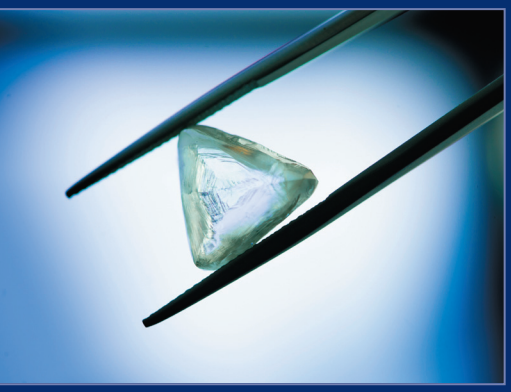
PetraDiamonds

Prospectus 15 December 2011

# Discover Petra Diamonds



PetraDiamonds

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This document, which comprises a prospectus relating to the Company, has been prepared in accordance with the Prospectus Rules made by the Financial Services Authority (the "**FSA**") pursuant to section 73A of the FSMA, has been filed with the FSA and made available to the public in accordance with the Prospectus Rules.

The Ordinary Shares are currently admitted to trading on the AIM market of the London Stock Exchange plc ("**London Stock Exchange**"). Applications have been made to (i) the London Stock Exchange to cancel the admission of the Company's entire issued share capital on AIM; (ii) to the FSA for all the Ordinary Shares to be admitted to the premium segment of the Official List of the FSA (the "**Official List**"); and (iii) to the London Stock Exchange for such Ordinary Shares to be admitted to trading on its main market for listed securities (together, "**Admission**"). It is expected that Admission will become effective on 21 December 2011 and that dealings in Ordinary Shares on the main market of the London Stock Exchange will commence on that date. Trading of the Ordinary Shares on AIM will be cancelled by no later than Admission.

The Company and the Directors (whose names appear on page 22 of this document) accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omissions likely to affect the import of such information.

**The whole text of this document should be read and, in particular, your attention is drawn to the section headed "Risk Factors" contained on pages 11 to 17 of this document for a description of certain important factors, risks and uncertainties that may affect the Group's business and the Ordinary Shares**. All statements regarding the Group's business, financial position and prospects should be viewed in light of the risk factors set out on pages 11 to 17 of this document.

Shareholders are not required to take any action upon receipt of this document. The Company is not issuing any new Ordinary Shares nor is it seeking to raise any new money in connection with Admission. This document has been published solely to enable the Company to obtain Admission of the Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities.

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PetraDiamonds

*(Incorporated and registered in Bermuda under the Companies Act 1981 (Bermuda) with Registered No. EC23123)*

# Admission to the premium segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities

*Sponsor and Joint Broker*

## RBC Capital Markets

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**Share Capital immediately following Admission**
Ordinary Shares of 10p each

*Issued and fully paid*

| *Number* | *Amount (£)* |
|---|---|
| *501,351,601* | *50,135,160.10* |

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Investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by, or on behalf of, the Company or RBC Capital Markets. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, the delivery of this document shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The Ordinary Shares have not been and will not be approved by the United States Securities and Exchange Commission, any US state securities commission or any other regulatory authority in the United States or another Prohibited Territory, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this document. Any representation to the contrary may be a criminal offence. No regulatory clearances in respect of the Ordinary Shares have been, or will be, applied for in any jurisdiction other than the UK.

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Capitalised terms used in this document have the meanings ascribed to them in Part XI ("Definitions") of this document.

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# SUMMARY INFORMATION

*The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any decision to invest in the Ordinary Shares should be based on consideration of this document as a whole. Where a claim relating to the information contained in this document is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.*

## 1. Overview of Business

Petra is a leading independent diamond mining group focused on the continent of Africa. It has controlling interests in eight producing diamond mines – seven in South Africa and one in Tanzania – and an exploration programme in Botswana.

Petra's vision is to develop a diamond mining group of global significance and, to this end, the Group has grown rapidly via acquisition. It has acquired five important 'kimberlite pipe' diamond mines from De Beers since 2007 to date, being (in chronological order) Koffiefontein (South Africa), Cullinan (South Africa), Williamson (Tanzania), Kimberley Underground (South Africa) and Finsch (South Africa). In so doing, the Group has compiled one of the world's largest diamond resources of over 300 million carats.

In addition to the kimberlite pipe mines named above, the Group has a portfolio of three kimberlite 'fissure' mines (Helam, Sedibeng and Star) in South Africa.

Petra is focused on optimising output and growing revenues from each of its operations and is planning to increase production from just over 1.1 million carats in FY 2011 to over 5 million carats by FY 2019. The Group markets and sells the majority of its rough diamond production in Johannesburg (South African goods) and Antwerp (Tanzanian goods).

The Company provides direct exposure to the positive long-term fundamentals of the diamond industry, where demand is forecast to outpace supply, resulting in the emergence of a significant rough diamond supply deficit.

Petra has a well-diversified asset portfolio, which incorporates the full range of kimberlite 'hardrock' operations, combining large underground pipe mines with low tonnage, high grade fissure mines and one large, high volume open pit mine and a number of prospective exploration sites. A summary overview of each asset is listed below.

***Producing Mines***

*Cullinan*

74% ownership; 14% Thembinkosi; 12% PDET

Cullinan is an underground block cave diamond mine located 37 km north east of Pretoria in the Gauteng province of South Africa. Petra is currently mining at a depth of 747 metres and is implementing an expansion plan to take production from just over 895,000 ctpa to ca. 2.4 Mctpa (combining underground mining and tailings retreatment) by FY 2019.

*Finsch*

74% ownership; 21% Senakha Diamonds; 5% PDET

Finsch is an underground block cave diamond mine located approximately 165 km north west of Kimberley in the Northern Cape province of South Africa. Petra's mine plan is to gradually increase production from ca. 1.5 Mctpa to just under 2 Mctpa (combining underground mining and tailings retreatment) by FY 2018.

*Williamson*

75% ownership; 25% Government of Tanzania

Williamson is a large open pit diamond mine located at Mwadui, 40 km north east of Shinyanga, the capital of the Shinyanga Region of Tanzania. Petra is implementing a major expansion plan which is expected to take production to a 10 Mtpa operation (combining the existing rebuilt 3 Mtpa plant together with a new expansion plant) expected to recover ca. 600,000 ctpa.

*Koffiefontein*

74% ownership; 21% Re Teng; 5% PDET

Koffiefontein is an underground front cave diamond mine located in the Free State province of South Africa, approximately 110 km south east of Kimberley. Petra is currently mining at a depth of 490 metres and is implementing an expansion plan which is expected to increase production from ca. 48,000 ctpa to over 100,000 ctpa (combining underground mining and tailings retreatment) by FY 2017.

*Kimberley Underground*

74% ownership; 26% Sedibeng Mining

The Kimberley Underground mines comprise three underground kimberlite pipe mines in close proximity – Bultfontein, Dutoitspan and Wesselton – located at Kimberley in the Northern Cape province of South Africa. Petra's expansion plan at Kimberley Underground envisages production rising from ca. 57,000 ctpa in FY 2011 to ca. 150,000 ctpa by FY 2013.

*Fissure Mines*

Helam: 74% ownership; 26% Sedibeng Mining

Sedibeng: 74.5% ownership; 17.85% Sedibeng Mining; 7.65% Bokone

Star: 74% ownership; 26% Sedibeng Mining

The Fissure Mines portfolio comprises three mines: Helam, Sedibeng and Star. Sedibeng is located 80 km north west of Kimberley in the Northern Cape Province, Star is located some 40 km south of Welkom in the Free State province of South Africa and Helam is located 70 km west of Rustenburg in the North West Province of South Africa. The mines are accessing Reserves between 600 and 750 metres deep. An expansion plan to increase production from ca. 87,000 carats in FY 2011 to ca. 140,000 ctpa by FY 2015 is being implemented.

*Group production (gross) for the last three financial years (broken down by operation)*

| | *FY 2011 (carats)* | *FY 2010 (carats)* | *FY 2009 (carats)* |
|---|---|---|---|
| Cullinan | 895,439 | 927,931 | 888,595 |
| Williamson | 29,510 | 101,071 | 84,486 |
| Koffiefontein | 47,956 | 60,260 | 52,089 |
| Kimberley Underground | 57,402 | 1,362 | n/a |
| Fissure Mines | 87,488 | 74,232 | 71,274 |
| Kono Project | n/a | n/a | 2,923 |
| **Group total** | **1,117,795** | **1,164,856** | **1,099,367** |

Note: the acquisition of Finsch completed post the end of FY 2011 on 14 September 2011.

***Exploration***

*Kalahari Diamonds – Botswana*

100% Ownership

Petra's exploration activities are focused on Botswana, which offers an exceptional basis for exploration in that it ranks highly with regards to diamond prospectivity, yet it generally ranks well with regards to operating costs. Botswana is the world's largest diamond producer by value, and host to the major Jwaneng and Orapa mines owned by De Beers. Petra currently holds one of the largest diamond exploration landholdings in the country, with some 22,250 $km^2$ under licence. Despite the large landholding, Petra is carrying out a focused and cost effective campaign concentrated on a number of key targets.

## 2. Strategy and Key Strengths

Petra's vision is to develop a diamond mining group of global significance.

The Company is committed to increasing shareholder value through the development of its assets, with the core objective to grow production and revenues substantially over time, and increase its stature as a leading diamond mining group. The Directors believe that this planned growth in output

will place Petra in a strong position to benefit from the positive long-term fundamentals of the diamond industry, where demand is forecast to outpace supply.

The key parts of the Group's strategy are summarised as follows:

- focus on cash-generative diamond production;
- grow annual carat production;
- increase access to undiluted ore by opening up new mining areas within the current portfolio of the Group's assets;
- optimise recoveries by focusing on 'value' as opposed to 'volume' production; and
- focus on efficiency and rigorous cost control.

The Directors believe that the Group has a number of key strengths:

- a proven operational track record in the diamond mining industry;
- a major resource base; having compiled one of the world's largest diamond resources of over 300 million carats;
- a diversified portfolio of operations;
- a strong knowledge of its mining assets;
- an effective cost focus, well suited to maximising returns from its assets;
- a management culture which encourages innovation and creativity; and
- an exceptional forward growth profile which positions Petra as a unique investment opportunity within the diamond sector.

### 3. Reserves and Resources

The following tables summarise the up to date Reserves and Resources information (i) for the Group (excluding Finsch) (table 1), (ii) for Finsch only (table 2) and (iii) for the Group including Finsch (table 3). The Reserves and Resources for each individual operation are listed separately in Part II: Principal Group Assets.

*Table 1*

*Petra's Group Reserves and Resources (excluding Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 53.191 | 41.89 | 22.283 | 39.364 | 41.89 | 16.490 |
| — | | | | | | |
| **Sub-total** | **69.814** | **33.59** | **23.452** | **51.667** | **33.59** | **17.356** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 408.894 | 48.40 | 197.897 | 303.569 | 48.26 | 146.494 |
| Inferred | 1,204.994 | 5.21 | 62.839 | 900.579 | 5.20 | 46.854 |
| **Total Resources inclusive of Reserves** | **1,629.614** | **16.08** | **262.040** | **1215.786** | **15.98** | **194.313** |

*Table 2*

*Reserves and Resources – Finsch only*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 58.598 | 43.99 | 25.779 | 43.362 | 43.99 | 19.076 |
| **Sub-total** | **58.598** | **43.99** | **25.779** | **43.362** | **43.99** | **19.076** |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 54.408 | 47.98 | 26.102 | 40.262 | 47.98 | 19.316 |
| Inferred | 43.132 | 40.71 | 17.558 | 31.917 | 40.71 | 12.993 |
| **Total Resources inclusive of Reserves** | **97.539** | **44.76** | **43.661** | **72.179** | **44.76** | **32.309** |

*Table 3*

*Petra's Group Reserves and Resources (including Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 111.789 | 42.99 | 48.062 | 82.726 | 42.99 | 35.566 |
| **Sub-total** | **128.412** | **38.34** | **49.231** | **95.030** | **38.34** | **36.432** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 463.302 | 48.35 | 223.999 | 343.830 | 48.22 | 165.809 |
| Inferred | 1,248.126 | 6.44 | 80.397 | 932.496 | 6.42 | 59.847 |
| **Total Resources inclusive of Reserves** | **1,727.154** | **17.70** | **305.701** | **1,287.965** | **17.60** | **226.622** |

Explanatory notes on page 41 of Part II of this document.

