



On Target For The Future  
**Annual Report 2007**



**Petra**Diamonds

# Introduction

**Adonis Pouroulis, Chairman, said:** "This last year has been the most gratifying in the Company's history as we have developed the critical mass, the in-house capabilities and, most importantly, the credibility to take the business to the next level. We have delivered, with Cullinan, Koffiefontein and Kimberley Underground, on our promise to shareholders to introduce assets to the Group which will substantially increase our current production and return significant cash flows. We have also seen exciting developments with our major exploration assets in Angola. Bulk sampling and drilling at Alto Cuilo is returning very encouraging results and our second joint venture in Angola with BHP Billiton at neighbouring Luangue consolidates our position in this highly prospective diamond region. Calibrated Diamonds is on track and we expect to cut and polish 2,500 carats of rough per month by mid-2008."

"In November 2007 we announced Petra's success, with its consortium partners, in acquiring the Cullinan diamond mine. A major producing diamond asset such as Cullinan very rarely becomes available and this is a historic development for Petra. It brings a major resource to the Group, and with the expectation of adding substantially to annual production, will elevate Petra into the league of the world's major diamond producers."

"The development of the Group over the past year has been quite outstanding and I look forward to further building on this success in 2008."

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



**Petra**Diamonds

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# Summary of Results

	12 months to 30 June 2007 US\$ million	12 months to 30 June 2006 US\$ million
Revenue (note 1)	17.0	20.9
Production (carats) (note 1)	180,474	175,011
Gross profit on mine – South African operations (note 2)	1.3	3.3
Loss before depreciation, amortisation and foreign exchange movements	7.8	5.3
Loss for the year	20.9	18.8
Cash at bank (note 3)	44.1	7.0

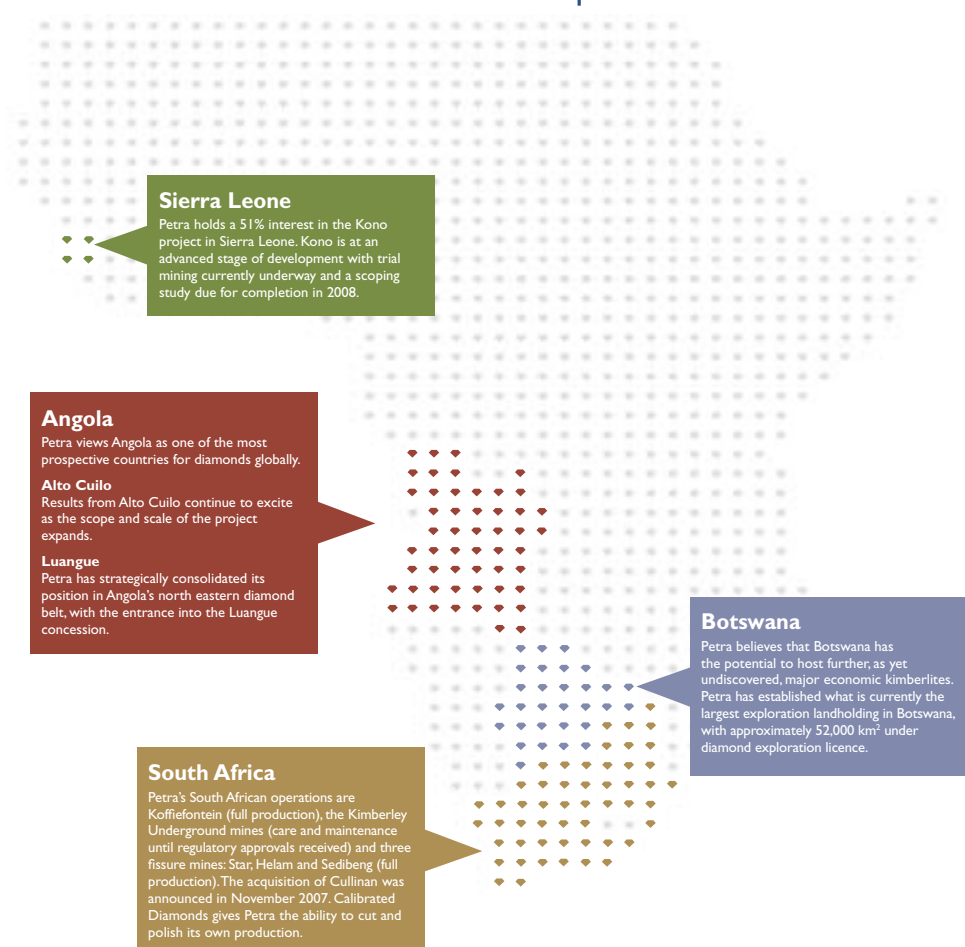
## Notes

1. The Koffiefontein acquisition was expected to have been completed (with all conditions being met) by June 2007, but completion only occurred in July 2007, post year-end. Had this occurred pre-30 June, Petra would have been able to (in accordance with the conditions of the Koffiefontein purchase agreement) sell diamonds from the processed ore and Group revenue to June 2007 would have been \$9.9 million higher. Although Petra was maintaining the cave for many months and processing ore from May 2007, diamonds could not be sold until all conditions were met, therefore Koffiefontein production of 44,423 carats to June 2007 (Group accounting policy is that diamonds in ore mined but not processed are included in closing stock) has been included in diamond inventory at a cost of US\$3.5 million; the corresponding gross profit of US\$6.4 million (being sales revenue less US\$3.5 million and associated plant recovery costs) was recorded in the three months to September 2007 when the diamonds were sold and will be accordingly realised in the financial year ending 30 June 2008.





2. Gross profit stated before depreciation and amortisation.

3. In August 2007 Petra received US\$22.35 million from BHP Billiton relating to the disposal of 25% of Frannor Investments and Finance Limited. Petra's cash at bank as at 30 September was US\$65 million.

## Petra Diamonds Footprint



# Group at a Glance

Country	Profile
	<p><b>Group</b></p> <p>Petra Diamonds is a pan-African diamond mining company with operations in South Africa, Angola, Botswana and Sierra Leone. Over the last year, the Company has continued to build upon and grow its impressive portfolio, combining producing mines with world-class exploration projects.</p>
 <p>South Africa</p> <p>(full review on pages 14 to 17)</p>	<p><b>South Africa</b>  <b>Cullinan, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star mines</b></p> <p>Petra's South African operations are the Koffiefontein mine (in full production), the Kimberley Underground mines (in care and maintenance until regulatory approvals received) and its three fissure mines: Star, Helam and Sedibeng (in full production). Petra is the second largest producer of diamonds and the second largest employer in the diamond industry in South Africa after De Beers.</p> <p>Petra completed the acquisition of the world class Koffiefontein mine from De Beers Consolidated Mines in July 2007 and this marked a change in direction for the Company since it had historically only focused on production from fissure mines. The Company was selected as the successful bidder for Koffiefontein following a competitive tender process. Petra's ability to operate major underground kimberlite pipe mines was again recognised when Petra was selected as the successful bidder for both the Cullinan and the Kimberley Underground mines, assets also disposed of by De Beers.</p> <p>With the acquisition of Koffiefontein and the conditional agreement to acquire Kimberley Underground, Petra is now on track to increase annual production from its South African operations from 180,000 carats (year to 30 June 2007) to 250,000 carats by June 2008 and to 400,000 carats by 30 June 2009.</p> <p>In October 2007, Petra announced a 123% increase in Group reserves and resources to 6.38 million carats (May 2005: 2.86 million carats). This resulted in an updated Group carat base of 9.33 million carats attributable (11.38 million carats gross), an increase of 101% on previous statement (May 2005: 4.64 million carats attributable), giving an in-situ value of US\$1.5 billion attributable (US\$1.9 billion gross).</p>
 <p>Angola</p> <p>(full review on pages 18 to 21)</p>	<p><b>Angola</b></p> <p>Petra views Angola as one of the most prospective countries for diamonds globally. Rough diamond sales of 9.4 million carats generated US\$1.2 billion for the country in 2006 (source: IDEX). Mining regulations have recently been liberalised in Angola, and the government is running a campaign to attract foreign investment. As the industry continues to gather momentum, Petra believes Angola will one day be one of the world's leading diamond producers.</p> <p><b>Alto Cuilo</b></p> <p>Results from Alto Cuilo continue to excite as the scope and scale of the project expands. A total of 249 anomalies have been identified across the licence area using Midas gradient array low level helicopter aeromagnetic survey. To date the drilling programme has tested 99 priority targets of which 77 were confirmed to be kimberlites, an unusually high success rate in terms of kimberlite exploration. The total surface area of kimberlites discovered at Alto Cuilo is estimated to be greater than 1,500 hectares. This is a vast size to explore and gives an indication of the potential of the Alto Cuilo concession.</p> <p><b>Luangue</b></p> <p>This year Petra has strategically consolidated its position in Angola's north eastern diamond belt, with the entrance into the Luangue concession which lies contiguous to the Alto Cuilo project. Though it is at a much earlier stage of development than Alto Cuilo, Petra is similarly positive about its potential.</p>
 <p>Botswana</p> <p>(full review on pages 22 to 25)</p>	<p><b>Botswana</b>  <b>Kalahari Diamonds</b></p> <p>Petra's exploration programme in Botswana is very important to the Group. Botswana is the world's largest producer of diamonds by value and hosts two of the world's largest diamond mines, Orapa and Jwaneng. Petra believes it has the potential to host further, as yet undiscovered, major economic kimberlites.</p> <p>Botswana has long been seen as one of the best countries for diamond exploration worldwide, where geological prospectivity is combined with a modern and highly developed mining, commercial and financial environment.</p> <p>Petra has established what is currently the largest exploration landholding in Botswana, with approximately 52,000 km<sup>2</sup> held through its wholly owned Botswana subsidiary, Sekaka Diamonds. A considerable proportion of the Sekaka licence areas are covered by approximately 250,000 line kilometres of relatively high resolution airborne gravity and magnetic data, acquired by BHP Billiton's Falcon technology.</p> <p>The Kalahari exploration programme is progressing well and in 2007 Petra commenced drilling. There are 30 known kimberlites in Petra's licence areas and other highly prospective anomalies for further investigation. The prospecting licences granted in the vicinity of the major Jwaneng diamond mine are considered by Petra to have significant potential; the licence areas hold two previously identified kimberlites, DK4 and DK6, both of which are diamondiferous. New generation exploration technologies are being applied and have led to the discovery of a new kimberlite, X25, in an area already extensively explored and confirming Petra's belief that modern technologies hold the key to the discovery of new kimberlites in Botswana.</p>
 <p>Sierra Leone</p> <p>(full review on pages 26 to 28)</p>	<p><b>Sierra Leone</b>  <b>Kono Project</b></p> <p>Petra was encouraged to see the tremendous efforts made by Sierra Leone over the past year in consolidating stability. Petra perceives the recently held presidential and parliamentary elections as evidence of the country's successful return to democracy since the end of its internal strife. Whilst there are logistical and infrastructural challenges to contend with, Petra's experience of operating in Sierra Leone is most certainly a pleasant one, where the government and people are welcoming foreign investment.</p> <p>Petra holds a 51% interest in the Kono project, with its joint venture partner Stellar Diamonds Limited, a 68.5% owned subsidiary of Mano River Resources Inc (AIM: MANA, TSX-V: MNO), holding the remaining 49%.</p> <p>Kono is at an advanced stage of development with trial mining currently underway and a scoping study due for completion in 2008 following which Petra and Stellar will be in a position to make a development decision. Given the nature of the development work to date, the company has the plant and related infrastructure in place to fast track the project towards production, possibly within 12 to 18 months.</p>



## Highlights

- ◆ Revenue to 30 June 2007: US\$17.0 million (June 2006: US\$20.9 million); revenue post year-end for three months to 30 September 2007: US\$15.9 million, substantial growth and only US\$1.1 million short of entire revenue for year to June 2007; revenue jump in three months to September 2007 due to Koffiefontein coming on stream in the period
- ◆ Group revenue and cash flows expected to be substantially higher in year to June 2008 as Petra has sound foundations for growth in place
- ◆ Group cash balances at 30 June 2007: US\$44 million (30 June 2006: US\$7 million); cash balances 30 September 2007: US\$65 million

- ◆ Resource update – increase of 101% to 9.33 million carats attributable (last statement May 2005: 4.64 million carats); in-situ value of US\$1.5 billion attributable
- ◆ Production of 180,474 carats for the year to 30 June 2007 (June 2006: 175,011 carats); 250,000 carats expected to June 2008; in excess of 400,000 carats expected to June 2009
- ◆ First sales from Koffiefontein – 28,246 carats sold for US\$11.7 million in quarter to 30 September 2007, average of US\$414 per carat, excellent values for a kimberlite mine; Koffiefontein expected to add 90,000 carats to annual production
- ◆ Petra to acquire Kimberley Underground Mines from De Beers which will add in excess of 100,000 carats to annual production in the year to June 2009
- ◆ In November 2007, Petra announced the acquisition of the historic Cullinan mine from De Beers. The transaction is expected to complete around June 2008.

### Beneficiation

- ◆ Acquisition of Calibrated Diamonds gives Petra the ability to cut and polish its own production, transforming Petra into a vertically integrated group and enabling the Company to add value to its rough production
- ◆ Production build up underway; expected that 2,500 carats per month of rough will be processed by mid-2008

### Alto Cuilo

- ◆ Next phase of exploration underway with mini bulk sampling programme; kimberlite AC63 records intersections of 22.7 cpht over 90 metres, peaking at 35.5 cpht over 30 metres; other high grade zones identified
- ◆ October 2007: kimberlite AC98 records further high grade areas, including intersections of 33.13 cpht over 33 metres
- ◆ As at 30 September 2007, BHP Billiton, Petra's joint venture partner, had spent US\$52.2 million on exploration development at Alto Cuilo

### Luangue

- ◆ February 2007: Petra acquired an interest in Luangue, a highly prospective project bordering Alto Cuilo in north eastern Angola, consolidating the Group's position in the diamond belt of Angola; Petra subsequently (August 2007) entered into a joint venture with BHP Billiton to develop Luangue; the deal will effectively fast track project development, with the BHP Billiton earn-in requiring funding to a BHP Billiton pre-feasibility

- ◆ Positive results from Kalahari drilling programme; discovery of a new kimberlite using Xcalibur magnetics; identification of 20 prospective targets in the Orapa North licence block
- ◆ Kukama Project; geophysical indications that diamondiferous kimberlite 173S could be 25 hectares in size
- ◆ Discovery of kimberlite X25 in the Gope area – highly significant development as area has been explored thoroughly by other exploration companies in the past; vindicates Petra's belief that new exploration technologies and methodologies can identify significant new kimberlites in Botswana
- ◆ New exploration licences granted to Petra over two known diamondiferous kimberlites in the Jwaneng locality

- ◆ Development programme making solid progress at the Kono project, with test shafts delivering highly encouraging results due to consistent kimberlite fissure and good fissure widths encountered
- ◆ Trial mining commenced on three shafts, where in-situ grades of between 50 and 80 carats per hundred tonnes have been achieved
- ◆ Petra believes that the test shafts have a high likelihood of developing into producing operations; appropriate infrastructure and equipment already in place to make seamless transition to full production





# Chairman's Statement

A handwritten signature in dark ink, appearing to read 'A Pouroulis'.

Chairman  
**Adonis Pouroulis**

## Dear Shareholder,

It is with great pleasure that I present the results for 2007, a period which marks Petra's 10th anniversary on AIM. Over the past year, we have developed the critical mass, the in-house capabilities and, most importantly, the credibility to take the business to the next level.

We started the period under review with a portfolio combining the producing fissure mines in South Africa with the "blue sky" potential of our operations in Angola and Botswana, and advanced stage exploration in Sierra Leone. Our objectives for the year were to deliver solid exploration results at Alto Cuilo and, at the same time, to add significant production to the Group. We have delivered on these stated objectives with the mini-bulk sampling programme underway at Alto Cuilo, the acquisition of a world-class diamond mine, Koffiefontein, and the ongoing development of the existing fissure mines.

In addition to these achievements, we acquired an interest in the Luangue diamond project in Angola, entered into our second joint venture with BHP Billiton, and brought into the Group cutting and polishing capabilities with the acquisition of

Calibrated Diamonds. Post year-end, we entered into agreements to acquire both Cullinan and the Kimberley Underground mines from De Beers.

The formal completion of the acquisition of Koffiefontein took longer than we expected and occurred after the end of our 2006/07 financial year; but as reported below, since the announcement of successful completion on 18 July 2007 we have been very pleased with the progress made and the results as reported from our first two tenders.

The compelling investment case for diamonds continues, with the market widely predicted by analysts to slip into a major supply deficit within the next five years, due to the lack of significant new production coming on stream. At our tenders since July diamond prices have recovered from the



weaker prices recorded during the financial year and, despite the turbulent events in the financial markets, many market participants believe that an increase in diamond prices is overdue.

The highlights of a very productive year, set out by division, are outlined below.

### Results

The loss for the year amounted to US\$20.9 million (30 June 2006: US\$18.8 million) after amortisation of intangibles of US\$3.7 million (30 June 2006: US\$2.8 million), exchange losses of US\$4.8 million (30 June 2006: US\$6.1 million), and depreciation of US\$6.5 million (30 June 2006: US\$5.7 million).

Revenue generated by the South African mines decreased from \$20.9 million in the previous year to \$16.7 million for the 2007 financial year (the balance of revenue for the year of US\$300,000 being non-beneficiation revenue at Calibrated Diamonds). Revenue from the fissure mines was negatively impacted due to delays in the commissioning of the processing plant at Sedibeng. However, these stockpiled carats will be released in the current period as the plant is now fully operational. Skills shortages at Helam resulted in its production targets not being reached; this skills shortage has now been largely addressed and Helam production is back on track.

The Koffiefontein acquisition was expected to be completed in all respects before June 2007, but the last administrative conditions were met in July 2007, post year-end; had this occurred pre-30 June as expected, revenue to June 2007 would have been \$9.9 million higher. Although Petra extracted ore as part of the cave maintenance and plant testing programme and processing of the ore commenced in May, diamond sales could not be made until all conditions were met. Therefore Koffiefontein production of 44,423 carats to June 2007 has been included in diamond inventory at a cost of \$3.5 million and a gross profit of US\$6.4 million will be realised in the financial year ending 30 June 2008.

On-mine gross profit for the year would have significantly surpassed the previous year's achievement of US\$3.3 million had Koffiefontein's sales been realised, with an estimated US\$6.4 million being added to the current year's gross profit on-mine of US\$1.3 million.

The Group prides itself in its low operational cost culture and the benefits were evident at all operations in the current period.

A charge of US\$3.7 million (30 June 2006: US\$2.8 million) for amortisation of intangibles is in respect of the amortisation of prospecting licences held by Sekaka Diamonds (Pty) Limited, the Group's Botswana operating company. IFRS requires that the cost of the licences be written off over their estimated life, which the Board has estimated to be four years.

Group net cash inflow for the period is stated after taking account of capitalised mining development cash outflows in Sierra Leone of US\$3.8 million (30 June 2006: US\$4.1 million), other capital expenditure (mainly in respect of the South African operations) for the period of US\$5.0 million (30 June 2006: US\$4.2 million), acquisitions of new operations for US\$1.9 million, cash inflows from the US\$20 million Al Rajhi Holdings convertible bond and US\$36.1 million from the issue of new shares, mainly due to a US\$34.3 million (£17.5 million) placing with Saad Investments.

# Chairman's Statement continued

At June 2007, our cash position was US\$44.1 million. This was further bolstered in August 2007 by the sale to BHP Billiton of 25% of Frannor Investments and Finance Limited ("Frannor") for US\$22.35 million. As at 30 September 2007, Petra had cash balances of US\$65 million.

## South Africa

The South African operations increased production by 3.1% from 175,011 carats (June 2006) to 180,474 carats for the year to 30 June 2007. Second half production (108,546 carats) saw a substantial increase on the first half (71,928 carats), due largely to the production contribution from Koffiefontein (44,423 carats) in closing inventory. The capacity and engineering improvements put in place at our fissure mines, including the commissioning of the refurbished plant at Star towards the end of December 2006 and the construction of the new plant at Sedibeng, completed in May 2007, will deliver upside in the year to June 2008.

With the acquisition of Koffiefontein and the conditional agreement to acquire Kimberley Underground, we are on track to increase Group production from our South African operations to 400,000 carats per annum by FY 2008/9. Increasing our production will not only add to the upside of the major exploration projects within the Group, it will also deliver steady earnings growth.

In October 2007 the Company announced a substantial increase in reserves and resources, an important development as, just like other mining companies, diamonds 'in the ground' is a key contributor to company value and potential.

