where primary tuffisitic kimberlite was sampled from the kimberlite vent and averaged a grade of 3.6 cpht for 214 tonnes of material processed. The diamonds recovered in the sampling programme thus far are similar in quality to the diamonds recovered during the BHP Billiton kimberlite and alluvial sampling programme in this immediate locality during 2005 and 2006, which were valued well in excess of US\$200 per carat at that time. It should be mentioned that the bulk sample site represents one position on the 3.5 kilometre circumference of AC16 where RVK outcrops due to erosion in a river valley. The rest of the RVK rim does not outcrop and will be tested by MBS drilling. Bulk sampling will now focus on the RVK rims of the other kimberlites earmarked for follow-up, the next being AC9.

In the NDD programme, designed to identify the presence of RVK rims close to surface, 47 narrow diameter boreholes (7400 metres total) have been completed. At AC9, 907 metres of drilling in 9 holes has delineated near-surface RVK on the north, west, and southern rims of the anomaly, which is now estimated to have a surface area of 25 to 30 hectares from geophysics and drilling. This kimberlite is the first priority kimberlite

based on heavy mineral analysis ("HMA") and proximity of RVK to surface. No microdiamond testing has been carried out previously as the initial drilling of this kimberlite occurred very late in BHP Billiton's tenure, however the presence of abundant and intensive artisanal mining attests to it being significantly diamondiferous. Four of the NDD boreholes from the previous programme intersected crater rim RVK and indicate that this material is virtually continuous on the north, west and southern rims of the kimberlite. MBS sites are being prepared and a bulk sample is currently being excavated where RVK has been located at a depth of five metres from surface.

#### AC9 – NDD programme



A total of 12 NDD boreholes (2,169 metres total) have been drilled on anomalies AC42 and AC110, which together form a virtually contiguous kimberlite with a combined surface area of 112 hectares (estimated from geophysics). These NDD boreholes targeted the high magnetic response on the southern portion of AC42 that continues west onto the adjacent anomaly AC110. The NDD intersections have confirmed that this magnetic high is due to the presence of RVK, the top of which has been intersected between 40 and 85 metres from surface in all boreholes. MBS drilling sites are currently being investigated for the impending MBS programme.

**Outlook:** Petra is confident that Alto Cuilo has the potential to host one or more diamond deposits that would add substantial value to Petra's portfolio, and to Petra shareholders, and that refocusing the exploration campaign on the crater facies RVK gives the best possible chance of finding such a kimberlite deposit.

The MBS drilling has been waiting for the NDD campaign to advance to a stage where areas of proximal RVK have been located. This has been completed over anomalies AC9 and AC42, and NDD rigs are moving to the other anomalies for further exploration of the crater rim RVK material. MBS drilling will commence at AC9, where a minimum of 50 tonnes of RVK material will be taken from individual RVK units at each sample site. MBS drilling will then proceed to AC42, and then to the other anomalies in the work programme.

#### Name of operation: Luangue

**Description:** The Luangue concession lies within the southern part of the diamond-rich Lunda-Norte province, contiguous to the northern boundary of the Alto Cuilo project. Though it is at a much earlier stage of development, Petra is similarly positive about its potential and initial indications are that it could hold one or more substantial diamond deposits.

Petra's knowledge and experience gained on Alto Cuilo's exploration programme will be used as the key to unlock Luangue's considerable potential. In particular, knowledge of kimberlite indicator mineral ("KIM") signatures gained from exploration on Alto Cuilo will be applied to the Luangue drilling programme to speed up the prioritisation of kimberlites for MBS testing, and in light of the MBS results from Alto Cuilo, RVK rims will be targeted for mini-bulk sampling at Luangue.

Luangue vital statistics:	
Size of concession	3,000 km <sup>2</sup>
Date acquired by Petra Diamonds	March 2007
Interest (kimberlite agreement)	Petra Diamonds: 39% (upon completion of BHP Billiton's withdrawal) Endiama: 51% Bapsil: 10%
Operator	Petra Diamonds
Status	Early stage exploration – narrow diameter drilling underway

**Location:** The Luangue project lies contiguous to the north of Alto Cuilo in Angola's north-eastern diamond belt.

**Geology:** Like Alto Cuilo, the Luangue concession sits in the Lucapa corridor – a structural trend that hosts most of the known kimberlites and alluvial diamond deposits in north-eastern Angola. The same host-rock stratigraphy of basement granite/gneiss overlain by Karoo, Calonda, and Kalahari sediments is thought to exist at Luangue based on the limited information from drilling to date, though the new aeromagnetic data (see below) suggests that basement may be much closer to surface in the northern and eastern portions of the Luangue concession, similar to the geological setting of the Catoca kimberlite, only 35 kilometres away.

**Review of progress:** In December 2007, a helicopter-borne gradient array low-level, high-resolution aeromagnetic survey was carried out over the Luangue project area (28,000 line kilometres at 100 metres line spacing, covering approximately 90% of the total Luangue area). To further improve the resolution, a "towed bird" configuration was also used as this serves to minimise magnetic interference. This survey approach utilises highly sensitive technology and is capable of achieving very high quality and reliable results. This is next generation exploration technology and is even more sensitive than that previously applied with success at Alto Cuilo.

The results of this survey, released in May 2008, were highly encouraging with 138 anomalies identified. The total surface area of the targets is in excess of 8,000 hectares, with certain individual targets up to 233 hectares (estimated) in surface area. A number of the targets are in the north of the Luangue project area, including targets L119 and L120 at an estimated 50 hectares (estimated) and 215 hectares (estimated) in size respectively. These two targets lie in the north east corner of the Luangue concession, with L120 being just 35 kilometres to the west of the major Catoca diamond mine.

The majority of the targets are in the southern part of the Luangue project area and appear to be contiguous to the Alto Cuilo kimberlite field which has already been proven to be diamondiferous.

Petra has commenced a NDD programme to test 49 prioritised targets, of which 26 total approximately 1,800 hectares. Drill holes will be positioned to intersect RVK close to surface at the estimated crater rim locality, which has been shown by exploration at Alto Cuilo to be the area most likely to host economic mineralisation, due to diamond concentration and upgrade in stone size. Preliminary modelling carried out by Xcalibur Geophysics on the high resolution magnetic data for five of the high priority targets indicates cover of less than 50 metres at the shallowest point. This is supported by drilling at known kimberlites on Luangue, which have been intersected within 30 metres of surface.

The first phase of the NDD programme has been designed to intersect near-surface proximal RVK deposits based on the magnetic response from the airborne magnetic survey carried out late last year. To date a total of 2,228 metres have been drilled in 15 narrow diameter holes on eight anomalies, resulting in the discovery of four new kimberlites: L60, L76, L87 and L90. In total, nine kimberlites have been discovered at Luangue, as a further five kimberlites had already been identified by previous exploration work.

Highlights of the drilling programme to date are three holes into anomaly L87 in the north-west corner of the concession. The L87 anomaly is 228 hectares in size, representing an elongate body that appears to be made up of three lobes. Three narrow diameter drill holes positioned to test each lobe of the body have all intersected RVK, with the best intersection to date occurring in BH L87-2 where RVK has been intersected from 56 metres to 150 metres below surface.



Exploration activity, Botswana

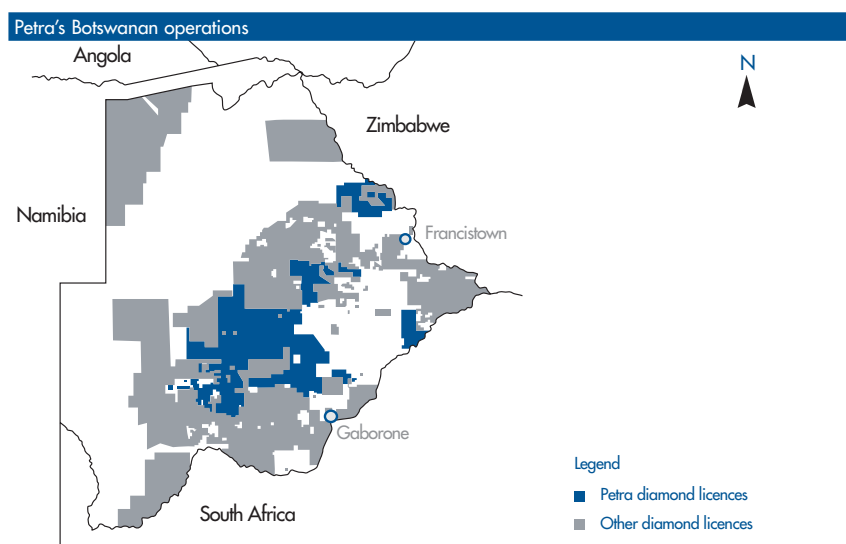
The alluvial potential of Luangue is better than at Alto Cuilo and alluvial exploration to date has recovered nearly 3,000 carats from the immediate vicinity of five of the targets, further supporting the potential of the area.

**Outlook:** Based on the knowledge, experience and exploration results gained from the neighbouring Alto Cuilo concession, the Luangue project will produce a large number of kimberlites which will be effectively prioritised for more detailed exploration. A second NDD rig will be added to the programme in the near future to speed up the rate of this first phase of drilling. Detailed exploration will be fast tracked on priority anomalies, concentrating on the near-surface RVK rim material. Road access to the northern portions of the Luangue concession is currently being established, allowing the anomalies closest to the Catoca mine to be tested for the first time.

## Botswana

Botswana is the world's largest producer of diamonds by value and host to the world's richest diamond mine, Jwaneng. It is also one of Africa's most stable countries and the continent's longest continuous multi-party democracy. The country is sparsely populated due to the Kalahari desert which makes up much of the territory.

The diamond industry has transformed Botswana into a middle-income nation and one of the most dynamic economies in Africa. Diamond mining has fuelled much of its economic expansion and currently accounts for more than one-third of GDP and 70-80% of export earnings. Other exports include copper, nickel, soda ash, meat and textiles. Botswana produced 33.5 million carats in 2007, worth US\$2.9 billion.



### Name of operation: Kalahari Diamonds

**Description:** In September 2005, Petra acquired 100% of Kalahari Diamonds Limited and subsequently became the holder of the largest area under diamond prospecting licence in Botswana, currently approximately 48,500km<sup>2</sup>, all of which is "on craton". Petra believes enhanced exploration techniques can be employed in Botswana to good use, as much of the previous exploration work carried out across the country applied less sophisticated procedures and equipment. The Company has already proven this theory with the discovery of several new kimberlites in areas which have previously been extensively explored. There are 36 known kimberlites in Petra's licence areas and other highly prospective anomalies for further investigation.

Kalahari vital statistics:	
Size of concession	48,500km <sup>2</sup>
Date acquired by Petra Diamonds	September 2005
Interest	Petra Diamonds: 100%
Operator	Petra Diamonds
Status	Early and advanced exploration – drilling campaign underway in certain areas

**Location:** Petra's licence areas cover approximately 48,500km<sup>2</sup> throughout different regions of Botswana.

**Geology:** Due to Botswana's poorly-exposed geology, covered in large swathes by Kalahari sand cover, exploration techniques rely largely on geophysics. The Kalahari group covers most of Botswana, increasing in depth from east to west. Karoo age flood basalts also cover large portions of Botswana, underlying the Kalahari sand. As a result, the basement geology of most of Botswana is poorly exposed and understood, and information is based on drilling. Botswana is the world's largest producer of diamonds by value, hosting several of the world's major mines at Jwaneng, Orapa, Letlhakane and Damtshaa.

## Review of progress:

### Jwaneng

In 2007 Petra was pleased to be granted prospecting licences in the vicinity of the Jwaneng diamond mine. These licence areas hold two kimberlites, DK4 and DK6, both of which have been proven to be diamondiferous. The prospectivity of these kimberlites is in the process of being evaluated and Petra's interpretation of the modelled data indicates that both kimberlites could be larger than previously thought. A drilling programme to investigate this, as well as to acquire fresh material for appraisal, is now underway.

### Gope

Exploration activities on our ground holdings covering the Gope kimberlite field and the subsequent commissioning of a 700km<sup>2</sup> low level high resolution horizontal gradient magnetic (Xcalibur) survey in the area led to the discovery of a new kimberlite, proving the exploration potential of an area which has been thoroughly explored by other mining companies over the past 25 years.

In light of this significant development, the Gope Xcalibur survey data was used to generate further targets and this exercise revealed several prominent anomalies worthy of further review. These anomalies were selected for ground geophysical follow-up and the best targets have been selected for a drilling programme included in our present 6,000 metre campaign, which commenced in August 2008.

The source of the historical KIM anomaly in the area remains largely unexplained due to its significant spatial offset from the known kimberlites. The potential for undiscovered kimberlites in the Gope area thus remains and this, coupled with the recent results obtained from the application of new exploration technologies, contributes to our view that the area remains highly prospective.

### Kukama

The Kukama project area, approximately 75 kilometres south-west of Gope, is another area viewed as being highly prospective and our licence areas contain 16 known kimberlites. In this area, Petra has completed target generation and selection utilising a 51,000 line kilometre high-resolution magnetic gradiometer (Xcalibur) data, and geophysical ground follow-up of the targets is ongoing. 30 anomalies were selected for ground follow-up, of which 15 have been elevated to drilling targets, as part of our 6,000 metre drilling campaign in the Gope and Kukama areas.

The Kukama drilling programme will include approximately 2,000 metres of drilling on known kimberlites such as the GO173S kimberlite cluster, as a second phase of investigation following initial geophysical and geological modelling. GO173S has been modelled as a "champagne glass" shaped kimberlite with an estimated surface area that could possibly reach 25 hectares in size. The current drilling campaign has been designed to test this model, and to see if tuffisitic kimberlite can be intersected below the interpreted transition zone between crater and diatreme facies as it would appear that previous drilling intersected country rock breccias. Previous limited MBS test work by De Beers (restricted to the north of this kimberlite) returned various grades, including one hole at 9.6 cpht. The remainder of this deposit remains untested.

The drilling programme is also designed to test the RVK potential of the diamondiferous Ki1 kimberlite (part of the Kikao kimberlite cluster). The drilling of one hole has been completed with kimberlite intersected and cores will be transported in from the field for interpretation. Also in this locality, a new kimberlite (Ki/Sek1/H1) has been discovered during the current drilling programme with a geophysically interpreted size of nearly four hectares. The kimberlite was intersected beneath a 20 metre thick layer of basalt which in turn was covered by a 40 metre layer of Kalahari sand. The drilling programme is continuing.

The Kukama area, similarly to Gope, displays a large KIM anomaly of more than 25 kilometres in its longest dimension. Likewise this KIM halo remains largely unexplained in that the known kimberlites in close proximity to the anomaly do not carry the same mineral characteristics (in that they appear to be ilmenite deficient, thus not contributing to the ilmenite anomaly halo). Therefore, it is likely that the kimberlite source of this halo is yet to be discovered.

#### Orapa - Letlhakane

A 12,673 line kilometre high resolution magnetic gradiometer (Xcalibur) survey completed over the 'Orapa North' sections of Petra's licence areas resulted in the identification of 20 targets selected for ground follow-up. Of these, 10 were followed up in a 388 metre drilling programme with no kimberlite discovered.

Of significance, however, is the discovery of a new kimberlite, BK1S, in the Orapa - Letlhakane area, which shares a common boundary with Debswana's Damtshaa mining licence. The kimberlite is capped with basalt and was first intersected at a depth of approximately 40 metres (hence escaping previous detection); some holes were stopped at a depth of 100 metres, still in kimberlite. The kimberlite has been petrographically classified by a leading independent kimberlite expert as an incipient transitional, hypabyssal-facies, partly segregatory, macrocrystic, altered monticellite kimberlite and is rated as moderate to high interest with respect to diamond potential.

This kimberlite discovery extends northwards into the Debswana mining licence and the portion in Petra's licence areas could represent 20% to 30% of a larger kimberlite. Petra has been in contact with Debswana in relation to this discovery.

**Outlook:** Petra has an array of highly prospective targets to be further investigated and the Company will continue to run a focused and methodical work programme in Botswana for the next year, having thus far discovered three new kimberlites in previously heavily prospected terrain. The next phase of the exploration programme is the 6,000 metre drilling programme which commenced in August in the Gope East, Gope West and Kukama project areas, where 15 priority targets have been earmarked for drilling. Petra will also conduct a detailed investigation of the recently discovered kimberlite BK1S in the Orapa-Letlhakane area and other known diamondiferous kimberlites, focusing on the GO173 cluster in the Kukama area and the diamondiferous kimberlites DK4 and DK6 in the Jwaneng area.

Petra will continue the acquisition of detailed ground geophysical data as follow-up to targets identified from airborne geophysics and will also conduct a target generation exercise in the Mabutsane-Tshwaane area.

## Sierra Leone

Sierra Leone emerged from a decade of civil war in 2002 and is showing signs of a successful transition, with the first democratic elections carried out successfully in 2007. Investor and consumer confidence continues to rise and the recent increase in political stability has led to a revival of economic activity, with the country's main exports being diamonds, rutile, cocoa, coffee and fish. In 2007, the country produced just over 600,000 carats worth some US\$141 million, a significant increase over 2004's US\$126 million (source: Kimberley Process Certification Scheme).





## Name of operation: Kono

Description: Kono is a 'fissure' kimberlite project, where several different fissures have been identified.

Kono vital statistics:	
Size of concession	200km <sup>2</sup>
Date acquired by Petra Diamonds	May 2005 (further to the merger with Crown Diamonds NL)
Ownership	Petra Diamonds: 51% Stellar Diamonds: 49%
Operator	Petra Diamonds
Status	Advanced exploration – trial mining underway

**Location:** Kono is located in the Kono district, in the Eastern Province of Sierra Leone.

**Geology:** Diamonds were first discovered in the Kono district in 1930. Subsequent exploration defined extensive alluvial diamond fields, with an exceptionally rich group of deposits in the Koidu area.

The kimberlites found in Sierra Leone are generally fissure style deposits, the narrow and vertical root zones of kimberlite pipes where the top area has been eroded away. More than one type of kimberlite can be present within dyke systems (multiple intrusive phases in both space and time) and the continuity and complexity of the kimberlite lenses is dependent primarily on the characteristics of the host rock.

**Review of progress:** After an intensive and focused exploration programme, the Kono kimberlite project is at an advanced stage of development. Trial mining is currently underway and two shafts are being developed, Pol-K and Bardu, with processing of exploration and development material to date yielding 20,889 diamonds, weighing a total of 1,729 carats.

The Pol-K shaft and development is now at 64.5 metres depth. Stoping commenced in late August, allowing for increased ore extraction and recovery of diamonds and enabling Petra to obtain a more representative diamond grade and value. The current in-situ development grade at Pol-K has increased to 66 cpht (19 February 2008: 63 cpht), and some 13,439 diamonds weighing 1,148 carats have been produced from this kimberlite fissure.

At the Bardu shaft, where development is at 50 metres depth, a break out from the shaft has begun and exploration development along strike has commenced; trial mining stopes will be established once ground conditions permit. An in-situ development grade of 75 cpht is being recorded at Bardu and some 6,225 diamonds weighing 471 carats have been produced from this kimberlite fissure.

The first parcel of Kono test production (1,064 carats) was sold on tender this September, with the Pol-K shaft parcel of 866 carats achieving an average value per carat of US\$152.

Due to the considerable exploration potential at Kono, a 3,167 line kilometre airborne electromagnetic geophysical survey has been completed by Fugro Airborne Surveys, the objective being the discovery of kimberlite pipes and blows. Processing of the data is complete and has been delivered. The data has been contracted out to an external expert and final interpretations should be available by the end of 2008.

**Outlook:** As diamond production from the trial mining increases over the coming months, Petra will be able to offset total project expenditure against the revenues generated by regular diamond sales, as well as further establish the parameters for a production decision.

# RESERVES AND RESOURCES



*Cullinan mine, South Africa*

Petra published an updated statement of the Group's reserves and resources on 23 September 2008. Petra's reserve and resource estimate has changed beyond all recognition to the updated carat base of 265 million carats gross (121 million carats attributable) (October 2007: 11.38 million carats gross; 9.33 million carats attributable). The in-situ value of US\$27.3 billion gross (US\$13.7 billion attributable) is a transformational increase for the Group (October 2007: US\$1.9 billion gross/US\$1.5 billion attributable).

**We have established a world-class resource base of 265 million carats, worth US\$27.3 billion.**

This increase is due to the inclusion of Cullinan, the world's second largest indicated diamond resource by in-situ value at 208 million carats, Williamson, a major resource of over 40 million carats and Kimberley Underground, at over 6 million carats. A summary of the reserves and resources for the combined Petra operations is shown below.

The compilation of such a major resource base is perhaps one of the more significant achievements of the Group in the last year, and it places Petra far above its peer group in terms of resource size. This has enabled us to achieve a geographical spread as well as a diverse mix of mining operations, from underground to open cast. We shall continue to deliver growth to our shareholders by bringing this world-class resource base to account.