## 4. Background to and reasons for Admission to the Official List

The Directors believe that a listing of the Company's Ordinary Shares on the premium segment of the Official List and trading of the Company's Ordinary Shares on the Main Market is the most appropriate platform for the continued growth of the Company and will further raise the Company's profile and status. In addition, the Directors believe that, due to the higher number of institutional investors who regularly trade in shares of companies admitted to the Official List and the higher profile of such companies, following Admission the Company will be better placed to achieve improved liquidity in the Ordinary Shares. Following Admission, Petra also expects to be eligible for inclusion in the FTSE UK index series.

## 5. Admission and Dealings

The Company is not offering any new Ordinary Shares nor any other securities in connection with Admission.

It is expected that Admission will become effective on 21 December 2011 and that dealings in Ordinary Shares on the London Stock Exchange will commence on that date. Trading of the Ordinary Shares on AIM will be cancelled by no later than Admission.

## 6. Summary Financial Information[1]

| **Income Statement data:** | *12 months to 30 June 11 (US$M)* | *12 months to 30 June 10 (US$M)* | *12 months to 30 June 09 (US$M)* |
|---|---|---|---|
| **Revenue** | **220.6** | **163.7** | **69.3** |
| Mining and processing costs | (146.9) | (98.9) | (64.0) |
| Other direct income | 2.7 | 2.4 | 2.5 |
| **Profit from mining activity** | **76.4** | **67.2** | **7.8** |
| Other income | — | 5.4 | 3.2 |
| Exploration income/(expense) | (1.3) | 1.2 | (13.7) |
| Corporate overhead | (8.0) | (7.5) | (5.9) |
| Deferred taxation on inventory fair value adjustment | — | (7.4) | — |
| Inventory fair value adjustment | — | (19.0) | — |
| Cullinan fair value adjustment | — | 31.0 | — |
| **Adjusted EBITDA** | **67.1** | **70.9** | **(8.6)** |
| Net reversal of impairments | 6.5 | — | (75.3) |
| Recycling of foreign exchange differences on exploration projects | — | 12.3 | — |
| Depreciation | (22.4) | (11.8) | (11.6) |
| Amortisation | — | (1.0) | (3.3) |
| Share based expense | (1.9) | (1.7) | (2.3) |
| Net unrealised foreign exchange gain | 18.6 | 0.8 | 13.4 |
| Net finance expense | (3.5) | (0.5) | (6.3) |
| Profit from discontinued operations | — | — | 1.6 |
| Tax (expense)/credit | (5.2) | 1.2 | 3.4 |
| **Net profit / (loss) after tax – Group** | **59.2** | **70.2** | **(89.0)** |
| **Basic profit / (loss) per share attributable to the equity holders of the Company – cents** | **12.83** | **22.65** | **(49.38)** |
| Weighted average shares in issue (millions) | 414.7 | 280.2 | 184.0 |
| **Basic diluted profit / (loss) per share attributable to the equity holders of the Company – cents** | **12.35** | **22.20** | **(49.38)** |
| Weighted average shares in issue for diluted EPS (millions) | 430.7 | 285.9 | 184.0 |
| **Cash at bank** | **324.9** | **34.5** | **11.1** |
| **Cashflow data:** | | | |
| Net cash generated from operating activities | **50.6** | **48.8** | **4.6** |
| Net cash utilised in investing activities | **(330.4)** | **(52.6)** | **(113.1)** |
| Net cash generated from financing activities | **349.8** | **21.7** | **95.5** |
| Net increase/(decrease) in cash and cash equivalents | **70.0** | **17.9** | **(13.0)** |
| **Balance Sheet data:** | | | |
| Current assets | 413.6 | 87.4 | 44.8 |
| Non-current assets | 552.9 | 404.0 | 197.4 |
| Total assets | 966.5 | 491.4 | 242.2 |
| Borrowings (short and long term) | 90.1 | 64.5 | 101.7 |
| Current liabilities | 66.3 | 49.9 | 86.1 |
| Total Equity | 699.0 | 290.9 | 57.3 |

1. The table above does not include the impact of the acquisition of Finsch.

## 7. Current Trading and Future Prospects

### *Finsch*

On 14 September 2011, the acquisition of Finsch from De Beers completed and Petra assumed management and operation of the mine with immediate effect. In FY 2012, Finsch is expected to add ca. 125,000 carats per month to Petra's output (after an initial bedding down period), adding at least 1 million carats for FY 2012.

***Diamond prices***

On 19 September 2011, Petra published its preliminary results (unaudited) for FY 2011 which included a full commentary on trading for FY 2011. As stated within the preliminary results announcement, the US Dollar prices achieved by Petra from its rough diamond sales rose steadily from October 2010 to 30 June 2011. However, since July 2011, Petra (and the industry) has seen rough diamond prices adjust downwards from the June 2011 highs. The fall in rough diamond prices from July 2011 to 13 December 2011 has resulted in Petra's gross revenues, over the same period, being ca. US$23.0 million lower (based on average rough diamond prices actually achieved) than the Group's expectations, based on the Directors' assumptions for rough diamond prices for FY 2012, which were as follows:.

| *Mine* | *Weighted Average (US$)* | *ROM (US$)* | *Tailings/Other (US$)* |
|---|---|---|---|
| Cullinan | 163 | 170 | 100 |
| Finsch | 155 | 180 | 95 |
| Williamson (main pit excluding alluvials) | 230 | 230 | n/a |
| Koffiefontein | 549 | 600 | 480 – Ebenhaezer<br>200 – Tailings |
| Kimberley Underground | 325 | 325 | 150 |
| Fissures | 271 | 180 – 450 | n/a |

The Company remains confident that, in the medium term, rough diamond prices will stabilise and return to the approximate price levels disclosed in the table above.

***Exchange rates***

Since July 2011, the Rand has weakened significantly against the US Dollar. The bulk of the Group's operations are based in South Africa, with the Rand being the transactional currency whilst the Group's reporting currency is the US Dollar. For the period from 1 July to 13 December 2011 (being the latest practicable date prior to the publication of this document) the Rand averaged R7.5141 against the US Dollar, compared to management's business plan of R6.75.

The weakening of the Rand against the US Dollar during the period from July will reduce the Group's reported US Dollar operating costs and capital expenditure. It is not possible to accurately quantify an approximate US Dollar operating cost or capital expenditure effect at this time, but Petra notes that the exchange rate movement as set out above will have a significant positive effect.

In line with past practice, Petra will publish a detailed trading statement for the full period of 1 July to 31 December 2011 in early 2012.

## 8. The Board and Senior Management

| | | |
|---|---|---|
| **Directors** | Adonis Pouroulis | Non-Executive Chairman |
| | Johan Dippenaar | Chief Executive Officer |
| | David Abery | Finance Director |
| | Jim Davidson | Technical Director |
| | Dr Patrick Bartlett | Independent Non-Executive Director |
| | Gordon Hamilton | Independent Non-Executive Director |
| | Dr Omar Kamal | Non-Executive Director |
| **Senior Management** | Jacobus Visser | Group Operations Manager |
| | Jacques Breytenbach | Finance Manager Operations |
| | Teon Swanepoel | Head of Mining Operations |

## 9. Dividends and Dividend Policy

The Company has not declared or paid any dividends on the Ordinary Shares to date. The payment of any future dividends will depend upon earnings and the Company's financial condition, current and anticipated cash needs and such other factors as the Directors consider appropriate. The Directors do not intend to declare or pay a dividend in relation to the Company in the near-term future as the Directors anticipate that the Company will retain future earnings and other cash resources for the operation, development and expansion of the business. Subject to the availability of

sufficient distributable profits, the Directors do intend to commence the payment of dividends when it becomes commercially prudent to do so and to adopt a progressive dividend policy thereafter.

## 10. Share Capital

As at 13 December 2011 (being the last practicable date prior to publication of this document), the authorised share capital of the Company is £65,000,000, divided into 650,000,000 Ordinary Shares and the issued share capital in the Company is 501,351,601 Ordinary Shares, all of which are fully paid.

## 11. Summary of Principal Risk Factors

Investors should carefully consider all of the information in this document, including the following risk factors, which the Directors consider to be all of the material risks specific to the Group and/or the diamond mining industry.

If certain risks were to occur and, as a result, the trading price of the Ordinary Shares went into decline, investors could lose all or part of their investment in the Company.

***Risks relating to the Group and its business***

- the business of the mining and production of diamonds from diamond deposits involves a number of risks and hazards, many of which are outside of the Group's control;
- the volatility of diamond prices is significant and unpredictable and therefore price forecasting can be difficult and imprecise;
- changes in consumer demand and preferences for luxury goods, such as diamonds, could have a material adverse effect on the financial position of the Group;
- currency fluctuations may affect the Group's revenue and operating costs;
- there can be no assurance that the Company's published Reserves and Resources will be recovered or that they can be brought into profitable production;
- the volume and grade of diamondiferous ore that the Group recovers may not conform to current expectations;
- the Group is dependent upon the grant/renewal of appropriate licences, concessions, leases, permits and regulatory consents and/or the withdrawal or limitation of the same;
- the Group's operations may be adversely affected by interruptions in its electricity supply;
- the impact of environmental regulation on the Group's activities and the costs associated with complying with such environmental regulation and requirements may be material;
- production growth and mine development may result in risks to the Group;
- the Group is highly reliant on two revenue generating producing mines;
- the Group is, and will be, dependent upon its executive and operational management team;
- the insurance coverage available to the Group may not cover all potential losses, liabilities and damages related to its business;
- labour disputes could lead to disruption in production by the Group;
- there are risks associated with the Group's use of third party providers and contractors;
- a violation of health and safety laws or a failure to comply with the relevant authorities could affect the production levels of the Group or the prospecting or mining rights available to the Group;
- the Group's financial position may be affected by theft of diamonds; and
- exploration projects in Botswana may not be successful and are highly speculative in nature.

***Risks relating to operating in South Africa, Tanzania and Botswana***

- emerging markets such as those in which the Group currently operates are subject to greater risks than more developed markets and any material adverse effect on the economies of such markets could disrupt the Group's business;
- changes in the political, fiscal and legal systems or conditions, or civil unrest in the countries in which the Group operates, may affect the ownership or operation of the Group's interests; and
- local health conditions could have an adverse effect on the Group's business.

***Risks relating to the Ordinary Shares***

- the Ordinary Shares are publicly traded and are subject to various factors that may contribute to volatility in their price;
- the Company has not declared or paid any dividends on the Ordinary Shares and cannot assure investors that it will pay dividends in the future;
- the market price of the Ordinary Shares may go up as well as down; and
- the payment of upstream dividends by the South African subsidiary companies to Petra may be subject to withholding taxes.

# RISK FACTORS

*Investment in the Ordinary Shares involves a high degree of risk. Accordingly, investors should carefully consider the following risk factors in addition to the rest of the information contained in this document. Additional risks and uncertainties not presently known or currently deemed immaterial may also have a material adverse effect on the Group.*

*If any of the risks described below were to occur, it could have a material adverse effect on the Company's business, results of operations, financial condition or prospects. If this were to lead to a decline in the market price of the Ordinary Shares, investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Company is suitable for them in light of the information in this document and the financial resources available to them.*

## PART A: RISKS RELATING TO THE GROUP AND ITS BUSINESS

**The business of the mining and production of diamonds from diamond deposits involves a number of risks and hazards, many of which are outside of the Group's control**

The business of the mining and production of diamonds from diamond deposits involves a degree of risk. The operations of the Group may be disrupted by a variety of risks, hazards and events which are beyond the control of the Group, including geological, geotechnical and seismic factors, environmental hazards, industrial and mechanical accidents, occupational and health hazards, plant shutdowns or other processing problems, technical failures, labour disputes, ground or water/mud conditions, flooding and extended interruptions due to inclement or hazardous weather conditions, explosions and other acts of God. The occurrence of any of these hazards or events can delay or interrupt production, increase production costs and result in liability to the owner or operator of the mine. The Group may become subject to liability for pollution or other hazards or events against which it has not insured or cannot insure, including those in respect of past mining activities for which it was not responsible.