Petra announced an updated JORC compliant statement of the Group's South African reserves and resources in respect of the Koffiefontein, Helam, Sedibeng and Star mines. The total carat base increased 101% to 9.3 million carats attributable, compared to that last reported in May 2005 of 4.6 million carats. The corresponding in-situ value

is calculated to be US\$1.5 billion. This increase in total carat base was largely due to the acquisition of Koffiefontein as well as a review of the fissure mines.

## Cullinan

On 22 November 2007 Petra announced that, as a member of the Petra Diamonds Cullinan Consortium ("PDCC"), it had entered into an agreement with De Beers to acquire the Cullinan diamond mine in South Africa for a total cash consideration of R1 billion (US\$149.0 million), Petra's share of the consideration being R325 million (US\$48.4 million).

A major producing diamond asset such as Cullinan very rarely becomes available. In the year to December 2006 De Beers produced 1.15 million carats at the mine, with a market value of R504.9 million (US\$75.2 million). Petra expects PDCC's average annual production from Cullinan will meet, and potentially exceed, the recent production achieved by De Beers, adding substantially to Petra's group revenues (initial 37% PDCC interest).

Many of the world's most spectacular diamonds have been recovered at Cullinan, including the 3,106 carat Cullinan Diamond, the largest gem diamond ever found. It was cut to form the 530 carat Great Star of Africa and the 317 carat Lesser Star of Africa set in the Crown Jewels of Britain. The mine is renowned as a source of large diamonds and has produced over 300 stones weighing more than 100 carats, and around a quarter of all of the world's diamonds weighing more than 400 carats. Cullinan is also the world's only significant source of blue diamonds, which are highly desirable in the jewellery market.

The members of PDCC are Petra Diamonds Limited (37% initial interest), Al Rajhi Holdings W.L.L. ("Al Rajhi") (37% initial interest) and PDCC's Black Economic Empowerment ("BEE") partners (26% interest). Petra can at its option increase its interest in PDCC (from Al Rajhi) based on performance of the mine and pre-agreed option payments.



### **Koffiefontein**

We were selected by De Beers as the successful purchasers of Koffiefontein (December 2006) and Kimberley Underground (September 2007) following rigorous selection processes. Koffiefontein brought a world-class diamond mine to the Group, in line with our strategy of growing production.

The Company had been, with permission from the South African Department of Minerals and Energy ("DME"), maintaining the cave at Koffiefontein since July 2006. This was a very valuable period as it enabled the Petra team to gain a thorough working knowledge of the mine, optimise and test the plant and streamline operations. As the conditions within the purchase agreement meant that diamonds could not be sold until all conditions had been met, which occurred in July 2007, extracted ore is included in June's closing stock.

Since the financial year-end, Petra has commenced sales of diamonds recovered from the ore extracted during this preparatory period. Whilst Koffiefontein is renowned for the exceptional quality and value of its diamonds, the results of the first two tenders held since June exceeded management expectations. Based on historical production and sales information, Petra had assumed an average of US\$245 per carat for Koffiefontein underground production (excluding tailings). The first tender achieved an average of US\$410 per carat and the second a similar average of US\$420 per carat. Two exceptional stones of 74.7 and 60.25 carats were sold for US\$1,012,636 and US\$735,885 respectively. Excluding these stones from average values, we recorded an average of \$367 and \$334 per carat for the first and second tenders respectively.

The acquisition of Koffiefontein was important to Petra, but bringing the mine back into production was critical to the local community. Since we recommenced operations, we have created approximately 400 new jobs which, combined with the multiplier effect of mining, will provide a crucial

boost to the local economy. We would like to extend our thanks to both the DME and De Beers for their support in ensuring a successful outcome for all stakeholders.

### **Kimberley Underground**

The acquisition and integration of Koffiefontein served as the blueprint for our second deal with De Beers, when on 14 September 2007 we entered into a conditional agreement to buy the Kimberley Underground mines (together the Wesselton, Du Toitspan and Bultfontein mines) ("Kimberley Underground") in South Africa.

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 recommenced, giving gross annual revenues in excess of US\$16 million and a life of mine of at least 12 years.

The consideration of R78.5 million (US\$11 million) is to be settled by Petra assuming De Beers' rehabilitation obligations with regards to Kimberley Underground of R63.5 million (US\$8.9 million), and the payment in cash by Petra to De Beers of R15 million (US\$2.1 million).

### **Angola**

Angola is undoubtedly one of the most prospective countries in Africa for diamond exploration, expected by many to yield the world's next large kimberlite diamond mine. Petra has interests in both Project Alto Cuilo and Project Luangue, situated in the Kasai Craton diamond belt of the country.

### **Project Alto Cuilo**

Exploration at Alto Cuilo entered the next phase in January 2007 with the commencement of the large diameter drilling ("LDD") and mini bulk sampling ("MBS") campaigns. The MBS programme is of particular importance as it is the next step in estimating the economic viability of the many

# Chairman's Statement continued

kimberlites at Alto Cuilo and their potential to be developed into mines.

The first mini bulk sample results were a major milestone in the development of Alto Cuilo. The first priority kimberlite to be tested was AC63 and we were pleased to report intersections of 22.7 cpht over 90 metres, peaking at a grade of 35.5 cpht over 30 metres, along with other high grade zones. These results mean that AC63 is likely to be further investigated by geophysical techniques and sampled again at a later stage of the MBS campaign. The second kimberlite to be sampled, AC98, recorded similarly encouraging results, including intersections of 33.13 cpht over 33 metres, 12.1 cpht over 137 metres and 10.8 cpht over 90 metres.

We continue to be pleased with the unusually high discovery rate for kimberlites at Alto Cuilo and there are now 77 confirmed kimberlites (July 2006: 50 confirmed kimberlites) out of a total of 99 targets drilled, a success rate of 78%. Micro diamond analysis has been carried out to date on 15 kimberlites of which 13 have proved diamondiferous; these success rates are very high by world diamond exploration standards. Following micro diamond analysis, we are then in a position to target further kimberlites for the MBS campaign.

Given the volume, size and complex internal morphology of these kimberlites, we have embarked on a ground geophysical programme of Natural Source Audio Magneto Tellurics (NSAMT) and gravity in order to get a better understanding of the ore bodies. This strategy is proving to be very effective in assisting with the placement of the LDD holes and the core drilling programme continues apace, with three drill rigs now working round the clock at Alto Cuilo, taking core samples from kimberlite bodies for mineral chemistry analysis.

The MBS programme has importantly served to vindicate Petra's exploration model as prospective areas can be identified using initial Heavy Mineral

Analysis before selection for drilling. In order to accelerate the pace of the mini bulk sampling, a second LDD rig has been secured. We anticipate regular news flow with regards to results from the next drill targets.

Alto Cuilo is a 'major' project in all senses of the word, with a large footprint (in excess of 1,500 hectares) and a much higher number of prospective kimberlites to be investigated than are found in most other diamond exploration projects. It is for this reason that we welcome the technical, financial and strategic input of our joint venture partner BHP Billiton. This partnership is ensuring that Alto Cuilo is developed in as fast a timeframe as possible, and as at September 2007 BHP Billiton had provided funding of US\$52.2 million (June 2006: US\$ 22.8 million), a very significant exploration spend.

I would like to extend our gratitude to the Angolan state diamond body, Endiama, for their continued support.

## Project Luangue

In March 2007, Petra announced the acquisition of Frannor in an all share transaction from AIM quoted Xceldiam Limited. Frannor holds interests in the Luangue concession which borders the northern side of Alto Cuilo, and has both kimberlite and alluvial potential.

The acquisition is very significant as it entrenches the Company's position in the diamond belt of north east Angola, an area widely believed to host major diamond deposits. Furthermore it is Petra's belief that Luangue is as prospective as Alto Cuilo, sharing as it does the same geology which pays no heed to licence boundaries.

This view was further substantiated by the entry of BHP Billiton into Frannor in August 2007. Through a new joint venture agreement with Petra, BHP Billiton acquired a 25% stake in Frannor from Petra for a cash consideration of US\$22.35 million and agreed, in

order to earn-in to 75% of the joint venture, to sole fund the exploration programme to the later of the completion of a BHP Billiton standard pre-feasibility study and a minimum expenditure commitment of three times Petra's net investment cost at Luangue.

Petra and BHP Billiton will now jointly manage and develop Luangue with the objective of accelerating the pace of exploration. Of key importance is the extensive experience and knowledge gained from the exploration programme at Alto Cuilo, which will be applied to develop Luangue's considerable potential.

The next step in the Luangue exploration programme is the analysis of a 'towed bird' helicopter borne, low level, gradient array aeromagnetic survey. This survey should generate a substantial amount of new anomalies with high quality data in addition to the 106 magnetic anomalies previously identified.

From alluvial operations carried out to date, 2,004 carats have been recovered, with the largest stone being 18.29 carats. It is worth noting that the alluvial potential at Luangue is significantly higher than at Alto Cuilo. There are many advantages to alluvial mining, particularly the prospect of lower capital costs combined with a faster route to production, and Angola's alluvials are regarded as some of the best quality gem diamonds in the world.

#### Botswana

There are now more than 20 international mining companies carrying out exploration programmes in Botswana, and with sound reason. Botswana is already the world's largest diamond producer by value but we believe, as do our competitors, that modern exploration techniques hold the key to the discovery of new, large kimberlite mines.

Petra has the largest area under diamond prospecting licence in Botswana, of approximately 52,000 km<sup>2</sup>, all of which is "on craton". We are particularly excited by the potential of prospecting licences granted in the vicinity of the major Jwaneng diamond mine, which

hold two previously identified kimberlites, DK4 and DK6, both of which are diamondiferous.

The Kalahari exploration programme has progressed well and our first drilling programme commenced in the period under review. Results from the 600 metre diameter gravity negative anomaly have confirmed that the surface area of the kimberlite within the anomaly is likely to be significantly larger than previously accepted. Likewise, at the Kukama project, our initial drilling campaign, supported by geophysical interpretation, has established that diamondiferous kimberlite 173S could be 25 hectares in size. This kimberlite has the potential to be a substantial deposit, although the grade over the majority of it is at this stage untested.

One of the most exciting developments in our Botswana exploration programme was the discovery of a new kimberlite, X25, in an area which has previously been intensively explored by other reputable exploration companies since the early 1980s. This is very significant as it demonstrates the opportunities presented in Botswana when using modern exploration techniques. The next stage of our programme is to complete a detailed ground geophysical programme in the area showing the most promising kimberlite indicator minerals, to be followed up by a drilling programme towards the end of the year.

We have an array of highly prospective targets to be further investigated and we will continue to run a focused exploration programme. A 55,000 line kilometre low level, gradient array magnetic survey has been commissioned over the Kukama project and a 5,000 metre drilling programme has been commissioned to test anomalies detected in our Orapa North, Gope, Kukama and Mabutsane project areas. Additional drilling will be scheduled to test the kimberlites in the Jwaneng and Kukama areas, as well as the largest kimberlite in the Kikao field, which is 700 metres in diameter.

# Chairman's Statement continued

## Sierra Leone

Great strides have been made in the development of the Kono Project in Sierra Leone, where test work has moved into the final phase. Petra has developed a series of exploration shafts and trial mining has now commenced, with the aim of better understanding the grade and structure of the fissures.

This year will be critical to establishing whether we have an economic mine at Kono and the results from our development work to date are very encouraging. By September 2007, we established trial mining on three shafts and had recovered some 2,809 diamonds totalling 241.7 carats. Crucially, our operations had also started to encounter much better, consistent widths of kimberlite, along with excellent in-situ kimberlite grades of between 50 and 80 cpht. These results, combined with the rapid advance gained in our understanding the fissures at Kono, all serve to increase our confidence in the positive potential of this project.

Petra now plans to extract a 1,000 tonne bulk sample from each of the three shafts with the aim of establishing possible run-of-mine grades, diamond values and the other parameters required for a scoping study. Given the nature of our development work, the Company now has the plant and related infrastructure in place to fast track the project towards production, possibly within 12 to 18 months.

Petra's interest in Kono is 51%, with its joint venture partner Stellar Diamonds Limited, a 68.5% owned subsidiary of Mano River Resources Inc, holding the remaining 49%, and each party funds the project as per its percentage holding.

## Move into cutting and polishing – Calibrated Diamonds

In November 2006, Petra made a strategic move into the cutting and polishing ("beneficiation") of diamonds with the acquisition of Calibrated Diamonds Investments Holding ("Calibrated Diamonds"). This acquisition gives Petra the in-house capability to cut

and polish its own rough diamond production, which in turn will directly impact Petra's bottom line given the value uplift in a polished stone compared to the rough form.

Petra acquired Calibrated Diamonds as it saw an important opportunity to take a step further down the diamond pipeline value chain. Petra will not enter the retailing business, but will add significant value for shareholders by taking a proportion of our production to the cutting and polishing stage.

Calibrated Diamonds' proprietary laser cutting process has significant advantages over traditional cutting and polishing methodology, producing stones to a very high and consistent standard. Calibrated Diamonds' cut and polished stones are a premium product, producing the highly sought after 'hearts and arrows' quality which is rarely achieved by conventional means. As such, given the scarcity in the global market for this product, we believe there will be strong demand.

Calibrated Diamonds' transition from focused research and development and pilot production to full scale, commercial production facilities is progressing well. The company is currently in the build-up phase, cutting around 120 carats per month of Petra rough and building up capacity by bringing more machines on line. We expect to be cutting approximately 2,500 carats of rough production per month by mid-2008.

## Objectives and strategy

Petra's objective remains to grow our stature as a world class diamond producer. By offering investors exposure to a mid-tier diamond group with production cash flows and major exploration projects, we believe we can deliver superior returns to our shareholders.

Though Petra established its position on AIM before the mining boom took hold and is AIM's

leading diamond group, we are now in the midst of a 'diamond rush', as characterised by the many diamond companies which have recently sought to raise money and acquire a public listing in London. This is due to the shift of power in the diamond industry, which has seen the field open up to new players, and the dramatic restructuring of the diamond pipeline. Improving conditions in many of the most promising African countries, such as Angola, the DRC and Sierra Leone, have also precipitated a wealth of opportunities.

Our focus going forward remains Africa, where we have built up 10 years expertise, and where a spirit of partnership, agility and entrepreneurial flair have been the building blocks of our success.

#### **Social and environmental responsibility**

Petra believes that social and environmental stewardship is of the utmost importance when developing mining projects, particularly in Africa where a resources project might be the primary economic contributor to the local community. This is the case with many of our projects, which are located in remote areas with few opportunities for employment.

We believe that it is our responsibility to help improve the lives of the communities in the areas in which we operate and we have a range of social initiatives in place to continue making a meaningful impact on the lives of our employees and the surrounding communities.

With regards to all of our projects, we are very concerned with environmental protection and rehabilitation, and ensure that all operations are conducted in line with international best practice.

#### **Staff**

The development of the Group over the past year has been quite exceptional and I thank everyone at Petra for their individual contributions to this success. Petra is a vibrant group, reflecting the countries in

which we operate, and I continue to be grateful for the hard work and energy that drives the Company forward.

#### **Outlook**

There have been significant developments for Petra since the end of our financial year; not least the formal completion of the acquisition of Koffiefontein and more recently our successful selection as the acquirers of both Cullinan and Kimberley Underground. Revenues for the three months to 30 September 2007 reached US\$15.9 million, only US\$1.1 million less than that for the full year to June 2007.

With expected production of 250,000 carats for the year to 30 June 2008, an increase in our South African reserves and resources (not including Cullinan and Kimberley Underground) to 9.3 million carats, a strong background for diamond prices and encouraging progress across our development projects in Angola, Botswana and Sierra Leone, Petra's prospects for the current financial year and beyond are extremely encouraging.

*Adonis Pouroulis*

*Chairman*

18 December 2007

# Chief Executive Officer's Review



A stylized, handwritten signature in grey ink.

Chief Executive Officer

**Johan Dippenaar**

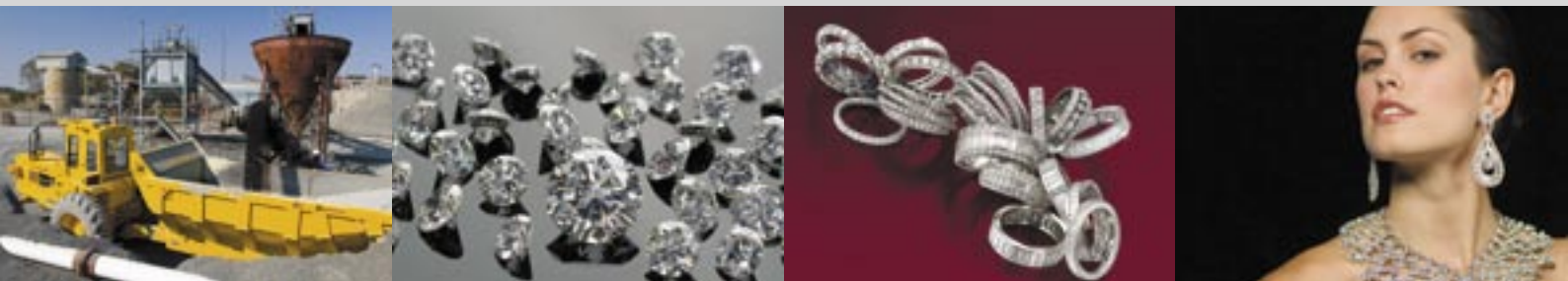


## **Diamonds – making a difference to Africa**

Petra Diamonds' focus remains Africa, a continent where we have now built up 10 years of experience. During this period, we have witnessed tremendous improvements across the countries in which we operate and I am heartened to see Africa emerging as a viable and attractive investment destination. Foreign direct investment in the region in 2006 grew 20% to US\$36 billion (the UN's 2007 World Investment Report) and at the same time the International Monetary Fund ("IMF") has forecast that the relative out-performance of Africa's economies will continue with growth 20% higher than global trends through to 2012. In short, Africa's time is now.

We are proud that the diamond industry continues to be an important driver of the economic renaissance of Africa. As a natural resource, rough diamonds represent one of the main sources of revenue for many African diamond-producing countries and





sustain livelihoods for millions of people. The revenues generated not only increase the overall standard of living, but also fund essential government services such as health, education and development programmes.

The majority of the world's diamonds, approximately 65% by value, are sourced from Africa, equating to around US\$8.4 billion. In the past, the vast majority of these rough goods were exported directly to the traditional cutting centres of Surat, Tel Aviv, Antwerp and New York, but we are now seeing the instigation of beneficiation industries in many African countries. By developing further downstream businesses, producer nations will for the first time be able to assume greater control over their diamond wealth. Petra is supportive of this move and believes that the establishment of beneficiation in Africa is an important step in terms of the sustainable development and diversification of these resource-reliant economies.



## **Koffiefontein**

Petra completed the acquisition of the world-class Koffiefontein mine in July 2007. This acquisition marked an important change in direction for the Company since Petra had historically only focused on production from fissure mines. However, over the last two years we have built up the management capability to successfully operate underground kimberlite pipe mines such as Koffiefontein – this competence was recognised by De Beers Consolidated Mines Limited (“De Beers”) and the South African Department of Minerals and Energy (“DME”) when we were selected as the successful bidder for the mine in a competitive tender process and the mining rights issued. Petra’s net interest in Koffiefontein is 70% with our black economic empowerment partner (“BEE partner”), Lexshell 699 Investments (Pty) Ltd, holding the remaining 30%.

Following completion of the transaction, we were able to immediately commence sales of diamonds recovered during testing phases of the plant. We were delighted with the results of our first tender, where 16,698 carats sold for a total consideration of US\$6.85 million. This parcel included 35 stones larger than 10 carats each, as well as one exceptional stone of 60.25 carats. The average value achieved for all 16,698 carats (including the 60.25 carat stone) was US\$410 per carat and the 60.25 carat stone alone sold for US\$736,000.

We achieved similar success with our second tender where 11,548 carats were sold for a total consideration of US\$4.85 million, including an exceptional stone of 74.7 carats. The 74.7 carat stone alone sold for US\$1,012,636 (US\$13,556 per carat), being the first ever diamond produced by Petra that sold for more than US\$1 million. The average value achieved for the 11,548 carats (including the 74.7 carat stone) was US\$420 per carat. As the results achieved for the second tender were in line with those of the first, we have correspondingly increased our longer term expectations for the value of underground production from the Koffiefontein mine.

As at 8 October 2007, when the results to June 2007 were released, Petra had sold a total of 28,246 carats from both Koffiefontein tenders for US\$11.7 million, including the exceptional stones described above.

The mine is currently hoisting ore at a rate of 920,000 tonnes per annum. In view of the strong sales prices as mentioned above, we are considering the deepening of the Koffiefontein mine into new and higher grade material, which would give the potential to increase the amount of ore hoisted to approximately 1.5 million tonnes per annum.