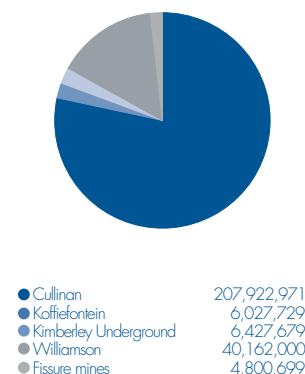
#### Summary of Reserves and Resources by status – combined operations – September 2008

Category	Gross			Net attributable		
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (mcts)
<b>Ore/Diamond Reserves</b>						
Proven	19.819	7.51	1.488	14.195	8.83	1.254
Probable	39.794	30.43	12.111	23.192	26.44	6.132
<b>Total Diamond Reserves</b>	<b>59.613</b>	<b>22.81</b>	<b>13.599</b>	<b>37.387</b>	<b>19.76</b>	<b>7.386</b>
<b>Diamond Resources</b>						
Measured	—	—	—	—	—	—
Indicated	366.760	51.66	189.459	177.173	40.98	72.606
Inferred	1,207.838	5.16	62.283	838.358	4.86	40.762
<b>Total Diamond Resources</b>	<b>1,574.598</b>	<b>15.99</b>	<b>251.742</b>	<b>1,015.531</b>	<b>11.16</b>	<b>113.368</b>
<b>Total Carat Base (million)</b>		<b>265.341</b>			<b>120.754</b>	
<b>Estimated Value (US\$ million)</b>		<b>\$27,293</b>			<b>\$13,674</b>	

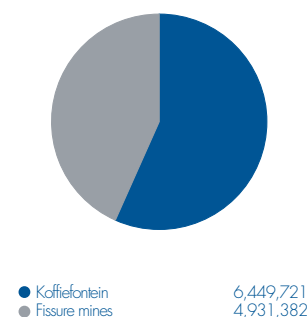
Note 1: "cpht" – carats per hundred tonnes; "mcts" – millions of carats

Note 2: The statement is in respect of the Cullinan, Koffiefontein, Williamson, Kimberley Underground, Helam, Sedibeng and Star mines. Although the acquisitions by Petra of majority interests in the Williamson and Kimberley Underground mines are only expected to complete by end November and end December 2008 respectively, Petra considers it appropriate to disclose to shareholders the total reserves and resources that will very shortly accrue to the Group.

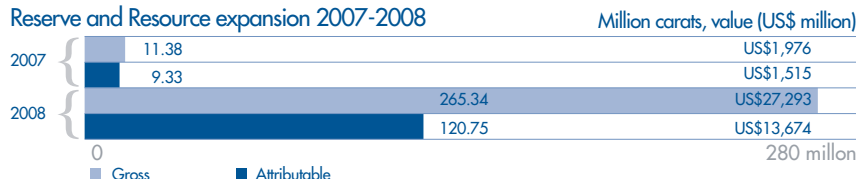
2008 carat base split per operation (carats gross)



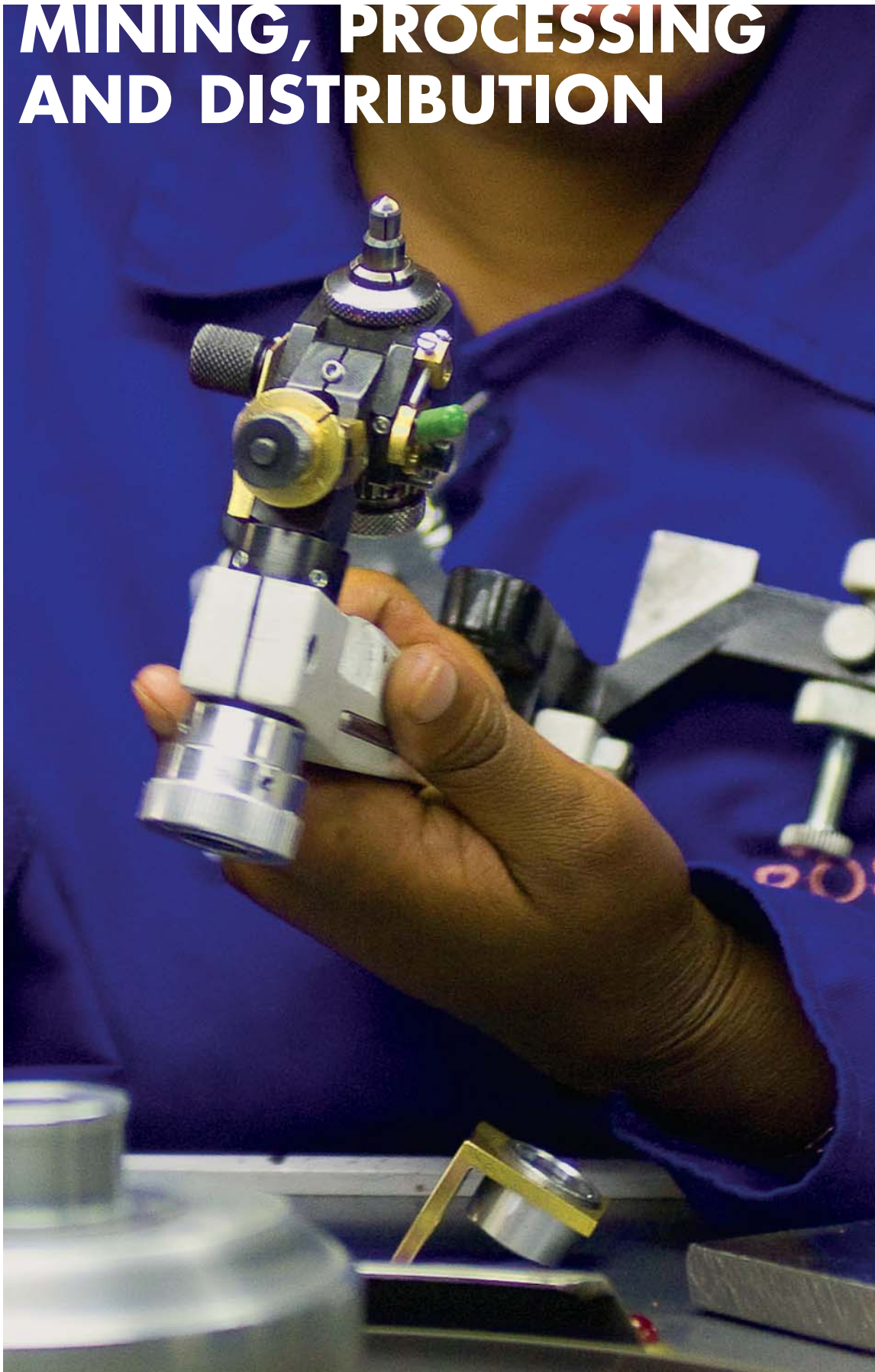
2007 carat base split per operation (carats gross)



#### Reserve and Resource expansion 2007-2008



# MINING, PROCESSING AND DISTRIBUTION



## The process – from rock to ring

After millions of years embedded in ancient earth, a rock, a 'petra' in ancient Greek, is brought to the surface. Only a small number of these diamonds survive their explosive journey and fewer still are of a quality suitable for use in a precious piece of jewellery. However, each diamond is unique and finds its own place in the market based on its individual characteristics.

## Exploration

Diamonds originate some 150 kilometres below the Earth's crust and were transported to the surface by molten rock, or magma, originating at great depths. The magma carries with it not only diamonds, but samples of other minerals from its journey from deep below the Earth's surface; some of these minerals, such as garnets and other "indicator minerals", have become key tools in diamond exploration.

Generally, kimberlites are found in clusters, with up to 10 found in close proximity to each other. However, not all tend to be of the same age and even within a single occurrence, several different volcanic events over different times may be present, adding to the complexity of sampling and proving the economic potential of the ore body.

Geologists use many methods in kimberlite exploration, including satellite remote sensing, geophysics, reconnaissance sampling and drilling in the ground to establish whether or not the pipe contains economic quantities of diamonds. The first step is generally to identify areas that have suggestions of historical diamond recovery, followed up by stream or deflation sampling for the evidence of the presence of kimberlite by the recovery of indicator minerals. Thereafter, the use of geophysics to search for magnetic anomalies is applied. Sampling and drilling are then used to confirm whether the anomalies are indeed kimberlites.

Once an anomaly has been confirmed as a kimberlite, heavy mineral analysis ("HMA") sampling of representative material is carried out as a quick and efficient method of assessing whether the kimberlite has the potential to be diamondiferous. Micro-diamond and mini-bulk sampling are then used to establish if there is the potential for those kimberlites prioritised by HMA sampling to host an economic concentration of diamonds.

## Mining

### Hard rock mining

Mining of a diamond-bearing pipe starts with the excavation of a pit into the kimberlite pipe. In this process, called "open-pit" or "open-cast" mining, the initially weathered 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 tunnelled into the pipe. This is known as block caving.

Concrete-lined tunnels are excavated under a large vertical section, perhaps 100 to 200 metres 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 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.

### Fissure mining

Erosion will eventually wear down a kimberlite ore body until only the root zone remains, leaving only this narrow 'fissure' zone to be mined. These fissures are vertical orebodies that are generally very narrow (average width less than 70 centimetres) and contain better-quality diamonds than the average diatreme bodies. Fissure mining, otherwise known as 'dyke mining', is complex because the narrow ore body delivers a much lower tonnage operation. In addition, the fissures tend to pinch out, leading to a great premium being placed on understanding the ore body and mining methods. More than one type of kimberlite can also be present within dyke systems (multiple intrusive phases in both space and time) which can further complicate the mining process. Few companies have successfully tackled fissures for long periods, and Petra is regarded as the world leader in the field of mining these kimberlite fissures.

### Alluvial mining

Alluvial mining is a more straightforward process. Operators strip the overburden to uncover the gravels, which are then mined using the conventional open-pit method. Processing alluvial ore is generally cheaper because it does not require blasting or major crushing before being sent to pan plants or dense media separation (DMS) plants.

In this transportation and reworking of river gravels, only the strongest, least-fractured diamonds survive. This means that diamonds found in old riverbeds generally are of higher quality than run-of-mine kimberlite production, although grade is usually low.

### Processing

Once a diamond operation yields ore, the diamonds must be sorted from the other materials. Excavated ore is transported to a processing plant, which removes diamonds by virtue of their weight and density.

Hard rock ore is crushed first and then processed through the remaining plant systems, which consist of a series of screens, jigs and scrubbers and a gravity pan or DMS plant to remove lighter material and create a concentrate of heavy material.

Diamonds are then extracted by using an X-ray machine and/or grease table and checked by hand sorting. Most diamonds luminesce under X-rays and can be identified and separated in final recovery. However some diamonds, particularly more valuable type II stones, do not respond well to X-rays, so grease tables are used to catch the diamonds. As diamonds are hydrophobic, meaning they repel water, they stick to grease while the wet concentrate runs over the grease belts.

Waste material is piled into tailings dumps. Some tailings dumps may contain economic grades due to the inefficient processing of high grade kimberlites and alluvial deposits. The opportunity exists to reprocess tailings dumps in order to extract those diamonds that have been left behind.

### Sorting and Distribution

Once mined, rough diamonds are delivered to sorting experts who categorise and assign a value to them, no mean feat considering that no two diamonds are the same. Diamonds are sorted into parcels according to their shape, size, clarity and colour, but within these categories there are thousands of variants which can affect the price. It is here that gem quality diamonds are separated from industrial diamonds. Otherwise known as 'boart', industrial diamonds are small, lower quality stones which can be used in equipment such as drill bits and lathes.

Traditionally, the vast majority of diamonds were sold through the formal De Beers channels but it is now common for many companies, such as Petra Diamonds, to sell their goods via tender. Diamantaires attend these auctions at any one of the 24 registered diamond bourses around the world and place competing bids to 'win' the diamond parcel of their choice.

### Cutting and Polishing

The process of shaping a rough diamond into a polished gemstone is both an art and a science. A well-cut diamond reflects light within itself, from one facet to another, as well as through the top of the diamond, bringing out its spectral brilliance.

The cutting and polishing of a diamond crystal always results in a dramatic loss of weight; rarely is it less than 50%. Sometimes the cutters compromise and accept lesser proportions and symmetry in order to avoid inclusions or to preserve the carat rating.

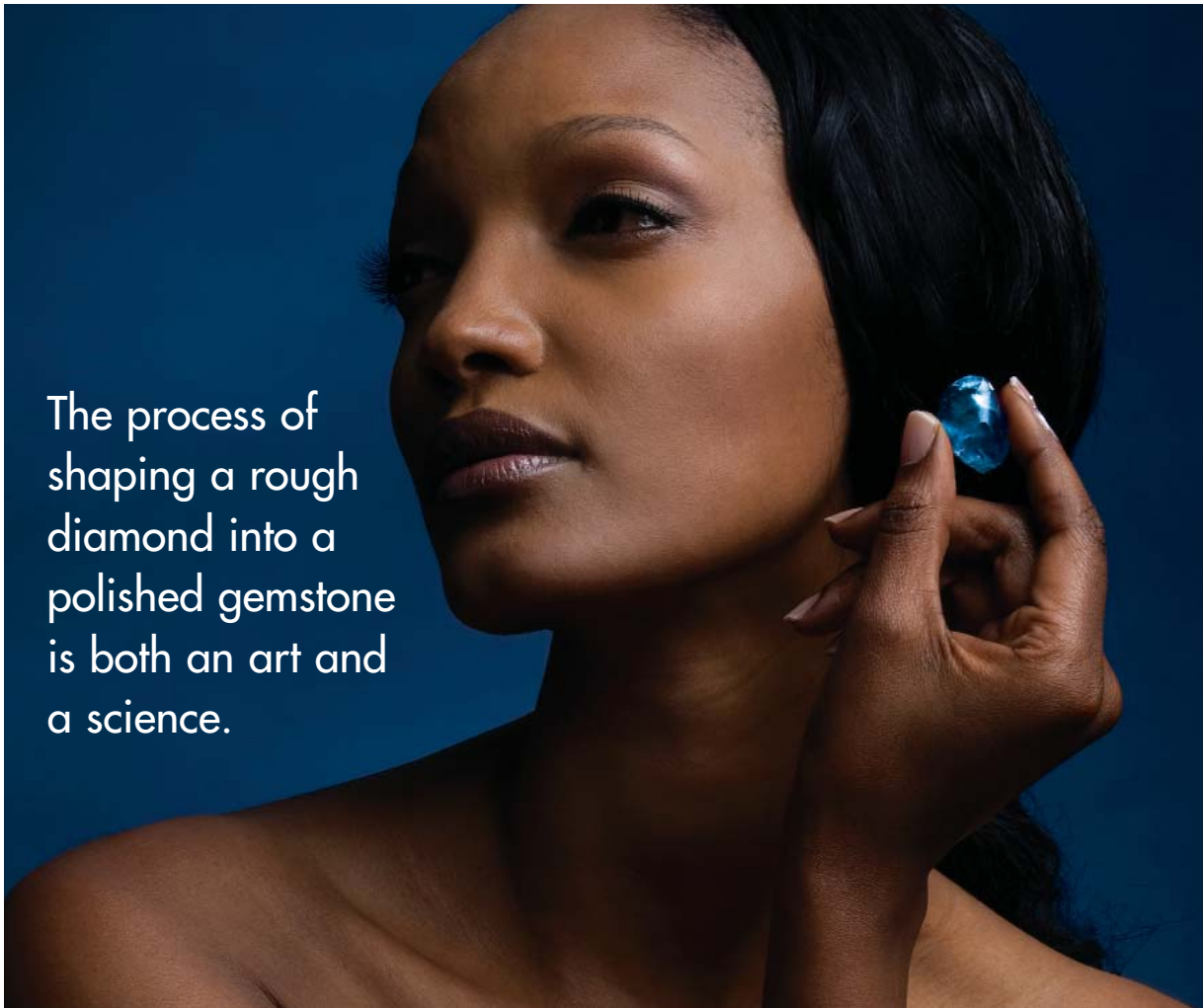
After a stone has been cut, it is then polished and classified again, this time by its cut, colour, clarity and carat weight, also known as the "Four Cs". It is then sold via one of the registered diamond exchanges (also known as "bourses") located around the world or direct to wholesalers or diamond jewellery manufacturers.

## Retail

Diamonds have come to represent the ultimate gift of love and commitment, and it is therefore fitting that the cornerstone of diamond jewellery sales worldwide is the engagement ring. Whilst diamonds qualify as luxury goods, they are much more than this, expressing as they do powerful human emotions.

For hundreds of years, diamonds have been given to celebrate the most important moments in people's lives, such as engagements, weddings, anniversaries and the birth of a child. All over the world, thousands of diamond retailers cater to these needs, from small, independent jewellers to mass market superstores, and we have recently seen a huge growth in sales from online. Purveyors of antiques also have an important place in the market given that the value of a diamond endures and appreciates over time.

As diamonds continue to broaden their socio-economic and geographical appeal, designers duly respond and there is a diamond size and style to suit every taste.

A close-up photograph of a woman with dark skin and hair, looking slightly to the side. She is holding a large, faceted blue diamond between her fingers. The background is a solid dark blue.

The process of  
shaping a rough  
diamond into a  
polished gemstone  
is both an art and  
a science.

# DIAMOND MARKET OVERVIEW

The luxury goods markets  
in developing Asia will be driven by  
the wealth effect and rapid expansion  
by luxury retailers



*A 116 carat diamond recovered from  
Cullinan mine, South Africa*



## Highlights

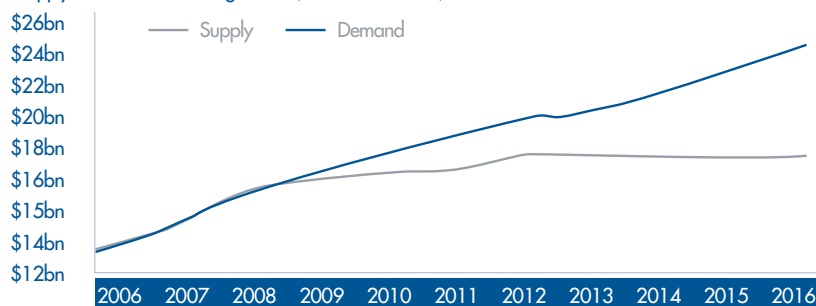
- ◆ Robust outlook for the diamond market, with experts agreeing that, in the medium term, demand is predicted to outpace supply
- ◆ The developing luxury goods markets in Asia will be driven by the wealth effect and rapid expansion by luxury retailers
- ◆ The major beneficiaries of the forecast supply shortfall will be producers of better quality and large gems, these stones are truly rare and in very short supply
- ◆ The supply/demand imbalance, coupled with increasing global wealth and consumer spending shows the hallmarks of a long-term uptrend, sustainable for many years to come

## Market fundamentals

The positive fundamentals of the diamond market provide a compelling case for investment, with experts agreeing that demand is predicted to outpace supply. Despite the growing expenditure in exploration worldwide, there have been no major discoveries since the Ekati and Diavik mines in Canada in the early 1990s. Mine supply is tightening as existing reserves are depleted and the only two stockpiles of any consequence, Russia and De Beers, have now been largely eroded.

As diamond analyst James Picton of BMO Capital Markets notes, "We believe the rough diamond market is in the early stages of one of its longest periods of prosperity ever." (January 2008)

Supply and demand in rough terms (at H1 2008 value)



Source: WWWW International Diamond Consultants

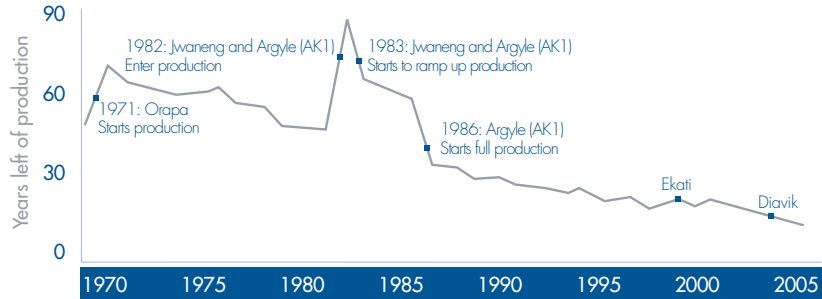
## Diamond supply

Structural constraints in the diamond mining industry, combined with a steadily declining mineral reserve base and a continued lack of major new discoveries, continue to hamper the prospects of further supply growth. Inventories of rough diamonds are at historically low levels, with the De Beers and Alrosa stockpiles now virtually eliminated. Even in the most optimistic supply scenario there is a sizeable market shortfall.

Finding economic kimberlites is difficult with less than 1% of all orebodies discovered being brought into production. There are only approximately 30 major diamond mines globally, and of the annual US\$12 billion world diamond production, only 13 mines produced US\$300 million or more each. In addition, the time taken from the discovery of a kimberlite to the start of production is usually in excess of seven years.