**The volatility of diamond prices is significant and unpredictable and therefore price forecasting can be difficult and imprecise**

The availability of a ready market for diamonds depends upon numerous factors beyond the Company's control, the exact effects of which cannot be accurately predicted. These factors (the list of which is not exhaustive) include: general economic activity, world diamond prices, demand for luxury goods, growth of emerging markets, financing available to the diamond pipeline, action taken by other diamond producers and the extent of governmental regulation and taxation.

Historically, diamond prices have fluctuated and are affected by numerous factors over which the Group does not have any control, including world production levels, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns, purchases and sales of diamonds by producers or other large dealers, and global or regional political events. The aggregate effect of these factors is impossible to predict.

There is also uncertainty as to the possibility of increases in world production both from existing mines and the discovery of significant new diamond deposits, even though a material discovery would take some years to bring into production.

Consequently, as a result of the above factors, prices can be difficult to predict and forecasting is imprecise.

**Changes in consumer demand and preferences for luxury goods, such as diamonds, could have a material adverse effect on the financial position of the Group**

The diamond industry is subject to changes in consumer preferences, personal sentiments, perceptions and spending habits. The Group's performance depends on factors which may affect the worldwide desirability of luxury goods, in particular diamonds. Such factors include global financial and economic conditions, media coverage, consumer incomes and consumer preferences. In addition, the entry into the market in recent years of manufactured diamonds may also impact negatively on the demand for natural diamonds, especially during a period of global economic uncertainty such as is currently being experienced. Any change in consumer preferences, either by an increase in popularity of manufactured diamonds or a decrease in the popularity of natural diamonds mined by the Group as a result of the prevalence and perception of conflict diamonds, anti-diamond and diamond mining sentiment created by activist groups, levels of consumer spending, changes to consumer preferences or

otherwise, may have a material adverse effect on the Group's results of operations or financial condition.

**Currency fluctuations may affect the Group's revenue and operating costs**

The international prices for diamonds and therefore the Group's revenue source, are denominated in US Dollars, whereas a large proportion of the Group's income and expenditure is initially recorded in Rand and then translated into US Dollars, the Group's reporting currency. This exposes the Group to the fluctuations and volatility of the rate of exchange between the US Dollar and the Rand as determined in the international markets. Any extreme currency fluctuations could adversely affect the Group's future growth, revenue, cashflow, ability to repay debt and declare dividends to Shareholders. The Group may, from time to time, use financial instruments to help manage these risks when management is of the opinion that the market conditions are appropriate.

Furthermore, the Group's net assets related to its foreign operations are exposed to currency risk resulting in gains and losses on translation into US Dollars. Only in exceptional circumstances will the Group consider hedging its net investment in a foreign operation, as generally it does not consider that the reduction in foreign currency exposure warrants the cashflow risk created from such hedging techniques.

**There can be no assurance that the Company's published Reserves and Resources will be recovered or that they can be brought into profitable production**

The Company has derived the Reserves and Resources (as defined by the SAMREC Code) figures presented in this document from the calculations and estimates prepared by the Company. Reserves figures are estimates and there can be no assurances that they will be recovered or that they can be brought into profitable production. Reserves and Resources estimates may require revisions based on actual production experience.

The estimates of potential Reserves include a portion which are undeveloped. These Reserves require further capital expenditure in order to bring them into production. No guarantee can be given as to the success of work programmes required in order to bring them into production. In addition, drilling, sampling, development and production may be delayed or adversely affected by factors outside the control of the Group and the companies operating those work programmes.

**The volume and grade of diamondiferous ore that the Group recovers may not conform to current expectations**

The volume and grade of the diamondiferous ore the Group recovers may not conform to current expectations. The Group's Reserves and Resources described in this document constitute estimates that comply with standard evaluation methods generally used in the international mining industry, and have been reported in accordance with the SAMREC Code. In respect of these estimates, no assurance can be given that the anticipated revenue, tonnages and grades will be achieved, that the indicated level of recovery will be realised or that the kimberlite Resources can be mined or processed profitably. Actual Resources may not conform to expectations and the volume and grade of ore recovered may be below the estimated levels. There can be no assurance that recoveries in sampling tests will be duplicated during production. Reserves data are not necessarily indicative of future revenue. If the Group's actual Reserves and Resources are found to be less than current estimates, the Group's results of operations or financial condition may be materially and adversely affected.

**The Group is dependent upon the grant/renewal of appropriate licences, concessions, leases, permits and regulatory consents and/or the withdrawal or limitation of the same**

The Group's mining and processing activities are dependent upon the grant/renewal of appropriate licences, concessions, leases, permits and regulatory consents which may be withdrawn or made subject to limitations. In the scenario whereby the licences, concessions, leases, permits and regulatory consents are withdrawn, or made subject to material limitations at the Group's largest and most material operations, such action would have a substantial effect on the Group's revenues and operating results.

In this regard the licences most fundamental to the Group's mining and processing activities are the mining rights issued in respect of the Group's South African operations under the MPRDA and the mining licence in force under the Tanzanian Mining Act, 2010 in respect of the Williamson mine (set out in more detail in the relevant licensing sections in Part II of this document). However, as at the date of this document, the Company is not aware of any specific matters that would result in any of these licences being withdrawn or made subject to limitations.

Although the Group believes that the licences, concessions, leases, permits and consents it holds and will hold will be renewed, if required, when they expire (on the expiry dates set out in detail in the relevant licencing sections in Part II of this document), according to the current laws applicable in the respective countries, there can be no absolute assurance that they will be renewed or as to the terms of any such renewal. The most imminent renewal relates to the Koffiefontein mining right which is valid until 1 February 2017. In South Africa, provided the holder of the mining right has complied with the terms and conditions (such as compliance with mining work programmes, environmental management programmes and social and labour plans) of that mining right the Minister of Mineral Resources will renew the mining right. Before any mining rights can be cancelled or suspended, however, the mining right holder needs to be provided with written notice and an opportunity to remedy any non-compliance. As at the date of this document, the Company is not aware of any reason why the Koffienfontein mining right (or any of the Group's other mining rights) should not be renewed.

**The Group's operations may be adversely affected by interruptions in its electricity supply**

In South Africa and, more particularly, in Tanzania there is the likelihood of electricity or power outages or disruptions which could have a bearing on or interrupt production. Although to an extent in Tanzania contingency arrangements making use of generators and alternative sources of energy are in place at the mine, these are typically not as efficient as a proper supply of electricity. In South Africa, although priority is given to the mining industry, and capital projects have been put in place to increase its capacity for power supply, there have been power outages and other interruptions in electricity supply which have, and may continue to have from time to time, a detrimental effect on production.

**The impact of environmental regulation on the Group's activities and the costs associated with complying with such environmental regulation and requirements may be material**

The Group's operations are subject to environmental regulation (including regular environmental impact assessments and permitting) in all the jurisdictions in which it operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. Environmental legislation and permitting are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees. Any such charges may adversely affect the Group, including materially increasing the Group's cost of doing business or materially affecting its ability to carry on operating in any area. As at the date of this document, however, the Company is not aware of any environmental concern that would result in the cancellation or suspension of any of its mining rights.

**Production growth and mine development may result in risks to the Group**

The Group intends to continue to expand its mining and production activities. There are always risks that the benefits, synergies or efficiencies expected from such expansions may take longer than expected to be achieved or may not be achieved at all. Should the benefits, synergies or efficiencies expected from the expansions not materialise as expected, this could, post FY 2014 when the benefits of the expansion programmes are projected to accrue, have a significant adverse effect on the Group's financial results post FY 2014. This is due to the fact that the expansion projects are taking place at the Group's largest and most material mining operations and therefore the successful expansion thereof is key to the Group's continual production, growth, operating cashflow and financial results post FY 2014.

Actual production may vary from estimates of future production for a variety of reasons. There is a greater likelihood that actual production will vary from estimates of production for operations that are to be expanded, although such estimates are based upon considered evaluation by the Company and, in certain instances, by qualified independent consultants.

**The Group is highly reliant on two revenue generating producing mines**

Although Petra has a portfolio of eight producing mines, it is highly reliant on its two flagship operations, Cullinan and Finsch. These two operations account for the great majority of the Group's carat production and revenue streams. Any adverse development at either Cullinan or Finsch which leads to a prolonged and material interruption to or reduction in production levels or cessation of

production at one or both of the mines may have a material adverse effect on the Group's production results, and hence on the Group's business, results of operations and financial condition. As at the date of this document, the Directors are not aware of any specific matters that would materially impact production at Cullinan or Finsch and they consider any such risk to be of low probability.

**The Group is, and will be, dependent upon its executive and operational management team**

The Group is, and will be, dependent upon its executive and operational management team. Whilst it has entered into contractual arrangements with the aim of securing the services of the existing executive and operational management team, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the Group may have an adverse effect on the future of the Group's business. The Board has sought to, and will continue to, ensure that Directors, Senior Managers and any key employees are appropriately incentivised. However, their services cannot be guaranteed. The recruitment and retention of the appropriate technical and operational mining personnel in South Africa and Tanzania can have a material effect on the Group's production, expansion plan roll-out and financial results, as the appropriate skills are in limited supply in these countries. Underground diamond mining is a specialised and niche mining activity which makes skills recruitment and retention more challenging.

**The insurance coverage available to the Group may not cover all potential losses, liabilities and damages related to its business**

The Group maintains insurance against risks that are typical in the operation of its business and in amounts which it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available or will be adequate to cover any resulting liability.

If the Group's insurance did not cover a substantial claim for loss of assets or loss of production it would have a significant adverse effect on the Group's financial results.

**Labour disputes could lead to disruption in production by the Group**

Given the nature of the mining operations undertaken by the Group and based on past experience, there is always the potential for labour disputes leading to disruption in production. Although a collective and recognition agreement has been concluded between various members of the Group and the National Union of Mineworkers in South Africa, there remains potential for ongoing disputes in relation to annual wage increases or other working conditions. Failure to resolve these disputes could potentially result in industrial action which could, in turn, result in work stoppages and disruption to production. As at the date of this document, the Company is not aware of any specific issues with regards to labour disputes.

**The Group utilises third party providers and contractors, and the lack of availability, or failure to properly perform services, of one or more of these third party providers and contractors may adversely affect the Group**

While the Group uses relatively few third party providers and external contractors, primarily operating a model whereby each mine has its own labour force, the lack of availability of, or failure to properly perform services by, one or more of these third party providers and contractors could result in a decrease in the Group's production or delays in the development of projects which in turn could impact the Group's results of operations and financial condition. In particular, a number of resources are only available through a limited number of third parties and, lead-times, work slow-downs, stoppages or other labour related developments or disputes involving such third parties or contractors are out of the Group's control. Examples of key third party service providers and contractors to the Group are the shaft deepening contractor at Cullinan, the earth moving contractor at Williamson and the suppliers of technical and specialist mining equipment and consultancy skills to the Group's operations. If these services were to be withdrawn or not properly supplied, it would have a material impact on the Group's production, operations and financial results.

The Company believes that it has good relationships with its relevant third party providers and external contractors.

**A violation of health and safety laws or a failure to comply with the relevant authorities could affect the production levels of the Group or the prospecting or mining rights available to the Group**

A violation of health and safety laws or a failure to comply with the instructions of the relevant health and safety authorities could lead to, among other things, a temporary shutdown of all or a portion of operations, a loss of the right to prospect for or mine diamonds, or the imposition of costly compliance procedures. If health and safety authorities were to require the Group to shut down all or a portion of the operation, or to implement costly compliance measures, whether pursuant to existing or new health and safety laws and regulations, such measures could have a material adverse effect on the Group's operations and financial condition. As at the date of this document, the Company is not aware of any relevant matters that need to be disclosed in this regard.