The mine also has a resource of 68 million tonnes of previously unprocessed tailings dumps at Koffiefontein and we are currently commissioning the tailings test plant in order to commence the treatment of these dumps.

### Cullinan

In November 2007 Petra announced an agreement to acquire the Cullinan diamond mine from De Beers. Petra will, as a member of the Petra Diamonds Cullinan Consortium ("PDCC"), be the technical operator of the mine.

Cullinan comprises two parts, the first being the current operating mine and the second being the Centenary-Cut ("the C-Cut"), a world class, unexploited diamond resource.

The operating mine consists of an underground block caving operation, processing plant and related



# Chief Executive Officer's Review continued

infrastructure. Over the last ten year period (1997 to 2006), De Beers mined 14.5 million carats at an average recovered grade of 43.6 carats per hundred tonnes ("cph"). The operating mine has reserves to produce in excess of one million carats per annum at Petra's planned extraction rates. In addition the operating mine has additional mineral resources which are expected to add significantly to the life of mine (excluding the C-Cut). Production will be further enhanced by the processing of the mine's substantial tailing resources.

The C-Cut lies beneath the current mine and Petra's management remains confident that the C-Cut will be included in future mineral reserves and resources statements, and is looking forward to assessing the potential of this world-class resource.

## Kimberley Underground

In September 2007 we reached agreement to acquire the Kimberley Underground mines (the combination of the Wesselton, Du Toitspan and Bultfontein mines) from De Beers, again following a competitive bidding process. Petra's net interest in Kimberley Underground will be 74%, with our BEE partner, Sedibeng Mining (Pty) Ltd, holding the remaining 26%.

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 recommenced, giving gross annual revenues in excess of US\$16 million and a life of mine of at least 12 years. This should add approximately US\$12 million attributable (74% share) to the Petra Group revenues in the year to June 2009.

In contrast to the Koffiefontein mine where plant modifications were required, it is necessary to construct new plants at Kimberley. Plant design and construction will be carried out in-house, serving to significantly reduce costs and delivery time, thus further demonstrating the breadth of the skills set within the Petra Group.

## Helam

At the Helam mine, power outages and the temporary loss of labour in the early part of the year affected production adversely. However, we have continued to make great strides towards the semi-mechanisation of the mine, which will eventually lead to further cost reductions in the forthcoming years. An overview of the mechanisation progress is outlined below.

Foremost among these achievements is the deepening of John main shaft which had previously only gone as far as 14 level and forced us to rely on transport of ore from lower levels via two neighbouring sub-shafts. Extending the main shaft is a key priority and will serve to significantly enhance output and speed up our mining process. The deepening and equipping of John shaft to 23 level is nearing completion and we are now on track to further deepen the shaft to 25 level. This should be completed along with new stations and loading arrangements by the end of 2008 and will subsequently lead to the decommissioning of the two neighbouring sub-shafts which will become redundant.

At Edward shaft, the shaft station preparation on 25 level is complete and this level will be brought into production this year.

At Second Lease, the inclined shaft has been completed to 17 and 18 levels, with both levels now

in production, and the further sinking of the shaft is already 50% complete down to 19 level whereafter the pace of deepening will be slowed down. The commissioning of these levels is a key part of the production development at Helam.

Low key "brownfields" exploration is continuing at Helam, both on surface and underground, investigating the potential for extensions of existing fissures as well as parallel en-echelon fissures.

#### Star

At Star mine, the re-securing of the raisebore ventilation shafts from surface to 13 level is almost complete. This is a major achievement and indicative of Petra's in-house expertise and our ability to overcome the challenges of operating underground mines.

The main shaft sinking programme has been successfully completed to 14 level (previously to 10 level, then extended to 12 level) and the deepening to 15 level is well underway. When the main shaft reaches 15 level, the current sub-shaft system will be decommissioned. It is anticipated that the main shaft (with ore passes and loading arrangements) will have been deepened to 16 level by the end of 2008. This will be a major step forward toward the semi-mechanisation of Star mine and will lead to significant cost reductions.

The 14 level east drive to Wynandsfontein has been completed, hereby also assisting tremendously with ventilation of the mine. In addition, the high maintenance 10 level drive will now be decommissioned over time.

#### Sedibeng (Messina and Dancarl operations)

The mechanisation process at Sedibeng is the most advanced of all of Petra's fissure mining operations. In order to unlock the value of the Dancarl acquisition (acquired from De Beers in 2004), 20 level in the Messina section has been driven to beneath the Dancarl shaft (currently at 15 level). Raise boring is now being undertaken to deepen the Dancarl shaft to 20 level and beyond and this should be completed by the end of 2008. Once this has been achieved, a block of ground in excess of half a million tonnes will have been opened up for mining access. This is a considerable tonnage, given that approximately 120,000 tonnes is currently mined each year at Sedibeng.

Low key "brownfields" exploration by drilling is continuing when appropriate drilling positions are available. Here, extensions of known fissures as well as en-echelon fissures are looked for.

Petra's internal equipment manufacturing arm has completed the construction of a new 100 tonne per hour Dense Media Separation ("DMS") diamond recovery plant, which now caters for all production from the Sedibeng mining and tailings. It is anticipated that this new plant will result in a dramatic reduction in operating costs and a significant improvement in diamond recovery as it has been built to ensure the protection of large diamonds whilst also ensuring the recovery of the high quality fine diamonds at Sedibeng. This plant is now rapidly depleting the substantial ore stockpile that was built up during its commissioning stage.



Petra views Angola as one of the most prospective countries for diamonds globally. Rough diamond sales of 9.4 million carats generated US\$1.2 billion for the country in 2006 (source: IDEX). Mining regulations have recently been liberalised in Angola, and the government is running a campaign to attract foreign investment. As the industry continues to gather momentum, we believe Angola will one day be one of the world's leading diamond producers.



There remain challenges with regards to the operating environment, but each year we see improvements. Of major importance is the recent government approval for construction of a hydro-electric station in the Lunda Norte province which will service local diamond mining operations. This source of power could help to significantly cut our operating costs.

This year, we have strategically consolidated our position in Angola's north eastern diamond belt, with the entrance into the Luangue concession which lies contiguous to the Alto Cuilo project.

#### Alto Cuilo

Results from Alto Cuilo continue to excite as the scope and scale of the project expands. A total of 249 anomalies have been identified across the licence area using Midas gradient array low level helicopter aeromagnetic survey. Given the large number of targets to be investigated, a cut-off point of eight hectares has been applied, and therefore the exploration programme has been focused at this stage to only investigate the 134 anomalies which have a geophysical interpretation of eight hectares in size or larger.

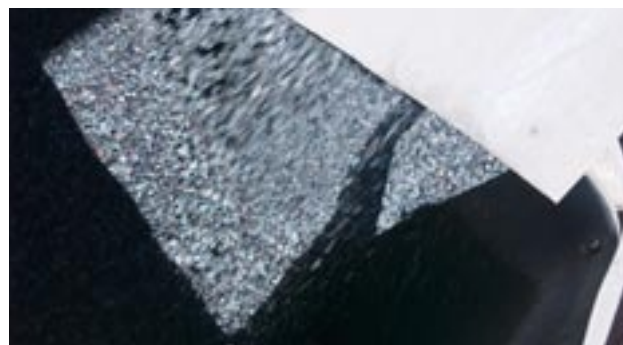
To date the drilling programme has tested 99 priority targets of which 77 were confirmed to be kimberlites, an unusually high success rate in terms of kimberlite exploration. The total surface area of kimberlites discovered at Alto Cuilo is estimated to be greater than 1,500 hectares. This is a vast size to explore and gives an indication of the potential of the Alto Cuilo concession.

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 ("MiDa") and mini-bulk sampling ("MBS") are then utilised to establish if there is the potential for those kimberlites prioritised by HMA sampling to host an economic concentration of diamonds. This is when the MBS programme that commenced this year is of major

importance in ascertaining whether Alto Cuilo will eventually host an economically viable mining operation.

There are a substantial number of kimberlites at Alto Cuilo that exhibit diamond indicator mineral chemistry, good mantle geotherm conditions and micro-diamond content conducive to the kimberlites hosting economic quantities of diamonds. The strategy is in the first instance to take heavy mineral analysis ("HMA") samples from all drilled kimberlites, followed by micro-diamond samples from the most prospective of these. Mini bulk samples are then taken from a range of selected kimberlites currently ranked as the most prospective (given the size of the Alto Cuilo project, it is possible this ranking will change based on further exploration work). Stage two of the sampling programme will involve taking larger, and as such more representative, samples from those kimberlites that return the most prospective mini bulk sample results.

Of the 77 kimberlites identified, we have so far subjected 55 to HMA, and based upon the HMA results, a further 15 were selected for micro-diamond



# Chief Executive Officer's Review continued

analysis. A solid 13 out of the 15 tested were proven to be diamondiferous, an excellent success rate which serves to validate our exploration model.

Drilling will continue to test further targets at Alto Cuilo before prioritisation for follow-up work, starting with HMA. We now have three Narrow Diameter Drill rigs working full time on site and as at the date of this review core drilling totalled over 50,000 metres. The acquisition of a second Large Diameter Drill ("LDD") rig will also serve to expedite the MBS programme.

In conjunction with the LDD and MBS programmes, we are also carrying out additional ground geophysics work in order to better understand the complex structure of the kimberlites at Alto Cuilo. It is characteristic for orebodies in this part of Angola to be minimally eroded in comparison with other kimberlites globally. This implies that the majority of the orebody is still intact; however it also means that the kimberlitic material at the top of the pipe is diluted with undesirable waste material, such as crater facies sediments and sand diluted resedimented volcanoclastic kimberlite, which are likely to be of low diamond-bearing potential. Therefore diamond distribution is likely to vary considerably in the upper regions and ground geophysics will help us to identify the optimal areas, being resedimented volcanoclastic kimberlite and tuffitic kimberlite.

A major milestone was reached this year as the first MBS results were recorded. The first kimberlite to be tested was AC63, which has an estimated surface area of 20.8 hectares. For the MBS programme, 13 large diameter holes were drilled, 11 of which were sunk in an area of 90 metres by 60 metres (less than one hectare), sampling less than 5% of the total surface area of the AC63 pipe. One hole, MB1, was drilled in the eastern area of AC63 and intersected a 90 metre section containing an average grade of 22.7 carats per hundred tonnes ("cpht"), having a peak of 35.5 cpht over a 30 metre zone. This intersection coincides with the previously reported encouraging HMA analysis results, lending confidence to the prioritisation and exploration model developed by

Petra and BHP Billiton to identify kimberlites with the best diamond potential in this part of the Lunda-Kasai Craton.

Two stones of 1.52 (irregular shape) and 1.05 carats (dodecahedron) were recovered. The sample also included three larger white stones of 0.83, 0.68, and 0.33 carats. A total of 222 diamonds weighing 18.49 carats were recovered, but this parcel size is not large enough to provide a representative estimate of average diamond values.

AC98 recorded similarly encouraging results. This target has an extremely large surface area, estimated by geophysical methods to be approximately 174.8 hectares. For the MBS programme, 11 large diameter holes were drilled in an area of 125 metres by 25 metres (less than 0.5 hectares), sampling less than 0.2% of the total surface area of the AC98 kimberlite. In certain sections high grade intersections were recorded of 33.13 cpht over 33 metres, 12.1 cpht over 137 metres and 10.8 cpht over 90 metres, and a total of 508 diamonds were recovered, yielding 22.9 carats from a cumulative sample weight of 562 tonnes of material.

However it is important to note that the cumulative samples taken from both AC63 and AC98 will have included crater facies sediments which will have significantly affected the overall average grade. Of utmost importance is that we have identified high grade intersections and these incidences, along with the encouraging diamond recoveries, support our view that Alto Cuilo could be a significant source of diamonds.

The ranking system indicates that a further nine kimberlites are provisionally in line for the MBS programme and we anticipate regular newsflow as the results are made available throughout 2008.

The potential for Alto Cuilo to host economic alluvial deposits continues to be explored. To date two alluvial blocks have been submitted for feasibility studies, containing 121,577 cubic metres of gravel at an average grade of 0.233 carats per cubic metres.

The pitting and trenching programme to delineate new blocks is ongoing, and is currently centred around the Mussunui river adjacent to some of the kimberlite occurrences of higher interest.

Alto Cuilo continues to reveal its hand and results to date validate our belief that the project has real potential to bring considerable upside to the Group. I would like to extend our thanks to our partners BHP Billiton, Endiama and Moyoweno for their invaluable support and dedication to the project.

### Luangue

Though it is at a much earlier stage of development than Alto Cuilo, we are similarly positive about the prospects for the Luangue project, a newly acquired diamond project that borders the northern boundary of Alto Cuilo in the diamond belt of north eastern Angola.

The Luangue project is subject to a separate joint venture agreement with BHP Billiton and exemplifies the relationship that we have with Endiama and Frannor, our Angolan partners at Luangue. The joint venture will provide increased investment and accelerated development towards proving a sustainable diamond resource at Luangue, achieving the goal that we share with BHP Billiton and our Angolan partners of developing world class exploration projects in Angola.

The joint venture agreement with BHP Billiton means that Petra does not commit further funds to the development of Project Luangue before the BHP Billiton "Earn-in Date" (when a significant milestone is achieved, being either the formation of a kimberlite mining company or the submission of a Technical and Economic Viability Study to the relevant authorities of Angola, provided in either case a BHP Billiton pre-feasibility study is completed beforehand).

Should a minimum expenditure commitment (defined as three times Petra's net investment cost of approximately US\$37 million) not have been reached

at the BHP Billiton "Earn-in Date", BHP Billiton will continue to sole fund until it is achieved. BHP Billiton will need to invest approximately US\$170 million (which includes its investment of US\$22.35 million for an initial 25% of Petra's interest in Luangue) to earn into both Alto Cuilo and Luangue. This is a substantial exploration spend, and signifies not only BHP Billiton's confidence in the continued strength of the diamond market, but also the importance it places on Angola.

Exploration work carried out to date at Project Luangue has thus far confirmed the presence of four kimberlites by diamond drilling which supports the concept of kimberlitic clusters in the area immediately north of the common boundary between the Alto Cuilo and Luangue project areas. At Luangue, over 70 prospective magnetic anomalies have been identified to date. As detailed information on diamond content emerges from the Alto Cuilo MBS programme, the selection and prioritisation of bulk sample targets at Project Luangue will be enhanced. This is expected to fast-track exploration developments at Project Luangue as well as reducing costs in many areas, thereby accelerating progress towards a pre-feasibility study.

The next step in the Luangue exploration programme is a "towed bird" helicopter borne, low level, gradient array aeromagnetic survey. This survey will cover the entire licence area, a total of 34,000 line kilometres, and should generate a substantial amount of new anomalies for analysis. Systematic HMA test work will then commence alongside our initial drilling campaign.

We are also investigating the alluvial potential of the Luangue project, which we believe to be greater than that at Alto Cuilo. Thus far reconnaissance trenching has delivered 2,004 carats from 9,650 cubic metres, delivering a global grade of 0.21 carats/cubic metres. The largest stone recovered was an 18.29 carat gem diamond of excellent quality.



Our exploration programme in Botswana is very important to the Group. Botswana is the world's largest producer of diamonds by value, and has the potential to host further, as yet undiscovered, major economic kimberlites. As our ambition is to become a world-class diamond company, it was crucial that we establish a strong position there.

Botswana has long been seen as one of the best countries for diamond exploration worldwide, where geological prospectivity is combined with a modern and highly developed mining, commercial and financial environment. It is already home to Jwaneng, the world's richest diamond mine. We believe the potential exists for further economic discoveries and certainly the size of the kimberlites we are investigating within our programme gives hope that there could be scope for viable operations with a long mining life.

Petra has established what is currently the largest exploration landholding in Botswana, with approximately 52,000 km<sup>2</sup> held through its wholly owned Botswana subsidiary, Sekaka Diamonds. A considerable proportion of our licence areas are covered by approximately 250,000 line kilometres of relatively high resolution airborne gravity and magnetic data, acquired by BHP Billiton's Falcon technology.

The re-processing and interpretation of this and other historical data has allowed the Petra exploration field effort to become highly focused within prospective areas, a crucial approach given the large area we have to explore.

#### Jwaneng

We were pleased to be granted prospecting licences in the vicinity of the Jwaneng diamond mine. These licence areas hold two previously identified kimberlites, DK4 and DK6, both of which are proven to be diamondiferous. This brings the total amount of known kimberlites held by Petra through our current ground holdings in Botswana to 30. The prospectivity of these kimberlites is in the process of being evaluated.

#### Gope

Exploration focus on our ground holdings covering the Gope kimberlite field and the subsequent commissioning of a 700 km<sup>2</sup> low level high resolution horizontal gradient magnetic (Xcalibur) survey in the area has led to the targeting and discovery of kimberlite X25. Whilst initial geophysical interpretation and mineral chemistry results suggests that X25 is relatively small and has low diamond bearing potential, it is the discovery itself which is particularly significant in that it proves the potential for new kimberlite discoveries in the area, despite the fact it has been thoroughly explored by other exploration 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



# Chief Executive Officer's Review continued

were selected for ground geophysical follow-up with a view to finally drilling the best targets during a drilling campaign planned for the end of the year.

The source of the historical kimberlitic indicator mineral ("KIM") anomaly in the area remains largely unexplained due to its significant spatial offset from the known Gope kimberlites. The potential for large 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.

A regional ground gravity survey revealed a 600 metre diameter gravity negative anomaly located over kimberlite 173S and we therefore commissioned drilling as follow-up work. Two strategically placed boreholes both intersected kimberlite beneath approximately 40 metres of Kalahari sand cover.

Geophysical modelling now suggests this body, previously described as inconclusive and small in terms of size, is likely to be "champagne glass" shaped, with an estimated surface area of approximately 25 hectares. Kimberlite 173S therefore has the potential to be a substantial deposit, although the grade over the majority of it is at this stage untested. However, it is encouraging to note that previous test work carried out on this kimberlite returned a grade of 9.6 cph from one drill hole.

The Kukama area, similarly to Gope, also 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, we believe the kimberlite source of this halo remains to be discovered.

The next step in our programme at Kukama is a large 52,000 line kilometre low level high resolution horizontal gradient magnetic (Xcalibur) survey. The ground geophysical survey covering the GO 173 kimberlite cluster, made up of four kimberlites including kimberlite 173S, is being extended to the south, west and north-west into a 50 km<sup>2</sup> regional survey. These data acquisition phases will be followed by a target generation exercise and a focused drilling programme.

## **Orapa North**

A 12,673 line kilometre high resolution magnetic gradiometer (Xcalibur) survey has been successfully completed over the Orapa North sections of Petra's licence areas. High quality data was collected at a flight height of 20 metres, which is optimal for detecting kimberlites with enough detail to allow for trenching and/or drilling without geophysical ground follow-up. Interpretation of the data received has resulted in the identification of a minimum of twenty high priority targets that require further investigation. With the Kalahari sand cover in this area being negligible and calcrete horizons seldom exceeding three metres in thickness, many of these anomalies will be investigated through trenching prior to the commencement of a drilling campaign.



### **Orapa South**

All re-processed Falcon gravity and magnetic data has been received and a second target generation exercise, focusing on the northern portion of these groundholdings, will commence shortly.

### **Mabutsane/Tshwaane**

Further geophysical modelling carried out on the large gravity and magnetic anomaly drilled last year in the Mabutsane/Tshwaane area identified a possible intrusive, pipe like model and a second drill hole was commissioned to test this further. The hole was drilled on the edge of the causative body where the modelled magnetic unit could be intersected closer to surface. Weathered mafic rock (dolerite) was intersected at a depth of 133 metres and the borehole was stopped in fresh dolerite at a depth of 198 metres. A decision to deepen the original hole drilled in the centre of the anomaly (this hole was stopped in Karoo sediments at a depth of 240 metres), or to terminate the investigation, will be taken shortly.

All re-processed Falcon gravity and magnetic data have been received and several high priority targets have been identified for ground follow-up and possible drilling during this year's campaign. Many of the anomalies are located on licence holdings directly to the east of the well known Kukong diamond field (and thus more on-craton).



Petra was encouraged to see the tremendous efforts made by Sierra Leone over the past year in consolidating stability. We perceive the recently held presidential and parliamentary elections as evidence of the country's successful return to democracy since the end of its internal strife. Whilst there are logistical and infrastructural challenges to contend with, our experience of operating in Sierra Leone is most certainly a pleasant one and we find the government and people to be most welcome of foreign investment.

Petra holds a 51% interest in the Kono project in Sierra Leone, with our joint venture partner Stellar Diamonds Limited, a 68.5% owned subsidiary of Mano River Resources Inc (AIM: MANA, TSX-V: MNO), holding the remaining 49%. Stellar Diamonds have consistently shown themselves to be sound and reliable partners, and I thank them for their input and support at the Kono Project.