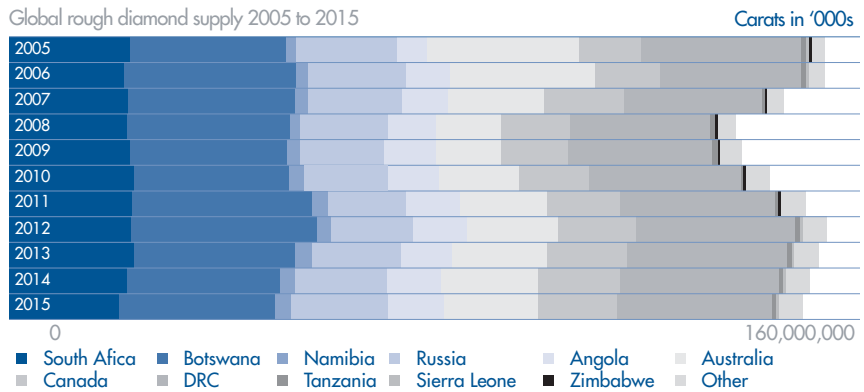
On the supply side, the only significant new mines coming into production recently or in the next five years are De Beers' Snap Lake and Victor operations in Canada and the AK6 kimberlite in Botswana. Snap Lake and Victor will add some 2 million carats to world supply, while AK6's production should be around 900,000 carats.

In a global supply of US\$12 billion, this is not a great deal, particularly as Diavik, Ekati, Argyle, Venetia and some of De Beers' older mines will be slowing. The chart below shows the steady decline in global diamond reserves:



Source: BHP Billiton. Reserves of major operating mines at annual production

In 2007 global diamond production fell 0.6% to US\$12.1 billion. Total production by volume fell 4% to 168 million carats, whilst value per carat rose 5% to US\$71.98 a carat for the year. The supply picture worsens this year, with diamond production predicted to decrease by 10% to 138 million carats in 2008. Going forward, production is expected to remain relatively flat, unless there are any new major discoveries, whereas demand will continue to rise.



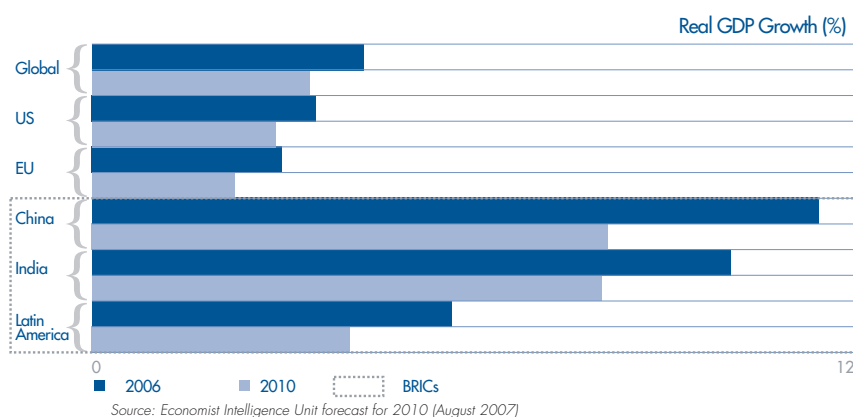
Source: James Allan, Botswana Resource Conference, July 2008

In September 2008, a survey conducted by Rio Tinto (and reported by Rapaport) concluded that diamond professionals consider the shortage of rough supply as the most important challenge facing the diamond industry during the next five years.

### Demand drivers

Industry commentators agree, in the medium term, that demand for diamonds is likely to continue increasing at a steady rate of around 3% per annum. The key drivers of demand are growth in GDP per capita, rising income levels globally and cultural adaptation. Diamond consumption is driven by the later stages of economic development and demand will benefit from the secular rise of the emerging economies. Increased globalisation will continue to drive overall GDP growth and urban household income growth in the world's major cities.

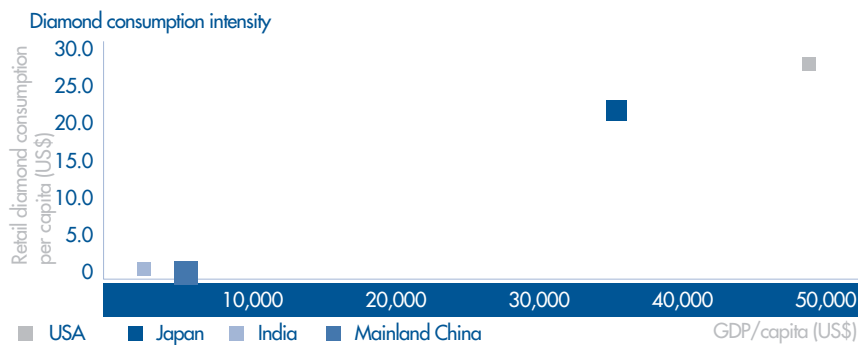
Whilst the US remains the main driver of diamond demand, accounting for some 45% of total diamond consumption at present, the developing economies of China, India, Russia and the Middle East represent the key growth areas. Diamond jewellery sales in China and India have entered a period of accelerated growth



fuelled by the rapid change and progress in these two markets. Brand investment by retailers and manufacturers in these markets is strong and there is a cultural preference to display wealth and invest in jewellery.

Research and Markets Group, having reported total Chinese jewellery sales at US\$26 billion in 2007 (up 12.5% on 2006), has identified jewellery as the third largest consumer "hot spot" in China after real estate and cars. Given that China currently accounts for just 6% of global GDP and 4% of global consumer expenditure, but represents 22% of the world's population, the growth opportunity is evident as the region is aggressively targeted by luxury goods retailers.

Diamond consumption per capita in emerging regions is currently far below the established regions of the US and Japan as illustrated in the chart below, and we can expect to see a corresponding uplift in demand for diamonds in line with rising disposable incomes. It is predicted that 550 million Chinese will enter the 'middle classes' in the next 10 years.

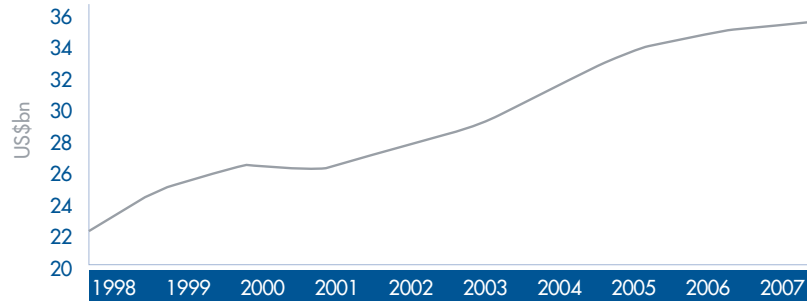


Despite current poor economic conditions in the US, slow but steady growth is expected over the longer term, as diamond jewellery demand is expected to continue to grow in line with GDP. Growth will be mainly driven by the increasing number of households entering high income brackets, the continued expansion of discount retailers offering low-priced jewellery and an expected effort by manufacturers and retailers to provide new product options.

Whilst there are fears about a US recession hurting demand for diamonds in the short term, there is evidence that the rapidly rising demand in emerging markets is helping to make up for a US downturn. Harshad Mehta, Chairman of the retail arm of Rosy Blue, one of the world's largest diamantaires, stated in May 2008: "Demand in the U.S. will slow down by about 15% this year, but demand from elsewhere will offset the sales

drop. In total, our sales will be even better than last year, especially from markets like Dubai."

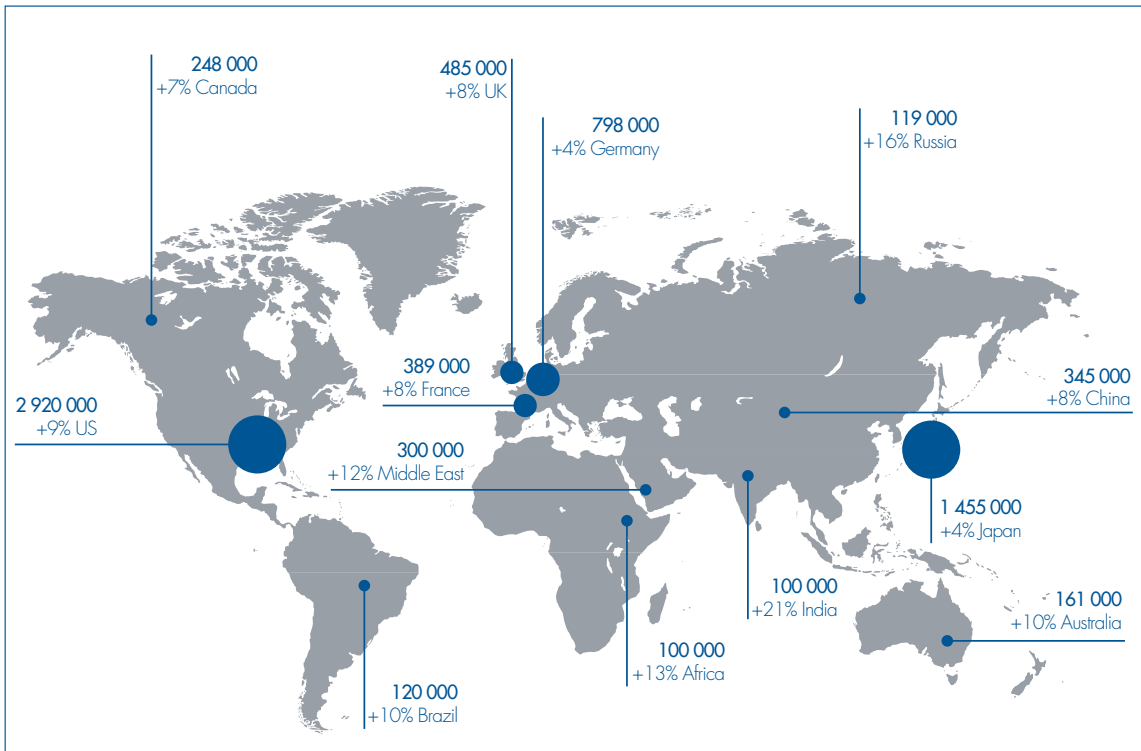
US diamond jewellery sales (US\$bn)



### Higher demand at the high end

The major beneficiaries of a forecast shortage of rough diamonds for the jewellery trade will be producers of better quality and large gems, the stones being truly rare and in very short supply.

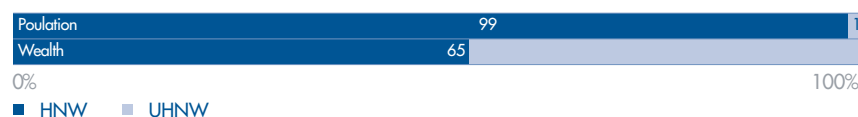
Rapid growth of emerging economies such as China, India, Russia and the oil-rich Gulf states has multiplied the number of high net worth individuals ("HNWIs"), many of whom are willing to pay ever higher prices for fabulous jewellery and rare gemstones, there are currently 9.5 million HNWIs globally, a rise of 8% on the previous year.



The map above shows the number of individuals with over US\$1 million in investable assets as of 2006, with their % growth over last year – Source: Merrill Lynch / Ledbury Research May 2008

## The new wealthy

The number of ultra HNWIs (those with more than US\$30 million) may represent just 1% of the HNWI population but their numbers are growing at a faster pace, having increased at a compound annual growth rate of some 13% over 2002-2006.



Source: Merrill Lynch / Ledbury Research May 2008

The number of ultra HNWIs in China rose to 6,000 in 2008, overtaking the number in Japan (5,300) for the first time. Solid economic growth should ensure that the number of HNWIs in the Asia-Pacific region continues to grow at a rate of 8% per year over next four years. By 2012 their wealth should reach US\$13.9 trillion, up from US\$9.5 trillion in 2007 (source: Cap Gemini Asia-Pacific Wealth Report 2008.)

To such ultra wealthy consumers, price is irrelevant and their demand for the small supply of top quality diamonds has meant that prices for such stones have shown solid growth over the last few years.

Therefore, it is not surprising that we are witnessing increased investor interest in diamonds, with one dealer likening the opportunity to buy a rare diamond to that of buying a rare work of art, with the price likely to appreciate significantly over time. To take advantage of this trend, a fund named Diamond Circle Capital, which was admitted to the London Stock Exchange in June 2008, became the first ever publicly-listed fund to invest directly in polished diamonds as the physical underlying asset, specifically targeting large, high-end stones.

## Synthetic diamonds

It is now possible to create 'man-made' diamonds in laboratory conditions, but sophisticated detection procedures are in place which can identify them as such. Disclosure remains key and it is accepted that an industry priority should be to reduce the number of descriptors for man-made diamonds to enable consumers to make an informed decision.

Synthetic diamonds currently remain a very small proportion of total supply. Improved technology could lead to greater penetration and could impact the lower end of the market. However, cultural trends and consumer preference for natural diamonds are likely to protect the higher end of the market.

The natural diamond market is very well established, having been in place for hundreds of years, and despite cheaper alternatives being available, from cubic zirconia to Swarovski crystals, the market for natural diamonds has continued to grow. A natural diamond offers a unique, intrinsic emotional value and is the gift of choice for life's most special and meaningful occasions, including engagements, births and anniversaries.

## Conclusion

The argument for significant, sustained rough diamond price increases is largely supply driven. However, the demand picture, and in particular the ability of diamonds to maintain and enhance their appeal over long periods of history, and to broaden their socio-economic and geographical attraction, is also of great importance.

### Information Sources

BHP Billiton, Bloomberg, BMO Capital Markets, Cap Gemini, Cazenove, De Beers, Economist Intelligence Unit, IDEX, Kimberley Process Certification Scheme, Ledbury Research, Merrill Lynch, Polished Prices, Rapaport, RBC Capital Markets, Research and Markets, Rio Tinto Diamonds, WWW International Diamond Consultants.

# CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT





## South Africa

Petra employs some 3,360 people in South Africa and is the second largest employer in the diamond industry after De Beers.

### Training

Petra's focus remains on developing and training our workforce through educational programmes and skills transfer initiatives. Petra is actively engaged with the Mining Qualifications Authority (MQA), the mining industry's recognised Sector Education and Training Authority (SETA). Training and development initiatives provide our employees with the skills to improve not only their efficiency and safety in their working environment but also their ability to progress within the Company. A leadership programme has been rolled out across the South African operations as we look to develop the next generation of senior management from within the Company. Petra provides support to local Adult Basic Education and Training (ABET) facilities, which in turn provide a service to our employees and the local communities. By encouraging employee attendance on ABET programmes, there is increased scope for the facilities to operate outside the mining environment and Petra provides economic assistance to these facilities on a limited basis.

### Safety

Petra is proud of the good track record it has built up with regards to fatality-free shifts at the operating mines in South Africa. The current status is eight years fatality-free shifts at Sedibeng, four years each at Star and Helam and one year at Koffiefontein (note: we have only operated the Koffiefontein mine for one year), giving a combined total of 17 fatality-free years.

### Health

HIV/AIDS remains a significant area of concern to companies, employees and communities in South Africa. In the main, Petra's HIV/AIDS programme is a preventative one, with a strong focus on creating awareness, and there are several peer education training and safety awareness programmes in place across our operations. At the Cullinan mine we have inherited an advanced and comprehensive HIV/AIDS programme. At this site, voluntary counselling, testing and, where indicated, anti-retroviral therapy (ART) are available to employees. This programme provides an ideal model for Petra to replicate across all its operations.

### Environmental Practices

Petra is dedicated to making its operations as environmentally sustainable as practicable and is fast making headway with its environmental commitments. We have not only been adhering to best practice guidelines, but have also taken a leap forward with the addition of Cullinan to the Petra portfolio. Cullinan is certified as being ISO14001 compliant, which means that the most stringent environmental procedures and practices are upheld at all times. This certification is assessed by both internal and independent auditors – Shangani Management Services and Swiss Certification respectively – on a regular basis.

Water monitoring is currently in operation at all of the mines and rehabilitation is being implemented, taking into account the life cycle of the mines' waste rock dumps. One such project is currently being taken up at Star Diamonds, while another project is being carried out at Cullinan to determine which angles, seed mixes and soil types are the best for rehabilitation. Aside from these projects, the people at Koffiefontein have taken it upon themselves to germinate Camel Thorn seedlings in the hope of replacing alien and invasive species of flora with these indigenous plants.

#### Kimberley Underground

The Kimberley Underground JV has recently sponsored 20 learners' school fees for a year at the local Dutoitspan Primary School. The sponsorship also includes two winter and two summer uniforms, stationery, sports equipment and a gift for each learner.

Kimberley Underground is also actively involved in establishing a safe haven and referral centre for the abused women and children of the Kimberley area. The Sinothando Centre provides these women and children with counselling and access to social workers. The project is in collaboration with the Department of Social Services.



### Sedibeng

Petra's Sedibeng mine supports the Selelo Child Project, in collaboration with Thabiso, a local NGO. This project is a community based initiative which addresses the plight and needs of the growing number of street children in the Warrenton area. Petra's support is vital to ensure the sustainability of this project.

The Selelo Child Project provides these children with, amongst other things, regular meals and assistance in order to attend school. It also provides activities to keep the children off the streets and offers a vital safe haven when children feel threatened. The children are provided access to counsellors and social workers who support them and provide them with guidance. For some of these children, the love and care that they experience from those involved in the project is the most valuable gift of all.

## Community involvement

### Angola

Angola is a country still finding its feet after a lengthy civil war which ended in 2002, and Petra's exploration activities are accompanied by substantial involvement in social and economic initiatives to improve the lives of our employees and those living in the communities surrounding the mining areas. Petra's Angolan mining operations cover some 6,000km<sup>2</sup> in the north-east of the country, and the communities living within this area total about 20,000 people.

### Training

The Alto Cuilo and Luangue projects employ 335 people, 85% of whom are unskilled and drawn from the villages located near the projects. Petra involves its employees in a wide range of training programmes to develop a skills base in these communities. The semi-skilled and management positions are currently staffed with a mixture of expatriate and Luandan expertise, but Petra's training programmes are designed to empower local employees and decrease Petra's reliance on migrant and expatriate labour.

A pro-active 'women in mining' policy has been followed, and despite the challenges associated with operating in a predominantly subsistence and rural economy, our Angolan operations have female employees in the following positions: Director, General Manager, Logistics Manager, Deputy Financial Manager, Deputy Operations Manager, Camp Manager, Geologist and a number of female trainee Geologists.

### Safety

Building on the legacy of the BHP Billiton joint venture, Petra adheres to the most stringent practices of health and safety in Angola and strives continually to train staff and raise safety awareness at all levels.

## Community involvement

Petra has a well-established relationship with the communities located in and around the project areas, and the Company has funded the building of a local primary school and assists with equipment and general support for the school. The school currently caters for 100 learners from the surrounding community at Alto Cuilo and a second school is being built for more distant communities. Petra also has good relationships with the local authorities and regularly assists the local Government and police with transport and logistics.

### Health

The company has ongoing HIV/AIDS and malaria education and prevention programmes. Petra now runs two fully-funded and well-equipped clinics in the area to cater for the local community. The clinics are staffed by Angolan doctors and nurses as well as by expatriate emergency medical technicians and treats around 400 patients per month. Petra is enormously proud of the significant impact the clinic has made on the surrounding community, especially on infant mortality, over the past few years. The clinic is equipped to handle and give primary assistance to trauma cases and in severe cases our ambulance transports patients to the nearest hospital. In the last six months 35 evacuations were effected.



*The brass marching band at Cullinan mine, South Africa*

The Alto Cuilo project provides potable drinking water to the surrounding villages to limit the spread of water borne disease such as cholera and improve local sanitation.

### Environmental practices

The mining legislation in Angola places the onus on the operating company to ensure good environmental policies are followed and Petra is fully committed to ensuring minimal environmental impact from its mining activities. Areas which have been disturbed through mining are rehabilitated as soon as operations are complete, the original top soil is replaced and it takes about three months for the natural vegetation to re-establish itself in the mined area. Water used on site is sourced from the local river, and recycled through a slimes dam process.

#### Successful treatment of trauma case at PAC Clinic

Recently the clinic at Alto Cuilo helped a local man recover from a black mamba snakebite. A black mamba is one of the most deadly of all snakes and injects a neurotoxic venom that proves fatal in almost 100% of cases if not treated immediately. The man was rushed to Petra's clinic where he was treated with anti venom and stabilised before being transferred to a hospital. He has now fully recovered from his ordeal.

#### The construction of a local primary school

A local primary school has been constructed in the Alto Cuilo area. The school currently caters for 100 pupils from the surrounding community at Alto Cuilo.

## Botswana

Our Botswanan projects are at an early stage in their exploration development and as such, are not labour or capital intensive. The exploration teams do not remain in one area for any length of time and their main focus is on ensuring that the work done impacts as little as possible on the surrounding environment. Diamond mining is well-established in Botswana and Petra works closely with the Botswana Government and the Department of Wildlife and Tourism to ensure that all legislation is complied with and the necessary permits obtained for its exploration activities.

As Petra's exploration programme in Botswana continues to develop, and certainly as the Company looks to establish an economically viable kimberlite mine, community interaction will become more involved and similar programmes to those established in other countries of operation will be initiated.

## Sierra Leone

Petra, with its JV partner Stellar Diamonds, provides a stable work environment and accompanying skills development and community upliftment programmes in Sierra Leone, a country re-establishing its economy and infrastructure after a decade-long civil war.

Petra is one of the largest formal employers in the Kono district of eastern Sierra Leone, employing 301 people. In an area dominated by a subsistence, agrarian economy, the benefit of this reliable employment has a substantial multiplier effect, with Petra's employees supporting an estimated 2,000 dependents within their households.