**The Group's financial position may be affected by theft of diamonds**

The Group has established security measures across the extraction, processing, recovery, transportation and diamond sales chain; however, despite these security measures, there can be no guarantee that there will be no occurrences of theft of diamonds in the future. Such thefts may lead to a decrease in revenue at the Group's operations, which may in turn materially and adversely affect the Group's financial position.

**Exploration projects in Botswana may not be successful and are highly speculative in nature**

Mineral exploration is speculative in nature, involves many risks and frequently is unsuccessful. There can be no assurance that any discovered mineralisation will result in an increase in the Reserves or Resources of the Group. If Reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible, during which time the economic feasibility of production may change. As a result of these uncertainties, no assurance can be given that the exploration programmes undertaken by the Group in Botswana will result in any new commercial mining operations being brought into operation.

## PART B: RISKS RELATING TO OPERATING IN SOUTH AFRICA, TANZANIA AND BOTSWANA

**Emerging markets such as those in which the Group currently operates are subject to greater risks than more developed markets and any material adverse effect on the economies of such markets could disrupt the Group's business**

Emerging markets such as those in which the Group currently operates are subject to greater risks than more developed markets and any material adverse effect on the economies of such markets could disrupt the Group's business. Generally, investment in companies with a significant proportion of their assets located in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in such companies. Emerging markets such as those in which the Group currently operates are subject to rapid change. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. In the event that there is an economic crisis in any of the jurisdictions in which the Group operates, the Group may face severe difficulties in the operation of its business and the value of its assets in such jurisdictions may decrease, resulting in a material adverse effect on the financial condition of the Group.

**Changes in the political, fiscal and legal systems or conditions, or civil unrest in the countries in which the Group operates, may affect the ownership or operation of the Group's interests**

Although political conditions in the countries in which the Group operates are generally stable, changes may occur in their political, fiscal and legal systems which might affect the ownership or operation of the Group's interests which may in turn materially and adversely affect the Group's financial position. These risks include terrorism, military repression, arbitrary interference with private ownership of contract rights, change in legislation, extreme fluctuations in currency exchange rates, high rates of inflation, and changes to exchange controls, taxation and other laws or policies affecting foreign trade, investment or taxation. Any changes in mining or investment regulations and policies or a shift in political attitudes in the countries where the Group operates are beyond the control of the Group and may adversely affect its business and future financial results.

There are restrictions on the foreign ownership of mining companies in certain of the jurisdictions in which the Group currently operates and there can be no assurance that the requirements of the various governments as to the foreign ownership and control of mining companies will not change.

In South Africa, the Group will be required to consider in its commercial activities the Broad Based Black Economic Empowerment Act 53 of 2003 and the Mining Charter, the primary objective of which is to broaden entrepreneurial ownership and management opportunities for HDSA. The Mining Charter provides, *inter alia*, that by 2014, 26% of the ownership in all mining companies must be held by HDSA entities and also sets out certain requirements regarding employment equity, procurement and beneficiation. For instance, it requires mining companies to, by 2014, procure 40% of their capital goods, 70% of their services and 50% of their consumer goods from HDSA entities and to achieve workplace equity levels of 40%.

There is uncertainty as to the precise requirements in regard to black economic empowerment, as well as in relation to the consequences of failing to comply with the Mining Charter. In addition, there is a risk that the authorities will take a more aggressive approach towards black economic empowerment and threaten (and possibly attempt to suspend or cancel) mining rights if, in the authorities' view, sufficient progress is not being made towards advancing black economic empowerment by the mining right holder. The 2010 amendment to the Mining Charter introduced the concept of suspension and cancellation of mining rights in the event that a mining right holder fails to comply with the provisions of the Mining Charter.

There is a risk that the DMR may attempt to further amend the Mining Charter or introduce more onerous black economic empowerment requirements without proper engagement or consultation with stakeholders or without following a proper legislative process.

It is conceivable that the DMR may attempt to suspend or cancel mining rights due to non-compliance by the holder of such rights with the Mining Charter. Such suspension or cancellation of mining rights would have a material effect on the Group's financial position. However, the Company is not aware of any specific matters that would result in any of its mining rights being summarily withdrawn or made subject to limitations without proper and due process.

**Local health conditions could have an adverse effect on the Group's business**

HIV and AIDS, tuberculosis, malaria and other diseases are prevalent in the areas in which the Group operates. Increased mortality rates due to these diseases and viruses could result in loss of employee man-hours, loss of trained and experienced employees, increased absenteeism, depressed morale and reduced productivity, in addition to increased recruitment and replacement costs, insurance premiums, benefits payments and other costs of providing treatment. These could have an adverse effect on the Group's business, financial condition or results.

## PART C: RISKS RELATING TO ORDINARY SHARES

**The Ordinary Shares are publicly traded and are subject to various factors that may contribute to volatility in their price**

The market price of the Ordinary Shares could fluctuate significantly based on a number of factors in addition to those listed in this document, including:

- the Company's operating performance and the performance of competitors and other similar companies;
- the market's reaction to the Company's press releases, other public announcements and the Company's filings with various securities regulatory authorities;
- changes in earnings estimates or recommendations by research analysts who track the Ordinary Shares or the shares of other companies in the resource sector;
- changes in general economic conditions;
- the number of Ordinary Shares publicly traded;
- the arrival or departure of key personnel;
- acquisitions, strategic alliances or joint ventures involving the Company, the Group or its competitors; and
- the factors listed under the heading 'Forward-looking Statements' in the 'Presentation of Information' section of this document.

In addition, the market price of the Ordinary Shares is affected by many variables which are not directly related to the Company's success and which are not within the Company's control, including other developments that affect the market for all resource sector shares, the breadth of the public market for the Ordinary Shares, and the attractiveness of alternative investments.

**The Company has not declared or paid any dividends on the Ordinary Shares and cannot assure investors that it will pay dividends in the future**

The Company has not declared or paid any dividends on the Ordinary Shares to date and cannot assure investors that it will pay dividends in the future. The payment of any future dividends will depend upon earnings and the Company's financial condition, current and anticipated cash needs and such other factors as the Directors consider appropriate.

**The market price of the Ordinary Shares may go up as well as down**

Admission to listing on the Official List should not be taken as implying that there will always be a liquid market in the Ordinary Shares. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover the full value of their original investment.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.

The price at which investors may dispose of their Ordinary Shares may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. On any disposal investors may realise less than the original amount invested.

**The payment of upstream dividends by the South African subsidiary companies to Petra may be subject to withholding taxes**

The announced proposal by the South African government to replace the Secondary Tax on Companies with a withholding tax on dividends and other distributions may impact the amount of upstream dividends or other distributions payable by the South African subsidiary companies to Petra, as the Group's holding company. In February 2007, the South African government announced a proposal to replace the Secondary Tax on Companies (then 12.5% nominal, 11.1% effective rate, and since reduced to 10% nominal in terms of the phased implementation of withholding tax on dividends) with a 10% withholding tax on dividends and other distributions payable to shareholders of South African companies. The proposal was expected to be implemented in 2010, but its implementation has been delayed to 1 April 2012. Although the Group's South African subsidiaries have substantial intercompany loan balances due to Petra which will be repaid before dividends, in the longer term (when intercompany loans have been settled) the introduction of withholding taxes in South Africa may reduce the ultimate amount of dividends or other distributions received by Petra and ultimately the Shareholders.

# PRESENTATION OF INFORMATION

**Notice to all investors**

**Investors should rely only on the information in this document. Investors also acknowledge that they have not relied upon RBC nor on any person affiliated with RBC in connection with any investigation of the accuracy of any information contained in this document or their investment decision. No person has been authorised to give any information or to make any representations other than those contained in this document in connection with Admission and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors or RBC.**

No representation or warranty, express or implied, is made by RBC as to the accuracy or completeness of the information contained in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation by RBC or any selling agent as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA and PR 3.4.1 of the Prospectus Rules, neither the delivery of this document nor any subscription or sale made under this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

Apart from the responsibilities and liabilities, if any, which may be imposed on RBC by the FSMA or the regulatory regime established thereunder or any other applicable regulatory regime, RBC accepts no responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares or Admission. RBC accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

The contents of this document are not to be construed as legal, financial or tax advice. Any investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Ordinary Shares. None of the Company, the Directors or RBC is making any representation to any offeree or purchaser of the Ordinary Shares regarding the legality of an investment by such offeree or purchaser.

Prior to making any decision as to whether to purchase Ordinary Shares, investors should read this document. In making an investment decision, investors must rely upon their own examination of the Company and the terms of this document, including the risks involved.

**Presentation of financial and other information**

The financial information of the Group set out in Part VII has, unless otherwise indicated, been derived from the Company's audited consolidated financial statements for the years ended 30 June 2009, 2010 and 2011 (the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Financial Statements were audited by the Company's independent auditors, BDO LLP, in accordance with International Standards on Auditing ("ISA").

The financial information on Finsch set out in Part VIII has been prepared in accordance with the basis of preparation set out in note 1.1 to the financial information on Finsch.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this document may not be the precise arithmetic sum of the figures that precede them.

**Pro forma financial information**

In this document, any reference to '*pro forma*' financial information is to information which has been extracted without material adjustment from the unaudited *pro forma* financial information contained in Part IX. The unaudited *pro forma* income statement and statement of net assets contained in Part IX are based on the consolidated income statement for the year ended 30 June 2011 and the net assets of the Group at 30 June 2011 extracted without material adjustment from the financial information on the Group set out in Part VII. The unaudited *pro forma* income statement and statement of net assets include certain adjustments in respect of the acquisition of Finsch. However, the unaudited *pro forma* income statement and statement of net assets are not necessarily indicative of

what the financial position of the Group would have been had the acquisition of Finsch been completed on 1 July 2010 in the case of the unaudited *pro forma* income statement and on 30 June 2011 in the case of the unaudited *pro forma* statement of net assets.

The unaudited *pro forma* financial information is for illustrative purposes only. Because of its nature, the *pro forma* financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position as at 30 June 2011 or for the year then ended.

**Forward-looking statements**

Certain statements contained in this document, as well as in written and oral statements that the Company, its management and/or its Directors make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may constitute 'forward-looking statements'. Forward-looking statements include, but are not limited to, statements concerning the Company's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development, business strategy and trends the Company anticipates in the industry and the political and legal environment in which it operates and other information that is not historical information.

Words such as believe, anticipate, estimate, target, potential, expect, intend, predict, project, could, should, may, will, plan, aim, seek and similar expressions are intended to identify forward-looking statements but are not the exhaustive means of identifying such statements.

Such forward-looking statements involve inherent risks, uncertainties and other factors which may cause the actual results, achievements or performance of the Group, or the industry in which the Group operates, to be materially different from any future results, achievements, predictions, forecasts or performance expressed or implied by such forward-looking statements. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These forward-looking statements are further qualified by the risk factors described in the section entitled 'Risk Factors' on pages 11 to 17 of this document.

Accordingly, investors should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates.

Any forward-looking statement contained in this document based on past or current trends and/or activities of the Company should not be taken as a representation that such trends or activities will continue in the future. No statement in this document is intended to be a profit forecast or to imply that the earnings of the Company for the current year or future years will necessarily match or exceed the historical or published earnings of the Company.

These forward-looking statements are stated as at the date of this document. Except as required by the Prospectus Rules, the Disclosure and Transparency Rules, the Listing Rules or any other applicable law or regulation, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Investors should note that the contents of these paragraphs relating to forward-looking statements do not qualify the statements made as to sufficiency of working capital in paragraph 14 of Part X.

**Mineral reserve and mineral resource reporting**

The estimated Reserves and Resources for the Company's various projects, as set forth in Parts I and II, have been calculated in accordance with the SAMREC Code and are based on information compiled internally within the Group.

**Information sourced from third parties**

The information within Part III of this document regarding information on South Africa, Tanzania and Botswana has been extracted from various documents and publications released by, and presented on the authority of various officials and other public and private sources, including participants in the capital markets and the financial sector in South Africa, Tanzania and Botswana, including the following: African Economic Outlook 2011; Foreign and Commonwealth Office Country

profiles; CIA World Factbook; The Economist Intelligence Unit South Africa Country Report July 2011; The Economist Intelligence Unit Tanzania Country Report July 2011; World Bank Country Brief and other comparative prospectuses.