### Kono Project

The development programme at Kono has achieved some highly encouraging results in recent months with potentially economically viable kimberlite fissures having been opened. Diamond yields, fissure widths and the underground mining and geological conditions have enabled Petra to concentrate test shaft efforts on three very promising diamondiferous kimberlite fissure targets.

To date over 650 cubic metres of hard rock excavation has been carried out via the sinking of five shafts, each to a depth of over 30 metres. Three of these shafts are now at the trial mining stage and have been returning satisfactory in-situ kimberlite grades of between 50 and 80 cph. These shafts display a consistent, near-vertical dipping fissure line with very encouraging in-situ shaft sinking grades; fissure widths vary between 40 centimetres and 200 centimetres, with satisfactory mining conditions experienced to date. Two shafts were discontinued because diamond recoveries during the shaft sinking and trial mining phases did not match the potential of the other three shafts.

The test shafts are at advanced levels of development and as at September 2007 the processing of the limited amount of weathered, diluted and mixed diamondiferous kimberlitic material extracted during shaft sinking had yielded 2,809 diamonds totalling 241.7 carats. The 10 largest diamonds ranged in size from 0.65 carats to 7.2 carats. Although the diamond yields are highly encouraging from the small amount of material processed, Petra is of the opinion that the scale of the test work conducted is presently too limited to arrive at any representative grade or value and accordingly will report on further findings when available.

The next step in our programme will be to deepen selected shafts to a depth of 60 metres, from the present 30 metres where we are conducting trial mining. The trial mining at the 30 metres level will continue where positive results are obtained, or conversely if disappointing results are obtained that shaft will be stopped. Furthermore, additional surface entry points will be prepared for those shafts with promising results. This will enable us to excavate approximately 100 metres of kimberlite along strike of ore body at each shaft, so as to process approximately 1,000 tonnes of clean kimberlite and obtain acceptable run of mine grades and diamond values to be used in proposed business plans. It is anticipated that this next phase programme will be completed by March 2008 following which we will be in a position to make a development decision.

### Exploration potential

We believe there is good potential for additional discoveries in the area and a drainage sampling programme has been initiated in the Nimini hills licence area to the west of our current operations where no systematic prospecting is known to have



# Chief Executive Officer's Review continued

been done. We are also considering a low level helicopter borne electromagnetic survey in the dry season (November to May) in order to explore for possible pipes or blows that may have been overlooked by previous exploration and mining activities.

## RESOURCE ESTIMATES

In October 2007, Petra announced a substantial increase in Group reserves and resources. Our JORC compliant attributable resources increased by 123% to 6.38 million carats (May 2005: 2.86 million carats) further to the acquisition of Koffiefontein and the inclusion of additional kimberlite fissure units at our fissure mines, Star, Helam and Sedibeng.

This resulted in an updated Group carat base of 9.33 million carats attributable (11.38 million carats gross), an increase of 101% on previous statement (May 2005: 4.64 million carats attributable), giving an in-situ value of US\$1.5 billion attributable (US\$1.9 billion gross).

## BENEFICIATION – CALIBRATED DIAMONDS

The acquisition of Calibrated Diamonds in November 2006 gave us the ability to cut and polish our own rough diamond production. The deal was significant as the possibility exists to significantly increase revenues, as by worldwide standards around 50% gross value uplift can be achieved by cutting and polishing a stone.

The move is important as it is consistent with our absolute commitment to operating ethically in Africa. We believe that there will be a growing call amongst consumers for the assurance of "conflict free" and "fair trade" diamonds. By cutting and polishing our own production, we thereby gain the ability to trace our diamonds from "mine to finger" and can guarantee the end user a product that has been ethically mined, processed and beneficiated. We are also investigating the opportunity to source diamonds from elsewhere, with regards to those categories of rough which prove to be most profitable.

Beneficiation in-country will also bring further employment opportunities, revenues and taxes directly to African producer nations, as well as helping to develop an internal skills base as part of a more sustainable economy, and the acquisition of Calibrated Diamonds signals our support for broadening Africa's involvement in the diamond value chain.

The proprietary laser technology used by Calibrated Diamonds is amongst the most advanced diamond processing methods in the world. It is a unique process and produces polished diamonds of all sizes to a very high and consistent standard, even very small stones which are most at risk in the cutting process.

Calibrated Diamonds is currently ramping up production to a stated target of 2,500 carats of rough production by mid-2008.

## BLACK ECONOMIC EMPOWERMENT

Petra Diamonds continues to make good progress towards complying fully with BEE legislation in South Africa, which requires 15% BEE ownership of Petra's South Africa operations by 2009 and 26% ownership by 2014. Petra is supportive of this legislation and we value the input of our BEE partners. BEE legislation has been integral in the creation of today's vibrant and equitable mining industry in South Africa, where there exist many exciting opportunities.

Finally I would like to extend my thanks to our staff and all those who have helped to make 2007 such a successful year for the Group. 2008 should similarly prove a breakthrough year for Petra, as we expect to record a significant uplift in production and further realise our ambition to be one of the world's major diamond groups.

*Johan Dippenaar*

*Chief Executive Officer*

18 December 2007

The updated resource tables announced on 8 October 2007 feature below:

**Summary of reserves and resources by status – Koffiefontein**

Category	Gross			Net attributable			Operator
	Tonnes (millions)	Grade (cpht)	Contained diamonds (millions)	Tonnes (millions)	Grade (cpht)	Contained diamonds (millions)	
<b>Ore/Diamond reserves per asset</b>							
Proven	24.436	4.4	1.080	17.105	4.4	0.756	Koffiefontein JV
Probable	—	—	—	—	—	—	
<b>Sub-total</b>	24.436	4.4	1.080	17.105	4.4	0.756	
<b>Diamond resources per asset</b>							
Measured	58.105	2.9	1.670	40.674	2.9	1.169	Koffiefontein JV
Indicated	18.248	9.5	1.740	12.774	9.5	1.218	Koffiefontein JV
Inferred	42.263	4.6	1.960	29.583	4.6	1.372	Koffiefontein JV
<b>Sub-total</b>	118.616	4.5	5.370	83.031	4.5	3.759	
<b>Total</b>	143.052	4.5	6.450	100.136	4.5	4.515	

*Koffiefontein; reserves and resources have been taken from De Beers June 2005 internal scorecard classification (considered to be a conservative classification) and depleted by mining conducted by De Beers from July 2005 to March 2006 and by Petra to September 2007. Reserves and resources have been re-classified in compliance with JORC 2004.*

**Summary of reserves and resources by status – fissure mines combined (Helam, Sedibeng, Star)**

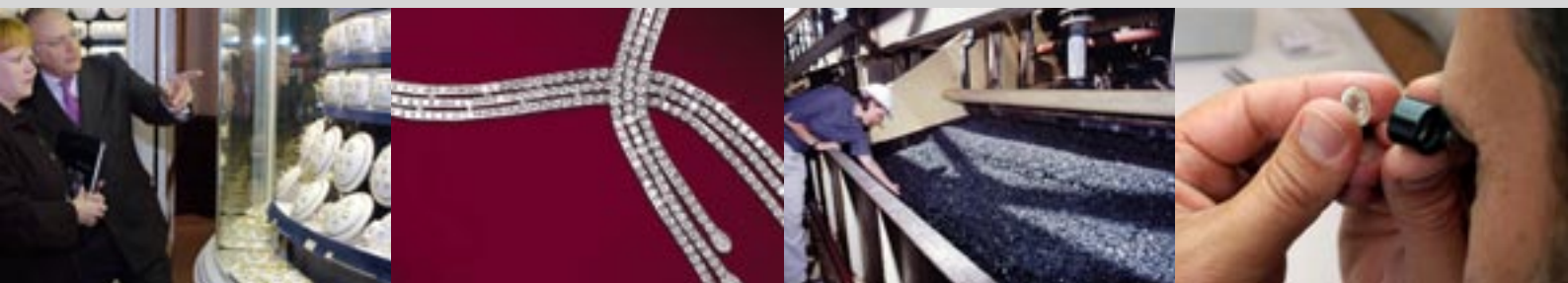
Category	Gross			Net attributable			Operator
	Tonnes (millions)	Grade (cpht)	Contained diamonds (millions)	Tonnes (millions)	Grade (cpht)	Contained diamonds (millions)	
<b>Ore/Diamond reserves per asset</b>							
Proven	1.424	56.6	0.806	1.292	59.5	0.768	Petra/Sedibeng Mine JV
Probable	2.105	69.0	1.453	1.993	71.3	1.422	Petra/Sedibeng Mine JV
<b>Sub-total</b>	3.529	64.0	2.259	3.285	66.7	2.190	
<b>Diamond resources per asset</b>							
Measured	—	—	—	—	—	—	
Indicated	—	—	—	—	—	—	
Inferred	1.524	175.3	2.672	1.452	180.6	2.622	Petra/Sedibeng Mine JV
<b>Sub-total</b>	1.524	175.3	2.672	1.452	180.6	2.622	
<b>Total</b>	5.053	97.6	4.931	4,737	101.6	4.812	

*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.*

# The International Diamond Market

## Overview

As our Chairman stated earlier in this review, the compelling investment case for diamonds continues. 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.



At the same time, there is a widely held view that the healthy annual growth in the demand for diamonds of 4 to 5 percent in the past five years will be maintained. Whilst diamond supply has been just about breaking even with demand for the last few years, a dramatic shortfall is looming and is predicted to be worth at least \$3 billion by 2010 as diamond production from existing mines in South Africa, Australia and Canada falls whilst new projects take up to 10 years to bring into production. Analysts unanimously agree that rough diamond prices are set to rise as the shortfall takes hold.

### Demand drivers

Much of the growing demand for diamonds is driven by the emerging economies of India and China (which together represent about 40% of the world's population) where increased prosperity is creating new markets for luxury goods, as well as more mature markets such as

Russia and the Middle East. This growth would cushion the effect of any downturn in the US market, where only 5% of the world's people currently absorb 43% of its gemstones. Demand has risen so quickly from a standing start in China that now 40% of women get married with diamond wedding rings and this trend is set to continue. However, demand also continues to rise in the more mature markets, and sales of diamond jewellery worldwide grew in excess of 5% in 2006.

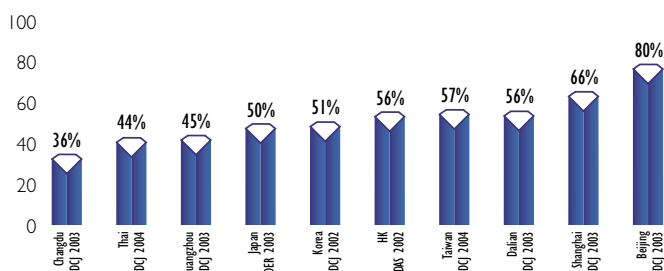
### Diamond wedding ring acquisition in China now exceeds that of more mature markets

Demand at the higher end is partly being fuelled by the creation of new wealth in emerging economies, as well as by the petrodollar, which has created a super-rich elite eager to spend on luxury goods. Preference at the higher end is given to those diamonds which are as rare and exclusive as possible



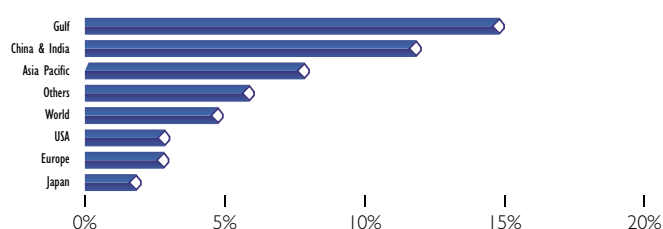


Acquisition of DCJ amongst recently married women



Source: DAS/DCJ: James Allan, World Diamond Conference 2007

Global jewellery sales growth – 2006

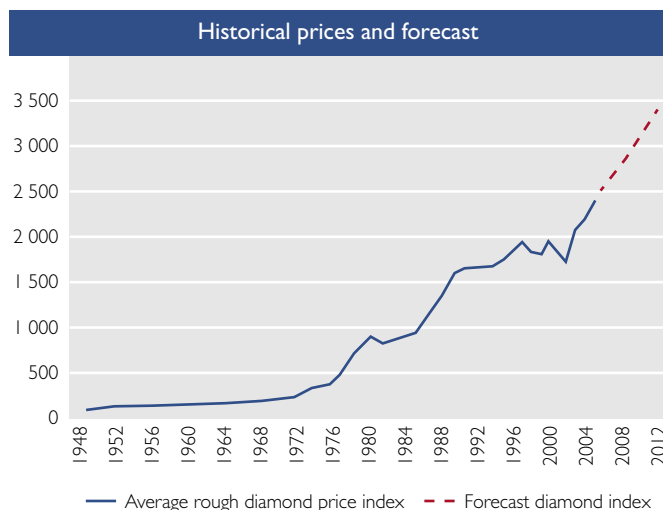


Source: Rapaport

and this has served to drive phenomenal price rises for higher quality goods. However, at the same time we have recently seen appreciation in the price of small diamonds typically referred to as "Indian goods", reflecting an overall growing shortage in quality gem diamonds due to declining world production.

Despite the strong fundamentals supporting the diamond market, prices for rough diamonds have not tracked the rapid rise we have seen in other commodities. This is due to the fact that diamonds are a discretionary commodity, a luxury spend, and demand is therefore not driven by the primary industrialisation in the BRICs (Brazil, Russia, India and China). However, this lack of volatility is an advantage as well as a disadvantage, as it ensures that though diamonds do not share the dramatic rises on the upside, they also do not share the volatility on the downside.

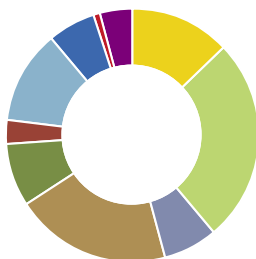
# The International Diamond Market continued



Source: WWW International Diamond Consultants Limited

## Diamond production

2006 (\$12.8 billion)



■ South Africa 
 ■ Botswana 
 ■ Namibia 
 ■ Russia 
 ■ Angola 
 ■ Australia 
 ■ Canada 
 ■ DRC 
 ■ Tanzania 
 ■ Sierra Leone 
 ■ Zimbabwe 
 ■ Other

Source: James Allan, World Diamond Conference 2007

## Future supply – Africa to shine through

It is widely anticipated that future diamond supply is dependent upon sub-Saharan Africa, a region which currently produces over 65 percent of the world's diamonds, though it is actually home to a higher proportion of the world's diamond resources.

The most exciting areas for exploration in Africa are perceived to be the relatively uncharted territory of Angola and the Democratic Republic of Congo, as evidenced by where De Beers, BHP Billiton and Alrosa are focusing their exploration programmes. Angola in particular is predicted to significantly increase its share of world diamond production over the next few years.

## The changing diamond pipeline

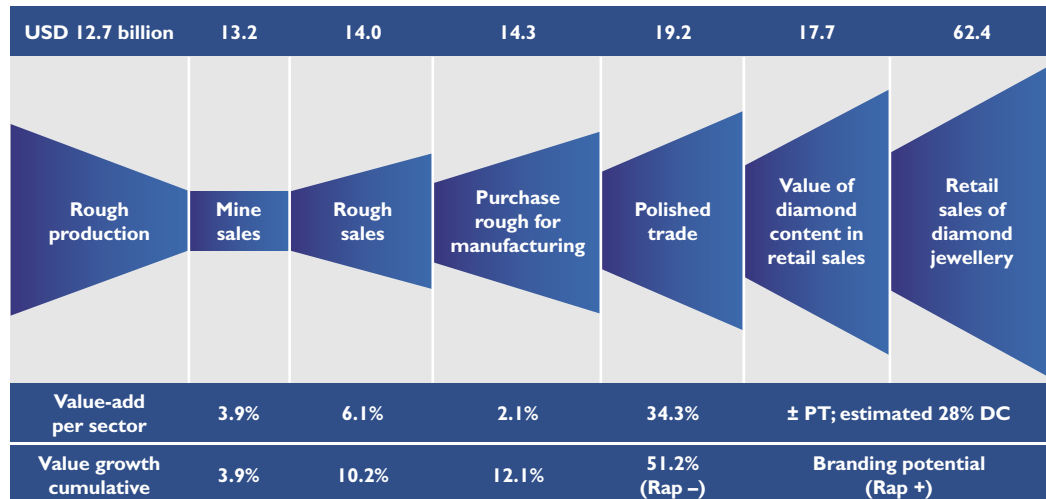
The traditional diamond pipeline is currently shifting as African producer nations seek to participate in a greater part of the diamond value chain by developing local beneficiation industries. Beneficiation refers to cutting and polishing diamonds in the country of their origin. In a wider sense, it involves the development of trading and marketing infrastructure, support services, financing institutions, downstream jewellery manufacturing and retailing. Distribution and sorting centres have also been set up by a number of different state organisations in African producer nations, bringing an end to a function that was traditionally assumed by De Beers in London.

For beneficiation to be successful, factories in Africa will need to first and foremost develop cost-efficient cutting and polishing facilities and it will take time and capital for efficient marketing structures to be developed. African nations have opened consultation processes with industry to examine these and other related issues. Whilst there will no doubt be challenges to overcome, it is right that African countries should share more in the value of their national resources.

## The fair trade initiative

In line with a growing trend worldwide for ethical consumerism, we foresee that there will be increasing focus on "fair trade" products whose origins can be

The diamond value pipeline



Source: De Beers

traced from “mine to finger”. This is an issue which affects not just diamonds, but the entire gemstone market. This trend is set to continue with retailers coming under pressure to prove that they only use gems from ethical sources.

#### The arrival of synthetics

There have always been alternative and cheaper imitations of diamonds available to consumers, such as cubic zirconia or Swarovski crystals, but it is now possible to grow synthetic diamonds under laboratory conditions. These diamonds can be distinguished by spectroscopy and it is a legal requirement that all synthetic diamonds are disclosed and marketed as such.

A market for synthetic gem diamonds is undoubtedly developing, but we see this market running in parallel to that of real diamonds. Demand remains unabated for all luxury goods, from designer handbags to watches, despite the ready availability of cheap imitations. In the case of diamonds, a gift such as an engagement

ring is often bought as an ultimate expression of love and commitment and therefore it is even more likely that a consumer will opt for the real article.

#### The future

As luxury goods, diamonds are to some extent hostage to the health of the world economy and still in a large measure to that of the USA. But the arrival of India and China as consumers, combined with the rising demand from countries such as Russia and the Middle East, underpins a solid growth forecast.

A lack of major new mine discoveries, together with the long lead time for new project development and the steady depletion of existing mine reserves, all point to a robust market for diamonds in the foreseeable future.

*Information used in the compilation of this review was sourced from the following:  
Natixis Bleichroder Research Note 13.08.07, James Allan Presentation at World Diamond Conference 2007, De Beers, David Hargreaves*

# Mining, Processing, Distribution and Marketing

**Regarded for their exquisite beauty** and the timeless qualities of love and devotion that they represent, diamonds have fascinated mankind throughout the centuries.



## **What is a diamond?**

A diamond is carbon in its most concentrated form. Except for trace impurities like boron and nitrogen, a diamond is composed solely of carbon, the chemical element that is fundamental to all life. Due to the tight lattice structure of its carbon atoms, a diamond is the hardest structure known to man and can only be scratched by another diamond.

## **Formation**

The most precious and enduring of all gemstones, diamonds were formed billions of years ago, deep within the earth. The formation of natural diamonds requires very specific conditions, involving the exposure of carbon-bearing materials to a large amount of heat and gravity induced pressure. This can only be induced deep within the earth's crust,

in the layer known as the mantle (approximately 150 – 200 kilometres from the earth's surface).

## **Ascent to surface – kimberlites**

Diamonds ascend to the earth's surface in rare eruptions of molten rock, or magma, that originate at great depths. This magma emanates from deep cracks and fissures and erupts in small but violent volcanoes. It rises to the surface and creates a carrot-shaped "pipe" filled with volcanic rock, mantle fragments and some embedded diamonds. These pipe formations are called kimberlites after the city of Kimberley, South Africa, where the pipes were first discovered in the 1870s.

Only a small number of diamonds survive the journey to the earth's surface; fewer still are of a quality that can be made into a precious piece



of jewellery. What's more, despite the fact that over 12,000 kimberlite deposits have been found worldwide in the last 25 years, fewer than 1% have contained enough diamonds to be economically viable. Geologists utilise 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.

Within kimberlite pipes the deeper, less weathered material is colloquially known as "blue ground", while the near surface, smectite and carbonate rich, oxidised material is known as "yellow ground".