### Safety

Petra adheres to the most stringent practices of health and safety in Sierra Leone and strives continually to train staff and raise safety awareness at all levels.

### Training

Petra places a high value on its human capital and on-the-job training relating to formal mining techniques is provided, improving a skill set that is largely based on artisanal mining. This vocational training is key to both Petra and the community as it not only improves the earning capability of the employees but provides Petra with the opportunity to employ from a local workforce and not rely on expatriate labour.

### Community involvement and local development

Various small business support programmes have been started to provide Petra's Kono project with non-core services, including tyre and motor repair workshops, a timber business, a metal recovery project and the provision of locally produced fresh fruit and vegetables. These businesses are conducted with the support of the local community leaders and some of the proceeds have been used by the community to upgrade local schools. Petra has also assisted in rebuilding five local schools.

Petra has embarked on various road and bridge rehabilitation initiatives in the project area, with over 17 kilometres of road and four bridges completed. These roads provide Petra with easier access to its project area and the community with improved local mobility and access to churches and community halls.

Petra is actively involved with the Sierra Leone Police; Motema Division, in the form of enhancing community policing by providing technical level co-operation and support. This support enhances visible policing and contributes to the increased level of security in the region.

### Health

Petra, through the assistance of the Sierra Leone Department of Health attached to the Kono District, launched a collective HIV/AIDS awareness campaign and presented two successful workshops to the employees. This will now be an ongoing programme, with the emphasis on prevention and building of awareness.

Local wells have been cleaned at Petra's initiative and clean water is now available to over 180 people as a result. Petra also supports a healthy body, healthy mind approach, and has put a local sporting programme in place which does much to boost morale and bring the community together.

### Environmental Practices

The environment in Sierra Leone has been altered substantially by various historical events, and in particular it is still scarred by the imprints of the decade long civil war. Petra takes care to ensure that its activities cause minimal disruption and in all cases looks to enhance its local environment where possible. The waste material (waste rock and tailings) from our operations can be put to good use, and is currently employed for road surface upgrades, road rehabilitation and for stabilising erosion areas caused by artisanal miners. It is also used to infill open pits previously created by artisanal mining, thereby decreasing the natural breeding habitat of malaria-carrying mosquitoes. Water which accumulates underground is re-circulated to settling pits on surface, from where the water recharges the local aquifer area. Surface water run-off from areas such as the ore treatment plant is caught in water re-circulating dams for re-use.

#### Old Bridge Linking Upper-Bongema to Lower-Bongema Villages

Petra's support made it possible to build a new bridge linking the Lower-Bongema with the Upper-Bongema Villages. The bridge is used by the local villages to access the main road which links the province with Freetown, the capital of Sierra Leone.

#### Sponsor of Nimikoro Football League

The newly established Nimikoro Football League was launched with Company support whereby six different towns in the Chiefdom participated in a league on which a Nimikoro team was elected for future participation in the district and the Chiefdom as a whole.



The Wellness clinic at Cullinan mine, South Africa

The Directors present their Report together with the audited financial statements of the Group for the year ended 30 June 2008.

## Principal activities

Petra Diamonds is an international diamond mining group with a balanced portfolio combining major producing mines and world class exploration assets. The Group's operations are in South Africa, Angola, Botswana, Sierra Leone and Tanzania (where the acquisition of the Williamson mine is set to complete in November 2008). Petra's objectives are to continue to grow production and to bring its major exploration assets to account, developing its stature as a leading diamond producer in all of the countries in which it operates.

## 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 8, the Chief Executive Officer's Review on pages 10 to 21 and in note 29 to the financial statements.

## Results and dividends

The Group's profit for the year amounted to US\$1,978,300 (2007: loss US\$20,948,926). The Directors do not recommend the payment of a dividend for the year (2007: 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 Directors' remuneration report on pages 78 and 79 and note 18 to the financial statements) were as follows:

	Number of shares at 30 June 2008	Number of shares at 30 June 2007
A Pouroulis	7,735,000	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	150,000	50,000
C Segall	2,000	2,000

7,735,000 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 mine for R2,500,000 (US\$319,587). The option expires on 15 October 2011.

## Share capital

Details of changes to share capital during the year can be found in note 18 to the financial statements.

## Substantial shareholdings

At 30 September 2008 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 share capital
Saad Investments Company Limited	68,155,430	37.0
JP Morgan Limited	17,643,200	9.6
Al Rajhi Holdings W.L.L.	14,750,000	8.0
Arc Securities	5,634,719	3.1

## 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.

## Financial instruments

The Group makes use of financial instruments in its operations as described in note 25 of the financial statements.

## Going concern

Following a review of the Group's financial position, the Directors have concluded that sufficient financial resources will be available to meet the Group'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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Bermuda governing the preparation and dissemination of the financial statements and other information included in Annual Reports may differ from legislation in other jurisdictions.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Bermuda Companies Act 1981. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS's. A fair presentation also requires the Directors to:

- ◆ consistently select and apply appropriate accounting policies;
- ◆ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- ◆ provide additional disclosures when compliance with the specific requirements in IFRS's is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

## Auditors

As far as each of the Directors is aware, at the time this report was approved:

- (a) there is no relevant available information of which the auditors are unaware; and
- (b) they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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 19 December 2008.

By order of the Board



David Abery

Director

7 November 2008

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. As at 30 June 2008 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 2008	At 30 June 2007
Adonis Pouroulis	44.0p	5 September 2003	5 September 2013	500,000	500,000
	85.0p	16 June 2005	16 June 2015	250,000	250,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	300,000
	125.0p	7 December 2007	7 December 2017	300,000	–
David Abery	44.0p	5 September 2003	5 September 2013	500,000	500,000
	85.0p	16 June 2005	16 June 2015	250,000	250,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	300,000
	125.0p	7 December 2007	7 December 2017	300,000	–
Johan Dippenaar	85.0p	16 June 2005	16 June 2015	750,000	750,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	300,000
	125.0p	7 December 2007	7 December 2017	300,000	–
Jim Davidson	85.0p	16 June 2005	16 June 2015	750,000	750,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	300,000
	125.0p	7 December 2007	7 December 2017	300,000	–
Senior management	44.0p	5 September 2003	5 September 2013	192,000	206,000
	56.75p	13 September 2004	13 September 2014	50,000	50,000
	A\$1.12	24 September 2004	24 September 2014	238,875	238,875
	A\$1.36	28 January 2005	28 January 2015	72,500	72,500
	65.75p	27 November 2005	27 November 2015	423,334	490,000
	79.5p	31 May 2006	31 May 2016	460,000	480,000
	96.0p	31 July 2006	31 July 2016	553,625	563,625
	122.5p	31 October 2006	31 October 2016	200,000	200,000
	134.5p	24 November 2006	24 November 2016	1,000,000	1,000,000
	156.0p	2 March 2007	2 March 2017	1,210,000	1,230,000
	125.0p	7 December 2007	7 December 2017	1,800,000	–



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

	Exercise price	Date of grant	Date of exercise	Number of options exercised/lapsed
Senior management	44.0p	5 September 2003	1 October 2007	14,000
	65.75p	27 November 2005	7 May 2008	13,333
	65.75p	27 November 2005	19 May 2008	13,333
	79.5p	31 May 2006	6 June 2008	16,666
	79.5p	31 May 2006	Lapsed*	43,334
	65.75p	27 November 2005	Lapsed*	40,000
	156p	31 May 2006	Lapsed*	10,000

\* 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 2008.

	Base remuneration US\$	Performance related bonus US\$	Share-based allocations* US\$	2008 Total US\$	2007 Total US\$
<b>Executive Directors</b>					
A Pouroulis	303,970	151,985	193,049	649,004	476,443
D Abery	303,970	303,970	193,049	800,989	476,443
J Dippenaar	303,970	303,970	193,049	800,989	476,443
J Davidson	303,970	303,970	193,049	800,989	476,443
	<u>1,215,880</u>	<u>1,063,895</u>	<u>772,196</u>	<u>3,051,971</u>	<u>1,905,772</u>

	Fees US\$	Performance related bonus US\$	Other US\$	2008 Total US\$	2007 Total US\$
<b>Non-executive Directors**</b>					
C Segall #	50,078	–	–	50,078	43,477
V Ruffer #	10,016	–	–	10,016	9,662
	<u>60,094</u>	<u>–</u>	<u>–</u>	<u>60,094</u>	<u>53,139</u>

\* On initial grant the estimated option fair value is recognised as an employee expense in line with IFRS2 and spread over the period during which the employee becomes unconditionally entitled to the options. This is a non-cash charge.

\*\* The Board determines the non-executive Directors' fees in the absence of the relevant non-executive Director.

# 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 2009 will be US\$1.3 million.

By order of the Board



David Abery

Director

7 November 2008

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 Code is based and considers that the Company has complied with a number of key requirements.

## 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. 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 the performance of the 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. While 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

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. 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 78.

### 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 2009 financial year:

- ◆ Financial reporting – the Company will report to shareholders half-yearly and annually, as required by the AIM Listing Rules. The Chief Executive Officer and Finance Director state to the Board that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards. 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 listed on the AIM, 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 in accordance with the continuous disclosure requirements of the AIM 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;
  - All information provided to the AIM being immediately posted to the Company's website at [www.petradiamonds.com](http://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, 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. Matters that may have an effect on the price of the Company's securities will be advised to the AIM 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 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](http://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.

We have audited the Group financial statements ("the financial statements") of Petra Diamonds Limited for the year ended 30 June 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated 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) as adopted by the European Union 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 in accordance with applicable law and IFRS as adopted by the European Union. 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 Corporate profile, Financial highlights, Petra Diamonds at a glance, Chairman's statement, CEO's review, Review of operations, Reserves and resources, Mining, processing and distribution, The diamond market, Corporate social responsibility, 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.

## Opinion

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its profit for the year then ended.



**BDO Stoy Hayward LLP**

Chartered Accountants

London

7 November 2008

For the year ended 30 June 2008

	Notes	2008 US\$	2007 US\$
<b>Revenue</b>		76,974,897	17,048,794
Cost of Sales	4	(43,498,407)	(21,003,936)
<b>Gross profit/(loss)</b>		33,476,490	(3,955,142)
Other income		1,150,513	–
Exploration expenditure	5	(14,484,792)	(6,091,669)
Other operating expenditure	6	(7,097,383)	(5,834,471)
Financial income		3,081,991	654,151
Financial expense		(6,833,796)	(7,034,185)
Net financing costs	7	(3,751,805)	(6,380,034)
<b>Profit/(loss) before tax</b>		9,293,023	(22,261,316)
Income tax expense	8	(5,925,821)	1,909,234
<b>Profit/(loss) for the year from continuing operations</b>		3,367,202	(20,352,082)
Loss on discontinued operations (net of tax)	33	(1,388,902)	(596,844)
<b>Profit/(loss) for the year</b>		1,978,300	(20,948,926)
Attributable to:			
Equity holders of the parent company		(7,209,338)	(20,948,926)
Minority interest		9,187,638	–
		1,978,300	(20,948,926)
<b>Loss per share attributable to the equity holders of the parent during the year:</b>			
<b>From continuing operations</b>			
Basic and diluted loss per share attributable – US cents	10	(3.17)	(13.21)
<b>From continuing and discontinued operations</b>			
Basic and diluted loss per share – US cents	10	(3.93)	(13.60)

## Consolidated statement of recognised income and expense

For the year ended 30 June 2008

	Notes	2008 US\$	2007 US\$
Exchange differences on translation of foreign operations		(3,351,183)	(8,677,941)
Loss on hedges recognised directly in equity		(138,299)	–
Net income recognised directly in equity		(3,489,482)	(8,677,941)
Profit/(Loss) for the year		1,978,300	(20,948,926)
Total recognised income and expense for the year	19	(1,511,182)	(29,626,867)
Attributable to:			
Equity holders of the parent company		(10,698,820)	(29,626,867)
Minority interest		9,187,638	–
		(1,511,182)	(29,626,867)
The notes on pages 88 to 125 form part of these financial statements.			

As at 30 June 2008

	Notes	2008 US\$	2007 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	90,902,372	84,872,711
Intangible assets	12	41,781,946	72,816,432
Investment in associates	13	6,636,292	–
Available for sale financial assets	14	–	70,136
Other receivables	16	138,177	151,987
<b>Total non-current assets</b>		<b>139,458,787</b>	<b>157,911,266</b>
<b>Current assets</b>			
Inventories	15	11,778,572	8,900,532
Trade and other receivables	16	40,115,305	14,822,729
Cash and cash equivalents	17	37,469,370	44,124,829
Non-current assets classified as held for sale	33	3,681,868	–
<b>Total current assets</b>		<b>93,045,115</b>	<b>67,848,090</b>
<b>Total assets</b>		<b>232,503,902</b>	<b>225,759,356</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	36,698,062	36,360,403
Share premium account	19	228,745,618	227,366,888
Foreign currency translation reserve	19	(9,488,037)	(6,136,854)
Hedging reserve	19	(138,299)	–
Share based payment reserve	19	3,142,465	1,527,000
Other reserves	19	4,016,968	4,003,682
Accumulated loss	19	(109,766,931)	(102,557,593)
Attributable to equity holders of the parent company		153,209,846	160,563,526
Minority interest		9,187,638	–
<b>Total equity</b>		<b>162,397,484</b>	<b>160,563,526</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	1,859,679	3,103,252
Trade and other payables	22	4,898,336	3,176,581
Provisions	23	12,140,783	9,852,535
Deferred tax liabilities	24	13,041,589	9,551,924
<b>Total non-current liabilities</b>		<b>31,940,387</b>	<b>25,684,292</b>
<b>Current liabilities</b>			
Loans and borrowings	21	19,854,722	27,755,710
Trade and other payables	22	12,564,790	9,445,361
Derivative financial liabilities	22	138,299	–
Current tax payable		1,420,783	–
Liabilities directly associated with non-current assets classified as held for sale	33	81,646	–
Provisions	23	4,105,791	2,310,467
<b>Total current liabilities</b>		<b>38,166,031</b>	<b>39,511,538</b>
<b>Total liabilities</b>		<b>70,106,418</b>	<b>65,195,830</b>
<b>Total equity and liabilities</b>		<b>232,503,902</b>	<b>225,759,356</b>
The notes on pages 88 to 125 form part of the financial statements.			
The financial statements were approved and authorised for issue by the Directors on 7 November 2008.			



For the year ended 30 June 2008

	2008 US\$	2007 US\$
<b>Profit/(loss) before taxation for the year from continuing and discontinued operations</b>	7,904,121	(22,858,160)
Depreciation of property plant and equipment – exploration	1,159,072	1,115,782
Depreciation of property plant and equipment – mining	5,772,464	5,274,209
Depreciation of property plant and equipment – other	142,017	113,283
Amortisation of intangible assets	3,803,634	3,740,928
Impairment of investment	96,593	–
Loss/(profit) on sale of property plant and equipment	3,047	(81,852)
Finance income	(2,484,965)	(654,151)
Finance expense	2,239,386	1,307,715
Present value adjustment of rehabilitation provision	133,277	186,121
Share based payment provision	1,629,783	749,406
Foreign exchange loss	4,594,410	4,811,205
<b>Operating profit/(loss) before working capital changes</b>	24,992,839	(6,295,514)
Increase in trade and other receivables	(25,292,582)	(12,031,562)
Increase in trade and other payables	4,810,330	13,747,215
Increase in inventories	(2,878,040)	(6,133,588)
<b>Cash generated from/(utilised in) operations</b>	1,632,547	(10,713,449)
Finance expense	(862,335)	(1,307,715)
Net cash generated from/(utilised in) operating activities	770,212	(12,021,164)
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	919,655	568
Proceeds from sale of intangibles	22,354,768	–
Acquisition of subsidiary net of cash acquired	–	1,934,936
Finance income	2,484,965	654,151
Acquisition of investments	(6,636,292)	–
Acquisition of property, plant and equipment	(16,664,852)	(5,086,569)
Development expenditure	(4,211,646)	(3,847,301)
Net cash utilised in investing activities	(1,753,402)	(6,344,215)
<b>Cash flows from financing activities</b>		
Net proceeds from the issuance of share capital	2,966,654	36,087,171
Increase in non-current borrowings	416,466	19,424,564
Decrease in current borrowings	(9,197,589)	–
Net cash (utilised in)/generated from financing activities	(5,814,469)	55,511,735
<b>Net (decrease)/increase in cash and cash equivalents</b>	(6,797,659)	37,146,356
Cash and cash equivalents at beginning of the year	44,124,829	7,019,644
Effect of exchange rate fluctuations on cash held	142,200	(41,171)
<b>Cash and cash equivalents at end of the year</b>	37,469,370	44,124,829
The notes on pages 88 to 125 form part of the financial statements.		
Significant non-cash flow transactions which are not reflected in the cash flow statement are set out in note 31.		

## 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 except as noted below, consistent with those adopted in the previous financial statements.

### 1.1 Basis of preparation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS's and IFRIC Interpretations) issued by the International Accounting Standards Board (IASB), as adopted by the European Union ("IFRS").

### 1.2 New standards and interpretations applied

The IASB has issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 July 2007 which have been adopted by the Group for the first time this year:

IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – capital disclosures – Effective date 1 January 2007. The Group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 July 2007; this application has resulted in increased disclosures.

IFRIC 10, Interim Financial Reporting and Impairment – effective for accounting periods beginning on or after 1 November 2006. There was no impact on the Group's accounts from the adoption of this IFRIC.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions – effective for accounting periods beginning on or after 1 March 2007. There was no impact on the Group's accounts from the adoption of this IFRIC.

#### New standards and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 July 2008 or later periods and which the Group has decided not to adopt early. These are:

IFRS 8, Operating Segments – effective for accounting periods beginning on or after 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

IAS 23, Borrowing Costs (revised) – effective for accounting periods beginning on or after 1 January 2009. The revised IAS 23 is still to be endorsed by the EU. The Group is currently assessing its impact on the financial statements.

Revised IFRS 3, Business Combinations and complementary Amendments to IAS 27, Consolidated and separate financial statements – both effective for accounting periods beginning on or after 1 July 2009. The revised IFRS 3 and IAS 27 are still to be endorsed by the EU. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

IFRIC 12, Service Concession Arrangements – effective for accounting periods beginning on or after 1 January 2008. IFRIC 12 is still to be endorsed by the EU. This IFRIC is not expected to have any impact on the financial statements of the Group.

IFRIC 13, Customer Loyalty Programmes – effective for accounting periods beginning on or after 1 July 2008. IFRIC 13 is still to be endorsed by the EU. This IFRIC is not expected to have any impact on the financial statements of the Group.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective for accounting periods beginning on or after 1 January 2008. IFRIC 14 is still to be endorsed by the EU. This IFRIC is not expected to have any impact on the financial statements of the Group.

IFRIC 15, Agreements for the Construction of Real Estate – effective for accounting periods beginning on or after 1 January 2009. IFRIC 15 is still to be endorsed by the EU. This IFRIC is not applicable to the Group as it is not operating in real estate sector.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation – effective for accounting periods beginning on or after 1 October 2008. IFRIC 16 is still to be endorsed by the EU. Management is currently assessing the impact of IFRIC 16 on the Group financial statements.

Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations – effective for accounting periods beginning on or after 1 January 2009. This amendment is still to be endorsed by the EU. Management is currently assessing the impact of the amendment on the Group financial statements.

Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation – effective for accounting periods beginning on or after 1 January 2009. This amendment is still to be endorsed by the EU. Management is currently assessing the impact of the amendment on the Group financial statements.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation – effective for accounting periods beginning on or after 1 January 2009. This amendment is still to be endorsed by the EU. Management is currently assessing the impact of the amendment on the Group financial statements.

## 1. Accounting policies (continued)

### 1.2 New standards and interpretations not yet effective (continued)

Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate – effective for accounting periods beginning on or after 1 January 2009. These amendments are still to be endorsed by the EU. This IFRIC is not expected to have any impact as the Company does not prepare separate financial statements.

Improvements to IFRS – effective for accounting periods beginning on or after 1 July 2009. This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards. Management is currently assessing the impact of the Amendment on the accounts.

#### Currency reporting

The functional currency of the Group's business transactions in Angola, Botswana, Sierra Leone and South African diamond sales are US Dollars. Reference to transactions in South African Rand (ZAR) in the annual report is denoted by an R. The Group financial statements are presented in US Dollars.

### 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 or a joint venture of the Group. The equity method of accounting for associates is adopted in the Group financial statements. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which an enterprise becomes an associate and up to the effective date of disposal.

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

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

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprises. Unrealised gains arising from transactions with associates are eliminated against the investment in the associates. Unrealised losses on transactions with associates are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### 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.

## 1. Accounting policies (continued)

### 1.4 Property, plant and equipment (continued)

Expenditure relating to an item of property, plant and equipment considered to be an asset under construction is capitalised when it is probable that future economic benefits from the use of that asset will be realised.