The information in Part IV of this document regarding the overview of the diamond market has been sourced from the following reports:- RBC Europe Limited (trading as RBC Capital Markets) – 'Diamonds – Fundamentals Shine Through' – July 2011; RBC Dominion Securities Inc. (trading as RBC Capital Markets) – RBC's Fourth Annual Diamond Conference: A Positive Message for the Industry dated 26 May 2011; Mining Journal: Diamonds June 2011 Supplement; Kimberley Process Certificate Scheme Rough Diamond Statistics: Annual Summary Chart 2010; Deutsche Bank AG – Diamonds set to sparkle dated 19 April 2011; Tacy Ltd – Tacy's 2010 Diamond Pipeline dated 2010; McKinsey Company – McKinsey Consumer & Shopper Insights: Understanding China's Growing Love For Luxury dated March 2011; Capgemini and Merrill Lynch Global Wealth Management – World Wealth Report 2011; Knight Frank LLP and Citigroup Inc. (trading as Citi Private Bank) – The Wealth Report: A Global Perspective on Prime Property and Wealth 2011.

The Company confirms that such data has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

**References to defined terms**

Certain terms used in this document, including certain capitalised terms and certain technical and other terms, are defined in Parts XI and XII of this document.

# EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| | *2011* |
|---|---|
| Publication of this document | 15 December |
| Cancellation of the admission of the Ordinary Shares to trading on AIM | 8.00 a.m. on 21 December |
| Admission of the Ordinary Shares to the Official List | 8.00 a.m. on 21 December |
| Commencement of dealings on the London Stock Exchange's Main Market for listed securities | 8.00 a.m. on 21 December |

**General notes:**

(1) References to times in this document are to London, UK times unless otherwise stated.

(2) Each of the times and dates in the table above is indicative only and may be subject to change. In the event of any change, the Company shall notify a Regulatory Information Service.

# NO ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders are not required to take any action upon receipt of this document, which is being made available publicly for information purposes only.

This document has been published solely to enable the Company to obtain Admission of the Ordinary Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities.

# DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

**Directors**

Adonis Pouroulis – *Non-Executive Chairman*
Johan Dippenaar – *Chief Executive Officer*
David Abery – *Finance Director*
Jim Davidson – *Technical Director*
Dr Patrick Bartlett – *Independent Non-Executive Director*
Gordon Hamilton – *Independent Non-Executive Director*
Dr Omar Kamal – *Non-Executive Director*

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44 The Esplanade, Jersey,
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# PART I

# INFORMATION ON THE GROUP

**Introduction**

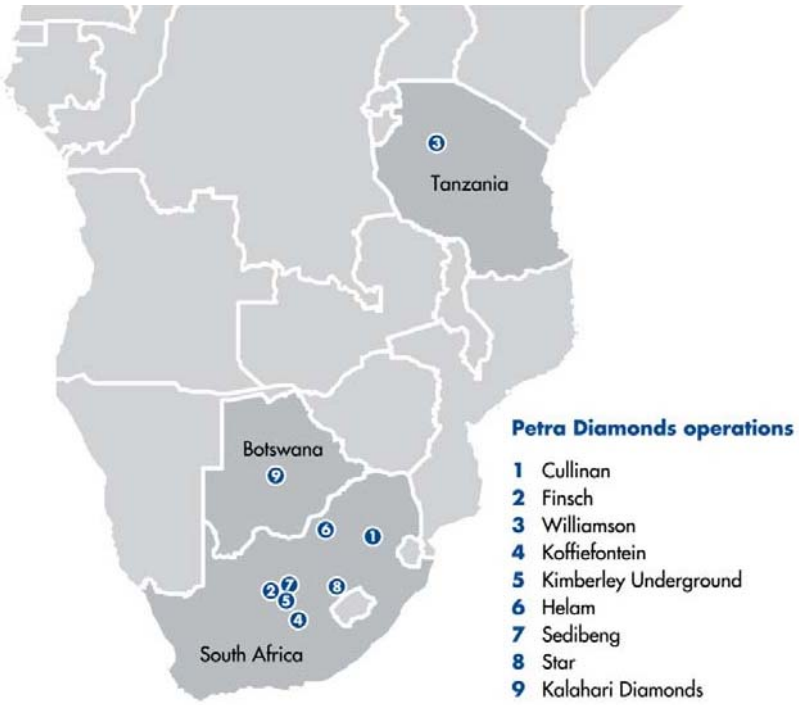
Petra is a leading independent diamond mining group focused on the continent of Africa. It has a portfolio which includes controlling interests in eight producing diamond mines – seven in South Africa and one in Tanzania – and an exploration programme in Botswana.

Petra has developed a diamond mining group of global significance and the Group has grown rapidly via acquisition. Petra acquired five important kimberlite pipe diamond mines from De Beers since 2007 to date, being (in chronological order) Koffiefontein (South Africa), Cullinan (South Africa), Williamson (Tanzania), Kimberley Underground (South Africa) and Finsch (South Africa). In so doing, the Group has compiled one of the world's largest diamond resources of over 300 million carats. In addition to these kimberlite pipe mines, the Group has a portfolio of three kimberlite 'fissure' mines (Helam, Sedibeng and Star) in South Africa and an exploration programme (Kalahari Diamonds) in Botswana. The Directors believe that the Group has a strong resource base in its expansion projects and substantial potential in its exploration assets.

Petra is focused on optimising output and growing revenues from each of its mining operations and plans to increase production from just over 1.1 million carats in FY 2011 to over 5 million carats by FY 2019. The Group markets and sells the majority of its rough diamond production in Johannesburg (South African goods) and Antwerp (Tanzanian goods).

The Company provides investors with direct exposure to the positive long-term fundamentals of the diamond industry, where demand is forecast to outpace supply, resulting in the emergence of a significant rough diamond supply deficit.

The following map shows the Group's areas of operation in Africa:




**Background and reasons for Admission to the Official List**

The Directors believe that a listing of the Company's Ordinary Shares on the premium segment of the Official List and trading of the Company's Ordinary Shares on the Main Market is the most appropriate platform for the continued growth of the Company and will further raise the Company's profile and status. In addition, the Directors believe that, due to the higher number of institutional investors who regularly trade in the shares of companies admitted to the Official List and the higher profile of such companies, following Admission, the Company will be better placed to achieve

improved liquidity in the Ordinary Shares. Following Admission, Petra also expects to be eligible for inclusion in the FTSE UK index series.

The Board is committed to high standards of corporate governance. As a company listed on the premium segment of the Official List, Petra will be required to comply with corporate governance policies and practices consistent with the Corporate Governance Code or otherwise explain why it has not complied in its annual report and accounts. As at the date of this document and at Admission, the Company is, and will be, in compliance with the Corporate Governance Code, save for the circumstances set out on pages 104 to 105 of Part V of this document. In particular, it is the Company's intention to appoint one or more independent non-executive directors as soon as practicable in FY 2012 and, once any such appointment has been made, the Board will appoint one of the independent non-executive directors as its senior independent non-executive director.

The Company is not subject to a code of corporate governance in its country of incorporation, Bermuda. In addition, although the Company's incorporation in Bermuda places it outside of the jurisdiction of the City Code, it has adopted into its Bye-Laws a number of important shareholder protections in line with City Code best practice and which are summarised in paragraph 6 of Part X of this document.

**History**

Petra has grown from a junior diamond explorer to become one of Africa's most important diamond producers and employers, with over 1 million carats of annual production (in FY 2011) and over 4,600 employees. Below is a list of key milestones in the Group's development.

| *Calendar Year* | *Key Milestones* |
|---|---|
| 1997 | Founding of the Company by Adonis Pouroulis, as Chairman and CEO, who remains on the Board as the Company's Non-Executive Chairman. |
| 1997 | Petra became the first diamond company to be quoted on AIM when it was admitted to trading on 30 April with a market capitalisation of ca. £8.75 million. |
| 1998 | Petra made some of the first kimberlite discoveries in Angola following the end of the country's civil war. Over the coming years, a sizeable kimberlite field was identified at Alto Cuilo with many large geophysical anomalies identified for investigation. |
| 2003 | David Abery joined the Company as Finance Director. |
| 2004 | Petra entered into a joint venture with BHP Billiton to jointly continue exploration at Petra's Angolan projects. |
| 2005 | Petra merged with ASX-quoted Crown Diamonds, introducing production to Petra in the form of three underground fissure mines (Helam, Sedibeng and Star). Crown Diamonds' portfolio also included the Kono Project in Sierra Leone. |
| | Two members of the Crown Diamonds board of directors, Johan Dippenaar and Jim Davidson, joined the Board and are now, respectively, the Chief Executive Officer and Technical Director of the Company. |
| | Petra acquired Kalahari Diamonds, its 100% owned subsidiary Sekaka Diamonds being the holder of one of the largest diamond exploration landholdings in Botswana. |
| 2006 | Following a strategic review of the diamond market the Group decided to focus on building production in order to take advantage of the forecast supply/demand shortfall fundamentals. |
| 2007 | Petra acquired the Koffiefontein mine in South Africa from De Beers. |
| | Petra's management set a target to grow Group production to 500,000 carats per annum by FY 2010. |
| 2008 | Petra, Al Rajhi and the Cullinan BEE Partners acquired the Cullinan mine in South Africa from De Beers. Al Rajhi assisted Petra with regards to the financing of the transaction and, following the acquisition, the effective ownership of the Cullinan mine was 37% Petra, 37% Al Rajhi and 26% the Cullinan BEE Partners. |
| | Petra acquired the Williamson mine in Tanzania from De Beers (the acquisition completed on 19 February 2009). |
| | Petra withdrew from exploration activities in Angola (effective end 2008) further to the global economic downturn, the failure of identified kimberlites to deliver economic grades, |

| *Calendar Year* | *Key Milestones* |
|---|---|
| | and a strategic decision to focus on cash generative production. |
| 2009 | Despite a substantial fall in diamond prices during the global economic downturn, Petra was one of the few significant diamond producers not to close any of its core operations during this period and recorded an on-mine profit of US$7.8 million for FY 2009. |
| | Petra completed a placing of new Ordinary Shares to raise US$120 million with institutional and other investors; the new funds enabled Petra to acquire Al Rajhi's indirect interest in CDM, increasing its effective ownership in the Cullinan mine to 74%. |
| 2010 | Petra's annual production rose to over 1 million carats, double the target originally set by management internally in 2007. The Group announced that it intended to triple annual production to over 3 million carats by FY 2019. |
| | Petra acquired the Kimberley Underground mines from De Beers. |
| | The Company divested its holding in the Kono Project in Sierra Leone, in line with its strategic focus on producing assets of a significant scale. |
| | Dr Omar Kamal joined the Company as Non-Executive Director, representing the interests of Al Rajhi, a significant Shareholder. |
| 2011 | Petra completed a placing of new Ordinary Shares to raise US$325 million and the majority of the funds were used to satisfy the R1.425 billion consideration for the Finsch mine (approximately US$192 million at completion) which included the mine and all assets, excluding any diamond inventory (see paragraph 10.14(c) in Part X of this document). Finsch introduced the eighth producing diamond mine to the Group. |
| | Finsch is South Africa's second largest diamond mine by production and is expected to more than double Petra's annual production (steady state), contributing ca. 1.5 million carats per annum to Group production initially, rising to nearly 2 million carats per annum by FY 2018. |
| | The addition of Finsch's major reserves and resources base of 43.7 million carats, including 25.8 million carats in the reserve category, has increased the gross Group Reserves and Resources to over 300 million carats. |
| | The Group is now in a position to further outperform its stated growth profile and has announced a new production target (including Finsch), to reach production of over 5 million carats per annum by FY 2019. |
| | Dr Patrick Bartlett and Gordon Hamilton joined the Board as independent Non-Executive Directors and Adonis Pouroulis moved to the position of Non-Executive Chairman. |

**Key Strengths and Investment Highlights**

The Directors believe that the Group has a number of key strengths which will be important in terms of delivering on the Group's strategic objectives, including:

*Operational track record*

The Group has extensive experience operating in Africa, where it has built up an industry leading team, both in terms of the depth of its skill-set and its experience in the management of diamond mining operations. This team has proven its ability to extract value from mines which could have been previously considered 'marginal' or 'end of life' operations.