#### Alluvials

Alluvial diamond deposits are produced by the erosion of diamond bearing kimberlites, freeing the

diamonds along with other "indicator" minerals which are then dispersed into rivers and/or the sea.

#### Hard rock mining

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

In bedrock adjacent to the pipe, shafts are sunk and drifts are tunnelled into the pipe. This is known as block caving. Concrete-lined tunnels are excavated



under a large vertical section, perhaps 140 to 180 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.

## 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 Dense Media Separator (DMS) to remove lighter material and create a concentrate of heavy material. Diamonds are then extracted by x-ray machine or grease table and checked by hand sorting.

Waste material is piled into tailings dumps. Some tailings dumps may contain economic diamonds 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 not two diamonds are the same. Diamonds are sorted 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 industrial quality diamonds – which are small, lower quality stones – are identified. These industrial diamonds are then used in equipment such as drill bits and lathes.

## 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 most popular cut is the 57 facet round brilliant.

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”. They are 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 important moments in people's lives, such as engagements, weddings, anniversaries and the birth of a child. Today, more and more diamonds are being bought as symbols of independence and success. Whatever the occasion, there are thousands of jewellery retailers around the world providing many styles from which customers can choose the perfect diamond design.

Whilst previously diamonds were considered the domain of the rich and wealthy, this is no longer the case and a mass market has developed. There is now a diamond ring to suit all budgets, from \$50 to over \$500,000.

The exclusive, "super-rich" of today seek out ever rarer and fancier stones, the prices of which have recently risen substantially. "The new buyers – rich Americans, Russians, Indians – are knowledgeable and price is no object ... rarity is the most desirable commodity." (FT Magazine – 27/28 October 2007).

# Social and Environmental Responsibility

We believe that the private sector has a very important role to play in the social and economic upliftment of Africa and this is particularly true for the resources sector. Mining projects are frequently based in remote locations, where they might be the primary economic contributor to the local economy. This is certainly the case with our projects which are located in areas with little other opportunities for employment.



We are proud to provide direct employment for around 3,000 people across our countries of operation, including South Africa where we are the second largest employer in the diamond industry after De Beers. However, when you consider the multiplier effect of mining, we are in fact contributing to a much wider network of people.

Our approach is that it is vital to invest not only in our projects, but also in our people. This is the right decision morally but it is also the right decision from a business perspective, as it is the local people who will be our workforce for many years to come. Over the last 10 years, Petra has developed a range of social initiatives which continue to make a meaningful impact upon the lives of our employees and surrounding communities. What is more, our

focus remains upon sustainable development, via educational programmes and skills transfer, to ensure a broad-based approach with a lasting legacy.

Petra's operations are carried out with the highest regard for the environment, according to best practice guidelines, and we work closely with the relevant governing authorities to ensure that we strictly adhere to the terms of our exploration and mining licences. Detailed studies to assess possible environmental impact are carried out for all operations, including plans for impact mitigation and land rehabilitation.

Below are some examples of the social programmes in place across our areas of operation.



### Angola

At Alto Cuilo, together with our partner BHP Billiton, we have the opportunity to make a real difference to the lives of the local communities, who are often deprived of the most basic of human necessities. For example, we are responsible for the first provision of fresh drinking water to surrounding villages and have embarked on extensive education campaigns to curb the spread and occurrence of water borne disease such as cholera.

We also run a clinic giving primary healthcare to the communities and treating about 400 local people per month. Here we run a polio vaccination programme, as well as programmes to educate the community on hygiene and on the treatment and eradication of malaria. We are very proud to have made a large, positive impact, especially on infant mortality, over the past two years.

At the same time, we continue to build schools in the surrounding areas of Alto Cuilo and will be rolling out our educational programmes to the Luangue communities this year. With regards to job creation, we give preference to local people and have an ongoing programme to train operators of earth moving equipment, drill operators and auxiliary staff.

In Angola, again in conjunction with BHP Billiton, we believe we are leading the way with regards to our programme of environmental protection and rehabilitation. This year we completed a comprehensive environmental impact study for Alto Cuilo and we closely adhere to a policy of minimum damage to the environment and rehabilitation of affected areas. This covers matters as diverse as destruction of plants and rehabilitation of natural habitat, contamination of river systems, chemicals, fuel and oil handling and storage, as well as waste disposal.

# Social and Environmental Responsibility continued

## Sierra Leone

In Sierra Leone, a country which like Angola is emerging from the debilitating effects of civil war; the real difference Petra Diamonds can make is to offer a stable and structured work environment where remuneration benefits are delivered consistently. Our responsibility programmes here focus on social and economic inclusion of a wider spectrum in the community, rather than being selective, and in a relatively small period of time we have made a positive impact within a socially and economically deprived community.

One of our core objectives in Sierra Leone is skills development and we manage a wide range of programmes, incorporating underground mining, engineering and other related vocational training. We also want to assist with broader education for the whole community and have built four schools in the local area to date. Our approach is all inclusive and we provide assistance to ensure that a number of physically challenged members in the local community are able to attend school.

We actively encourage the development of small to medium businesses through a support programme which outsources certain non-core services to the local business community, ranging from tyre repair to the rewinding of electrical motors. Petra is further involved in a timber programme through an agreement with the local community for the supply of mine related timber; and all our fresh produce is sourced from the communities at Kono.

We have a number of other initiatives in place designed to bring the community together; including the upgrading of three community soccer fields and the introduction of an internal soccer league.

## South Africa

In South Africa, Petra's producing mining operations are based in a number of small towns where the mine is the dominant employer; and we have a wide range of social responsibility programmes in place to make a positive and lasting impact on surrounding communities.

Education is of the utmost importance and we aim to assist in the provision of quality local education services and a secure schooling environment. We do this by providing support to improve the school infrastructure as well as by sponsoring a number of fund raising drives, thus providing local schools with much sought after capital for development. Given the high illiteracy rate in South Africa, we have also embarked on a major drive to improve the literacy levels of our employees and the local community.

In collaboration with the Department of Health of South Africa, we are involved in providing our employees with education and awareness on HIV/AIDS and tuberculosis. Through awareness discussions and pamphlet distribution, our aim is to inform our employees on how to best protect themselves and their families.

Petra's utmost concern is for the safety of all employees. Petra's careful provision of a safe working environment has caused the company to win a trophy for the DME's "Fatality Free Production Shifts Competition" for the fifth year running at the Sedibeng mine, where 5,000 fatality free production shifts have now been achieved. Likewise, we maintain excellent health and safety records across our other mines. Helam Mining has recently achieved 2,889 fatality free shifts and Star Diamonds has, to date, achieved a similarly impressive total of 2,877 fatality

free shifts. Also, notwithstanding Koffiefontein mine only being operational under the Petra Group for less than a year, an almost zero lost time injuries record is being maintained.

### Botswana

In Botswana, our exploration work on all concessions is at an early stage, mainly consisting of geophysical airborne surveying, ground follow-up programmes and limited drilling. In 2007, we completed our first round of initial drilling, which consisted of 24 drill holes. Each drill hole has a small footprint of less than an acre (around 0.4 square kilometres) and therefore has a very limited impact on the local environment.

As part of this initial drilling programme, we completed 17 holes in the Gope region of the Central Kalahari Game Reserve ("CKGR"). All movement in the CKGR is governed by a Botswana permit system and Petra is a holder of such permits, complying as we do with Botswana law and all regulations as prescribed by the government. In addition, Petra strictly adheres to the guidelines for prospecting within the CKGR/ Khutse Game Reserve, as laid out by the Botswana Department of Wildlife and Tourism.

We are dedicated as always to pro-active communication and consultation with all project stakeholders, including local communities, in order to help allay any undue, though valid, concerns and to keep them informed of our activities. We will continue this programme of community awareness as we progress the exploration of our tenements in Botswana.

### The Kimberley Process

The Kimberley Process is an initiative to stem the flow of conflict diamonds (rough diamonds that are used by rebel movements to finance wars against legitimate governments). The Kimberley Process Certification Scheme ("KPCS") was put in place in November 2002, following a two-year consultation process, and marks an unprecedented collaboration between governments, the international diamond industry and NGOs. The KPCS imposes stringent requirements on all participants to guard against conflict diamonds entering the legitimate trade. Participants are required to implement internal controls, as outlined in the KPCS document, and all shipments of rough diamonds must be accompanied by a Kimberley Process certificate.

Petra adheres to the tenets of the Kimberly Process and will only commit to working in member countries; shareholders can remain assured that Petra's diamonds will only ever be 100% conflict free.

# Directors' Report

The Directors present their Report together with the audited financial statements of the Group for the year ended 30 June 2007.

## Principal activities

Petra is focused on the mining and exploration of diamonds in Africa. Petra's strategy is to build a portfolio of revenue producing and exploration assets, achieving the objective of becoming a successful mid-tier diamond producer and explorer.

## Business review

A detailed review of the Group's operations and finances for the year and events subsequent to the year end are set out in the Chairman's Statement on pages 4 to 11 and in Note 29 to the financial statements.

## Results and dividends

The Group's loss for the year amounted to US\$20,948,926 (2006: loss US\$18,864,456). The Directors do not recommend the payment of a dividend for the year (2006: US\$ nil).

## Board of Directors and their interests

The interests of the Directors and their families in the issued share capital of the Company (other than in respect of options to acquire ordinary shares which are detailed in the Remuneration Report on pages 44 and 45 and Note 18 to the financial statements) were as follows:

	Number of shares at 30 June 2007	Number of shares at 30 June 2006
A Pouroulis	7,535,000	7,535,000
V Ruffer	2,407,122	2,407,122
J Dippenaar	640,000	640,000
J Davidson	640,000	640,000
D Abery	50,000	50,000
C Segall	2,000	2,000

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

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

An option was granted on 25 June 2004 to J Dippenaar and J Davidson to acquire the game farm situated on and around the Helam Diamond Mine for R2,500,000 (US\$353,307). 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 2007 the following interests in the ordinary shares of the Company represented more than 3% of the issued share capital (other than interests set out above in the Board of Directors Interests).

	Number of ordinary shares	Percentage of issued capital
Saad Investments Company Limited	52,790,390	29.09%
Chase Nominees Limited	17,692,571	9.75%
Al Rajhi Holdings W.L.L	14,100,000	7.77%
HSBC Global Custody Nominees Limited	8,333,472	4.59%
Credit Suisse Client Nominees Limited	6,872,744	3.79%
Dresdner Bank AG London	5,672,802	3.13%

## Employees

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



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

#### **Creditors payment policy**

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

#### **Going concern**

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

#### **Directors' responsibilities**

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

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

#### **Auditors**

In accordance with section 89 of the Bermuda Companies Act, a resolution 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 24 January 2008.

By order of the Board



**David Abery**

Director

18 December 2007

# Directors' Remuneration Report

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 2007 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 2007	At 30 June 2006
Adonis Pouroulis	30.0p	22 April 1997	11 April 2007	—	100,000
	35.0p	22 April 1997	11 April 2007	—	100,000
	40.0p	22 April 1997	11 April 2007	—	100,000
	45.0p	22 April 1997	11 April 2007	—	100,000
	44.0p	5 September 2003	5 September 2013	500,000	750,000
	85.0p	16 June 2005	16 June 2015	250,000	250,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	—
David Abery	44.0p	5 September 2003	5 September 2013	500,000	750,000
	85.0p	16 June 2005	16 June 2015	250,000	250,000
	79.5p	31 May 2006	31 May 2016	250,000	250,000
	156.0p	2 March 2007	2 March 2017	300,000	—

	Exercise price	Date of grant	Expiry date	At 30 June 2007	At 30 June 2006
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	—
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	—
Senior management	44.0p	5 September 2003	5 September 2013	206,000	385,000
	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	490,000	500,000
	79.5p	31 May 2006	31 May 2016	480,000	500,000
	96.0p	31 July 2006	31 July 2016	563,625	—
	122.5p	31 October 2006	31 October 2016	200,000	—
	134.5p	24 November 2006	24 November 2016	1,000,000	—
	156.0p	2 March 2007	2 March 2017	1,230,000	—

The following share options were exercised and or lapsed during the year:

	Exercise price	Date of grant	Date of exercise	Number of options exercised/lapsed
Adonis Pouroulis	30.0p	22 April 1997	2 March 2007	100,000
	35.0p	22 April 1997	2 March 2007	100,000
	40.0p	22 April 1997	2 March 2007	100,000
	45.0p	22 April 1997	2 March 2007	100,000
	44.0p	5 September 2003	30 May 2007	250,000
David Abery	44.0p	5 September 2003	5 March 2007	250,000
Senior management	44.0p	5 September 2003	5 March 2007	164,000
	65.75p	27 November 2005	30 May 2007	10,000
	44.0p	5 September 2003	4 June 2007	15,000
	79.5p	31 May 2006	Lapsed*	20,000
	96.0p	31 July 2006	Lapsed*	10,000

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

# Directors' Remuneration Report continued

The following table gives a breakdown of the remuneration of the individual Directors who held office during the year ended 30 June 2007.

	Base remuneration US\$	Performance-related bonus US\$	Share-based allocations US\$	2007 Total US\$	2006 Total US\$
<b>Executive Directors</b>					
A Pouroulis	275,353	137,676	63,414	476,443	318,154
D Abery	275,353	137,676	63,414	476,443	318,154
J Dippenaar	275,353	137,676	63,414	476,443	318,154
J Davidson	275,353	137,676	63,414	476,443	318,154
K Dabinett*	—	—	—	—	423,568
	1,101,412	550,704	253,656	1,905,772	1,696,184
	Fees US\$	Performance-related bonus US\$	Other US\$	2007 Total US\$	2006 Total US\$
<b>Non-executive Directors†</b>					
C Segall#•	43,477	—	—	43,477	26,679
C Finkelstein‡	—	—	—	—	7,410
V Ruffer#	9,662	—	—	9,662	8,893
	53,139	—	—	53,139	42,982

\* K Dabinett left the Company effective 31 May 2006.

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

‡ C Finkelstein resigned as a non-executive director effective 30 April 2006.

• Effective 1 October 2006 non-executive fees paid to C Segall increased to US\$50,000 p.a.

# 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 2008 will be US\$1,216,000.

By order of the Board



**David Abery**

Director

18 December 2007

# Corporate Governance Statement

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles of corporate governance as set out in the Combined Code ("the Code"). Under the rules of the Alternative Investment Market ("AIM") the Company is not required to comply with the Code and the Board considers that the size of the Group does not warrant compliance with all of the Code's requirements. The Board fully supports the principles on which the Combined Code is based and considers that the Company has complied with a number of key requirements.

## Board of Directors

### Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior management, establishing goals for management and monitoring the achievement of these goals, and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

### Board process

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

at such other times as may be necessary to address any significant matters that may arise. In between meetings, decisions are adopted by way of written resolutions. The agenda for scheduled meetings is prepared in conjunction with the Chairman, Chief Executive Officer and Finance Director. Standing items include the Chief Executive Officer's report, Finance Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees. Details of the Board's procedures in respect to each of these areas are further outlined below.

### Director education

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

### Composition of the Board

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

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

# Corporate Governance Statement continued

The Board has accepted the following definition of an independent Director: "An independent Director is a director who is not a member of management (a non-executive director) and who:

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

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

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

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

## **Nomination Committee**

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



of its development, and one will be established if and when considered appropriate by the Board.

#### **Conflict of interest**

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

#### **Director dealings in company shares**

The Constitution permits Directors to acquire shares in the Company. Company policy prohibits directors and senior management from dealing in shares or exercising options whilst in possession of price sensitive information except in unusual circumstances, 42 days after either the release of the Company's half year and annual results, the annual general meeting or any major announcement. Directors and senior management must notify and get approval from the Chairman of the Board before they deal in shares or exercise options in the Company.

#### **Independent professional advice and access to company information**

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

#### **Remuneration of non-executive directors**

When setting fees and other compensation for non-executive Directors, the Board takes independent advice and applies international benchmarks.

Director's fees cover all main Board activities and membership of committees. Further information is contained in the Directors' Remuneration Report on page 46.

#### **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

# Corporate Governance Statement continued

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 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 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 2008 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 in writing to the Board that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards. They also state the Company's financial reports are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board and that this system

is operating efficiently and effectively in all material respects.

- *Continuous disclosure* – the Company has a policy, based on existing policies and practices as a company 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

# Corporate Governance Statement continued

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 auditors' findings, and to recommend Board approval of these documents, prior to announcement of results.
- Review the results and findings of the auditor; the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
- Review the draft financial report and recommend Board approval of the financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

# Directors



## Executive Chairman

*Adonis Pouroulis*

Adonis Pouroulis, aged 37, is a mining engineer with a mining degree from the University of the Witwatersrand in Johannesburg. In 1997 he created and founded Petra Diamonds Limited and floated the company on the AIM of the London Stock Exchange in April of the same year.



## Chief Executive Officer

*Johan Dippenaar*

Johan Dippenaar (CA), aged 50, was previously the CEO of Crown Diamonds. He is a chartered accountant by profession and a member of the South African Institute of Chartered Accountants with over 18 years experience in the management of companies, of which 16 years has been in the management of mining companies.



## Finance Director

*David Aberly*

David Aberly (ACA), aged 45, is a Chartered Accountant (ICAEW), who brings to Petra extensive experience as a finance Director in the South African and UK business environments, as well as an in-depth knowledge of AIM.



## Technical Director

*Jim Davidson*

Jim Davidson, aged 62, was previously Technical Director of Crown Diamonds. He is responsible for all Petra's geological matters and group technical development. He is a qualified geologist and a member of the Geological Society of South Africa with over 20 years experience in mine management.

## Non-executive Directors

### Non-executive Director

*Volker Ruffer*

Volker Ruffer, aged 68, consults for KPMG Frankfurt where he specialises in international tax planning, mergers, acquisitions and company re-organisations. He was previously managing partner from 1972 to 1994. He holds a Masters degree in business administration from the University of Munster, Germany.

### Deputy Chairman and non-executive Director

*Charles Segall*

Charles Segall, aged 66, 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.

# Group Contact Details

## Group Head Office

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# Financial Statements

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# Independent Auditors' Report

## To the shareholders of Petra Diamonds Limited

We have audited the Group financial statements (the financial statements) of Petra Diamonds Limited for the year ended 30 June 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) 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 and have been properly prepared in accordance with the Companies Act 1981 as currently enacted in Bermuda. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the report to consider whether it is consistent with the audited financial statements. The other information comprises Summary of Results, Group at a Glance, Chairman's Statement, Chief Executive Officer's Review, The International Diamond Market, Mining, Processing, Distribution and Marketing, Social and Environmental 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 2007 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the provisions of the Companies Act 1981 as enacted in Bermuda.

*BDO Stoy Hayward LLP*

**BDO Stoy Hayward LLP**

Chartered Accountants

London

18 December 2007



**Petra**Diamonds

## Consolidated Income Statement

for the year ended 30 June 2007

	Notes	2007 US\$	2006 US\$
<b>Revenue</b>		<b>17,048,794</b>	20,868,757
Cost of sales	4	(21,003,936)	(23,178,587)
<b>Gross loss</b>		<b>(3,955,142)</b>	(2,309,830)
Exploration expenditure	5	(6,091,669)	(4,924,437)
Operating expenditure	6	(11,242,520)	(12,596,449)
Financial income		654,151	411,107
Financial expense		(2,222,980)	(565,201)
Net financing costs	7	(1,568,829)	(154,094)
<b>Loss before tax</b>		<b>(22,858,160)</b>	(19,984,810)
Income tax expense	8	1,909,234	1,120,354
<b>Loss for the year</b>		<b>(20,948,926)</b>	(18,864,456)
Basic and diluted loss per share – US cents	10	(13.60)	(13.11)

## Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2007

	2007 US\$	2006 US\$
Exchange differences on translation of foreign operations	8,677,941	1,561,653
Net income recognised directly in equity	8,677,941	1,561,653
Loss for the year	(20,948,926)	(18,864,456)
<b>Total recognised income and expense for the year</b>	<b>(12,270,985)</b>	<b>(17,302,803)</b>

The notes on pages 61 to 93 form part of the financial statements.