Repairs and maintenance which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

Surpluses/(deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

#### Capitalised expenditure in respect of Kimberley Underground mines

The Group has capitalised costs of US\$3.2m during the year ended 30 June 2008 (30 June 2007: US\$nil) in relation to the Kimberley Underground mines. The acquisition of the Kimberley Underground mines is subject only to final regulatory approval and since 14 September 2007 the Group has maintained the mine under a care and maintenance agreement with De Beers. During that period expenditure has been incurred to bring the mining assets back into a condition in which it can be utilised for mining and production. This expenditure is considered to be capital in nature and has been capitalised on the basis that the future economic benefits of the mining assets are expected to flow to the Group. The Group also considers that they are exercising control over the assets, although De Beers maintains a presence on site until such time as the final regulatory approvals are received.

The expenditure incurred is capitalised on the basis that it is common practice for transaction costs incurred in respect of business combinations to be capitalised where the business combination has not completed by the balance sheet date and by analogy to IAS 11 (Construction contracts) which permits costs incurred in respect of future activity to be capitalised where it is probable that those costs will be recovered.

### 1.5 Leases

#### Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired under terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the 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.

#### Project farm-ins

Where the Group enters into an agreement with a third party for the third party to fund specific expenditure for the exploration and evaluation or development of a licence area, any consideration received by the Group in entering into that agreement is treated as a disposal of part of the Group's interest in that licence.

The consideration received is therefore credited against the expenditure previously capitalised by the Group in respect of the licence. If the consideration received is greater than the expenditure already made by the Group, the excess credit is taken to the income statement.

This policy is in accordance with industry practice for oil and gas and mining companies entering into such project farm-in arrangements.

## 1. Accounting policies (continued)

### 1.7 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

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.

### 1.8 Financial instruments

#### Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

#### Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated income statement. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

#### Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The assets arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets including cash and cash equivalents. They are initially recognised at the fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest method.

#### Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally of the Group's strategic investment in the entities not qualifying as subsidiaries, associates or jointly controlled entities. The assets are carried at fair value with changes in fair value recognised directly in a separate component of equity (available-for-sale reserve). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement. Fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are measured at cost.

#### Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

#### Fair value through profit or loss

This category comprises only out-of-the-money derivatives (see financial assets for in the money derivatives). The liabilities are carried in the balance sheet at fair value with changes in fair value recognised in consolidated income statement.

#### Other liabilities

*Trade payables and other short-term monetary liabilities*

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## 1. Accounting policies (continued)

### 1.8 Financial instruments (continued)

#### *Interest-bearing borrowings*

Bank borrowings and the debt element of convertible debt issued are recognised initially at fair value less attributable transaction costs. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

#### *Hedging instruments*

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date the derivative contract is entered into, the Group designates the derivative for hedge accounting. During the year the Group has only entered into hedges of forecast transactions (cash flow hedges). The Group formally assesses, at inception and on an on-going basis, whether the derivatives are highly effective in offsetting changes in the fair value or cash flows of the hedged item. Changes in the fair value of a derivative that is effective in offsetting changes in the cash flow of the hedged item, and that is designated and qualifies as a cash flow hedge, are recognised directly in equity. Changes in fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement. Amounts recognised in equity are transferred to the income statement in the period during which the hedged forecast impacts net profit or loss. An ineffective element of a cash flow hedge, which has been designated for hedge accounting, is taken to the income statement.

#### **Impairment of financial assets**

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. As at 30 June 2008 there were no impairment provisions against financial assets (30 June 2007: US\$nil).

### 1.9 Revenue

Revenue comprises net invoiced diamond sales 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 apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

### 1.11 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. Accounting policies (continued)

### 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.

#### **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.

#### **Change in accounting estimate**

During the period, the Group changed its accounting estimate in respect of the unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated. Under the revised accounting estimate, loans to foreign subsidiaries that are not expected to be repaid in the foreseeable future are treated as part of the net investment in foreign operations. As a result unrealised foreign exchange gains and losses are reflected in the foreign currency translation reserve. This represents a change from the accounting treatment adopted in prior years, under which unrealised foreign exchange gains and losses arising on retranslation of loans to foreign operations were recognised in the income statement.

The revised accounting estimate is as a result of a re-assessment by the Directors due to a change in the Group's circumstances; the change in accounting estimate is applied prospectively. The revised accounting estimate better reflects the substance of the loans to subsidiaries and presents financial results, which, in the opinion of the Directors better reflects the trading results of the Group.

As a result, unrealised foreign exchange losses of US\$7,241,913 arising in the year ended 30 June 2008 which relate to foreign subsidiary loans, are now treated as part of the net investment in foreign operations have been recognised directly in the foreign currency translation reserve. It is impractical to estimate the effect that this change will have on future periods.

The changes to the Group income statement and balance sheet relate to the Group's South African and Botswana operations.

### 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, investments in money market instruments, and net of bank overdrafts, all of which are available for use by the Group unless otherwise stated. The accounting policy for cash and cash equivalents is as stated in note 1.8.

## 1. Accounting policies (continued)

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

### 1.18 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 of production includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Consumable stores are stated at the lower of cost on the weighted average basis or estimated replacement value. Work in progress is stated at raw material cost including allocated labour and overhead costs.

### 1.19 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 instrument and accordingly a split between debt and equity is recorded in the Group's financial statements. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the fair value over the present value of the future cash flows, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method. Also see interest-bearing borrowings set out in note 1.8.

### 1.20 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing mining, beneficiation 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 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

### 1.22 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and based on management's historical experience and other mitigating factors, including future expectations and events that are believed to be reasonable. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed below.

#### Exploration and evaluation costs

Judgement is applied by management in determining whether exploration and evaluation expenditure should be capitalised or expensed. Management exercise judgement based on the results of economic evaluations, pre-feasibility or feasibility studies as set out in note 1.6. The carrying value of intangible assets (excluding non-current assets classified as held for sale), which includes capitalised exploration and evaluation expenditure at the balance sheet date is US\$41,781,946 (30 June 2007: US\$69,327,608).



## 1. Accounting policies (continued)

### 1.22 Critical accounting estimates and judgements (continued)

#### Investments

The assessment of the recoverable amount of investments in associates engaged in mineral exploration requires significant judgements based on the availability of information and estimated economic viability of exploration projects. The carrying value of investments at the balance sheet date is US\$6,636,292.

#### Life of mine and ore reserves

There are numerous risks inherent in estimating ore reserves and the associated life of a mine. Therefore management must make a number of assumptions in making those estimates, including assumptions as to exchange rates, commodity prices, recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, commodity prices, recovery and production rates may change the economic viability of ore reserves and may ultimately result in the restatement of the ore reserve and potential impairment to the carrying value of the mining assets. The determination of the life of mine and ore reserves impacts the depreciation of mining assets depreciated on a unit of production basis, as set out in note 1.4.

#### Provision for rehabilitation

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, management used a discount rate of 9.1% (30 June 2007: 9.1%), a life of mine of 12 to 18 years (30 June 2007: 10 years) and an inflation rate of 6.5% (30 June 2007: 6.5%). The carrying value of rehabilitation provisions at the balance sheet date is US\$12,140,783 (30 June 2007: US\$9,852,535).

#### Valuation of share options

In determining the fair value of share-based payments made during the year to employees, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The total charge to the income statement in respect of share-based payments for the year is US\$1,629,783 (30 June 2007: US\$437,340).

#### Impairment reviews

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future rough diamond prices, ore reserves, rehabilitation costs, feasibility studies and future development and production costs. Changes in estimates used can result in significant changes to the income statement. The policy in respect of impairment reviews is set out in note 1.7.

#### Valuation of equity portion of compound instruments

Judgement is applied by management in determining the fair value of the equity portion of compound instruments. In determining the fair value, management exercises judgement in making assumptions about the duration of the instrument, the risk free interest rate at the time of issuing the compound instrument and the risk premium for compound instruments of a similar nature. The total charge to the income statement in respect of interest accreted for compound instruments for the year is US\$1,310,191 (30 June 2007: US\$915,265). The equity portion of compound instruments reflected in the Group's financial statements is US\$4,016,968 (30 June 2007: US\$4,003,682).

For the year ended 30 June 2008

## 2. Segment information

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest-bearing borrowings and expenses and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business and geographical segments

The Group comprises the following business segments:

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

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

Beneficiation – cutting and polishing of rough diamonds.

Business segments	Mining	Exploration	Beneficiation	Inter-	Consolidated
	2008	2008	2008	segment	2008
	US\$	US\$	US\$	US\$	US\$
Revenue	77,295,691	–	827,039	(1,147,833)	76,974,897
Segment result	37,199,561	(5,010,511)	(188,579)	(1,817,805)	30,182,666
Operating loss	28,727,290	(14,113,915)	(1,292,899)	(1,664,550)	11,655,926
Financial income	752,464	2,407,773	12,534	(90,780)	3,081,991
Financial expense	(812,956)	(5,912,303)	(108,537)	–	(6,833,796)
Income tax	(5,925,821)	–	–	–	(5,925,821)
Minority interest	(9,187,638)	–	–	–	(9,187,638)
Loss for year	13,553,339	(17,618,445)	(1,388,902)	(1,755,330)	(7,209,338)
Segment assets	95,818,569	132,552,544	4,132,789	–	232,503,902
Total assets	95,818,569	132,552,544	4,132,789	–	232,503,902
Segment liabilities	54,144,288	15,880,484	81,646	–	70,106,418
Total liabilities	54,144,288	15,880,484	81,646	–	70,106,418
Cash flows from operations	39,420,437	(33,604,992)	(5,045,233)	–	770,212
Cash flows from investing	(14,262,677)	12,496,741	12,534	–	(1,753,402)
Cash flows from financing	(13,419,335)	2,966,654	4,638,212	–	(5,814,469)
Capital expenditure	15,397,513	5,333,003	145,982	–	20,876,498
Depreciation and amortisation	5,772,464	5,010,511	94,212	–	10,877,187

Geographical segments	Angola	Botswana	Sierra Leone	South Africa	Jersey	Consolidated
	2008	2008	2008	2008	2008	2008
	US\$	US\$	US\$	US\$	US\$	US\$
Revenue	–	–	–	76,974,897	–	76,974,897
Segment assets	46,006,982	5,085,096	13,450,364	117,915,289	50,046,171	232,503,902
Segment Liabilities	1,570,231	114,656	5,172,288	42,239,954	21,009,289	70,106,418
Cash utilised in operations	(7,822,959)	9,423	(423,744)	14,510,668	(5,503,176)	770,212
Cash flows from investing	9,517	(93,807)	(4,211,646)	(13,556,961)	16,099,495	(1,753,402)
Cash flows from financing	–	84,384	4,211,646	(9,834,485)	(276,014)	(5,814,469)
Capital expenditure	–	103,449	4,211,646	16,561,403	–	20,876,498

## 2. Segment information (continued)

The results from beneficiation activities represent those activities disclosed under discontinuing operations as set out in note 33.

Business segments	Mining	Exploration	Beneficiation	Inter-	Consolidated
	2007	2007	2007	segment	2007
	US\$	US\$	US\$	US\$	US\$
Revenue	16,712,146	336,648	–	–	17,048,794
Segment result	(5,851,790)	(3,495,749)	(84,877)	–	(9,432,416)
Operating loss	(4,041,603)	(11,837,295)	(599,228)	–	(16,478,126)
Financial income	–	651,767	2,384	–	654,151
Financial expense	(5,951,235)	(1,082,950)	–	–	(7,034,185)
Income tax	1,909,234	–	–	–	1,909,234
Loss for year	(8,083,604)	(12,268,478)	(596,844)	–	(20,948,926)
Segment assets	87,227,690	137,374,026	1,157,640	–	225,759,356
Total assets	87,227,690	137,374,026	1,157,640	–	225,759,356
Segment liabilities	32,165,070	32,108,430	922,330	–	65,195,830
Total liabilities	32,165,070	32,108,430	922,330	–	65,195,830
Cash utilised in operations	(10,053,291)	(954,401)	(1,013,472)	–	(12,021,164)
Cash flows from investing	(5,212,480)	(1,134,119)	2,384	–	(6,344,215)
Cash flows from financing	(3,514,530)	57,698,000	1,328,265	–	55,511,735
Capital expenditure	4,818,397	4,115,473	–	–	8,933,870
Depreciation and amortisation	5,274,209	4,885,117	84,876	–	10,244,202

Geographical segments	Angola	Botswana	Sierra Leone	South Africa	Jersey	Consolidated
	2007	2007	2007	2007	2007	2007
	US\$	US\$	US\$	US\$	US\$	US\$
Revenue	–	–	–	16,712,146	336,648	17,048,794
Segment assets	52,318,248	9,318,811	8,369,539	106,890,457	48,862,301	225,759,356
Segment liabilities	12,988	54,787	3,165,035	40,439,879	21,523,141	65,195,830
Cash utilised in operations	(19,864)	1,638,195	(687,205)	(8,757,883)	(4,194,407)	(12,021,164)
Cash flows from investing	4,684	(149,153)	(3,847,301)	(4,727,703)	2,375,258	(6,344,215)
Cash flows from financing	101,158	3,093,099	3,847,301	(2,447,727)	50,917,904	55,511,735
Capital expenditure	–	155,132	3,847,301	4,818,397	113,040	8,933,870

The results from beneficiation activities represent those activities disclosed under discontinuing operations as set out in note 33.

### 3. Acquisitions and disposals

#### 3 (a) Acquisition of interest in associate

##### Organizações Moyoweno – Comércio Geral, Lda. ("Moyoweno")

In August 2007 the Company acquired a 40% equity interest in Organizações Moyoweno – Comércio Geral, Lda. ("Moyoweno"), an Angolan registered company, for US\$6 million. Moyoweno's sole asset is a 13% interest in the Alto Cuilo kimberlite and alluvial exploration licences.

#### 3 (b) Disposal of interest in subsidiary

##### Frannor Investments & Finance Limited

On 1 August 2007, the Company entered into an agreement ('Luangue Agreement') with BHP Billiton to develop the Luangue diamond project ('Project Luangue') in north-eastern Angola.

Under the terms of the Luangue Agreement:

- (i) BHP Billiton acquired 25% of the issued share capital of Frannor Investments and Finance Limited ("Frannor"), from Petra for a cash consideration of US\$22.35 million; the consideration has been treated as a disposal of the prospecting licences and the total consideration of \$22.35 million was credited against intangible assets acquired at the date of acquisition as set out in note 1.6;
- (ii) BHP Billiton's shareholding in Frannor will remain at 25% until BHP Billiton's earn-in date ('BHP Billiton Earn-in Date'), defined as the earlier of (i) the formation of a kimberlite mining company or (ii) 180 days following the submission of a Technical and Economic Viability Study in accordance with the Luangue kimberlite concession contract, provided that in either case a BHP Billiton pre-feasibility study is completed beforehand. At the BHP Billiton Earn-in Date, BHP Billiton's shareholding in Frannor will increase to 75%, with Petra holding the remaining 25% of Frannor;
- (iii) BHP Billiton will sole fund the development of Project Luangue up to the BHP Billiton Earn-in Date; and
- (iv) BHP Billiton refunded Petra's Project Luangue operating expenditure, of circa US\$3.5 million.

On the 9 May 2008, BHP Billiton announced that it was transferring to the Company its interest in Project Luangue. BHP Billiton and the Company have embarked on a negotiation process to facilitate the transfer of BHP Billiton's 25% interest in Frannor back to the Group.

As at 30 June 2008 the Company maintained its 75% shareholding in Frannor and consolidated 100% of Frannor's assets, liabilities and operational results.

2008  
US\$

2007  
US\$

### 4. Cost of sales

Raw materials and consumables used  
Employee expenses  
Depreciation of mining assets  
Changes in inventory of finished goods

13,418,304  
21,800,743  
5,772,464  
2,506,896  

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43,498,407

8,109,941  
13,020,423  
5,274,209  
(5,400,637)  

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21,003,936

### 5. Exploration expenditure

Employee expenses  
Depreciation of exploration assets  
Amortisation of intangible assets  
Drilling and air survey expenses  
Equipment hire  
Other exploration expenses

2,434,245  
1,159,072  
3,803,634  
3,476,973  
245,243  
3,365,625  

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14,484,792

323,107  
1,115,782  
3,740,928  
243,717  
6,722  
661,413  

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6,091,669

	2008 US\$	2007 US\$
<b>6. Operating expenditure – other</b>		
Auditors' remuneration		
– audit services	315,325	195,437
– other services	5,002	19,394
Depreciation of property, plant and equipment	142,017	113,283
Operating lease rentals – buildings	127,225	153,739
Staff costs	2,847,418	1,888,271
Bid and project expenditure	5,232	55,293
Loss/(profit) on disposal of property, plant and equipment	3,047	(81,852)
Administration expenses – mining operations	–	1,794,312
Impairment of investment	96,593	–
Care and maintenance	413,300	–
Other charges	1,512,441	1,259,254
Share based payments		
– directors	772,196	253,656
– senior management	857,587	183,684
	<b>7,097,383</b>	<b>5,834,471</b>
<p>In addition to the above, the audit fee payable in 2009 in respect of the 2008 audit by the Group to its current auditors is US\$346,260.</p> <p>All share-based payments are in respect of equity settled share option schemes as stated in note 28.</p>		
<b>7. Net financing costs</b>		
On bank loans and overdrafts	(861,563)	(813,377)
Other debt finance costs – convertible bond	(1,377,823)	(1,409,603)
Unrealised foreign exchange losses	(4,594,410)	(4,811,205)
Financial expense	<b>(6,833,796)</b>	<b>(7,034,185)</b>
Realised foreign exchange gains on settlement of foreign exchange contracts	597,026	–
Interest received other	52,561	39,933
Interest received bank deposits	2,432,404	614,218
Financial income	<b>3,081,991</b>	<b>654,151</b>
	<b>(3,751,805)</b>	<b>(6,380,034)</b>
<b>8. Taxation</b>		
Current Taxation		
– Current tax expense	(1,420,783)	–
Deferred Taxation		
– Current period	(4,505,038)	1,909,234
	<b>(5,925,821)</b>	<b>1,909,234</b>

For the year ended 30 June 2008

	2008		2007	
	%	US\$	%	US\$
<b>8. Taxation (continued)</b>				
Reconciliation of tax rate				
Profit/(loss) before taxation from continuing and discontinued operations		7,904,121		(22,858,160)
Tax at Bermudan corporate rate	–	–	–	–
Effects of:				
Tax rates in foreign jurisdictions	(84.21)	(6,656,197)	29.00	(6,628,867)
Non-deductible expenses	8.50	671,753	0.15	(35,220)
Non taxable income	–	–	0.02	(4,298)
Assessed loss not utilised	57.74	4,563,661	(29.17)	6,668,385
Current tax charge	(17.97)	(1,420,783)	–	–
Deferred tax movement	(57.00)	(4,505,038)	8.35	1,909,234
Total tax (charge)/credit	(74.97)	(5,925,821)	8.35	1,909,234

	2008	2007
	US\$	US\$

## 9. Directors' and employees remuneration

Staff costs (excluding the non-executive Directors) during the year were as follows:

Wages and salaries – mining

Wages and salaries – exploration

Wages and salaries – administration

Social security costs

Provident fund costs

21,800,743

2,434,245

2,838,638

8,780

–

27,082,406

13,020,423

323,107

1,869,635

4,830

13,806

15,231,801

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 2,824 (2007: 2,501), employed as follows:

Mining and exploration

Administration

2,702

122

2,824

2,421

80

2,501

	Base	Performance	Share-based	2008	2007
	remuneration	related bonus	allocations	Total	Total
	US\$	US\$	US\$	US\$	US\$
<b>Executive Directors</b>					
A Pouroulis	303,970	151,985	193,049	649,004	476,443
D Abery	303,970	303,970	193,049	800,989	476,443
J Dippenaar	303,970	303,970	193,049	800,989	476,443
J Davidson	303,970	303,970	193,049	800,989	476,443
	1,215,880	1,063,895	772,196	3,051,971	1,905,772

	Fees US\$	2008 Total US\$	2007 Total US\$
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## 9. Directors' and employees remuneration (continued)

### Non-executive Directors

C Segall	50,078	50,078	43,477
V Ruffer	10,016	10,016	9,662
	<u>60,094</u>	<u>60,094</u>	<u>53,139</u>

The directors are considered to be the only key management to the Group's business. The IFRS 2 charge relating to key management for the year was US\$772,196 (30 June 2007: US\$253,656). See note 28 in respect of share-based payments.

	Continuing operations 2008 US\$	Discontinued operations 2008 US\$	Total 2008 US\$	Continuing operations 2007 US\$	Discontinued operations 2007 US\$	Total 2007 US\$
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## 10. Loss per share

### Numerator

Loss for the year	5,820,436	1,388,902	7,209,338	20,352,082	596,844	20,948,926
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### Denominator

Weighted average number of ordinary shares

Shares in issue as at 1 July	181,448,193	181,448,193	181,448,193	143,916,416	143,916,416	143,916,416
------------------------------	-------------	-------------	-------------	-------------	-------------	-------------

Effect of shares issued during the period

	1,813,457	1,813,457	1,813,457	10,103,075	10,103,075	10,103,075
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Weighted average as at 30 June

	<u>183,261,650</u>	<u>183,261,650</u>	<u>183,261,650</u>	<u>154,019,491</u>	<u>154,019,491</u>	<u>154,019,491</u>
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	Shares	Shares	Shares	Shares	Shares	Shares
--	--------	--------	--------	--------	--------	--------

Basic weighted average number of ordinary shares in issue

	183,261,650	183,261,650	183,261,650	154,019,491	154,019,491	154,019,491
--	-------------	-------------	-------------	-------------	-------------	-------------

	Cents	Cents	Cents	Cents	Cents	Cents
--	-------	-------	-------	-------	-------	-------

Basic loss per share – cents

	(3.17)	(0.76)	(3.93)	(13.21)	(0.39)	(13.60)
--	--------	--------	--------	---------	--------	---------

Due to the Group's loss for the year, the diluted loss per share is the same as the basic loss per share. The number of potentially dilutive ordinary shares, in respect of employee share options, the convertible bond and warrants is 20,170,334. These potentially dilutive ordinary shares may have a dilution effect on future earnings per share.