In 2005, at the time of the merger with Petra, the former Crown Diamonds management had been operating the Group's fissure mine portfolio for 15 years. At this time, Crown Diamonds was the only company outside of De Beers to be operating underground diamond mines on a continuous basis with commercial success. This positive track record was a key differentiator in terms of positioning Petra to acquire and operate certain non-core assets of De Beers.

*Major resource base*

The Group has compiled one of the world's largest diamond resources of over 300 million carats. The careful management of such a large resource will ensure sustainable, long-life mining operations for the Group for many years to come. It also provides Petra with flexibility in terms of organic growth plans, which could be accelerated depending on the right circumstances. This major resource

places the Group in a strong position to capitalise on the rough diamond supply/demand imbalance which the Directors believe is set to emerge in the near to medium term (set out in Part IV).

*Diversified portfolio*

The Group has controlling interests in eight producing diamond mines, with operations spanning large underground/high tonnage pipe mines, low tonnage/high grade fissure mines, and one large high volume open pit mine. This balance of operations provides flexibility in terms of meeting Group targets and ensures the Company is not reliant on the performance of any one operation. Previously, the Cullinan mine was the major contributor to the Group (64% of overall turnover and 80% of carat production in FY 2011) but its dominance is now balanced by the Finsch mine (which is expected to contribute production and revenue dynamics broadly similar to Cullinan).

*Strong knowledge of mining assets*

All of Petra's existing kimberlite operations have long histories of production and therefore the geology, mining method and associated geotechnical challenges of each mine are well understood. This knowledge of the deposits enables management to eliminate much of the risk associated with developing and operating a diamond mine.

*Effective cost focus*

Over the years, the Group has developed an effective cost focus, well suited to maximising returns from its assets. Integral to this was the development of a comprehensive in-house skills set which enables the Group to carry out a range of activities internally, from plant design and construction, engineering and mine development to marketing and sales.

*Management culture*

Petra fosters a culture where management is empowered to make decisions suitable to the relevant operations and where innovation and creativity in the workplace is encouraged and rewarded. Services are aimed at being provided on-mine, and with a limited amount of central support and control.

*Unique investment opportunity in diamond sector*

Whilst the rough diamond market is dominated by the four major producers – De Beers, Alrosa, Rio Tinto and BHP Billiton – which accounted for approximately 85% of the global diamond market by value in 2010 (source: Deutsche Bank AG) – none of these companies can be invested in directly in order to gain direct exposure to diamonds (De Beers and Alrosa are essentially private companies and diamond mining only makes up 1.0% and 1.4% of Rio Tinto and BHP Billiton's listed businesses respectively).

Petra's growth has established the Company as London's largest quoted diamond mining group and the Directors believe its exceptional forward growth profile positions the Group as a unique investment opportunity within the sector.

The move from AIM to the Main Market of the London Stock Exchange is expected to further stimulate international investment and liquidity in the Company's shares, while also raising further awareness of the positive fundamentals for the diamond industry.

**The Group's Strategy**

Petra's vision is to develop a diamond mining group of global significance.

The Company is committed to increasing shareholder value through the development of its assets, with a core objective to grow production and revenues substantially over time, and increase its stature as a leading diamond mining group. The Directors believe that this planned growth in output will place Petra in a strong position to benefit from the positive long-term fundamentals of the diamond industry, where demand is forecast to outpace supply.

The component parts of the Group's strategy are as follows:

*Focus on production*

Petra is focused on cash-generative diamond production.

The Company stated at the time of its merger with Crown Diamonds in 2005 that "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" and the Company has successfully delivered upon this strategy, with production of over 1.1 million carats in FY 2011.

Petra's rapid growth and success has been as a result of identifying target mines that can be operated to deliver value to all Shareholders. The Group has focused on acquiring mines of significant scale and scope which can make an important contribution to its portfolio in terms of both production and revenue growth.

*Increase output*

Petra's core objective is to steadily grow annual production to over 5 million carats by FY 2019.

To achieve this objective, the Group has expansion programmes in place for each asset and has set out clear and transparent milestones for growth. In order to meet its targets, the Group has processes and systems in place to monitor progress and continues to strengthen its mine management teams through training and selective recruitment.

The Group has built up a world-class carat base which will form the bedrock of future production growth as well as providing flexibility in terms of organic growth plans.

Petra's target of more than 5 million carats annual production by FY 2019 is achievable via organic growth from existing assets. The Company will examine external growth opportunities on a case by case basis, but it will only pursue those of significant scale and quality in comparison to the current portfolio and on economic terms which management deems accretive to Shareholders.

*Access undiluted ore*

Management's plan is to open new mining areas and access undiluted ore within the current portfolio of the Group's assets.

In the underground block cave mines (Cullinan, Finsch, Koffiefontein and Kimberley Underground), the Company is currently extracting tonnes from mature mining areas where the ore is subject to significant dilution from the host rock. The Company's objective at these operations is to deepen the mines and open up new mining areas, thereby gaining access to undiluted ore, which will increase significantly the recovered mining grade.

*Optimise recoveries*

Petra is focused on 'value' as opposed to 'volume' production.

Each kimberlite orebody has its own individual signature and contains diamonds of unique average grade, size and quality (and therefore value). Petra's management continually monitors the rough diamond market to establish the optimal rough diamond sizes and qualities to be recovered from each unique kimberlite orebody, and has the flexibility to amend configuration of the plant settings depending on what core value production targets are set for that operation.

By way of example, the Cullinan orebody is known to contain large, high-value Type II diamonds. Following the acquisition of Cullinan in 2008, Petra ensured that its plant settings were configured to capture such stones and this attention to value production allowed for the recovery of the famous 507 carat Cullinan Heritage diamond in late 2009, which sold for a record rough diamond price of US$35.3 million in February 2010.

The Company is also highly focused on security at each mine to manage the risk of diamond theft.

*Drive efficiencies*

The Group is defined by a culture of rigorous cost control.

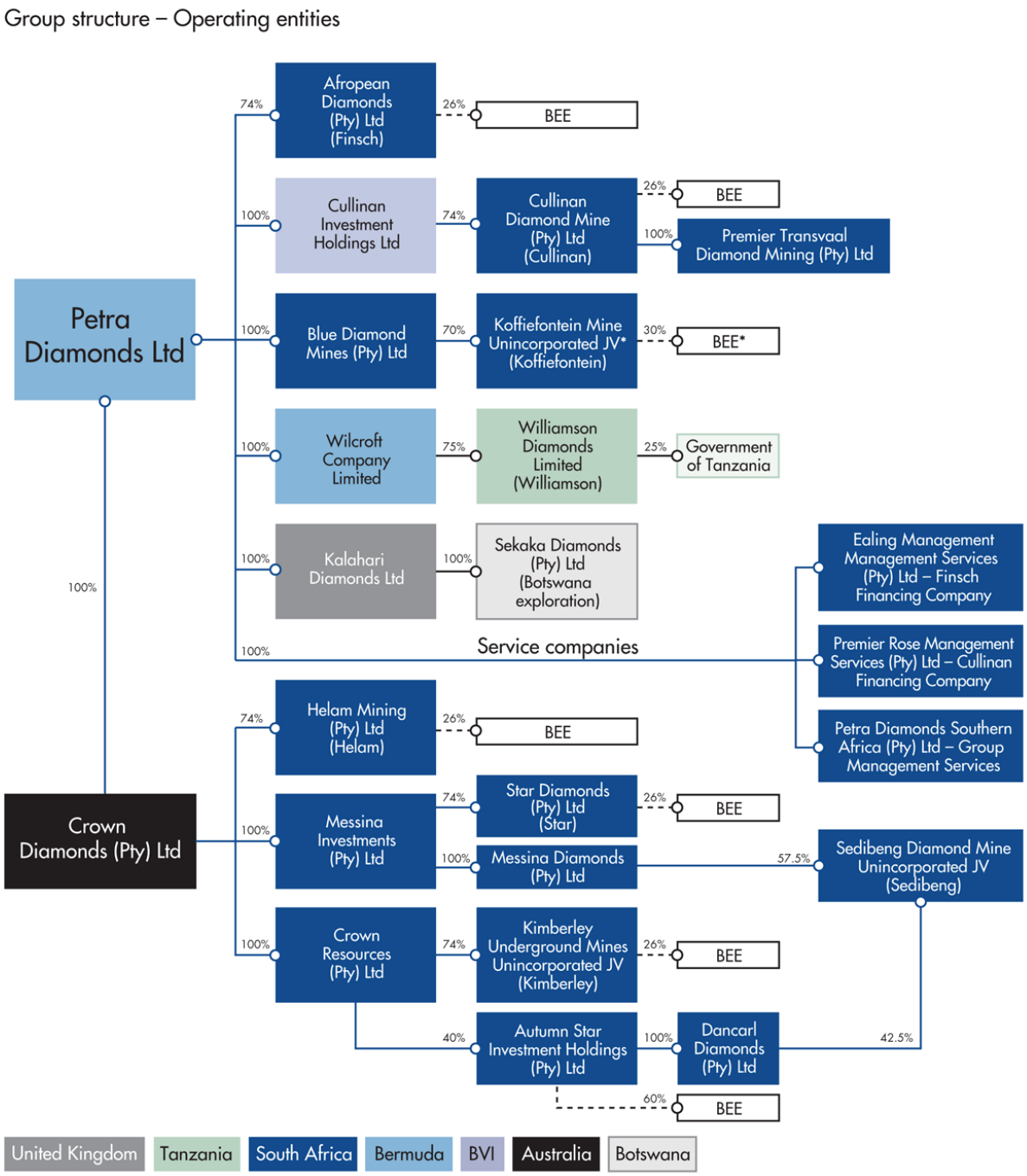
Petra has developed an effective cost focus well suited to maximising returns from its assets.

Stringent cost control is evident in the Company's achievements in controlling costs on a unit basis despite inflationary pressures. Central to this approach is the utilisation of in-house skills in the planning and execution of significant Capex programmes.

This focus on efficiency has been applied successfully at the Group's large kimberlite pipe mines, where the Company has right-sized the operations and restructured the cost base following each acquisition. There are a number of ongoing programmes in place to continue to drive efficiencies at these operations (for example, the plant streamline and simplification programme and the underground development and new ore-handling system at Cullinan) and the Group aims to improve operating margins at its mines over time.