# Consolidated Balance Sheet

at 30 June 2007

	Notes	2007 US\$	2006 US\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	84,872,711	70,831,324
Intangible assets	12	72,816,432	13,105,561
Investment in associates	13	—	—
Available for sale financial assets	14	70,136	1,271,410
Other receivables	16	151,987	164,402
<b>Total non-current assets</b>		<b>157,911,266</b>	<b>85,372,697</b>
<b>Current assets</b>			
Inventories	15	8,900,532	2,197,605
Trade and other receivables	16	14,822,729	2,760,378
Cash and cash equivalents	17	44,124,829	7,019,644
<b>Total current assets</b>		<b>67,848,090</b>	<b>11,977,627</b>
<b>Total assets</b>		<b>225,759,356</b>	<b>97,350,324</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	18	36,360,403	27,031,103
Share premium account	19	227,366,888	123,189,903
Foreign currency translation reserve	19	(6,136,854)	2,541,087
Share-based payment reserve	19	1,527,000	972,962
Other reserves	19	4,003,682	—
Accumulated loss	19	(102,557,593)	(81,608,667)
<b>Total equity</b>		<b>160,563,526</b>	<b>72,126,388</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	3,103,252	2,914,960
Trade and other payables	22	2,800,506	867,823
Provisions	23	9,852,535	1,697,756
Deferred tax liabilities	24	9,551,924	9,932,634
<b>Total non-current liabilities</b>		<b>25,308,217</b>	<b>15,413,173</b>
<b>Current liabilities</b>			
Loans and borrowings	21	27,755,710	1,149,646
Other payables	22	9,821,436	6,658,735
Provisions	23	2,310,467	2,002,382
<b>Total current liabilities</b>		<b>39,887,613</b>	<b>9,810,763</b>
<b>Total liabilities</b>		<b>65,195,830</b>	<b>25,223,936</b>
<b>Total equity and liabilities</b>		<b>225,759,356</b>	<b>97,350,324</b>

The notes on pages 61 to 93 form part of the financial statements.

The financial statements were authorised for issue by the Directors on 18 December 2007.

# Consolidated Cash Flow Statement

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>Loss before taxation for the year</b>	<b>(22,858,160)</b>	<b>(19,984,810)</b>
Depreciation of property, plant and equipment – exploration	1,115,782	35,687
Depreciation of property, plant and equipment – mining	5,274,209	5,630,717
Depreciation of property, plant and equipment – other	113,283	40,573
Amortisation of intangible assets	3,740,928	2,832,355
(Profit)/loss on sale of property, plant and equipment	(81,852)	26,717
Finance income	(654,151)	(411,107)
Finance expense	1,307,715	565,201
Present value adjustment of rehabilitation provision	186,121	140,783
Share-based payment provision	749,406	—
Foreign exchange loss	4,811,205	6,114,780
<b>Operating loss before working capital changes</b>	<b>(6,295,514)</b>	<b>(5,009,104)</b>
(Increase)/decrease in trade and other receivables	(12,031,562)	140,515
Increase/(decrease) in trade and other payables	13,747,215	(3,604,742)
(Increase) in inventories	(6,133,588)	(792,440)
<b>Cash utilised in operations</b>	<b>(10,713,449)</b>	<b>(9,265,771)</b>
Finance expense	(1,307,715)	(565,201)
<b>Net cash utilised by operating activities</b>	<b>(12,021,164)</b>	<b>(9,830,972)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	568	41,447
Acquisition of subsidiary net of cash acquired	1,934,936	5,560,464
Finance income	654,151	411,107
Acquisition of investments	—	(1,271,410)
Acquisition of property, plant and equipment	(5,086,569)	(4,152,748)
Development expenditure	(3,847,301)	(4,069,863)
<b>Net cash from investing activities</b>	<b>(6,344,215)</b>	<b>(3,481,003)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from the issue of share capital	36,087,171	469,404
Increase/(decrease) in long-term borrowings	19,424,564	(7,605,319)
<b>Net cash from financing activities</b>	<b>55,511,735</b>	<b>(7,135,915)</b>
<b>Net increase in cash and cash equivalents</b>	<b>37,146,356</b>	<b>(20,447,890)</b>
Cash and cash equivalents at beginning of the year	7,019,644	27,591,394
Effect of exchange rate fluctuations on cash held	(41,171)	(123,860)
<b>Cash and cash equivalents at end of the year</b>	<b>44,124,829</b>	<b>7,019,644</b>

The notes on pages 61 to 93 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.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. 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.

### I.1 Statement of compliance

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

### I.2 Basis of preparation

The Group financial statements are presented in US Dollars.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods. Additional information for estimates relating to decommissioning, mine closure and environmental rehabilitation, valuation of share options, valuation of the equity portion of compound financial instruments and contingent liabilities is detailed in notes 1.12, 1.17, 1.19 and 27 respectively.

#### New standards and interpretations applied

The IASB have issued the following standards and interpretation with an effective date prior to 1 July 2006 which is considered relevant to the Group:

IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

IFRIC 8 *Scope of IFRS 2*.

The adoption of these standards have had no effect on the Group's results.

#### New standards and interpretations not considered relevant

The IASB have issued the following standards with an effective date prior to 1 July 2006 or earlier which are not considered relevant to the Group:

##### **International accounting standards (IAS/IFRS)**

IAS 19 (Amendment), *Employee benefits*.

IAS 21 (Amendment), *Net investment on a Foreign Operation*.

IAS 39 (Amendment), *Financial instruments*.

##### **International financial reporting interpretations committee (IFRIC)**

IFRIC 5 *Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds*.

IFRIC 6 *Liabilities from participating in specific markets – waste electrical and electronic equipment*.

IFRIC 9 *Reassessment of embedded derivatives*.

#### New standards and interpretations not applied

The IASB have issued the following standards and interpretations with an effective date of after the date of these financial statements:

##### **International accounting standards (IAS/IFRS)**

IFRS 7 *Financial instruments disclosures* – Effective date 1 January 2007.

IFRS 8 *Operating segments* – Effective date 1 January 2009.

IFRIC 13 *Customer loyalty programmes* – Effective date 1 July 2008.

IFRIC 14 and IAS 19 *The limits on defined asset, minimum funding requirements and their interaction* – Effective 1 January 2008.

IAS 23 *Borrowing costs* – Effective 1 January 2009.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. ACCOUNTING POLICIES (continued)

### I.2 Basis of preparation (continued)

#### *International financial reporting interpretations committee (IFRIC)*

IFRIC 11 *IFRS 2, Group and Treasury share transactions* – Effective 1 March 2007

IFRIC 12 *Service concession arrangements* – Effective date 1 January 2008

The directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group's financial statements.

#### **Currency reporting**

The functional currency of the Group's business transactions in Angola, Botswana, and 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 reporting currency of the Group is US Dollars.

### I.3 Basis of consolidation

#### **Subsidiaries**

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control. The Group financial statements incorporate the assets, liabilities and results of operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition to the effective dates of disposal. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

#### **Associates**

An associate is an enterprise over whose financial and operating policies the Group has the power to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The equity method of accounting for associates is adopted in the Group financial statements. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which an enterprise becomes an associate and up to the effective date of disposal.

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

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

#### **Joint ventures**

Joint ventures are arrangements where the Group has joint control, established by contractual agreement. Where this is through a separate legal entity, the consolidated financial statements include the Group's proportionate share of the entity's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. Where the arrangement is through a pooling of assets the Group maintains ownership of the assets and records its share of revenue and expenses. Where the Company provides significant financial assistance to the joint venture entity, established by contractual agreement, the Company consolidates its investment on the basis of respective risks and obligations. The Company will continue to consolidate the results of the joint venture entity until such time that the other equity shareholders start to proportionately share in the associated risks.

#### **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.



# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. ACCOUNTING POLICIES (continued)

### I.4 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Depreciation is provided on the straight-line basis over the estimated useful lives of assets.

The depreciation rates are as follows:

#### Mining assets:

Plant, machinery and equipment	Units of production method
Mineral properties	Units of production method

#### Exploration and other assets:

Plant and machinery	10% – 20% straight-line basis
Office equipment	10% straight-line basis
Computer equipment	25% straight-line basis
Motor vehicles	20% straight-line basis

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

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

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

### I.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.

### I.6 Intangible assets

Evaluation and exploration costs are written off in the year in which they are incurred. Pre-production expenditure is only capitalised once feasibility studies indicate commercial viability and the Board takes the decision to develop the project further. Capitalisation of pre-production expenditure ceases when the project is capable of commercial production whereupon it is amortised on a unit of production basis.

Mineral rights are capitalised at cost and are amortised on a unit of production basis for operating mines and over the estimated useful life for prospecting rights.

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

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

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

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. ACCOUNTING POLICIES (continued)

### I.7 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, goodwill or intangible assets with an indefinite useful life, an impairment test is performed at each balance sheet date.

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

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed.

### I.8 Financial assets and liabilities

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. 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.

#### Held-to-maturity investment

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The assets are initially recognised at 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.

#### Cash and cash equivalents

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

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. ACCOUNTING POLICIES (continued)

### I.8 Financial instruments (continued)

#### 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.

#### Trade payables and other short-term monetary liabilities

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

#### Interest-bearing borrowings

Bank borrowings and the debt element of convertible debt issued are recognised initially at cost 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 liability is outstanding.

### I.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.

### I.10 Investment income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

### I.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.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## I. ACCOUNTING POLICIES (continued)

### I.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.

### I.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.

### I.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.

### I.15 Cash and cash equivalents

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

### I.16 Employee defined contribution schemes

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

### I.17 Share-based payments

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

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## **I.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.

## **I.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.

## **I.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.

## **I.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.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 2. SEGMENT INFORMATION

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

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

### Business and geographical segments

The Group comprises the following business segments:

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

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

Beneficiation – cutting and polishing of rough diamonds.

Business segments 2007	Mining US\$	Exploration US\$	Beneficiation US\$	Consolidated 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	(8,852,808)	(11,837,295)	(599,228)	(21,289,331)
Financial income	—	651,767	2,384	654,151
Financial expense	(1,140,030)	(1,082,950)	—	(2,222,980)
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
Impairment losses	—	—	—	—

Geographical segments 2007	Angola US\$	Botswana US\$	Sierra Leone US\$	South Africa US\$	Jersey US\$	Consolidated 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)
Impairment losses	—	—	—	—	—	—



PetraDiamonds

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 2. SEGMENT INFORMATION (continued)

<b>Business segments 2006</b>	<b>Mining US\$</b>	<b>Exploration US\$</b>	<b>Eliminations US\$</b>	<b>Consolidated US\$</b>
Revenue	20,868,757	—	—	20,868,757
Segment result	(2,309,829)	(14,968,544)	—	(17,278,373)
Operating loss	(4,862,172)	(14,968,544)	—	(19,830,716)
Financial income	—	1,024,790	—	1,024,790
Financial expense	(1,178,884)	—	—	(1,178,884)
Income tax	1,120,354	—	—	1,120,354
Loss for year	(4,920,702)	(13,943,754)	—	(18,864,456)
Segment assets	64,677,253	32,673,071	—	97,350,324
Total assets	64,677,253	32,673,071	—	97,350,324
Segment liabilities	19,436,688	5,787,248	—	25,223,936
Total liabilities	19,436,688	5,787,248	—	25,223,936
Cash utilised in operations	677,480	(10,508,452)	—	(9,830,972)
Cash flows from investing	(3,529,514)	1,544,211	(1,495,300)	(3,480,603)
Cash flows from financing	(712,276)	(6,423,639)	—	(7,135,915)
Capital expenditure	8,118,313	104,298	—	8,222,611
Depreciation and amortisation	5,630,717	2,908,615	—	8,539,332
Impairment losses	—	—	—	—

<b>Geographical segments</b>	<b>Angola US\$</b>	<b>Botswana US\$</b>	<b>Sierra Leone US\$</b>	<b>South Africa US\$</b>	<b>Eliminations US\$</b>	<b>Consolidated US\$</b>
Revenue	—	—	—	20,868,757	—	20,868,757
Segment assets	4,785,697	13,380,911	4,405,811	74,777,905	—	97,350,324
Segment liabilities	—	1,712,936	—	23,511,000	—	25,223,936
Cash utilised in operations	—	(357,262)	—	(9,473,710)	—	(9,830,972)
Cash flows from investing	—	—	(4,069,864)	(3,529,914)	4,118,775	(3,481,003)
Cash flows from financing	—	357,254	4,069,864	(712,276)	(10,850,757)	(7,135,915)
Capital expenditure	—	60,472	4,069,863	4,092,276	—	8,222,611
Impairment losses	—	—	—	—	—	—

The Group commenced beneficiation activities effective 27 November 2006 on the acquisition of Calibrated Diamonds Investment Holdings (Pty) Limited. Therefore there are no comparative numbers for the year to 30 June 2006.



# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 3. ACQUISITIONS

### 3(a) Acquisition of subsidiaries

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

On 27 November 2006, the Company acquired the issued share capital of Calibrated Diamonds Investment Holdings (Pty) Limited ("CDIH"), for \$2,334,665, satisfied by a cash payment. CDIH is focused on the cutting and polishing ("beneficiation") of rough diamonds utilising a unique process developed by CDIH, which enables CDIH to produce polished diamonds of a very high and consistent standard. In the seven months to 30 June 2007, CDIH made a loss of \$596,844. If the acquisition had occurred on 1 July 2006, the Group's loss for the period ending 30 June 2007 would have increased by \$982,534.

#### 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\$
Calibrated Diamonds Investment Holdings (Pty) Limited net assets at acquisition date:	US\$	US\$	US\$
Fair value of net assets of entity acquired			
Intellectual property	362,689	3,157,017	3,519,706
Plant and equipment	283,985	—	283,985
Cash assets	9,185	—	9,185
Receivables	30,446	—	30,446
Inventory	345,537	—	345,537
Deferred tax liability	—	(709,717)	(709,717)
Accruals and payables	(62,079)	—	(62,079)
Non interest bearing non-current liabilities	(1,082,398)	—	(1,082,398)
Consideration	(112,635)	2,447,300	2,334,665
Total fair value of assets acquired			2,334,665
Consideration (amount settled in cash)			2,334,665
Goodwill			—

The fair value adjustment of \$2,447,300 arose as a result of the premium attributable to the intellectual property (grossed up for deferred taxation) purchased from Calibrated Diamonds Investment Holdings (Pty) Limited. The allocation of the premium to intellectual property is deemed to be provisional.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 3(b) Acquisition of assets

### Frannor Investments & Finance Limited

The Company acquired the issued share capital in Frannor Investments & Finance Ltd ("FBVI"), for US\$60,684,720 net of cash, effective 1 March 2007. The consideration was satisfied by the issue of 19,674,584 Petra shares. FBVI, through its wholly owned subsidiary, Frannor Investments and Financing (Pty) Limited ("FRSA"), holds a 40% and 39% interest in the Luangue alluvial and kimberlite prospecting licences respectively in Angola together with its Angolan partners. In the three months to 30 June 2007, FBVI recorded an exploration loss of US\$85. If the acquisition had occurred on 1 July 2006, the Group's loss for the period ending 30 June 2007 would have decreased by \$9,229.

### Effect of the acquisition

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

	Book values	Fair value adjustments	Carrying values
	US\$	US\$	US\$
Frannor Investments & Finance Limited net assets at acquisition date:			
Fair value of net assets of entity acquired			
Property, plant and equipment	1,456,368	—	1,456,368
Prospecting licences	14,962,850	42,341,130	57,303,980
Cash	1,925,751	—	1,925,751
Trade and other payables	(1,379)	—	(1,379)
Consideration amount satisfied in shares	18,343,590	42,341,130	60,684,720

The fair value adjustment of \$42,341,130 arose as a result of the revaluation of the Prospecting licences purchased from Frannor Investments & Finance Limited. The allocation of the premium to prospecting licences is deemed to be provisional. Deferred taxation has not been provided on the acquisition of the companies as the transaction was not deemed to be a business combination in accordance with IFRS 3.

### Acquisition of Koffiefontein Diamond Mine assets

On 18 December 2006 Petra entered into a conditional agreement with De Beers Consolidated Mines Limited ("De Beers") to acquire the mining and associated capital assets ("the assets") previously used by De Beers in the operation of the Koffiefontein diamond mine ("Koffiefontein") in South Africa.

The consideration for the assets was R81,921,585 (\$11,612,506), settled by way of Petra assuming De Beers' rehabilitation obligations at Koffiefontein amounting to R80,021,583 (\$11,343,178), plus the payment in cash by Blue Diamond Mines (Petra's operating subsidiary in South Africa) to De Beers of R1,900,000 (\$269,328). Deferred taxation has not been provided on the acquisition of the assets as the transaction was not deemed to be a business combination in accordance with IFRS 3.

### Effect of the acquisition

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

	Book values	Fair value adjustments	Carrying values
	US\$	US\$	US\$
Koffiefontein diamond mine net assets at date of acquisition:			
Land	508,723	—	508,723
Residential houses	1,769,018	—	1,769,018
Mining property, plant and equipment	8,478,821	—	8,478,821
Underground development	611,332	—	611,332
Non-mining property, plant and equipment	20,810	—	20,810
Inventory	223,802	—	223,802
Environmental liabilities	(11,343,178)	—	(11,343,178)
Consideration amount satisfied in cash	269,328	—	269,328

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>4. COST OF SALES</b>		
Raw materials and consumables used	8,109,941	6,292,071
Employee expenses	13,020,423	12,214,540
Depreciation of mining assets	5,274,209	5,630,717
Changes in inventory of finished goods	(5,400,637)	(958,741)
	<b>21,003,936</b>	<b>23,178,587</b>
<b>5. EXPLORATION EXPENDITURE</b>		
Employee expenses	323,107	313,182
Depreciation of exploration assets	1,115,782	35,687
Amortisation of intangible assets	3,740,928	2,832,355
Drilling and air survey expenses	243,717	1,277,973
Equipment hire	6,722	207,689
Other exploration expenses	661,413	257,551
	<b>6,091,669</b>	<b>4,924,437</b>
<b>6. OPERATING EXPENDITURE – OTHER</b>		
Auditors' remuneration		
Current auditors		
– audit services	195,437	—
– other services	19,394	—
Previous auditors		
– audit services	—	368,132
Depreciation of property, plant and equipment	113,283	40,573
Foreign exchange losses	4,811,205	6,114,780
Operating lease rentals – buildings	153,739	222,257
Staff costs	1,888,271	1,804,326
Bid and project expenditure	55,293	359,743
(Profit)/loss on disposal of property, plant and equipment	(81,852)	26,717
Administration expenses – mining operations	1,794,312	1,421,192
Other charges	1,856,098	1,620,437
Share-based payments		
– directors	253,656	349,303
– senior management	183,684	268,989
	<b>11,242,520</b>	<b>12,596,449</b>
In addition to the above, the audit fee payable in 2008 in respect of 2007 by the Group to its current auditors is US\$271,528		
<b>7. NET FINANCING COSTS</b>		
On bank loans and overdrafts	(813,377)	(412,485)
Other debt finance costs	(1,409,603)	(152,716)
Financial expense	(2,222,980)	(565,201)
Interest received	654,151	411,107
	<b>(1,568,829)</b>	<b>(154,094)</b>

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

		2007 US\$	2006 US\$	
<b>8. TAXATION</b>				
Current taxation				
– Current tax expense		—	—	
Deferred taxation				
– Current period		1,909,234	1,120,354	
		1,909,234	1,120,354	
	%	2007 US\$	%	2006 US\$
Reconciliation of tax rate				
Loss before taxation		(22,858,160)		(19,984,810)
Tax at Bermudan corporate rate	—	—	—	—
Effects of:				
Non-deductible expenses	0.15	35,220	0.53	105,613
Non-taxable income	0.02	4,298	(0.05)	(9,102)
Assessed loss not utilised	(29.17)	(6,668,385)	(4.16)	(834,150)
Effect of tax rates in foreign jurisdictions	29.00	6,628,867	3.69	737,639
Current tax charge	—	—	—	—
Deferred tax movement	8.35	1,909,234	5.60	1,120,354
Total tax charge	8.35	1,909,234	5.60	1,120,354
		2007 US\$	2006 US\$	
<b>9. DIRECTORS AND EMPLOYEES REMUNERATION</b>				
Staff costs (excluding the non-executive Directors) during the year were as follows:				
Wages and salaries – mining		13,020,423	12,214,540	
Wages and salaries – exploration		323,107	313,182	
Wages and salaries – administration		1,869,635	1,631,632	
Social security costs		4,830	1,722	
Provident fund costs		13,806	170,972	
		15,231,801	14,332,048	
		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 2,501 (2006:1,853), employed as follows:				
Mining and exploration		2,421	1,793	
Administration		80	60	
		2,501	1,853	

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 9. DIRECTORS AND EMPLOYEES (continued)

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

	Base remuneration US\$	Performance related bonus US\$	Share-based allocations US\$	2007 Total US\$	2006 Total US\$
<b>Executive Directors</b>					
A Pouroulis	275,353	137,676	63,414	476,443	318,154
D Abery	275,353	137,676	63,414	476,443	318,154
J Dippenaar	275,353	137,676	63,414	476,443	318,154
J Davidson	275,353	137,676	63,414	476,443	318,154
K Dabinett	—	—	—	—	423,568
	1,101,412	550,704	253,656	1,905,772	1,696,184