## 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\$	Assets under construction mining assets US\$	Assets advanced to project Alto Cuilo US\$	Total US\$
Cost								
Balance at 1 July 2006	40,176,373	23,918	299,539	97,008	31,628,346	–	5,503,412	77,728,596
Exchange differences	1,236,394	620	6,468	(157)	914,026	–	–	2,157,351
Business combination	10,777,372	1,516,737	73,063	9,725	611,332	–	–	12,988,229
Additions	6,736,174	–	196,150	72,023	1,929,523	–	–	8,933,870
Disposals	(3,035,638)	–	(1,033)	–	(224,343)	–	–	(3,261,014)
Transfer between asset groups	1,394	(1,301)	(93)	–	–	–	–	–
<b>Balance at 30 June 2007</b>	<b>55,892,069</b>	<b>1,539,974</b>	<b>574,094</b>	<b>178,599</b>	<b>34,858,884</b>	<b>–</b>	<b>5,503,412</b>	<b>98,547,032</b>
Balance at 1 July 2007	55,892,069	1,539,974	574,094	178,599	34,858,884	–	5,503,412	98,547,032
Exchange differences	(5,148,676)	(33,480)	(97,064)	(24,132)	(3,528,582)	–	–	(8,831,934)
Business combination	–	–	–	–	–	–	–	–
Additions	13,293,201	110,244	725,861	145,633	3,041,544	3,274,415	285,600	20,876,498
Disposals	–	(80,738)	–	(28,396)	–	–	–	(109,134)
Transfer to non-current assets classified as held for sale	–	(317,629)	(118,608)	(47,762)	–	–	–	(483,999)
<b>Balance at 30 June 2008</b>	<b>64,036,594</b>	<b>1,218,371</b>	<b>1,084,283</b>	<b>223,942</b>	<b>34,371,846</b>	<b>3,274,415</b>	<b>5,789,012</b>	<b>109,998,463</b>
Depreciation								
Balance at 1 July 2006	3,672,393	23,722	82,965	26,282	2,374,195	–	717,715	6,897,272
Exchange differences	137,616	619	2,569	(633)	134,610	–	–	274,781
Disposals	–	–	(1,007)	–	–	–	–	(1,007)
Provided in the year	1,828,735	71,329	61,364	43,654	3,445,474	–	1,052,719	6,503,275
Transfer between asset groups	1,197	(1,104)	(93)	–	–	–	–	–
<b>Balance at 30 June 2007</b>	<b>5,639,941</b>	<b>94,566</b>	<b>145,798</b>	<b>69,303</b>	<b>5,954,279</b>	<b>–</b>	<b>1,770,434</b>	<b>13,674,321</b>
Balance at 1 July 2007	5,639,941	94,566	145,798	69,303	5,954,279	–	1,770,434	13,674,321
Exchange differences	(700,996)	(25,599)	(23,638)	(11,918)	(563,793)	–	–	(1,325,944)
Provided in the year	4,148,626	64,022	89,363	57,343	1,623,839	–	1,090,361	7,073,554
Transfer to non-current assets classified as held for sale	–	(234,659)	(76,953)	(14,228)	–	–	–	(325,840)
<b>Balance at 30 June 2008</b>	<b>9,087,571</b>	<b>(101,670)</b>	<b>134,570</b>	<b>100,500</b>	<b>7,014,325</b>	<b>–</b>	<b>2,860,795</b>	<b>19,096,091</b>
Net book value								
At 1 July 2006	36,503,980	196	216,574	70,726	29,254,151	–	4,785,697	70,831,324
At 30 June 2007	50,252,128	1,445,408	428,296	109,296	28,904,605	–	3,732,978	84,872,711
At 1 July 2007	50,252,128	1,445,408	428,296	109,296	28,904,605	–	3,732,978	84,872,711
<b>At 30 June 2008</b>	<b>54,949,023</b>	<b>1,320,041</b>	<b>949,713</b>	<b>123,442</b>	<b>27,357,521</b>	<b>3,274,415</b>	<b>2,928,217</b>	<b>90,902,372</b>

Assets advanced to Project Alto Cuilo relate to property, plant and equipment provided to the Alto Cuilo project. Any income arising from the contribution of these assets is contingent upon the successful development of the project.



	Intellectual property US\$	Prospecting licences US\$	Total US\$
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## 12. Intangible assets

### Cost

Balance at 1 July 2006	–	15,927,538	15,927,538
Exchange differences	(30,882)	870,891	840,009
Business combination	3,519,706	59,173,312	62,693,018
<b>Balance at 30 June 2007</b>	<b>3,488,824</b>	<b>75,971,741</b>	<b>79,460,565</b>
Balance at 1 July 2007	3,488,824	75,971,741	79,460,565
Exchange differences	34,884	1,002,409	1,037,293
Transfer to non-current assets classified as held for sale	(3,523,708)	–	(3,523,708)
Disposals	–	(25,362,074)	(25,362,074)
<b>Balance at 30 June 2008</b>	<b>–</b>	<b>51,612,076</b>	<b>51,612,076</b>
Amortisation			
Balance at 1 July 2006	–	(2,821,977)	(2,821,977)
Exchange differences	–	495,121	495,121
Provided in the year	–	(4,317,277)	(4,317,277)
<b>Balance at 30 June 2007</b>	<b>–</b>	<b>(6,644,133)</b>	<b>(6,644,133)</b>
Balance at 1 July 2007	–	(6,644,133)	(6,644,133)
Exchange differences	–	1,136,460	1,136,460
Provided in the year	–	(4,322,457)	(4,322,457)
<b>Balance at 30 June 2008</b>	<b>–</b>	<b>(9,830,130)</b>	<b>(9,830,130)</b>
Net book value			
At 1 July 2006	–	13,105,561	13,105,561
At 30 June 2007	3,488,824	69,327,608	72,816,432
At 1 July 2007	3,488,824	69,327,608	72,816,432
<b>At 30 June 2008</b>	<b>–</b>	<b>41,781,946</b>	<b>41,781,946</b>

Country	Project	Development stage	Period years	2008 Amount US\$	2007 Amount US\$
Prospecting licences:					
Angola	Luangue	Early stage	–	37,095,679	60,418,083
Botswana	Kalahari	Early stage	4	4,686,267	8,909,525
Intellectual property:					
South Africa*				–	3,488,824
Net book value at 30 June				<b>41,781,946</b>	<b>72,816,432</b>

\* Intellectual property has been transferred to current assets as non-current assets classified as held for sale as a result of the disposal by the Company of its entire shareholding in Calibrated Diamonds Investment Holdings (Pty) Ltd.

## Ownerships

## Country

2008

2007

**13. Investments in associates**

Interests in associates

At year end the Group had interests in the following companies:

Namibia Mining House (Pty) Ltd	Namibia	35.0%	35.0%
Nabera Mining (Pty) Ltd	South Africa	29.5%	29.5%
Organizações Moyoweno – Comércio Geral Lda	Angola	40.0%	–
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	25.0%	31.0%

The Group's interest in Petra Diamonds Alto Cuilo Ltd has been reduced to 25% as a result of BHP Billiton's increased financial contribution, which has a dilutionary effect, to the Alto Cuilo project in Angola.

Summary of financial statements of associates:

	Assets	Liabilities	Equity	Revenues	(Loss) after tax
<b>2008</b>					
Namibia Mining House (Pty) Ltd	–	–	–	–	–
Nabera Mining (Pty) Ltd	3,878	(958,675)	954,797	–	(49,894)
Organizações Moyoweno – Comércio Geral Lda	809,773	(400,000)	(409,773)	–	(105,912)
Petra Diamonds Alto Cuilo Ltd	83,787,015	(93,292,890)	9,505,876	–	(8,561,113)
<b>2007</b>					
Namibia Mining House (Pty) Ltd	–	–	–	–	–
Nabera Mining (Pty) Ltd	4,202	(984,808)	980,606	–	(175,577)
Petra Diamonds Alto Cuilo Ltd	67,857,809	(68,802,571)	944,762	2,809,107	(358,985)

2008  
US\$2007  
US\$

If the investments in associates had been included at cost, they would have been included at the following amounts:

Cost	27,089,334	20,453,042
Amounts written off	(20,453,042)	(20,453,042)
Net book amount	6,636,292	–

The above amounts relate to the initial investment by the Group in Petra Diamonds Alto Cuilo Limited, Namibia Mining House (Pty) Limited, Nabera Mining (Pty) Limited and Organizações Moyoweno – Comércio Geral, Lda ("Moyoweno").

Moyoweno's financial year end is 31 December and its primary asset is a 13% investment in the Alto Cuilo project in Angola. The investment in Moyoweno is stated at cost.

	2008 US\$	2007 US\$
<b>14. Available for sale financial assets</b>		
Balance at 1 July	70,136	1,271,410
Acquisition	26,038	–
Impairment	(96,174)	(1,201,274)
Balance at 30 June	–	70,136
<p>During year the Company exercised the option to purchase an additional 777,778 ordinary shares in Xceldiam Ltd at 1.7p. The Company has written down its investment in Xceldiam Ltd to US\$nil as the shares in Xceldiam Limited were suspended from trading on 19 September 2008.</p>		
<b>15. Inventories</b>		
Diamonds held for resale	6,406,901	7,600,498
Work in progress	3,168,560	250,009
Consumable and stores	2,203,111	1,050,025
	11,778,572	8,900,532
Inventories are stated at cost.		
<b>16. Trade and other receivables</b>		
Current		
Trade receivables	13,184,323	735,125
Other receivables*	19,108,026	10,672,031
Prepayments***	7,822,956	3,415,573
	40,115,305	14,822,729
Non-current		
Rehabilitation guarantee**	138,177	151,987
	138,177	151,987
<p>* Included within other receivables are amounts related to funding advanced to joint venture Black Economic Empowerment partners on the Koffiefontein Mine assets of US\$4,518,998 (30 June 2007: US\$2,228,476), rehabilitation deposits for Cullinan Diamond Mine (Pty) Ltd of US\$10,429,031 (30 June 2007: US\$nil) and Value Added Tax refunds of US\$1,065,206 (30 June 2007: US\$2,253,981) receivable.</p> <p>** The rehabilitation guarantee comprises an insurance risk policy which will be recovered upon the successful rehabilitation at the Sedibeng Diamond Mine operation.</p> <p>*** Included within prepayments is US\$4 million relating to a deposit paid for further investment in the Group's South African projects.</p>		
The carrying values of the receivables are denominated in the following currencies:		
Australian dollar	–	2,216
Botswana pula	43,767	55,398
Pound sterling	9,100,008	5,863,279
South African rand	30,343,353	8,799,499
US Dollars	628,177	102,337
	40,115,305	14,822,729

2008  
US\$2007  
US\$

## 16. Trade and other receivables (continued)

The financial assets classified as loans and receivables included in receivables are as follows:

Current

Trade receivables

13,184,323

735,125

The trade receivables are all due within normal trading terms and there are no trade receivables classified as past due. Trade receivables are due within 2 days of awarding the rough diamond sales tender to the successful bidder. No other receivables are considered to be past due or impaired.

The carrying values of these loans and receivables are denominated in the following currencies:

Australian dollar

Botswana pula

Pound sterling

South African rand

US Dollars

–  
18,573  
4,649,171  
26,374,479  
1,250,126

–  
2,909  
2,598,964  
7,148,852  
1,656,431

32,292,349

11,407,156

## 17. Cash and cash equivalents

Unsecured

Cash at bank and on hand

Secured

19,789,232

24,124,117

17,680,138

20,000,712

37,469,370

44,124,829

As security for the Group's rehabilitation obligations at Koffiefontein Empowerment JV, Kimberley Underground Mine, Helam Mining (Pty) Ltd ("Helam"), Star Diamond Mine (Pty) Ltd, Sedibeng Mining JV and hedging obligations, the Company has ceded US\$17,680,138 in a fixed deposit. The rehabilitation guarantees are disclosed under note 23.

A controlled entity, Helam, has a R10,000,000 (US\$1,278,347) (30 June 2007: R10,000,000 (US\$1,413,228)) 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 R8,388,169 (US\$1,072,299) (30 June 2007: R3,916,537 (US\$553,496)). The overdraft has been set-off against other cash balances held with First National Bank as it forms part of the Group's operational cash balances. The weighted average interest rate for the overdraft as at 30 June 2008 is 16.65% (30 June 2007: 13.9%).

Number  
of shares2008  
US\$Number of  
shares2007  
US\$

## 18. Issued capital

Authorised – ordinary shares of 10p each  
As at 1 July 2007 and 30 June 2008

300,000,000

60,117,000

300,000,000

60,117,000

Issued and fully paid

At 1 July

181,448,191

36,360,403

148,825,098

27,031,103

Allotments during the year

2,557,332

337,659

32,623,093

9,329,300

At 30 June

184,005,523

36,698,062

181,448,191

36,360,403

Allotments during the prior year were in respect of 19,674,584 shares issued for the acquisition of Frannor Investments & Finance Ltd, an allotment of 10,000,000 shares to Saad Investments Company Ltd, the exercise of 1,666,666 warrants held over ordinary shares by Photon Global Ltd and 200,843 options held over ordinary shares by Williams de Broe Plc and the exercise of 1,081,000 share options held by employees.

Allotments during the year were in respect of 2,500,000 shares issued for the exercise of 2,500,000 warrants held over ordinary shares by Photon Global Ltd and the exercise of 57,332 share options held by employees.

## 18. Issued capital (continued)

### Warrants

Holder	Expiry	Exercise price	2008	2007
			Number of options	Number of options
Photon Global Limited	31 December 2007	30p	–	1,500,000
Photon Global Limited	31 December 2007	100p	–	1,000,000
Al Rajhi Holdings W.L.L.	18 September 2009	130p	2,000,000	2,000,000

During the year warrants over 1,500,000 and 1,000,000 ordinary shares at an exercise of 30p and 100p respectively were exercised. The Black-Scholes methodology as outlined in IFRS 2 has been used to value the options and warrants, as set out in note 28.

### Employee share options

Holder	Shares	Exercise price	Expiry
<b>Directors</b>			
A Pouroulis	500,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	300,000	125.0p	7 December 2017
D Abery	500,000	44.0p	5 September 2013
	250,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	300,000	125.0p	7 December 2017
J Dippenaar	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	300,000	125.0p	7 December 2017
J Davidson	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	300,000	125.0p	7 December 2017
<b>Senior Management</b>	192,000	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
	423,334	65.75p	27 November 2015
	460,000	79.5p	31 May 2016
	553,625	96.0p	31 July 2016
	200,000	122.5p	31 October 2016
	1,000,000	134.5p	24 November 2016
	1,210,000	156.0p	2 March 2017
	1,800,000	125.0p	7 December 2017
<b>Total</b>	12,600,334		

The movement in director and senior management share options is disclosed in the Directors' remuneration report on page 78 of the financial statements.

For the year ended 30 June 2008

## 19. Capital and reserves

	Share capital	Share premium account	Foreign currency translation reserve	Hedging reserve	Share-based payment reserve	Other reserves	Accumulated loss	Total	Minority interest	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 1 July 2006	27,031,103	123,189,903	2,541,087	-	972,962	-	(81,608,667)	72,126,388	-	72,126,388
Exchange differences recognised directly in equity	-	-	(8,677,941)	-	-	-	-	(8,677,941)	-	(8,677,941)
Net income recognised directly in equity	-	-	(8,677,941)	-	-	-	-	(8,677,941)	-	(8,677,941)
Loss for the year	-	-	-	-	-	-	(20,948,926)	(20,948,926)	-	(20,948,926)
Total recognised income and expense for the year	-	-	(8,677,941)	-	-	-	(20,948,926)	(29,626,867)	-	(29,626,867)
Equity settled share-based payments	-	-	-	-	554,038	-	-	554,038	-	554,038
Equity portion of convertible bond	-	-	-	-	-	4,003,682	-	4,003,682	-	4,003,682
Exchange differences	-	14,706,573	-	-	-	-	-	14,706,573	-	14,706,573
Allotments during the year	9,329,300	90,200,058	-	-	-	-	-	99,529,358	-	99,529,358
Share issue costs	-	(729,646)	-	-	-	-	-	(729,646)	-	(729,646)
At 30 June 2007	36,360,403	227,366,888	(6,136,854)	-	1,527,000	4,003,682	(102,557,593)	160,563,526	-	160,563,526
At 1 July 2007 as previously reported	36,360,403	227,366,888	(6,136,854)	-	1,527,000	4,003,682	(102,557,593)	160,563,526	-	160,563,526
Exchange differences recognised directly in equity	-	-	(3,351,183)	(138,299)	-	-	-	(3,489,482)	-	(3,489,482)
Net income recognised directly in equity	-	-	(3,351,183)	(138,299)	-	-	-	(3,489,482)	-	(3,489,482)
(Loss)/profit for the year	-	-	-	-	-	-	(7,209,338)	(7,209,338)	9,187,638	1,978,300
Total recognised income and expense for the year	-	-	(3,351,183)	(138,299)	-	-	(7,209,338)	(10,698,820)	9,187,638	(1,511,182)
Equity settled share-based payments	-	-	-	-	1,622,704	-	-	1,622,704	-	1,622,704
Exchange differences	(172,375)	(1,077,890)	-	-	(7,239)	13,286	-	(1,244,218)	-	(1,244,218)
Allotments during the year	510,034	2,456,620	-	-	-	-	-	2,966,654	-	2,966,654
At 30 June 2008	36,698,062	228,745,618	(9,488,037)	(138,299)	3,142,465	4,016,968	(109,766,931)	153,209,846	9,187,638	162,397,484

**Share capital**

The share capital comprises the issued ordinary shares of the Company at par.

**Share premium reserve**

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

**Foreign currency translation reserve**

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

**Hedging reserve**

The hedging reserve comprises the change in the fair value of derivative contracts which qualify as effective and are designated cash flow hedges.

**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.

**Other reserves**

The other reserves comprise the equity portion of the interest free convertible bond and the fair value of the 2,000,000 warrants issued with the convertible bond.

**Accumulated loss**

The accumulated loss comprises the Company's cumulative accounting losses incurred since incorporation.

	2008 US\$	2007 US\$
<b>20. Reconciliation of movement in equity attributable to equity holders of parent company</b>		
Opening shareholders' funds	160,563,526	72,126,388
Net income recognised in equity	(3,489,482)	(8,677,941)
Loss for the year	(7,209,338)	(20,948,926)
Movement in share-based payment reserve	1,622,704	554,038
New share capital issued	2,966,654	98,799,712
Exchange differences	(1,244,218)	14,706,573
Equity portion of convertible bond	–	4,003,682
Net movement in shareholders' fund	(7,353,680)	88,437,138
Closing shareholders' funds	153,209,846	160,563,526
<b>21. Loans and borrowings</b>		
Current		
Bank loan – secured (i)	31,170	32,334
Bank loan – secured (ii)	1,028,957	1,208,439
Bank loan – secured (iii)	567,738	582,956
Bank loan – secured (iv)	–	9,015,083
Convertible note – unsecured (v)	18,221,774	16,911,583
Lease and installment purchase liabilities (vi)	5,083	5,315
	19,854,722	27,755,710
Non-current		
Bank loan – secured (i)	158,935	208,941
Bank loan – secured (ii)	780,090	1,710,083
Bank loan – secured (iii)	564,172	1,184,228
Associate loans	356,482	–
	1,859,679	3,103,252

**(i) Bank loans secured****First National Bank**

Helam has a term loan facility with First National Bank and at year end an amount of R1,487,151 (US\$190,109) (30 June 2007: R1,707,293 (US\$241,275)) was drawn on the loan, R243,864 (US\$31,170) (30 June 2007: R228,825 (US\$32,334)) payable within the next 12 months and R1,243,287 (US\$158,935) (30 June 2007: R1,478,468 (US\$208,941)) payable over a period of five years. The effective interest rate for the term loan at 30 June 2008 was 16.65% and the final installment is due on 30 November 2012.

The above facilities are secured against properties of Helam for up to R7,850,000 (US\$1,003,503) (30 June 2007: R7,850,000 (US\$1,109,384)) and a R8,000,000 (US\$1,022,677) (30 June 2007: R8,000,000 (US\$1,130,582)) 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\$255,669) (30 June 2007: R2,000,000 (US\$282,645)) from Directors Mr J Dippenaar and Mr J Davidson. The facilities with First National Bank are subject to annual review.