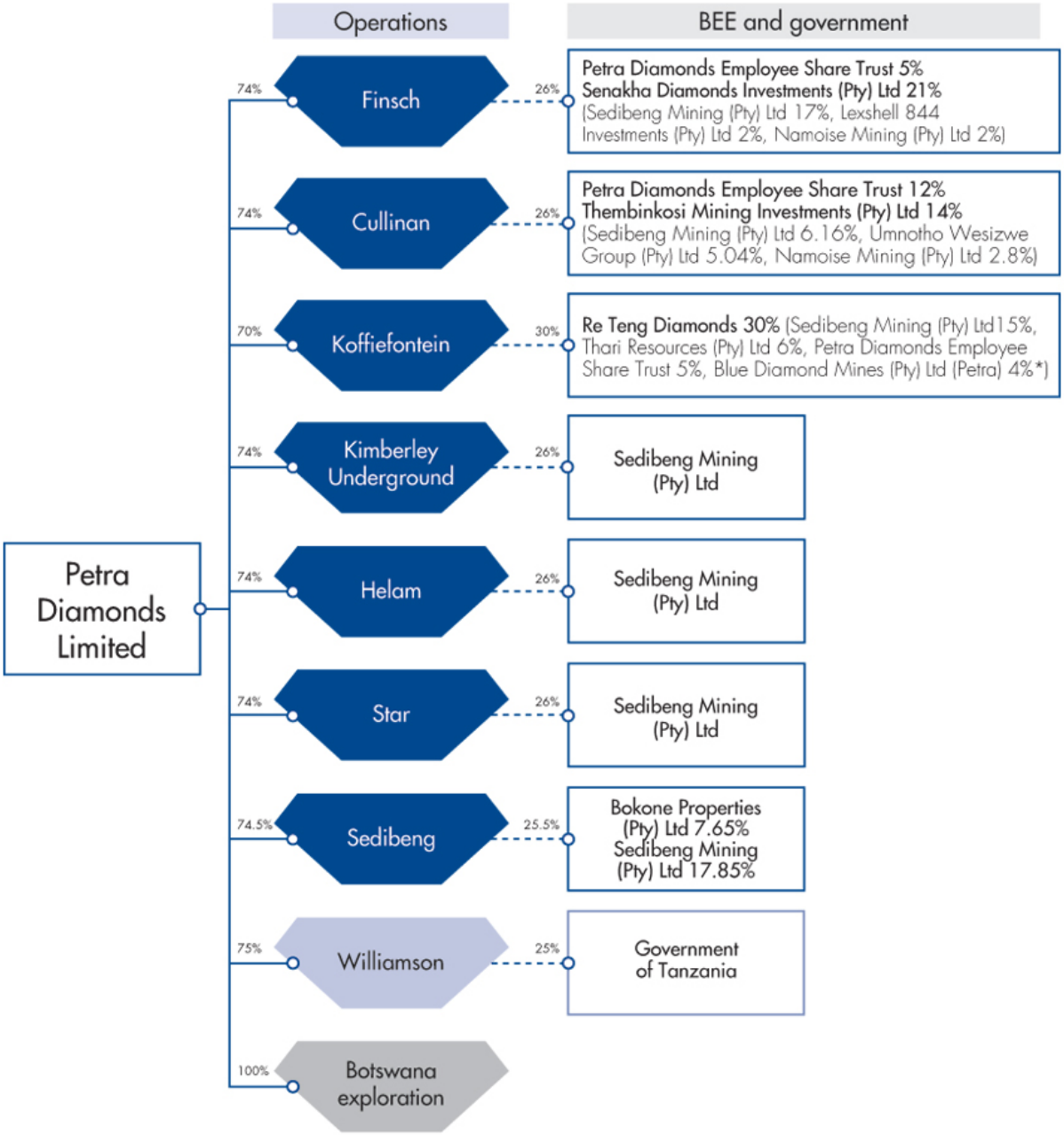
**Group Structure**

The Group's corporate structure (excluding dormant subsidiaries) is as follows:




** Petra holds a further 4% effective interest in the Koffiefontein Mine through its 13.33% interest in the Re Teng Diamonds (Pty) Ltd, the BEE entity, bringing Petra's effective stake to 74%*

The Group's ownership structure of its various assets is as follows:




* Petra holds a further 4% effective interest in the Koffiefontein Mine through its 13.33% interest in the Re Teng Diamonds (Pty) Ltd, the BEE entity, bringing Petra's effective stake to 74%

**Principal Group Assets**

Petra has a well-diversified asset portfolio, with controlling interests in eight producing diamond mines, complemented by a highly focused exploration programme. The Group's portfolio incorporates the full range of kimberlite 'hardrock' operations, combining large underground pipe mines with low tonnage/high grade fissure mines and one large, high volume open pit mine and a number of prospective exploration sites. A high level overview of each asset is listed below. For a more detailed summary of each of the Group's projects, your attention is drawn to Part II of this document.

***Producing Mines***

*Cullinan*

(74% ownership; 14% Thembinkosi; 12% PDET)

Cullinan is an underground block cave diamond mine located 37 km north east of Pretoria in the Gauteng province of South Africa. It is renowned as the source of large, high quality Type II diamonds, including the world's largest (the 'Cullinan' at 3,106 carats) and has produced a quarter of

all the world's diamonds of greater than 400 carats and 745 stones greater than 100 carats. It is also the world's only significant source of truly rare and highly valuable blue diamonds. The Cullinan kimberlite pipe is the largest diamondiferous kimberlite ever found in South Africa, being 32 hectares at surface. It contains a major resource base of 203.7 Mcts (including 16.9 Mcts of tailings). Petra is currently mining at a depth of 747 metres and is implementing an expansion plan which is expected to take production from just over 895,000 ctpa to ca. 2.4 Mctpa (combining underground mining and tailings retreatment) by FY 2019.

*Finsch*

(74% ownership; 21% Senakha Diamonds; 5% PDET)

Finsch is an underground block cave diamond mine located approximately 165 km north west of Kimberley in the Northern Cape province of South Africa. It is the country's second largest diamond mine by volume and produced an average of approximately 2 Mctpa over the five years to 2010, from a combination of underground mining and tailings retreatment, and has produced 126 Mcts in its life to date of over 40 years. Current production is from a mechanised block cave on the 630 metre level. Finsch has produced a number of large, special diamonds in its history and mine records reflect the recovery of an average of 27 stones of greater than 45 carats per annum over the last four years. Petra's mine plan is to gradually increase production from ca. 1.5 Mctpa to just under 2 Mctpa (combining underground mining and tailings retreatment) by FY 2018.

*Williamson*

(75% ownership; 25% Government of Tanzania)

Williamson is a large open pit diamond mine located at Mwadui, 40 km north east of Shinyanga, the capital of the Shinyanga Region of Tanzania. It is the world's largest economic kimberlite by surface area at 146 hectares in size. Despite having been in continuous operation for over 70 years, the pit is just 90 metres at its deepest point due to the vast size of the deposit. The Mwadui kimberlite pipe is a major diamond resource containing an estimated 40.1 Mcts. It is an historic source of high value Type II diamonds and fancy pinks. At Williamson, the objective is to take advantage of the economies of scale that can be generated from this large orebody by the installation of a modern autogenous milling plant. Petra is currently implementing a major expansion plan which is expected to take production to a 10 Mtpa operation (combining the existing rebuilt 3 Mtpa plant together with a new expansion plant), expected to recover ca. 600,000 ctpa.

*Koffiefontein*

(74% ownership; 21% Re Teng; 5% PDET)

Koffiefontein is an underground front cave diamond mine located in the Free State province of South Africa, approximately 110 km south east of Kimberley. Historically it is one of the world's top diamond mines by average value per carat and produces exceptional white and coloured diamonds, a regular proportion of which are of between 5 and 30 carats. Petra is currently mining at a depth of 490 metres and is implementing an expansion plan which is expected to increase production from ca. 48,000 ctpa to over 100,000 ctpa (combining underground mining and tailings retreatment) by FY 2017.

*Kimberley Underground*

(74% ownership; 26% Sedibeng Mining)

The Kimberley Underground mines comprise three underground kimberlite pipe mines in close proximity – Bultfontein, Dutoitspan and Wesselton – located at Kimberley in the Northern Cape province of South Africa. These mines were integral to the economic development of South Africa as their output effectively financed development of the nascent gold industry. They are currently mining at depths of between 845 and 995 metres below surface. The mines have a history of producing large diamonds and fancy yellows. Petra's expansion plan at Kimberley Underground envisages production rising from ca. 57,000 ctpa in FY 2011 to ca. 150,000 ctpa by FY 2013.

*Fissure Mines (Helam, Sedibeng and Star)*

Helam: 74% ownership; 26% Sedibeng Mining

Sedibeng: 74.5% ownership; 17.85% Sedibeng Mining; 7.65% Bokone

Star: 74% ownership; 26% Sedibeng Mining

The Fissure Mines portfolio comprises three mines: Helam, Sedibeng and Star. Sedibeng is located 80 km north west of Kimberley in the Northern Cape province, Star is located some 40 km south of

Welkom in the Free State province of South Africa and Helam is located 70 km west of Rustenburg in the North West Province of South Africa. The mines are accessing Reserves between 600 and 750 metres deep. An expansion plan to increase production from ca. 87,000 carats in FY 2011 to ca. 140,000 carats per annum by FY 2015 is being implemented.

*Group production (gross) for the last three financial years (broken down by operation)*

| | *FY 2011 (carats)* | *FY 2010 (carats)* | *FY 2009 (carats)* |
|---|---|---|---|
| Cullinan | 895,439 | 927,931 | 888,595 |
| Williamson | 29,510 | 101,071 | 84,486 |
| Koffiefontein | 47,956 | 60,260 | 52,089 |
| Kimberley Underground | 57,402 | 1,362 | n/a |
| Fissure Mines | 87,488 | 74,232 | 71,274 |
| Kono Project | n/a | n/a | 2,923 |
| **Group total** | **1,117,795** | **1,164,856** | **1,099,367** |

Note: the acquisition of Finsch completed post the end of FY 2011 on 14 September 2011.

***Exploration***

*Kalahari Diamonds – Botswana*

(100% ownership)

Petra's exploration activities are focused on Botswana, which offers an exceptional basis for exploration in that it ranks highly with regards to diamond prospectivity, yet it generally ranks well with regards to operating costs. Botswana is the world's largest diamond producer by value, and host to the major Jwaneng and Orapa mines owned by De Beers. Petra currently holds one of the largest diamond exploration landholdings in the country, with some 22,250 $km^2$ under licence. Despite the large landholding, Petra is carrying out a focused and cost effective exploration campaign concentrated on a number of key targets. Refer to Part II of this document for further information on Petra's current exploration assets.

**Reserves and Resources**

The Group controls one of the largest diamond resources in the world.

The following tables summarise the up to date Reserves and Resources information (i) for the Group (excluding Finsch) (table 1), (ii) for Finsch only (table 2) and (iii) for the Group including Finsch (table 3). The Reserves and Resources for each individual operation are listed separately in Part II: Principal Group Assets.

*Table 1*

*Petra's Group Reserves and Resources (excluding Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 53.191 | 41.89 | 22.283 | 39.364 | 41.89 | 16.490 |
| — | | | | | | |
| **Sub-total** | **69.814** | **33.59** | **23.452** | **51.667** | **33.59** | **17.356** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 408.894 | 48.40 | 197.897 | 303.569 | 48.26 | 146.494 |
| Inferred | 1,204.994 | 5.21 | 62.839 | 900.579 | 5.20 | 46.854 |
| **Total Resources inclusive of Reserves** | **1,629.614** | **16.08** | **262.040** | **1,215.786** | **15.98** | **194.313** |

*Table 2*

*Reserves and Resources – Finsch only*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 58.598 | 43.99 | 25.779 | 43.362 | 43.99 | 19.076 |
| **Sub-total** | **58.598** | **43.99** | **25.779** | **43.362** | **43.99** | **19.076** |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 54.408 | 47.98 | 26.102 | 40.262 | 47.98 | 19.316 |
| Inferred | 43.132 | 40.71 | 17.558 | 31.917 | 40.71 | 12.993 |
| **Total Resources inclusive of Reserves** | **97.539** | **44.76** | **43.661** | **72.179** | **44.76** | **32.309** |

*Table 3*

*Petra's Group Reserves and Resources (including Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 111.789 | 42.99 | 48.062 | 82.726 | 42.99 | 35.566 |
| **Sub-total** | **128.412** | **38.34** | **49.231** | **95.030** | **38.34** | **36.432** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 463.302 | 48.35 | 223.999 | 343.830 | 48.22 | 165.809 |
| Inferred | 1,248.126 | 6.44 | 80.397 | 932.496 | 6.42 | 59.847 |
| **Total Resources inclusive of Reserves** | **1,727.154** | **17.70** | **305.701** | **1,287.965** | **17.60** | **226.622** |

Explanatory notes on page 41 of Part II of this document.

**Marketing and Sales**

Petra sells all rough diamond production by the method of open tender.

Petra's South African production is mainly sold at the Johannesburg Bourse (on occasions, production is exported to Antwerp for sale) and the process from mine to market is as follows:

- each individual mine's production is pooled on a weekly basis;
- the diamonds are cleaned and placed into sales assortments according to a number of criteria such as size, colour, clarity and expected value (e.g. certain high value stones are sold as single lots);
- individual mine production is kept separate, providing buyers with an additional level of knowledge about the goods they are purchasing based upon each mine's unique diamond characteristics;
- the tender preview then commences, with Petra's premier clients (who generally purchase around 90% of the goods at each tender) invited to view the assortments over a three to five day period;
- the tender commences and lasts between four to six working days, during which participants view the assortments and place a confidential electronic bid on the parcel of their choice; and
- at the end of the tender, the results are published and the highest bidder wins the parcel.