	Fees US\$	Performance related bonus US\$	Other US\$	2007 Total US\$	2006 Total US\$
<b>Non-executive Directors</b>					
C Segall	43,477	—	—	43,477	26,679
C Finkelstein	—	—	—	—	7,410
V Ruffer	9,662	—	—	9,662	8,893
	53,139	—	—	53,139	42,982

## 10. LOSS PER SHARE

Loss for the year	(20,948,926)	(18,864,456)
Weighted average number of ordinary shares		
As at 1 July	143,916,416	73,937,847
Effect of shares issued during the period	10,103,075	69,978,569
As at 30 June	154,019,491	143,916,416
	Shares	Shares
Basic weighted average number of ordinary shares in issue	154,019,491	143,916,416
	Cents	Cents
Basic loss per share – cents	(13.60)	(13.11)

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 and warrants is 22,231,000. These potentially dilutive ordinary shares may have a dilutionary effect on future earnings per share.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 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 advanced to project Alto Cuilo US\$	Total US\$
<b>Cost</b>							
Balance at 1 July 2005	34,595,170	26,078	157,541	8,941	34,437,114	5,503,412	74,728,256
Exchange differences	(2,867,505)	(2,160)	(12,968)	(2,216)	(2,808,768)	—	(5,693,617)
Business combination	—	—	98,847	77,537	—	—	176,384
Additions	8,118,313	—	82,287	22,011	—	—	8,222,611
Disposals	(5,552)	—	(26,168)	(9,265)	—	—	(40,985)
Transfer from intangible assets	335,947	—	—	—	—	—	335,947
<b>Balance at 30 June 2006</b>	<b>40,176,373</b>	<b>23,918</b>	<b>299,539</b>	<b>97,008</b>	<b>31,628,346</b>	<b>5,503,412</b>	<b>77,728,596</b>
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)	—	—	—	—
Transfer from intangible assets	—	—	—	—	—	—	—
<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>5,503,412</b>	<b>98,547,032</b>
<b>Depreciation</b>							
Balance at 1 July 2005	274,545	25,723	56,637	7,001	178,911	717,715	1,260,532
Exchange differences	(22,756)	(2,148)	(6,776)	48	(14,829)	—	(46,461)
Disposals	—	—	(15,437)	(8,338)	—	—	(23,775)
Provided in the year	3,420,604	147	48,541	27,571	2,210,113	—	5,706,976
<b>Balance at 30 June 2006</b>	<b>3,672,393</b>	<b>23,722</b>	<b>82,965</b>	<b>26,282</b>	<b>2,374,195</b>	<b>717,715</b>	<b>6,897,272</b>
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>1,770,434</b>	<b>13,674,321</b>
<b>Net book value</b>							
At 1 July 2005	34,320,625	355	100,904	1,940	34,258,203	4,785,697	73,467,724
At 30 June 2006	36,503,980	196	216,574	70,726	29,254,151	4,785,697	70,831,324
At 1 July 2006	36,503,980	196	216,574	70,726	29,254,151	4,785,697	70,831,324
<b>At 30 June 2007</b>	<b>50,252,128</b>	<b>1,445,408</b>	<b>428,296</b>	<b>109,296</b>	<b>28,904,605</b>	<b>3,732,978</b>	<b>84,872,711</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.

The Group leases plant and machinery under a finance lease agreement. At the end of the lease the Group has the option to purchase the plant and machinery. At 30 June 2007, the net carrying amount of leased plant and machinery was US\$136,775 (2006: US\$151,972). The leased equipment secures finance lease obligations (as disclosed in note 21).

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 12. INTANGIBLE ASSETS

	Goodwill US\$	Pre- production expenditure US\$	Intellectual property US\$	Mineral rights US\$	Prospecting licences US\$	Total US\$
<b>Cost</b>						
Balance at 1 July 2005	8,671,552	335,947	—	152,916	—	9,160,415
Exchange differences	—	—	—	—	(1,692,720)	(1,692,720)
Transfer to property, plant and equipment	—	(335,947)	—	—	—	(335,947)
Business combination	—	—	—	—	17,620,258	17,620,258
<b>Balance at 30 June 2006</b>	<b>8,671,552</b>	<b>—</b>	<b>—</b>	<b>152,916</b>	<b>15,927,538</b>	<b>24,752,006</b>
Balance at 1 July 2006	—	—	—	—	15,927,538	15,927,538
Exchange differences	—	—	(30,882)	—	870,891	840,009
Transfer to property, plant and equipment	—	—	—	—	—	—
Business combination	—	—	3,519,706	—	59,173,312	62,693,018
<b>Balance at 30 June 2007</b>	<b>—</b>	<b>—</b>	<b>3,488,824</b>	<b>—</b>	<b>75,971,741</b>	<b>79,460,565</b>
<b>Amortisation</b>						
Balance at 1 July 2005	(8,671,552)	—	—	(152,916)	—	(8,824,468)
Exchange differences	—	—	—	—	10,378	10,378
Provided in the year	—	—	—	—	(2,832,355)	(2,832,355)
<b>Balance at 30 June 2006</b>	<b>(8,671,552)</b>	<b>—</b>	<b>—</b>	<b>(152,916)</b>	<b>(2,821,977)</b>	<b>(11,646,445)</b>
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>—</b>	<b>—</b>	<b>—</b>	<b>(6,644,133)</b>	<b>(6,644,133)</b>
Net book value						
At 1 July 2005	—	335,947	—	—	—	335,947
At 30 June 2006	—	—	—	—	13,105,561	13,105,561
At 1 July 2006	—	—	—	—	13,105,561	13,105,561
<b>At 30 June 2007</b>	<b>—</b>	<b>—</b>	<b>3,488,824</b>	<b>—</b>	<b>69,327,608</b>	<b>72,816,432</b>

Goodwill, on the acquisition of Crown NL in May 2005, had been impaired following an independent valuation of the net realisable assets of the acquired business combination as determined by an independent valuation.

### PROSPECTING LICENCES AND INTELLECTUAL PROPERTY

Country	Project	Development stage	Amortisation period years	2007 Amount US\$	2006 Amount US\$
Prospecting licences:					
Angola	Luangue	Early stage	—	59,173,312	—
Botswana	Kalahari	Early stage	4	17,620,258	17,620,258
Intellectual property:					
South Africa				3,519,706	—
Cost at 30 June 2007				80,313,276	17,620,258



# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 13. INVESTMENTS IN ASSOCIATES

Interests in associates

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

	Country	Ownerships	
		2007	2006
Namibia Mining House (Pty) Ltd	Namibia	35.0%	35.0%
Nabera Mining (Pty) Ltd	South Africa	29.5%	29.5%
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	31.0%	47.0%

The Group's interest in Petra Diamonds Alto Cuilo Ltd has been reduced to 31% as a result of BHP Billiton's increased financial contribution, which has a dilutionary effect, to the Alto Cuilo joint venture project in Angola.

Summary of financial statements of associates:

	Assets	Liabilities	Equity	Revenues	(Loss) after tax
<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)
<b>2006</b>					
Namibia Mining House (Pty) Ltd	—	—	—	—	—
Nabera Mining (Pty) Ltd	4,173	(921,600)	917,427	—	(50,674)
Petra Diamonds Alto Cuilo Ltd	40,985,151	41,760,383	775,232	2,718,171	(701,796)
				<b>2007</b>	<b>2006</b>
				<b>US\$</b>	<b>US\$</b>

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

Cost	20,453,042	20,453,042
Amounts written off	(20,453,042)	(20,453,042)
Net book amount	—	—

The above amounts relate to the initial investment of the Group in Petra Diamonds Alto Cuilo Limited, Namibia Mining House (Pty) Limited and Nabera Mining (Pty) Limited.

## 14. AVAILABLE FOR SALE FINANCIAL ASSETS

Balance at 1 July	1,271,410	—
Acquisition	—	1,271,410
Impairment	(1,201,274)	—
Balance at 30 June	70,136	1,271,410

During the prior year the company purchased 1,555,555 ordinary shares in Xceldiam Ltd, a company listed on the London Alternative Investment Market.

During the current year, the Company purchased Xceldiam Ltd's only asset, Frannor Investments and Finance Ltd, which resulted in a reduction in the market value of Xceldiam Ltd's share price. As a result the Company impaired its investment in Xceldiam Ltd to \$70,136 being the market value at 30 June 2007.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>15. INVENTORIES</b>		
Diamonds held for resale	7,600,498	1,843,967
Work in progress	250,009	—
Consumable and stores	1,050,025	353,638
	<b>8,900,532</b>	<b>2,197,605</b>
<b>16. TRADE AND OTHER RECEIVABLES</b>		
Current		
Trade receivables	735,125	46,565
Other receivables <sup>1</sup>	10,672,031	2,689,916
Prepayments <sup>3</sup>	3,415,573	23,897
	<b>14,822,729</b>	<b>2,760,378</b>
Non-current		
Rehabilitation guarantee <sup>2</sup>	151,987	164,402
	<b>151,987</b>	<b>164,402</b>
<sup>1</sup> Included within current receivables are amounts related to funding advanced to joint venture Black Economic Empowerment partners on the Koffiefontein mine assets and value added tax refunds receivable.		
<sup>2</sup> The rehabilitation guarantee comprises an insurance risk policy which will be recovered upon the successful rehabilitation at the Sedibeng diamond mine operation.		
<sup>3</sup> Included within prepayments are amounts relating to a deposit paid for further investment in the Group's Angolan projects (See Note 27).		
<b>17. CASH AND CASH EQUIVALENTS</b>		
Unsecured		
Cash at bank and on hand	24,124,117	7,019,644
Secured	20,000,712	—
	<b>44,124,829</b>	<b>7,019,644</b>

As security for the Company's obligations to a short-term loan facility under Note 21(v) and rehabilitation obligations at Koffiefontein Mine JV, the Company has ceded \$20,000,712 in a fixed deposit. The Company's obligation to the short-term loan facility was satisfied on 10 September 2007.

A controlled entity, Helam Mining Pty Ltd ("Helam"), has a 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 R3,916,537 (US\$553,496). The overdraft has been set-off against other cash balances as it forms part of the Group's operational cash balances. The weighted average interest rate for the overdraft as at 30 June 2007 is 13.9%.

	Number of shares	2007 US\$	Number of shares	2006 US\$
<b>18. ISSUED CAPITAL</b>				
Authorised – ordinary shares of 10p each				
As at 1 July 2006 and 30 June 2007	300,000,000	60,117,000	200,000,000	35,892,000
Issued and fully paid				
At 1 July	148,825,098	27,031,103	130,949,456	23,500,190
Allotments during the year	32,623,093	9,329,300	16,863,649	3,347,105
Conversion of convertible notes	—	—	1,011,993	183,808
At 30 June	181,448,191	36,360,403	148,825,098	27,031,103

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 18. ISSUED CAPITAL (continued)

Allotments during the prior year were in respect of 16,166,529 shares issued for the acquisition of Kalahari Diamonds Ltd, the exercise of 697,120 share options held by employees and the conversion by Convertible Note Holders into 1,011,993 ordinary shares. Allotments during the 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 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 Broë Plc and the exercise of 1,081,000 share options held by employees. On 23 April 2007 at a special Extraordinary General Meeting, the Company increased its authorised share capital from £20,000,000 to £30,000,000 by the creation of an additional 100,000,000 ordinary shares.

### Options

	Expiry	Exercise price	2007 Number of options	2006 Number of options
Williams de Broë Plc	17 June 2008	85.0p	—	200,843
Societaire Diamantaire Finkelstein CH & Co NV	31 October 2005	67.5p	—	975,147

### Warrants

Holder	Expiry	Exercise price	2007 Number of Options	2006 Number of Options
Photon Global Limited	14 August 2006	55.85p	—	833,333
Photon Global Limited	14 August 2006	55.85p	—	833,333
Photon Global Limited	31 December 2007	30p	1,500,000	1,500,000
Photon Global Limited	31 December 2007	100p	1,000,000	1,000,000
Al Rajhi Holdings W.L.L.	18 September 2009	130p	2,000,000	—

In the prior year, options over 975,147 shares expired.

During the year options over 200,843 ordinary shares at an exercise price of 85p and warrants over 1,666,666 shares at an exercise price of 55.85p were exercised.

Warrants over a total of 1,000,000 and 1,500,000 ordinary shares at an exercise price of 30p and 100p respectively were exercised by Photon Global Limited on 1 October 2007. The Black-Scholes methodology as outlined in IFRS 2 and in note 28 has been used to value the options and warrants.

### 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
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
J Dippenaar	750,000	85.0p	16 June 2015
	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	750,000	85.0p	16 June 2015
J Davidson	250,000	79.5p	31 May 2016
	300,000	156.0p	2 March 2017
	206,000	44.0p	5 September 2013
	50,000	56.75p	13 September 2014
<b>Senior Management</b>	238,875	A\$1.12	24 September 2014
	72,500	A\$1.36	28 January 2015
	490,000	65.75p	27 November 2015
	480,000	79.5p	31 May 2016
	563,625	96.0p	31 July 2016
	200,000	122.5p	31 October 2016
	1,000,000	134.5p	24 November 2016
	1,230,000	156.0p	2 March 2017

The movement in director and employee options is disclosed in the Remuneration Report on page 44 to 45 of the financial statements.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	Share capital US\$	Share premium account US\$	Foreign currency translation reserve US\$	Share-based payment reserve US\$	Other reserves US\$	Accumu- lated loss US\$	Total US\$
<b>19. RESERVES</b>							
At 1 July 2005	23,500,190	101,775,127	4,102,740	—	—	(62,393,694)	66,984,363
Implementation of IFRS2	—	—	—	354,670	—	(354,670)	—
Restated balance at 1 July 2005	23,500,190	101,775,127	4,102,740	354,670	—	(62,748,364)	66,984,363
Loss for the year	—	—	—	—	—	(18,864,456)	(18,864,456)
Equity-settled share-based payments	—	—	—	618,292	—	—	618,292
Exchange differences	—	—	(1,561,653)	—	—	4,153	(1,557,500)
Allotments during the year	3,347,105	20,550,930	—	—	—	—	23,898,035
Share issue costs	—	(57,472)	—	—	—	—	(57,472)
Conversion of convertible notes	183,808	921,318	—	—	—	—	1,105,126
At 30 June 2006	27,031,103	123,189,903	2,541,087	972,962	—	(81,608,667)	72,126,388
At 1 July 2006	27,031,103	123,189,903	2,541,087	972,962	—	(81,608,667)	72,126,388
Loss for the year	—	—	—	—	—	(20,948,926)	(20,948,926)
Equity-settled share-based payments	—	—	—	554,038	—	—	554,038
Equity portion of convertible bond	—	—	—	—	4,003,682	—	4,003,682
Exchange differences	—	14,706,573	(8,677,941)	—	—	—	6,028,632
Allotments during the year	9,329,300	90,200,058	—	—	—	—	99,529,358
Share issue costs	—	(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

## 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.

## 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.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>20. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS</b>		
Opening shareholders' funds	72,126,388	66,984,363
Loss for the year	(20,948,926)	(18,864,456)
Exchange differences	14,706,573	4,153
Movement in share-based payment reserve	554,038	618,292
New share capital issued	98,799,712	24,945,689
Movement in foreign currency translation reserves	(8,677,941)	(1,561,653)
Equity portion of convertible bond	4,003,682	—
Net movement in shareholders' fund	88,437,138	5,142,025
Closing shareholders' funds	160,563,526	72,126,388
<b>21. INTEREST BEARING LOANS AND BORROWINGS</b>		
Current		
Bank overdraft – secured	—	—
Bank loan – secured (i)	32,334	29,423
Bank loan – secured (ii)	—	77,537
Bank loan – secured (iii)	1,208,439	386,395
Bank loan – secured (iv)	582,956	567,392
Bank loan – secured (v)	9,015,083	—
Convertible note – unsecured (vi)	16,911,583	—
Loan unsecured (vii)	—	41,200
Lease and instalment purchase liabilities (viii)	5,315	47,699
	27,755,710	1,149,646
Non-current		
Bank loan – secured (i)	208,941	234,856
Bank loan – secured (iii)	1,710,083	952,482
Bank loan – secured (iv)	1,184,228	1,722,374
Lease and instalment purchase liabilities (viii)	—	5,248
	3,103,252	2,914,960

**(i) Bank loans secured**

**First National Bank**

Helam has a term loan facility with First National Bank and at year end an amount of R1,707,293 (US\$241,275) (30 June 2006: R1,921,331 (\$264,279)) was drawn on the loan, R228,825 (US\$32,334) (30 June 2006: R213,906 (US\$29,423)) payable within the next 12 months and R1,478,468 (US\$208,941) (30 June 2006: R1,707,425 (US\$234,856)) payable over a period of five years. The effective interest rate for the term loan at 30 June 2007 was 13.80% and the final instalment is due on 30 November 2012.

The above facilities are secured against properties of Helam for up to R7,850,000 (US\$1,109,384) (30 June 2006: R7,850,000 (US\$1,079,765)) and a R8,000,000 (US\$1,130,582) (30 June 2006: R8,000,000 (US\$1,100,398)) general notarial bond over moveable assets along with unlimited letters of suretyship from Star Diamonds (Pty) Ltd and Messina Diamonds (Pty) Ltd and a letter of joint suretyship for R2,000,000 (US\$282,645) (30 June 2006: R2,000,000 (US\$275,100)) from Directors Mr J Dippenaar and Mr J Davidson. The facilities with First National Bank are subject to annual review.

**(ii) Bank loan – secured**

**Industrial Development Corporation of South Africa**

A controlled entity, Messina Investment Limited, repaid its interest free loan with the Industrial Development Corporation of South Africa Limited during the year with final repayment on 28 February 2007.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 21. INTEREST BEARING LOANS AND BORROWINGS (continued)

### (iii) Bank loan – secured

#### Industrial Development Corporation of South Africa

The Sedibeng Joint Venture ("Sedibeng JV"), which comprises subsidiaries of the Company, Messina Diamonds (Pty) Limited ("Messina") and Dancarl Diamonds (Pty) Limited ("Dancarl"), has a loan facility of R30,000,000 (US\$4,239,683) (30 June 2006: R30,000,000 (US\$4,126,490)) with the Industrial Development Corporation of South Africa ("IDC") to fund future capital expenditure at the Messina and Dancarl mines. The drawdown value of the loan facility at 30 June 2007 is R20,651,457 (US\$2,918,522) (30 June 2006: R9,733,766 (US\$1,338,877), R8,550,914 (US\$1,208,439) (30 June 2006: R2,809,128 (US\$386,395)) payable within the next 12 months and R12,100,543 (US\$1,710,083) (30 June 2006: R6,924,638 (US\$952,482)) payable over a period greater than 12 months. The loan is repayable over 60 months at 0.5% below the prevailing South African prime lending interest rate. The effective interest rate for the loan facility at 30 June 2007 is 13.42% and the final instalment 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.

### (iv) Bank loan – secured

#### Rand Merchant Bank

A controlled entity, Autumn Star Investment Holdings (Pty) Ltd ("Autumn Star") has a loan agreement with FirstRand Ltd ("FirstRand") for a loan facility of R16,500,000 (US\$2,331,826) (30 June 2006: R16,500,000 (US\$2,269,570)). At 30 June 2007 an amount of R12,504,598 (US\$1,767,184) (30 June 2006: R16,646,831 (US\$2,289,766)) was outstanding on the loan facility, R4,125,000 (US\$582,956) (30 June 2006: R4,125,000 (US\$567,392)) payable within the next 12 months and R8,379,598 (US\$1,184,228) (30 June 2006: R12,521,831 (US\$1,722,374)) payable over a period of three years. The loan is repayable in annual instalments of R4,125,000 (US\$582,956) (30 June 2006: R4,125,000 (US\$567,392)) commencing 1 August 2006. Interest is payable biannually at 0.5% below the prevailing South African prime lending interest rate. The effective interest rate for the loan facility at 30 June 2007 is 13.42% and the final instalment is due on 1 August 2009. Autumn Star and Messina Investments Limited have signed suretyship for the loan in favour of FirstRand.

### (v) Bank loan – secured

#### First National Bank

A controlled entity, Petra Diamonds Southern Africa (Pty) Ltd has a term loan facility with First National Bank and at year end an amount of R63,790,729 (US\$9,015,083) was drawn on the loan. The term loan facility matures biannually. Interest is payable upon maturity of the loan facility and the effective interest rate for the loan facility at 30 June 2007 is 11.30%. The term loan facility is secured by a US Dollar deposit as disclosed in note 17. The term loan was repaid on 10 September 2007.

### (vi) Convertible note – unsecured

On 19 September 2006 the Company issued a US\$20 million unsecured interest free convertible bond ("the Convertible") to Al Rajhi Holdings WLL. 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. On 29 September 2006 the Company drew down on the Convertible.