## 21. Loans and borrowings (continued)

### (ii) Bank loan – secured

#### Industrial Development Corporation of South Africa

The Sedibeng Mining 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\$3,835,042) (30 June 2007: R30,000,000 (US\$4,239,683)) 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 2008 is R14,151,457 (US\$1,809,048) (30 June 2007: R20,651,457 (US\$2,918,522)), R8,049,123 (US\$1,028,957) (30 June 2007: R8,550,914 (US\$1,208,439)) payable within the next 12 months and R6,102,334 (US\$780,090) (30 June 2007: R12,100,543 (US\$1,710,083)) 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 2008 is 16.07% and the final installment is due on 1 August 2011.

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

### (iii) 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\$2,109,273) (30 June 2007: R16,500,000 (US\$2,331,826)). At 30 June 2008 an amount of R8,854,480 (US\$1,131,910) (30 June 2007: R12,504,598 (US\$1,767,184)) was outstanding on the loan facility, R4,441,188 (US\$567,738) (30 June 2007: R4,125,000 (US\$582,956)) payable within the next 12 months and R4,413,292 (US\$564,172) (30 June 2007: R8,379,598 (US\$1,184,228)) payable over a period greater than 12 months. The loan is repayable in annual installments of R4,125,000 (US\$527,318) (30 June 2007: R4,125,000 (US\$582,956)) 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 2008 is 16.07% and the final installment is due on 1 August 2009. Autumn Star and Messina Investments Limited have signed suretyship for the loan in favour of FirstRand.

### (iv) Bank loan – secured

#### First National Bank

A controlled entity, Petra Diamonds Southern Africa (Pty) Ltd had a term loan facility with First National Bank at 30 June 2007. The term loan was repaid on 10 September 2007.

### (v) Convertible bond – unsecured

On 19 September 2006 the Company issued a US\$20 million unsecured interest free convertible bond ("the Convertible"). The Convertible is convertible at an exercise price of 130 pence per Petra share at the election of the holder. If not converted, the Convertible is repayable in full on 18 September 2009. Warrants over 2,000,000 Petra shares at 130 pence per share have been issued to the holder of the Convertible, the warrants are exercisable on or before 18 September 2009. The effective interest rate is 7.48%.

	30 June 2008 Number	30 June 2007 Number	30 June 2008 US\$	30 June 2007 US\$
Movements in convertible bond				
Balance at beginning of year	7,677,337	–	16,911,583	–
Issue of convertible bond	–	7,677,337	–	20,000,000
Equity portion	–	–	–	(4,003,682)
Interest accreted for the year	–	–	1,310,191	915,265
Balance at the end of year	7,677,337	7,677,337	18,221,774	16,911,583

### (vi) Lease and hire purchase liabilities

The lease and hire purchase liabilities are secured over vehicles with a net carrying value of US\$4,189 (30 June 2007: US\$7,147). The final installment is payable within the next 12 months.

There is no significant difference between the fair value and carrying value of loans and borrowings.



	2008 US\$	2007 US\$
<b>22. Trade and other payables</b>		
Current		
Trade payables	8,699,487	6,010,647
Deferred consideration (i)	3,250,000	3,250,000
Reduction in deferred consideration (ii)	(426,245)	(376,075)
Provident fund contributions	20,942	47,469
Other payables	1,020,606	513,320
	12,564,790	9,445,361
Derivative financial instruments (iii)	138,299	–
	12,703,089	9,445,361
Non-current		
Amounts owing to associates	4,898,336	3,176,581
	4,898,336	3,176,581

**Current**

(i) The US\$3,250,000, being the balance of the Helam Mining (Pty) Ltd purchase price, is payable from 50% of the cash surplus of Helam Mining (Pty) Ltd as follows:

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

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. At year end no portion of the liability had been repaid and the total liability will be carried forward to June 2009.

(ii) 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% p.a 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. 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.

(iii) The derivative financial instruments represent forward exchange contracts entered into to hedge the Company's future diamond sales and entity acquisitions. The forward exchange contracts have the following maturity dates and cash flow impact:

Maturity date	Currency	Put value of US\$ forward	Call value of US\$ forward	Net US\$ cashflow inflow/ (outflow)
3 July 2008	USD/ZAR	2,900,000	(2,900,000)	(145,347)
7 July 2008	USD/ZAR	50,000,000	(50,000,000)	(104,080)
31 July 2008	USD/ZAR	2,000,000	(1,000,000)	(50,286)
30 September 2008	USD/ZAR	2,000,000	(1,000,000)	(59,215)
30 September 2008	USD/ZAR	3,000,000	(3,000,000)	151,521
31 October 2008	USD/ZAR	2,000,000	(1,000,000)	(62,133)
31 October 2008	USD/ZAR	2,000,000	(2,000,000)	87,841
28 November 2008	USD/ZAR	2,000,000	(1,000,000)	(66,819)
28 November 2008	USD/ZAR	3,000,000	(3,000,000)	110,219
Total				(138,299)

2008  
US\$2007  
US\$**22. Trade and other payables (continued)**

The following amounts in respect of derivative financial instruments have been included in equity:

Opening balance  
Recognised directly in equity  
Closing balance

–  
138,299  
138,299

–  
–  
–

The carrying values of trade payables and other payables are denominated in the following currencies:

Australian dollar  
Botswana pula  
Pound sterling  
South African rand  
US Dollar

2,308,435  
114,656  
683,506  
10,387,435  
4,107,393  
17,601,425

2,909,803  
54,787  
967,660  
6,243,278  
2,446,414  
12,621,942

The financial liabilities classified as other liabilities included in payables are as follows:

Current  
Trade payables  
Derivative financial instruments  
Other payables (includes deferred consideration)

8,699,487  
138,299  
3,844,361  
12,682,147

6,010,647  
–  
3,387,246  
9,397,893

The carrying values of these trade payables and other payables are denominated in the following currencies:

Australian dollar  
Botswana pula  
Pound sterling  
South African rand  
US Dollar

18,747  
114,656  
683,506  
7,206,696  
4,658,542  
12,682,147

35,878  
54,787  
967,660  
6,232,330  
2,107,238  
9,397,893

	Employee entitlements US\$	Rehabilitation US\$	Total US\$
<b>23. Provisions</b>			
Balance at 1 July 2006	2,002,382	1,697,756	3,700,138
Acquired by business combination	24,522	7,916,211	7,940,733
Movement in the year	283,563	238,568	522,131
Balance at 30 June 2007	2,310,467	9,852,535	12,163,002
Current	2,310,467	–	2,310,467
Non-current	–	9,852,535	9,852,535
Balance at 30 June 2007	2,310,467	9,852,535	12,163,002
Balance at 1 July 2007	2,310,467	9,852,535	12,163,002
Increase in provisions	1,795,324	2,154,971	3,950,295
Unwinding of present value adjustment of rehabilitation provision	–	133,277	133,277
Balance at 30 June 2008	4,105,791	12,140,783	16,246,574
Current	4,105,791	–	4,105,791
Non-current	–	12,140,783	12,140,783
Balance at 30 June 2008	4,105,791	12,140,783	16,246,574

**Employee entitlements**

The provision for employee entitlements relates to accrued leave, performance bonuses and other accruals. The provision is based on estimates made, where appropriate, from historical information. The Group expects to incur the liability within 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. The Group expects to incur rehabilitation expenditure at Koffiefontein Mine of US\$10,229,538, during its useful life of 12 years and rehabilitation expenditure at Helam Mining (Pty) Ltd, Star Diamond Mine (Pty) Ltd and Sedibeng Mining JV ("the fissure mines") of US\$1,911,245 during the useful life of the fissure mines which is approximately 18 years, from the date of this report. The majority of the rehabilitation expenditure is expected to be incurred at the end of the life of mines. Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in note 17.

	2008 US\$	2007 US\$
<b>24. Deferred taxation</b>		
Balance at beginning of the year	9,551,924	9,932,634
Adjustment as a result of business combination	–	709,717
Income statement	4,505,038	(1,909,234)
Foreign currency translation difference	(1,015,373)	818,807
Balance at the end of year	13,041,589	9,551,924
Comprising:		
– capital allowances	12,307,745	12,304,637
– provisions	(339,153)	(724,061)
– prepayments and accruals	(1,130,679)	(200,042)
– forex allowances	(3,071,503)	(1,297,496)
– tax losses	(31,650,628)	(38,674,478)
	(23,884,218)	(28,591,440)
Deferred tax not raised	36,925,807	38,143,364
Deferred tax liability	13,041,589	9,551,924

Deferred tax assets as above, have not been raised due to the uncertainty over the future recoverability of these assets. The tax benefits on the temporary timing differences will be recognised over the useful life of the assets.

2008  
US\$2007  
US\$

## 25. Financial instruments

Exposures to currency, credit and interest rate risk arise in the normal course of the Group's business. The Group may from time to time use financial instruments to help manage these risks. The Directors review and agree policies for managing each of these risks. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1. The details of the categories of financial instruments of the Group are as follows:

### Financial assets:

- Available for sale financial assets
- Loans and receivables
  - Trade receivables balances
  - Other receivables
  - Cash and cash equivalents

–	70,136
13,184,323	735,125
19,108,026	10,672,031
37,469,370	44,124,829
<b>69,761,719</b>	<b>55,602,121</b>

### Financial liabilities:

- Loans and borrowings
- Trade payables and other payables
- Derivative financial instruments

21,714,401	30,858,962
12,564,790	9,445,361
138,299	–
<b>34,417,490</b>	<b>40,304,323</b>

There is no significant difference between the fair value of financial assets and liabilities and the carrying values set out in the table above.

The currency profile of the Group financial assets and liabilities is as follows:

### Financial assets:

- Australian dollar
- Botswana pula
- Pound sterling
- South African rand
- US Dollar

–	–
127,266	128,305
22,237,956	25,144,106
28,466,233	7,483,092
18,930,264	22,846,618
<b>69,761,719</b>	<b>55,602,121</b>

### Financial liabilities:

- Australian dollar
- Botswana pula
- Pound sterling
- South African rand
- US Dollar

1,882,190	2,533,728
114,656	54,787
683,506	967,660
9,407,971	14,390,151
22,329,167	22,357,997
<b>34,417,490</b>	<b>40,304,323</b>

## 25. Financial instruments (continued)

The Group is exposed through its operations to one or more of the following risks:

- ◆ Credit risk;
- ◆ Interest rate risk;
- ◆ Foreign exchange risk;
- ◆ Liquidity risk; and
- ◆ Other market price risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- ◆ Trade and other receivables;
- ◆ Cash at bank;
- ◆ Trade and other payables;
- ◆ Loans and borrowings including Convertible Bonds; and
- ◆ Hedging instruments.

### Credit risk

The Group sells its rough diamond production through a tender process on a recognised bourse. This mitigates the need to undertake credit evaluations. Where production is not sold on a tender basis the Directors undertake suitable credit evaluations before passing ownership of the product.

At the 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 assets in the balance sheet. The financial assets are carried at amortised cost, with no indication of impairment. The Group considers the credit quality of loans and receivables that are neither past due or impaired to be good.

The Group cash balances are deposited with reputable banking institutions within the countries in which it operates. Excess cash is held in overnight call accounts and term deposits ranging from 7 to 30 days. Refer to note 17 for cash secured in respect of rehabilitation obligations.

### Foreign currency risk

Foreign exchange risk arises because the Group has operations located in parts of the world where the functional currency is not the same as the Group's primary functional currency of US dollars. The Group's net assets arising from its foreign operations are exposed to currency risk resulting in gains and losses on retranslation into US dollars. Only in exceptional circumstances will the Group consider hedging its net investments in foreign operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. The policy of the Group is, where possible, to allow Group entities to settle liabilities denominated in their local currency with the cash generated from their own operations in that currency. In the case of the funding of non-current assets such as projects to expand productive capacity entailing material levels of capital expenditure, the central Group treasury function will assist the foreign operation to obtain matching funding in the functional currency of that operation and shall provide additional funding where required. The currency in which the additional funding is provided is determined by taking into account the following factors:

- ◆ the currency in which the revenue expected to be generated from the commissioning of the capital expenditure will be denominated;
- ◆ the degree to which the currency in which the funding provided is a currency normally used to effect business transactions in the business environment in which the foreign operation conducts business; and
- ◆ the currency of any funding derived by the Company for onward funding to the foreign operation and the degree to which it is considered necessary to hedge the currency risk of the Company represented by such derived funding.

## 25. Financial instruments (continued)

The foreign currency effect on the Group's financial assets and liabilities is as follows:

	Year end US\$ rate	Year end amount	US\$ strengthens 5%	US\$ weakens 5%
Financial assets:				
Botswana pula	0.1528	127,266	120,902	133,629
Pound sterling	0.5014	22,237,956	21,126,058	23,349,854
South African rand	0.1278	28,466,233	27,042,921	29,889,545
US Dollar	1.0000	18,930,264	18,930,264	18,930,264
		<u>69,761,719</u>	<u>67,220,145</u>	<u>72,303,292</u>
Financial liabilities:				
Australian dollar	0.1470	1,882,190	1,788,081	1,976,300
Botswana pula	0.1528	114,656	108,923	120,389
Pound sterling	0.5014	683,506	649,331	717,681
South African rand	0.1278	9,407,971	8,937,572	9,878,370
US Dollar	1.0000	22,329,167	22,329,167	22,329,167
		<u>34,417,490</u>	<u>33,813,074</u>	<u>35,021,907</u>

### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations.

It is the policy of the Group to ensure that it will always have sufficient cash to allow it to meet its liabilities when they fall due. To achieve this aim, the Group maintains cash balances at levels considered appropriate to meet ongoing obligations.

Cash flow is monitored on a regular basis. Projections reflected in the Group working capital model indicate that the Group will have sufficient liquid resources to meet its obligations under all reasonably expected circumstances. The maturity analysis of loans and borrowings is set out in the table on page 117. The maturity analysis of trade and other payables are in accordance with those terms and conditions agreed between the Group and its suppliers, for trade and other payables payment terms are 30 days, provided all terms and conditions have been complied with. Exceptions to agreed terms are set out in note 22.

### 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. The sensitivity to interest rates is not considered significant to the Groups interest bearing borrowings.

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates and age analysis at the balance sheet date. Each interest bearing financial liability is restated based on the respective country specific prime lending rates as disclosed in note 21, with the exception of the Convertible bond which is interest free.

## 25. Financial instruments (continued)

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
<b>30 June 2008</b>								
Cash	17	1.76%	37,469	37,469	-	-	-	-
Loans and borrowings								
Bank loan – secured	21(i)	16.65%	190	16	15	32	128	-
Bank loan – secured	21(ii)	16.07%	1,809	514	514	652	129	-
Bank loan – secured	21(iii)	16.07%	1,132	527	37	568	-	-
Convertible note – secured	21(v)	7.48%	18,222	696	711	16,815	-	-
Finance leases – secured	21(vi)	16.65%	5	5	-	-	-	-
Associate loans		16.07%	356	-	-	-	356	-
			21,714	1,758	1,277	18,067	613	-
Cash flow of loans and borrowings			22,241	1,062	566	20,000	613	-
<b>30 June 2007</b>								
Cash	17	4.30%	44,125	44,125	-	-	-	-
Loans and borrowings								
Bank loan – secured	21(i)	13.80%	241	13	14	32	182	-
Bank loan – secured	21(ii)	13.42%	2,918	424	784	360	1,222	-
Bank loan – secured	21(iii)	13.42%	1,767	583	-	568	616	-
Bank loan – secured	21(iv)	11.30%	9,015	9,015	-	-	-	-
Convertible note – unsecured	21(v)	7.48%	16,912	646	664	1,407	14,195	-
Finance leases – secured	21(vi)	13.80%	5	5	-	-	-	-
			30,858	10,686	1,462	2,367	16,215	-
Cash flow of loans and borrowings			31,798	10,040	798	960	20,000	-

### Other market price risk

The Group generates revenue from the sale of rough diamonds. The significant number of variables involved in determining the selling prices of rough diamonds, such as the uniqueness of each individual rough stone, the content of the rough diamond parcel and the ruling US\$/ZAR spot rate at the date of sale make it difficult to accurately extrapolate the impact the fluctuations in diamond prices would have on the Group's revenue.

### Capital disclosures

Capital is defined by the Group to be the capital and reserves attributable to equity holders of the parent Company. The Group's objectives when maintaining capital are:

- ◆ to safeguard the ability of the entity to continue as a going concern and
- ◆ to provide an adequate return to shareholders.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as total debt (excluding provisions and deferred tax liabilities) less cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent Company.

## 25. Financial instruments (continued)

The debt to equity ratios at 30 June 2008 and 30 June 2007 are as follows:

	2008 US\$	2007 US\$
Total debt	40,818,255	43,480,904
Cash and cash equivalents	(37,469,370)	(44,124,829)
Net debt/(funds)	3,348,885	(643,925)
Total equity attributable to equity holders of the parent Company	153,209,846	160,563,526
Debt/(funds) to equity ratio	0.02:1	(0.01):1
The Group manages its capital adequacy structure by the issue of ordinary shares, raising debt finance where appropriate, and managing Group cash and cash equivalents.		

## 26. Commitments

Operating leases:

Non-cancellable operating lease rentals are payable as follows:

Less than one year

Between one and five years

The Group leases its offices under operating leases. The leases run for periods of five years with an option to renew after that date. Lease payments are increased annually to reflect market rentals. The leases do not include contingent rentals. During the year ended 30 June 2008 US\$127,225 was recognised as an expense in the income statement in respect of operating leases, as disclosed in note 6.

155,195  
296,486

98,149  
489,243

## 27. Contingent liabilities

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

Deferred consideration payable for strategic investment in future mining and exploration projects.

2,000,000

3,000,000

### Calibrated Diamonds Investment Holdings ("CDIH") deferred consideration

As part of the CDIH acquisition a deferred consideration is payable should agreed production threshold levels be achieved using the CDIH cutting technology.

The deferred consideration is triggered, when CDIH cuts rough input of four threshold levels, being 2,500, 5,000, 7,500 and 10,000 carats per month, for a consecutive period of two months in each case and will be settled by;

- the issue of warrants over 750,000 Petra shares per threshold level at an exercise price of 114.5 pence per share (the closing mid market price on 2 October 2006, the day prior to the signing of the heads for the transaction subject to the approval of the granting of such warrants by the South African Reserve Bank), or at Petra's election (or if Reserve Bank approval is not received), by way of a cash amount equivalent to the notional gain in the value of the warrants had they been granted; and
- the payment of an amount based on the EBITDA of CDIH. This amount will be calculated as a three times multiple of 28.36% of the EBITDA of CDIH when each of the above threshold levels is met, less any such EBITDA payments already made in respect of meeting earlier thresholds.

On 23 September 2008, the Group announced the disposal of its shareholding in CDIH to GEM Diamonds Limited. One of the key terms of the transaction was the settlement of the above deferred considerations by a once-off payment of R5 million (US\$639,174) to be settled from the proceeds of the transaction.



## 27. Contingent liabilities (continued)

### Contingent liabilities considered remote

- i) A former Director of Crown Diamonds NL has lodged a claim for AUD\$1,193,407 (US\$1,147,838) 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.

- ii) 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 31 December 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.

### Environmental

The controlled entities of the Company provide for all known environmental liabilities. While the Directors of each of those entities and the Company believe that, based upon current information, their current provisions for environmental rehabilitation are adequate, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known mining operations or identification of new rehabilitation obligations at other mine operations.

## 28. Share-based payments

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 2008 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 payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

Fair value of share options and assumptions for the 12 months ended 30 June 2008:

	Directors	Senior management
Fair value at measurement date	14.7p – 53p	5.9p – 39.5p
Exercise price	44p – 156p	44p – 156p
Share price 30 June 2008	103.5p	103.5p
Expected volatility	27%	27%
Option life	10 years	1 – 10 years
Expected dividends	–	–
Risk-free interest rate (based on national government bonds)	4.41% – 4.73%	4.31% – 5.35%

Fair value of share options and assumptions for the 12 months ended 30 June 2007:

	Directors	Senior management
Fair value at measurement date	14.7p – 53p	5.9p – 39.5p
Exercise price	44p – 156p	44p – 156p
Share price 30 June 2007	153p	153p
Expected volatility	27%	27%
Option life	10 years	1 – 10 years
Expected dividends	–	–
Risk-free interest rate (based on national government bonds)	4.73%	4.82% – 5.35%

The expected volatility is based on historic volatility, adjusted for any extreme changes in the share price during the historic period. During the year 57,332 (30 June 2007: 1,089,000) options were exercised and the Company expensed US\$1,629,783 (30 June 2007: US\$437,340) related to the fair value of employee share options.