	30 June 2007 Number	30 June 2006 Number	30 June 2007 US\$	30 June 2006 US\$
Movements in convertible notes and bond				
Balance at beginning of year	—	16,078,191	—	2,206,678
Issue of convertible bond	7,677,337	—	20,000,000	—
Equity portion	—	—	(4,003,682)	—
Interest accreted for the year	—	—	915,265	—
Exchange differences	—	—	—	(94,399)
Redeemed during the year	—	(9,417,761)	—	(1,239,403)
Converted to ordinary shares	—	(6,660,430)	—	(872,876)
Balance at the end of year	7,677,337	—	16,911,583	—

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 21. INTEREST BEARING LOANS AND BORROWINGS (continued)

### (vii) Loan – unsecured

The loans to Directors Mr J Dippenaar and Mr J Davidson were repaid during the year.

### (viii) Lease and hire purchase liabilities

The lease and hire purchase liabilities are secured over plant and equipment with a net carrying value of US\$136,775 (30 June 2006: US\$151,972). The effective interest rate is 13.8% with a final instalment R37,609 (US\$5,315). The remaining period is 1 month.

	2007 US\$	2006 US\$
<b>22. TRADE AND OTHER PAYABLES</b>		
Current		
Trade payables	6,010,647	3,457,178
Settlement of purchase consideration for controlled entity (i)	3,250,000	1,750,000
Provident fund contributions	47,469	117,724
Other creditors	513,320	1,333,833
	<b>9,821,436</b>	<b>6,658,735</b>
Non-current		
Amounts owing to associates	3,176,581	11,546
Settlement of purchase consideration for controlled entity (i)	—	1,500,000
Reduction for deferred settlement (ii)	(376,075)	(643,723)
	<b>2,800,506</b>	<b>867,823</b>

### 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 over three years as follows:

US\$1,750,000 for the year ending 31 December 2006 payable by 30 April 2007. This amount was not payable with respect to the cash surplus of Helam Mining (Pty) Ltd for the year ending 31 December 2006, and accordingly the US\$1,750,000 will be carried forward and considered with regards to the year ending 31 December 2007.

Any shortfall in the amount payable in any one year can be carried forward to the next year until such time that the total amount payable of US\$3,250,000 has been extinguished. No payments were made during the year or subsequent to year end.

(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% pa to the three-year repayment schedule detailed above. The reduction in the acquisition price from the deferred settlement at the date of acquisition by a controlled entity, Crown Diamonds NL in July 2004 was determined to be US\$770,160. The reduction in the acquisition price will be amortised over the three-and-half-year term commencing from the date of acquisition of the Helam Diamond mine by Crown Diamonds NL. For the year to 30 June 2007 the amount of interest was US\$267,648 (30 June 2006: US\$230,573).



# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	Employee entitlements US\$	Rehabilitation US\$	Total US\$
<b>23. PROVISIONS</b>			
Balance at 1 July 2005	2,043,306	1,716,998	3,760,304
Acquired by business combination	—	—	—
Exchange differences	(40,924)	(19,242)	(60,166)
Balance at 30 June 2006	2,002,382	1,697,756	3,700,138
Current	2,002,382	—	2,002,382
Non-current	—	1,697,756	1,697,756
Balance at 30 June 2006	2,002,382	1,697,756	3,700,138
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

## Employee entitlements

The provision for employee entitlements relates to accrued leave, provident fund contributions, performance bonuses and other accruals. The provision is based on estimates made, where appropriate, from historical information. The Group expects to incur the liability 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 the liability at the end of the useful life on the mining operations which is approximately 15 years from the date of this report.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>24. DEFERRED TAXATION</b>		
Balance at beginning of the year	9,932,634	11,930,799
Adjustment as a result of business combination	709,717	—
Income statement credit	(1,909,234)	(1,120,354)
Foreign currency translation difference	818,807	(877,811)
Balance at the end of year	9,551,924	9,932,634
Comprising:		
– capital allowances	12,304,637	12,884,658
– provisions	(724,061)	(625,511)
– prepayments and accruals	(200,042)	1,313
– forex allowances	(1,297,496)	(314,666)
– tax losses	(38,674,478)	(29,286,079)
	(28,591,440)	(17,340,285)
Deferred tax not raised	38,143,364	27,272,919
Deferred tax liability	9,551,924	9,932,634
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. The aggregate amount of temporary differences where deferred tax has not been recognised is \$9,334.		

## 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.

### Credit risk

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

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

### Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings. The currencies giving rise to this risk are primarily Pounds Sterling, Australian Dollars and South African Rands. At the end of the year the Company held US\$19,937,889 (30 June 2006: US\$2,941,290) of monetary assets in Pounds Sterling, US\$297,700 (30 June 2006: US\$304,382) in South African Rands and US\$36,540 (30 June 2006: US\$62,399) in Australian Dollars. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement. From time to time the Group may acquire forward contracts to fix the exchange rate on future transactions. There were no such forward contracts outstanding at the current or prior year-end.

### Interest rate risk

The Group has borrowings that incur interest at floating rates and no interest rate swaps are used. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary.

### Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates and age analysis at the balance sheet date. Each interest bearing financial liability 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.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 25. FINANCIAL INSTRUMENTS (continued)

30 June 2007

Cash and cash equivalents (US\$ '000)

	Notes	Effective interest rate	Total	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Cash	17	4.30%	44,125	44,125	—	—	—	—
<b>Loans and borrowings</b>								
Bank loan – secured	21 (i)	13.80%	241	13	14	32	182	—
Bank loan – secured	21 (iii)	13.42%	2,918	424	784	360	1,222	—
Bank loan – secured	21 (iv)	13.42%	1,767	583	—	568	616	—
Bank loan – secured	21 (v)	11.30%	9,015	9,015	—	—	—	—
Convertible note – unsecured	21 (vi)	7.48%	16,912	646	664	1,407	14,195	—
Finance leases – secured	21 (viii)	13.80%	5	5	—	—	—	—
			30,858	10,686	1,462	2,367	16,215	—

30 June 2006

Cash and cash equivalents (US\$ '000)

	Notes	Effective interest rate	Total	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Cash	17	4.03%	7,020	7,020	—	—	—	—
<b>Loans and borrowings</b>								
Bank loan – secured	21 (i)	11.57%	264	14	15	40	138	57
Bank loan – secured	21 (ii)	—	77	38	39	—	—	—
Bank loan – secured	21 (iii)	11.57%	1,340	283	284	242	531	—
Bank loan – secured	21 (iv)	11.30%	2,289	567	—	567	1,155	—
Loan unsecured	21 (vii)	11.30%	41	41	—	—	—	—
Finance leases – secured	21 (viii)	11.30%	54	24	25	5	—	—
			4,065	967	363	854	1,824	57

The fair value of the assets and borrowings presented are equal to the carrying value.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

	2007 US\$	2006 US\$
<b>26. COMMITMENTS</b>		
Operating leases:		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	98,149	94,003
Between one and five years	489,243	—
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 2007 US\$153,739 was recognised as an expense in the income statement in respect of operating leases, as disclosed in note 6.		
<b>27. CONTINGENT LIABILITIES</b>		
Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors consider should be disclosed.		
The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.		
<b>Contingent liabilities not considered remote</b>		
Bank guarantees with government instrumentalities which are secured by way of fixed charges over realty, a general notarial bond over movable assets and a guarantee from two Directors in respect of mining licences and supply contracts for Helam Mining (Pty) Limited, Star Diamonds (Pty) Limited and Messina Diamonds (Pty) Limited.	948,474	923,151
Bank guarantee with government instrumentality secured by way of a deposit in respect of a mining licence at Sedibeng diamond mine.	151,987	163,768
Bank guarantee with government instrumentality secured by way of a deposit in respect of a mining licence at Koffiefontein diamond mine.	8,111,928	—
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.	1,450,000	1,450,000
Deferred consideration payable for strategic investment in future mining and exploration projects in Angola.	3,000,000	—

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

As part of the CDIH acquisition, 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.



PetraDiamonds

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 27. CONTINGENT LIABILITIES

### Contingent liabilities considered remote

A former Director of Crown Diamonds NL has lodged a claim for AUD\$1,193,407 (US\$1,012,735) being a project sourcing fee resulting from the acquisition of Helam Mining (Pty) Ltd. In the Directors' opinion, disclosure of any further information about this matter would be prejudicial to the interests of the Company.

Indemnities have been provided to Directors in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements.

### Environmental

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

## 28. SHARE-BASED OPTIONS

The Company has an established share option programme that entitles the Remuneration Committee, at its discretion, to grant share options to Directors and senior management. The terms and conditions of the share options granted during the year ended 30 June 2007 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.

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%

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

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

The expected volatility is based on historic volatility, adjusted for any extreme changes in the share price during the historic period.

During the year 1,089,000 options were exercised and the Company expensed US\$473,339 (30 June 2006: \$602,246) related to the fair value of employee share options.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 28. SHARE-BASED OPTIONS (continued)

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

Employees entitled	Grant date	Number	Vesting conditions	Remaining life of options (years)
Options granted to directors (subject to performance conditions)	5 September 2003	1,000,000	1/3 rd per annum	6
	16 June 2005	2,000,000	1/3 rd per annum	8
	31 May 2006	1,000,000	1/3 rd per annum	9
	2 March 2007	1,200,000	1/3 rd per annum	10
Options granted to senior management	5 September 2003	206,000	1/3 rd per annum	6
	13 September 2004	50,000	1/3 rd per annum	7
	24 September 2004	238,875	25% per annum for 2 years, then 50% in 3rd year	7
	28 January 2005	72,500	25% per annum for 2 years, then 50% in 3rd year	8
	27 November 2005	490,000	1/3 rd per annum	8
	31 May 2006	480,000	1/3 rd per annum	9
	31 July 2006	563,625	1/3 rd per annum	10
	31 October 2006	200,000	1/3 rd per annum	10
	24 November 2006	1,000,000	1/3 rd per annum	10
	2 March 2007	1,230,000	1/3 rd per annum	10

	2007 Weighted average price	2007 Number	2006 Weighted average price	2006 Number
Outstanding at beginning of the year	65.97p	6,646,375	60.66p	6,030,959
Forfeited during the year	85.00p	(30,000)	63.97p	(788,437)
Exercised during the year	33.96p	(1,089,000)	48.71p	(596,147)
Granted during the year	141.21p	4,203,625	76.06p	2,000,000
Outstanding at the end of the year	89.53p	9,731,000	65.97p	6,646,375
Exercisable at the end of the year	99p	3,422,108	53p	2,417,844

The weighted average market price of the options exercised during the year was 153.98p. The options outstanding at 30 June 2007 have an exercise price in the range of 44p to 156p (June 2006: 44p to 85p) and a weighted average contractual life of nine years (30 June 2006: eight years).

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 29. POST-BALANCE SHEET EVENTS

### Luangue Joint Venture Agreement

On 1 August 2007, the Company entered into a joint venture agreement ("Luangue JVA") with BHP Billiton to develop the Luangue diamond project ("Project Luangue") in north eastern Angola.

Under the terms of the Luangue JVA:

- (i) BHP Billiton acquired 25% of the issued share capital of Frannor Investments and Finance Limited, from Petra for a cash consideration of US\$22.35 million;
- (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 ("EVTE") 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; and
- (iii) BHP Billiton and Petra will work together to further Frannor's objective of fast-tracking the technical development at Project Luangue.

### Acquisition of Kimberley Underground Mines

On 14 September 2007, the Company entered into a conditional agreement with De Beers Consolidated Mines Limited ("De Beers") to acquire the mining and associated assets previously used by De Beers in the operation of the Kimberley Underground diamond mines ("Kimberley Underground"), which are situated near Kimberley, South Africa.

The consideration payable is R78.5 million (\$11.1 million). The consideration is to be settled by Petra assuming De Beers' rehabilitation obligations with regards to Kimberley Underground of R63.5 million (US\$8.9 million), and the payment in cash by Petra to De Beers of R15 million (US\$2.2 million).

No pro forma financial information as at 19 November 2007 is available in respect of the Kimberley Underground operations as no mining activity occurred during the period. 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 date of the Group's results.

### Issue of shares

On 1 October 2007 the Company issued 2,500,000 new ordinary shares. The shares were issued and allotted pursuant to the exercise of 1,500,000 and 1,000,000 warrants at an exercise price of 30p and 100p respectively by Photon Global Limited.

### Acquisition of Cullinan Diamond Mine

On 22 November 2007, the Company announced that it had, as a member of the Petra Diamonds Cullinan Consortium ("PDCC"), entered into an agreement with De Beers to acquire the Cullinan Diamond Mine ("Cullinan") in South Africa.

Salient features of the transaction are:

- (i) PDCC will acquire Cullinan from De Beers for a total cash consideration of R1 billion (US\$149.0 million); Petra's share of the consideration is R325 million (US\$48.4 million).
- (ii) The members of PDCC are Petra Diamonds Limited (37% initial interest), Al Rajhi Holdings W.L.L. ("Al Rajhi") (37% initial interest) and PDCC's Black Economic Empowerment ("BEE") partners (26% interest). The Company can at its option increase its interest in PDCC (from Al Rajhi) based on performance of the mine and pre-agreed option payments. PDCC will be funded by Petra US\$50 million and Al Rajhi US\$150 million; the total funding of US\$200 million will be applied to the purchase consideration of Cullinan of R1 billion (US\$149.0 million), with the balance for the mine's working capital and Capex requirements.
- (iii) The BEE partners will pay for their interests from their share of future cash flows from the mine, after servicing interest at appropriate interest rates, or they can arrange independent financing.
- (iv) The BEE partners are represented by Thembinkosi Mining Investments (Pty) Ltd, a consortium of BEE mining companies with a 14% interest, and a broad based Petra employee share trust with a 12% interest that will ensure that all Petra employees can benefit in the mine's success.

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 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 note 21 (vii) and 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 42.

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

### Contingent liabilities

Details of contingent liabilities are disclosed in Note 27.

## RELATED-PARTY TRANSACTIONS

### Nabera Mining (Pty) Limited

The Company is a 29.5% shareholder in Nabera Mining (Pty) Limited ("Nabera"), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2007 Petra Diamonds paid expenses on behalf of Nabera amounting to R911,925 (US\$128,875) (30 June 2006 R5,811 (US\$799)). 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.

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

## 31. SIGNIFICANT NON-CASH TRANSACTIONS

During the year the Company:

- acquired the issued share capital of Frannor Investments & Finance Ltd. The consideration was satisfied by the issue of 19,674,584 Petra ordinary shares,
- issued a US\$20 million unsecured interest free convertible bond, a portion of which was converted into equity reserves.

	2007 US\$	2006 US\$
<b>Investing activities</b>		
Equity consideration for business combination	61,885,994	21,997,991
Impairment of listed investment	(1,201,274)	—
	<b>60,684,720</b>	<b>21,997,991</b>
<b>Financing activities</b>		
Convertible bond converted to equity reserves	4,003,682	—
	<b>4,003,682</b>	<b>—</b>



# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 32. SUBSIDIARIES AND ASSOCIATES

At 30 June 2007 the Group held 20% or more of the allotted share capital of the following:

	Country of incorporation	Class of share capital held	Percentage held 2007	Percentage held 2006	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 <sup>1</sup>	British Virgin Islands	Ordinary	100%^	—	Mining and exploration
Calibrated Diamonds Investment Holdings (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	—	Investment holding
Calibrated Diamonds (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	—	Beneficiation
Compass Mining Services (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Crown Diamonds (Pty) Ltd	Australia	Ordinary	100%^	100%^	Investment holding
Crown Resources (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
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 <sup>3</sup>	British Virgin Islands	Ordinary	100%^	—	Mining and exploration
Frannor Investments and Financing (Pty) Ltd <sup>3</sup>	South Africa	Ordinary	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 <sup>4</sup>	South Africa	Ordinary	70%^	—	Mining and exploration
Laser Optronic Technologies (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	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

# Notes to the Annual Financial Statements

for the year ended 30 June 2007

## 32. SUBSIDIARIES AND ASSOCIATES (continued)

	Country of incorporation	Class of share capital held	Percentage held 2007	Percentage held 2006	Nature of business
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
Paardekraal Properties (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Dormant
Pacific Breeze Trading (Pty) Ltd <sup>2</sup>	South Africa	Ordinary	100%^	—	Dormant
Pagvlei Mining (Pty) Ltd	South Africa	Ordinary	100%^	100%^	Mining and exploration
Petra Diamonds Alto Cuilo Ltd	British Virgin Islands	Ordinary	31%#	47%#	Mining and exploration
Petra Diamonds Angola Holdings Ltd <sup>1</sup>	British Virgin Islands	Ordinary	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
Santara Holdings (Pty) Ltd	Australia	Ordinary	100%^	100%^	Dormant
Sedibeng Diamond Mine JV	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

<sup>1</sup>BPL Diamonds Ltd and Petra Diamonds Angola Holdings Ltd are subsidiaries newly incorporated during the financial year.

<sup>2</sup>Calibrated Diamonds Investment Holdings (Pty) Ltd, Calibrated Diamonds (Pty) Ltd, Laser Optronic Technologies (Pty) Ltd and Pacific Breeze (Pty) Ltd are subsidiaries acquired as a result of the Calibrated Diamonds Investment Holdings (Pty) Ltd acquisition in November 2006.

<sup>3</sup>Frannor Investments and Finance Ltd and Frannor Investments and Financing (Pty) Ltd are subsidiaries acquired as a result of the Frannor Investments and Finance Ltd acquisition in March 2007. The Frannor companies year-ends are 31 December; however the results of the subsidiaries were prepared to 30 June 2007 for the purposes of consolidation.

<sup>4</sup>Koffiefontein Mine JV was formed due to the acquisition by the Company of Koffiefontein diamond mine from De Beers Consolidated Mines during the year.

\*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 respective risks and obligations. The Company therefore considers that it controls the company and will continue to consolidate the results of Autumn until such time that the other equity shareholders start to proportionately share in the associated risks.

^Acquisition accounted

#Equity accounted

# Notice of Annual General Meeting

*for the year ended 30 June 2007*

Notice is hereby given that the tenth Annual General Meeting of Petra Diamonds Limited ("the Company") will be held at 10:00 am on Thursday, 24 January 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 2007, together with the Reports of the Directors and Auditors, be received.

## **2. APPOINTMENT OF AUDITORS**

That BDO Stoy Hayward LLP of 8 Baker Street, London, W1U 3LL be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid, or until their successors are appointed and that the Directors be authorised to fix the remuneration of the auditors.

## **3. RE-ELECTION OF DIRECTORS**

That each of (a) Johan Dippenaar and (b) David Aberly (each to be separately proposed and voted upon), who retire in accordance with the Company's Byelaws, 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

18 December 2007

## **Registered Office**

Clarendon House, 2 Church Street, Hamilton HM11, Bermuda

Company registration number: EC23123

## **EXPLANATORY NOTES**

These explanatory notes form part of the Notice of Meeting.

## **NOTES**

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

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

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

# Form of Proxy

for the year ended 30 June 2007

## PETRA DIAMONDS LIMITED

I/We \_\_\_\_\_

of \_\_\_\_\_

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

the Chairman of the Meeting or \_\_\_\_\_

as my/our proxy to vote on my/our behalf on the resolutions to be proposed at the 2007 Annual General Meeting of the members of the Company to be held at 10:00 am on Thursday, 24 January 2008 and at every adjournment thereof as indicated below or, in the absence of any such indication, my/our proxy shall vote or abstain as he/she thinks fit:

The resolutions	For	Against	Abstain
<b>Item No. 1</b> Statutory accounts			
<b>Item No. 2</b> Appointment of auditors			
<b>Item No. 3</b> Re-election of directors			
(a) Re-election of Johan Dippenaar			
(b) Re-election of David Abery			

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2008

Signature \_\_\_\_\_

## Notes

1. Proxies are entitled to vote on a poll or on a show of hands.
2. Members shall place an "X" in the box indicating the way in which their vote is to be cast.
3. If the member is a corporation, the proxy should be signed either by a duly authorised officer or attorney or be completed under the common seal of the Company.
4. Members wishing to appoint their own proxy, who need not be a member, should fill in the name of their proxy in the space provided with or without deleting the words "the Chairman of the Meeting or".
5. This proxy should be completed and dispatched so as to arrive at:
  - the Company's UK branch registrars, Capita Registrars (Proxies), 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.
6. A member may vote for or against the re-election of the directors as a whole by placing an "X" in the appropriate box. If a member wishes to vote for or against the re-election of one or more of the directors he/she should place an "X" indicating those directors he/she is voting for or against, as the case may be, in the appropriate box.
7. Any alterations to this Form of Proxy should be initialled by the member.





**Petra**Diamonds