For the year ended 30 June 2008

## 28. Share-based payments (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	5 September 2003	1,000,000	1/3 per annum from grant date	5
	16 June 2005	2,000,000	Subject to performance of share price	7
	31 May 2006	1,000,000	1/3 per annum from grant date	8
	2 March 2007	1,200,000	1/3 per annum from grant date	9
	6 December 2007	1,200,000	1/3 per annum from grant date	10
Options granted to senior management	5 September 2003	192,000	1/3 per annum from grant date	5
	13 September 2004	50,000	1/3 per annum from grant date	6
	24 September 2004	238,875	25% from grant date for 2 years, then 50% in 3rd year	6
	28 January 2005	72,500	25% from grant date for 2 years, then 50% in 3rd year	7
	27 November 2005	423,334	1/3 per annum from grant date	7
	31 May 2006	460,000	1/3 per annum from grant date	8
	31 July 2006	553,625	1/3 per annum from grant date	9
	31 October 2006	200,000	1/3 per annum from grant date	9
	24 November 2006	1,000,000	1/3 per annum from grant date	9
	2 March 2007	1,210,000	1/3 per annum from grant date	9
	6 December 2007	1,800,000	1/3 per annum from grant date	10

	2008 Weighted average price	2008 Number	2007 Weighted average price	2007 Number
Outstanding at beginning of the year	59.53p	9,731,000	65.97p	6,646,375
Forfeited during the year	81.80p	(73,334)	85.00p	(30,000)
Exercised during the year	64.43p	(57,332)	33.96p	(1,089,000)
Granted during the year	123.96p	3,000,000	141.21p	4,203,625
Outstanding at the end of the year	74.70	12,600,334	59.53p	9,731,000
Exercisable at the end of the year	106p	6,620,372	99p	3,422,108

The weighted average market price of the options exercised during the year was 64.43p (30 June 2007: 153.98p). The options outstanding at 30 June 2008 have an exercise price in the range of 44p to 156p (30 June 2007: 44p to 156p) and a weighted average contractual life of eight years (30 June 2007: nine years).

## 29. Post-balance sheet events

### Cullinan Diamond Mine ("Cullinan")

On 15 July 2008 Petra Diamonds Limited as a member of the Petra Diamonds Cullinan Consortium ("PDCC") acquired Cullinan for a consideration of R1 billion (US\$125 million), from De Beers Consolidated Mines Limited ("De Beers"). The members of PDCC are Petra Diamonds Limited (37% initial interest), Al Rajhi Holdings W.L.L (37% initial interest) and PDCC's Black Economic Empowerment partners (26% interest). The Group's share of the consideration was R370 million (US\$46.2 million) for an effective stake in Cullinan of 37%.

#### Effect of the acquisition

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

	Book values US\$	Fair value adjustments US\$	Carrying values US\$
<b>Cullinan Diamond Mine net assets at acquisition date:</b>			
Fair value of net assets of entity acquired			
Mining property, plant & equipment	119,886,470	13,928,860	133,815,330
Land	3,247,650	–	3,247,650
Mineral properties	–	6,250,000	6,250,000
Trade and other receivables	9,630	–	9,630
Inventory	1,417,993	–	1,417,993
Environmental liabilities	(13,789,405)	–	(13,789,405)
Employee related payables	(3,902,661)	–	(3,902,661)
Trade and other payables	(2,048,537)	–	(2,048,537)
Consideration amount satisfied in cash			125,000,000
Petra on acquisition share of net assets acquired (37%)			46,250,000

The fair value adjustment of US\$20,178,860 arose as a result of the premium attributable to the mining property, plant and equipment and land purchased from De Beers. The allocation of the premium to mining property, plant and equipment and land is deemed to be provisional.

### Williamson Diamond Mine ("Williamson")

On 9 September 2008 Petra announced that it had entered into an agreement with Cheviot Holdings ("Cheviot"), a wholly owned subsidiary of De Beers Societe Anonyme ("De Beers"), to acquire the entire share capital of Willcroft Company Limited ("Willcroft") from Cheviot for a cash consideration of US\$10 million. The total cash consideration of US\$10 million will be funded entirely from the Group's internal cash resources.

Willcroft owns 75% of Williamson Diamonds Limited, the sole owner and operator of the Williamson mine, while the Government of the United Republic of Tanzania owns the remaining 25%.

No pro-forma financial information as at the date of this report is available in respect of the Williamson mine and fair values of the assets and liabilities have not been disclosed due to the proximity of the date of signing the agreement and the release of the Group's results.

### Calibrated Diamonds Investment Holdings (Pty) Limited ("CDIH")

On 22 September 2008, the Group disposed of the entire ordinary share capital of CDIH together with associated assets for a total cash consideration of R47.0 million (US\$5.9 million). CDIH was treated as a discontinued operation as at 30 June 2008, as set out in note 33.

## 30. Related parties

### Subsidiaries and associates

Details of subsidiaries and associates are disclosed in note 13 and note 32 respectively.

### 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 the Directors' Report.

There are no material loans to Directors or senior management which have not been disclosed in the notes.

### Shareholders

The principal shareholders of the Company are detailed in the Directors' Report on page 76.

Transactions with principal shareholders are detailed in note 21 (v).

### Contingent liabilities

Details of contingent liabilities are disclosed in note 27.

### Nabera Mining (Pty) Limited

The Company is a 29.5% shareholder in Nabera Mining (Pty) Limited ("Nabera"), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2008 Petra Diamonds paid expenses on behalf of Nabera amounting to R2,100 (US\$268) (30 June 2007 R911,925 (US\$128,875)). The expenses were incurred in relation to the recovery of the management fee and value-add due to Nabera from Alexkor Limited and the South African Government. All such expenses incurred on Nabera's behalf will be reimbursed to the Company on receipt of the management fee and value-add.

2008  
US\$

2007  
US\$

## 31. Significant non-cash transactions

Significant non cash transactions are set out below:

### Operating activities

Share-based payments  
Foreign exchange loss

1,629,783  
4,594,410

749,406  
4,811,205

6,224,193

5,560,611

### Investing activities

Equity consideration for business combination  
Impairment of listed investment

–  
–

61,885,994  
(1,201,274)

–

60,684,720

### Financing activities

Convertible bond converted to equity reserves

–

4,003,682

–

4,003,682

## 32. Subsidiaries and associates

At 30 June 2008 the Group held 20% or more of the allotted share capital of the following:

	Country of incorporation	Class of share capital held	Percentage held 2008	Percentage held 2007	Nature of business
Afropean Diamonds (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Alltop Investments (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Autumn Star Investments (Pty) Ltd*	South Africa	Ordinary	40%^	40%^	Mining and exploration
Basama Diamonds Ltd	Seychelles	Ordinary	51%^	51%^	Mining and exploration
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
BPL Diamonds Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Calibrated Diamonds Investment Holdings (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	100%^	Investment holding
Calibrated Diamonds (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	100%^	Beneficiation
Compass Mining Services (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Crown Diamonds NL	Australia	Ordinary	100%^	100%^	Dormant
Crown Resources (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Cullinan Diamond Mine (Pty) Ltd <sup>1</sup>	South Africa	Ordinary	37%**	–	Mining and exploration
Cullinan Investment Holdings Limited <sup>1</sup>	British Virgin Islands	Ordinary	50%**	–	Mining and Exploration
Dalestar Corporation (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Dancarl Diamonds (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Dimeng Diamond Holdings (Pty) Ltd	South Africa	Ordinary	59%^	59%^	Mining and exploration
Engiminas Consultoria e Engenharia LDA	Angola	Ordinary	100%^	100%^	Mining and Exploration
Frannor Investments and Finance Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and Exploration
Frannor Investments and Financing (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and Exploration
Helam Mining (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Ida Valley (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Johannesburg Diamond Trading Corporation (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Kalahari Diamonds Ltd	United Kingdom	Ordinary	100%^	100%^	Services provision
Kamara Holdings (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Koffiefontein Mine JV	South Africa	Ordinary	70%^	70%^	Mining and exploration
Laser Optronic Technologies (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	100%^	Beneficiation
Madeline Alluvial Diamonds and Mineral Development (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Majestic Resources (Pty) Ltd	Australia	Ordinary	100%^	100%^	Investment holding
Majestic Resources South Africa (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Messina Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Messina Investments Ltd	South Africa	Ordinary	100%^	100%^	Investment holding
Nabera Holdings (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Nabera Mining (Pty) Ltd	South Africa	Ordinary	29.5%**	29.5%**	Mining and exploration
Namibia Mining House (Pty) Ltd	Namibia	Ordinary	35%**	35%**	Dormant
Nooitgedacht Diamonds (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant

## 32. Subsidiaries and associates (continued)

At 30 June 2008 the Group held 20% or more of the allotted share capital of the following:

	Country of incorporation	Class of share capital held	Percentage held 2008	Percentage held 2007	Nature of business
Organizações Moyoweno – Comércio Geral Lda <sup>3</sup>	Angola	Ordinary	40%**	–	Mining and exploration
Paardekraal Properties (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Pacific Breeze Trading (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	100%^	Dormant
Pagvlei Mining (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	Ordinary	25%**	31%**	Mining and exploration
Petra Diamonds Angola Holdings Ltd	British Virgin Islands	Ordinary	100%^	100%^	Investment holding
Petra Diamonds Angola Services Ltd	British Virgin Islands	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Namibia (Pty) Ltd	Namibia	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Southern Africa (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Services provision
Power Corporation Angola (Pty) Ltd	Bermuda	Ordinary	70%^	70%^	Exploration
Premier Rose Management Services (Pty) Ltd <sup>1</sup>	South Africa	Ordinary	50%^	–	Services provision
Santara Holdings (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Sedibeng Diamond Mine JV <sup>a</sup>	South Africa	Ordinary	57.5%^	57.5%^	Mining and Exploration
Sekaka Diamonds (Pty) Ltd	Botswana	Ordinary	100%^	100%^	Exploration
Star Diamond Mine (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Union Investments Corporation (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Vulcan Mining (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant

- 1 Cullinan Investment Holdings Limited ("CIHL"), Cullinan Diamond Mine (Pty) Ltd and Premier Rose Management Services (Pty) Ltd are all newly incorporated companies during the year, as a result of the acquisition of the Cullinan Diamond Mine assets from De beers.
  - 2 Calibrated Diamonds Investment Holdings (Pty) Ltd, Calibrated Diamonds (Pty) Ltd, Laser Optronic Technologies (Pty) Ltd and Pacific Breeze (Pty) Ltd are subsidiaries disposed of post year end as a result of the Calibrated Diamonds Investment Holdings (Pty) Ltd disposal on 22 September 2008.
  - 3 Organizações Moyoweno – Comércio Geral Lda ("Moyoweno") is an associate company as a result of the Group purchasing a 40% interest in the company during the year. Moyoweno's year end is 31 December.
- <sup>a</sup> Although the Company owns only an effective 57.5% of Sedibeng Mine JV ("Sedibeng"), the Company has consolidated its investment in Sedibeng on the basis of control.
- \* Although the Company owns only 40% of Autumn Star Investments (Pty) Ltd ("Autumn"), the Company has consolidated its investment in Autumn on the basis of control.
- ^ Acquisition accounted
- \*\* Equity accounted

### 33. Discontinued operations

#### Calibrated Diamonds Investment Holdings (Pty) Limited ("CDIH")

On 22 September 2008, the Group disposed of the entire ordinary share capital of CDIH together with associated assets for a total cash consideration of R47.0 million (US\$5.9 million).

	2008	
CDIH net assets at 30 June 2008:	US\$	
Net assets:		
Property, plant and equipment – reclassified as non-current assets held for sale	158,160	
Trade and other receivables	1,002,038	
Inventories	2,546,151	
Cash	86,512	
Intangible assets – reclassified as non-current assets held for sale	3,523,708	
Net loans from group companies	(5,996,775)	
Trade and other payables – reclassified as directly associated with non-current assets held for sale	(81,646)	

	2008	2007
	US\$	US\$
Result of discontinued operation:		
Revenue	827,039	–
Expenses other than finance costs	(2,119,938)	(599,228)
Finance income	12,534	2,384
Finance costs	(108,537)	–
Tax expense	–	–
Loss for the year	(1,388,902)	(596,844)
Basic loss per share (US cents)	(0.76)	(0.39)
The cash flow statement includes the following:		
Operating activities	(5,045,233)	(1,013,472)
Investing activities	12,534	2,384
Financing activities	4,638,212	1,328,265
Net cash from/(used in) discontinued operations	(394,487)	317,177

Notice is hereby given that the eleventh Annual General Meeting of Petra Diamonds Limited (the Company) will be held at 10:00 am on Friday, 19 December 2008 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 2008, together with the Reports of the Directors and Auditors, be received.

## 2. Appointment of auditors

That BDO Stoy Hayward LLP of 55 Baker Street, London, W1U 7EU be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid, or until their successors are appointed and that the Directors be authorised to fix the remuneration of the auditors.

## 3. Re-election of directors

That each of (a) James Davidson and (b) Volker Ruffer (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  
7 November 2008

**Registered office**  
Clarendon House, 2 Church Street, Hamilton HM11, Bermuda  
Company registration number: EC23123

## Explanatory notes

For the year ended 30 June 2008

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 Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; 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.



<b>AIM</b>	— London Stock Exchange's Alternative Investment Market.
<b>Alluvial</b>	— Diamond deposits which are located in sediments transported by river or marine systems.
<b>Audit</b>	— Checking mechanisms to verify the veracity of results.
<b>Bulk sample</b>	— Large sample which is processed through a small-scale plant, not a laboratory.
<b>CAPEX</b>	— Capital expenditure.
<b>Carat</b>	— Unit of weight for diamonds. The metric carat equals 200 mg.
<b>Cross section</b>	— A diagram or drawing that shows features transected by a vertical plane drawn at right angles to the longer axis of a geologic feature.
<b>Cut-off grade</b>	— The lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit.
<b>Diamond drilling</b>	— A drilling method, where the rock is cut with a diamond bit, to extract a core of the rock.
<b>Diamond grade</b>	— The content of diamonds, measured in carats, within a volume or mass of rock.
<b>Diamondiferous</b>	— Containing diamonds.
<b>DMS</b>	— Dense Medium Separation, a way of separating diamonds or heavy minerals from waste material using a flotation process.
<b>Estimation</b>	— The quantitative judgement of a variable.
<b>Exploration</b>	— Prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation.
<b>Feasibility study</b>	— A definitive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed. The study is used to define the economic viability of a project and to support the search for project financing.
<b>Garnet</b>	— A silicate mineral. The magnesium-rich variety, pyrope, is commonly found in kimberlites.
<b>Grade</b>	— The relative quantity or percentage of diamonds within the rock mass. Measured as carats per hundred tonnes in this report.
<b>In situ</b>	— In its original place, most often used to refer to the location of the mineral resources.
<b>Indicated diamond resource</b>	— That part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a reasonable level of confidence. It is based on exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed and sufficient diamonds have been recovered to allow a confident estimate of average diamond value (SAMREC Code).
<b>Inferred diamond resource</b>	— That part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability (SAMREC Code).
<b>Kimberlite</b>	— An ultra basic rock defined as a porphyritic alkalic peridotite containing phenocrysts of olivine and phlogopite. Occurs as dykes or as characteristically carrot-shaped pipes.
<b>KIM</b>	— Kimberlite indicator minerals – diamonds, garnets, and several other minerals which are unique to kimberlitic rocks.
<b>MBS</b>	— Mini bulk sampling; the collection and processing of typically one to several hundred tonnes of kimberlite as part of the initial steps on the road to establishing a grade of a given deposit.
<b>Measured diamond resource</b>	— That part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a high level of confidence. It is based on detailed and reliable exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity and sufficient diamonds have been recovered to allow a confident estimate of average diamond value.
<b>Mineable</b>	— That portion of a resource for which extraction is technically and economically feasible.
<b>Mineralisation</b>	— The presence of a target mineral in a mass of host rock.
<b>NAV</b>	— Net asset value.
<b>NPV</b>	— Net present value.
<b>Opencast/ Open pit Orebody</b>	— Surface mining in which the ore is extracted from a pit. The geometry of the pit may vary with the characteristics of the ore body. — A continuous well-defined mass of material of sufficient ore content to make extraction feasible.
<b>Parcel</b>	— A collection of diamonds of various sizes made available for sale as a single package.
<b>Percussion drilling</b>	— A drilling method where the rock is broken by a compressed-air driven bit into chips that are blown up the hole to be sampled.

<b>Primary deposit</b>	— With reference to the deposition of diamonds, these deposits include kimberlite pipes, dykes, blows and fissures as well as lamproites. Contrasted with alluvial.
<b>Primary gravel</b>	— Potentially diamondiferous alluvial gravels derived from primary deposits.
<b>Probable reserves</b>	— The economically mineable material derived from a measured and/or indicated diamond resource. It is estimated with a lower level of confidence than a proven reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
<b>Proven reserves</b>	— The economically mineable material derived from a measured diamond resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.
<b>Rehabilitation</b>	— The process of restoring mined land to a condition approximating to a greater or lesser degree its original state. Reclamation standards are determined by the South African Department of Minerals and Energy Affairs and address ground and surface water, topsoil, final slope gradients, waste handling and revegetation issues.
<b>RVK</b>	— Resedimented volcanoclastic kimberlite. Volcanoclastic kimberlite that has been redistributed by sedimentary processes during and directly after volcanic eruptions.
<b>Sample</b>	— The removal of a small amount of rock pertaining to the deposit, which is used to estimate the grade of the deposit and other geological parameters.
<b>Sampling</b>	— Taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content).
<b>Slimes</b>	— The fine fraction of tailings discharged from a processing plant without being treated; in the case of diamonds, usually that fraction which is less than 1 mm in size.
<b>Slimes dam</b>	— A storage facility for all fine waste products from the processing plant.
<b>Stockpile</b>	— A store of unprocessed ore.
<b>Stone size</b>	— Average size of the diamonds, expressed as carats/stone.
<b>Stones</b>	— Diamonds.
<b>Tailings</b>	— The waste products of the processing circuit. These may still contain very small quantities of the economic mineral.
<b>Tailings dump</b>	— Dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted.
<b>Tonnage</b>	— Quantities where the tonne is an appropriate unit of measure. Typically used to measure reserves of target commodity bearing material or quantities of ore and waste material mined, transported or milled.
<b>Yield/Recovered grade</b>	— The actual grade of ore realised after the mining and treatment process.

## Units Description

°	— Degree
°C	— Degrees Celsius
cm	— Centimetre
cpht	— Carat per hundred tonnes
ct	— Carat
ha	— Hectare
km	— Kilometre
km <sup>2</sup>	— Square kilometres
m	— Metre
m	— Million
m <sup>2</sup>	— Square metres
m <sup>3</sup>	— Cubic metre
R/t	— South African Rand per tonne
t	— Tonne
tpa	— Tonnes per annum
tph	— Tonnes per hour
tpm	— Tonnes per month
US\$/ct	— United States Dollar per carat



[www.petradiamonds.com](http://www.petradiamonds.com)

## Group head office

Elizabeth House  
9 Castle Street  
St. Helier  
Jersey, JE4 2QP  
www.petradiamonds.com  
Email: info@petradiamonds.com

## Advisers

### Nominated adviser and broker

Collins Stewart  
88 Wood Street  
London, EC2V 7QR  
Tel: +44 207 523 8000  
Website: www.collins-stewart.com  
Contact: Piers Coombs  
Email: pcoombs@collins-stewart.com

### Second broker

BMO Capital Markets  
95 Queen Victoria Street  
London, EC4V 4HG  
Tel: +44 20 7246 5415  
Contact: Jamie Strauss  
Email: jamie.strauss@bmo.com

### AIM registrars

Capita IRG (Offshore) Limited  
44 The Esplanade, Jersey,  
Channel Islands, JE4 OXQ  
Tel: UK: 0871 664 0300 or  
international: +44 208 639 3399  
Website: www.capitaregistrars.com  
Email: ssd@capitaregistrars.com

### Auditors

BDO Stoy Hayward LLP  
55 Baker Street  
London, W1U 7EU  
Tel: +44 207 893 2714  
Website: www.bdo.co.uk  
Contact: Scott Knight  
Email: scott.knight@bdo.co.uk

### Legal advisers

(As to English Law)  
Memery Crystal  
44 Southampton Buildings  
London, WC2A 1AP  
Tel: +44 207 242 5905  
Website: www.memerycrystal.com  
Contact: Lesley Gregory  
Email: lgregory@memerycrystal.com

## Principal bankers

Barclays Bank plc  
38 Hans Crescent, Knightsbridge  
London, SW1X 0L2  
Tel: +44 207 114 7200  
Website: www.barclays.co.uk  
Contact: Graham Whiteley  
Email: graham.whiteley@barclays.co.uk

## PR advisers – UK

The Hogarth Partnership  
No. 1 London Bridge  
London, SE1 9BG  
Tel: +44 20 7357 9477  
Website: www.hogarthpr.co.uk  
Contact: Julian Walker  
Email: PDL@hogarthpr.co.uk

## PR advisers – South Africa

Russell & Associates  
42 Glenhove Road  
Melrose Estate  
Johannesburg, South Africa  
Tel: +27 (0)11 880 3924  
www.rair.co.za  
Contact: Charmane Russell  
Email: charmane@rair.co.za

## Secretary and registered office

Michael Ashford  
2 Church Street, Hamilton  
HM11, Bermuda  
Company registration number: EC23123  
Tel: +1 441 295 5950  
Website: www.cdp.bm  
Email: mbashford@cdp.bm

## Legal advisers to the Company

(As to Bermuda Law)  
Conyers Dill & Pearman  
Clarendon House, 2 Church Street  
Hamilton, HM11, Bermuda  
Tel: +1 441 295 1422  
Website: www.cdp.bm  
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