Should the highest bid be below Petra's reserve price, Petra has the option to withdraw the parcel and retain it for sale at a future date. In certain circumstances, Petra can export unsold diamonds to its marketing office in Antwerp for sale.

Petra's Tanzanian production is sold in Antwerp, which remains one of the world's key diamond centres. The diamonds are sorted and sold via open tender in a similar fashion to the process outlined above. However there is currently only limited alluvial production from the Williamson mine, which should significantly increase when ROM production from the open pit is treated by the rebuilt plant commencing later in FY 2012.

As the Company's output has grown, Petra's tenders have attracted an increasing number of significant buyers; many of the world's foremost manufacturers and dealers are now regular Petra clients and interest continues to increase as production levels continue to grow. In 2011, the Company expanded its sales and marketing team to cater for the major contribution from the Finsch mine.

**HSSE (Health, Safety, Social and Environmental)**

Corporate social responsibility and sustainability is very important to Petra and is integral to the way the Group structures and operates its mining, development and exploration projects. The Group encompasses over 4,600 people in South Africa, Tanzania and Botswana, and as such is a significant employer in Africa. Petra is proud to have taken over various operations and to have put in place plans for long mining lives at the Group's assets, which is intended to ensure continuous stable employment for the Company's workforce. The Company has outlined its key HSSE policies and practices below.

*Health and Safety*

Petra places the health and safety of employees at the top of its list of priorities. Health and safety committees, comprising management and employee representatives, and health and safety collective agreements are in place at all operations, and tailored to each operation. This is in accordance with the Mine Health and Safety Act (29 of 1996) of South Africa and The Mining Act, of 2010, The Mining (Occupational Health, Safety and Environmental Protection) Regulations, number 14 of 2010 and The Occupational Health and Safety Act and its Regulations, No. 04 of 2003 of Tanzania. Petra has various strategies and systems in place to ensure that workplaces are safe and that employees are equipped to work safely. A great emphasis is placed on training in this area and Petra's management strives continually to raise safety awareness at all levels.

HIV/AIDS remains a significant area of concern to companies, employees and communities in both South Africa and Botswana, whereas in Tanzania malaria, HIV/AIDS and water-borne diseases are the key community health concerns. While these are not occupational illnesses, they have a significant impact on employee health and productivity and on the communities in which the Group's operations are located. Petra's HIV/AIDS and malaria programmes are mainly preventative in nature, with a strong focus on creating awareness, and there are several peer education training and safety awareness programmes in place across the Group's operations.

Petra encourages the active participation of employees and their representatives in health and safety issues, and aims to encourage a healthy lifestyle for its workforce.

*Social*

The Directors believe that active long-term engagement with local communities is fundamental to the Group's business and Petra devotes considerable time and resources to such engagement. Over the years, the Company has developed a range of social initiatives which continue to make a meaningful impact upon the lives of employees and surrounding communities, and follows a holistic approach to sustainable development, via educational programmes and skills transfer, to ensure a lasting legacy.

Petra is committed to identifying sustainable projects in conjunction with local communities themselves, as well as local authorities, and is involved in a wide range of corporate social investment ("CSI") and local economic development ("LED") programmes. The objectives of Petra's CSI and LED programmes are poverty alleviation, job creation, skills development and community participation in the communities in which the Company operates. Specific sectors targeted are the social, education and economic sectors, which are the same sectors given priority by both the South African and Tanzanian governments.

*Environmental*

In common with other natural resources and mineral processing companies, Petra monitors its environmental performance based on its use of both water and energy; its management of the land upon which its operations are held, biodiversity, dust and waste; and its rehabilitation and closure procedures. There are numerous environmental laws in South Africa, Tanzania and Botswana that apply to the Group's mining and exploration projects. These laws address such matters as protection of the natural environment, air and water quality, emission standards and disposal of waste. For further details on the applicable mining and environmental regulations in South Africa, Tanzania and Botswana please see Part III of this document.

Petra seeks to adopt the best environmental practices and programmes on its operating mine sites to manage environmental matters and compliance with local and international legislation.

These programmes include: optimisation of consumption of renewable and non-renewable resources such as water and electricity; rehabilitation of mining residue deposits; recycling and lawful disposal of unpreventable solid waste; constant measurement and monitoring to prevent or mitigate potential pollution to air, land and water; soil integrity and biodiversity protection; minimisation and

elimination of the visual, noise and vibration impacts of operations; and environmental education and training.

Environmental rehabilitation used to be considered by many as an end of life-of-mine event but is now regarded as a complete life-of-mine exercise that begins during the exploration phase of the mining operation and continues through to post-closure and is thus an intricate, ongoing process. For this reason, it is Petra's responsibility to work together with local communities to ensure long-term sustainability of end land uses, as well as conservation of soil integrity, biodiversity and sensitive environmental elements. Continual improvement of Petra's environmental management systems is of paramount importance in this regard, as this will ensure optimal performance on an ongoing basis.

*HSSE Committee*

The HSSE Committee oversees the Group's performance with regards to its health, safety, social and environmental issues as they affect the Group's operations. The HSSE Committee's role is to formulate and recommend to the Board relevant policies of HSSE, and to ensure that the Board is cognisant of, and takes account of, mining corporate social responsibility best practice. In particular its role is to focus on ensuring that effective systems and standards, procedures and practices are in place and to monitor the correct and legal implementation of these procedures across the Group.

**Selected Financial Information**

The table below sets out selected summary financial information for the Group for the periods indicated. The table below has been extracted without material adjustment from the historical financial information in Part VII of this document. The table below does not include the impact of the acquisition of Finsch, which is illustrated in Part IX of this document. Investors are reminded that the table below is only a summary and investors should read the whole of this document and not rely on the key or summarised information.

| **Income Statement data** | *12 months to 30 June 11 (US$M)* | *12 months to 30 June 10 (US$M)* | *12 months to 30 June 09 (US$M)* |
|---|---|---|---|
| **Revenue** | **220.6** | **163.7**[1] | **69.3** |
| Mining and processing costs[2] | (146.9) | (98.9) | (64.0) |
| Other direct income | 2.7 | 2.4 | 2.5 |
| **Profit from mining activity**[2] | **76.4** | **67.2** | **7.8** |
| Other income | — | 5.4 | 3.2 |
| Exploration income/(expense) | (1.3) | 1.2 | (13.7) |
| Corporate overhead | (8.0) | (7.5) | (5.9) |
| Deferred taxation on inventory fair value adjustment | — | (7.4) | — |
| Inventory fair value adjustment | — | (19.0)[3] | — |
| Cullinan fair value adjustment | — | 31.0[4] | — |
| **Adjusted EBITDA**[5] | **67.1** | **70.9** | **(8.6)** |
| Net reversal of impairments | 6.5 | — | (75.3) |
| Recycling of foreign exchange differences on exploration projects | — | 12.3 | — |
| Depreciation | (22.4) | (11.8) | (11.6) |
| Amortisation | — | (1.0) | (3.3) |
| Share based expense | (1.9) | (1.7) | (2.3) |
| Net unrealised foreign exchange gain[6] | 18.6 | 0.8 | 13.4 |
| Net finance expense[6] | (3.5) | (0.5) | (6.3) |
| Profit from discontinued operations | — | — | 1.6 |
| Tax (expense)/credit | (5.2) | 1.2 | 3.4 |
| **Net profit / (loss) after tax – Group** | **59.2** | **70.2** | **(89.0)** |
| **Basic profit / (loss) per share attributable to the equity holders of the Company – cents**[7] | **12.83** | **22.65** | **(49.38)** |
| Weighted average shares in issue (millions) | 414.7 | 280.2 | 184.0 |
| **Basic diluted profit / (loss) per share attributable to the equity holders of the Company – cents**[7] | **12.35** | **22.20** | **(49.38)** |
| Weighted average shares in issue for diluted EPS (millions) | 430.7 | 285.9 | 184.0 |
| **Cash at bank**[8] | **324.9** | **34.5** | **11.1** |
| **Cashflow data:** | | | |
| Net cash generated from operating activities | **50.6** | **48.8** | **4.6** |
| Net cash utilised in investing activities | **(330.4)** | **(52.6)** | **(113.1)** |
| Net cash generated from financing activities | **349.8** | **21.7** | **95.5** |
| Net increase/(decrease) in cash and cash equivalents | **70.0** | **17.9** | **(13.0)** |
| **Balance Sheet data:** | | | |
| Current assets | 413.6 | 87.4 | 44.8 |
| Non-current assets | 552.9 | 404.0 | 197.4 |
| Total assets | 966.5 | 491.4 | 242.2 |
| Borrowings (short and long term) | 90.1 | 64.5 | 101.7 |
| Current liabilities | 66.3 | 49.9 | 86.1 |
| Total Equity | 699.0 | 290.9 | 57.3 |

Notes:

1. For the Period 1 July to 16 November 2009, Petra accounted for its interest in Cullinan under the gross method of proportional consolidation, recognising 50% of revenue and 13% minority (non controlling) interests. With effect from 17 November 2009, the effective date of control for accounting purposes that Petra acquired the remaining 50% interest in CIHL from Al Rajhi, Petra consolidates 100% of revenue and 26% minority (non controlling) interests in line with IFRS.
2. Stated before depreciation, interest paid, foreign exchange gains and losses, asset impairment charges, inventory fair value adjustment, deferred taxation on inventory fair value adjustment and share based payments.
3. During FY 2010 the Group sold the 168 carat and 507 carat diamonds (from Cullinan) for US$6.3 million and US$35.3 million respectively. At mine level this realised a profit of US$41.6 million, as the production cost for the diamonds was not material. On acquiring the second 50% of CIHL (before the diamonds were sold), management conservatively estimated the value of the stones for accounting purposes at US$4 million and US$15 million respectively, and this became the cost to the Group for IFRS reporting purposes.
4. The acquisition of the second 50% of CIHL was treated as a stepped acquisition under IFRS3 (revised). The total fair value gain of US$31 million reflected the difference between the book value of the original 50% interest and the fair value (as determined by the price paid for the second 50%) of the net assets held at the time that the second 50% was acquired. A significant component of this related to the difference between the production cost of the exceptional Cullinan stones and management's valuation (US$19 million combined) of these stones. In assessing the fair values of the second 50% of net assets acquired, management has allocated the premium of consideration over net assets to mineral rights (US$12 million) and inventories.
5. EBITDA disclosures are 'adjusted EBITDA', being stated before impairments, share based expense, foreign exchange gains and recycling of foreign exchange differences on exploration projects.
6. Net unrealised foreign exchange gain comprises unrealised foreign exchange gains of US$34.1 million (FY 2010: US$15.3 million; FY 2009: US$17.4 million) and unrealised foreign exchange losses of US$15.5 million (FY 2010: US$14.5 million; FY 2009: US$3.9 million). Net finance expense of US$3.5 million (FY 2010: US$0.5 million; FY 2009: US$6.3 million loss) is comprised of the remaining income and expenses.
7. Stated after non-controlling interests (representing BEE partners' interests in the Group) of US$6.0 million (FY 2010: US$6.7 million; FY 2009: US$1.9 million).
8. Cash at bank comprises unrestricted cash and restricted cash balances of US$96.9 million and US$228.0 million respectively (30 June 2010: US$24.8 million and US$9.7 million; 30 June 2009: US$6.7 million and US$4.4 million respectively). The restricted balance of US$228.0 million as at 30 June 2011 included the consideration held in escrow for the acquisition of Finsch, of US$192 million, which completed post year-end.

## Current Trading and Future Prospects

### *Finsch*

On 14 September 2011, the acquisition of Finsch from De Beers completed and Petra assumed management and operation of the mine with immediate effect. The agreed consideration for the Finsch mine was R1,425 million (approximately US$192 million at completion) which included the mine and all assets, excluding any diamond inventory (see paragraph 10.14(c) in Part X of this document). In FY 2012, Finsch is expected to add ca. 125,000 carats per month to Petra's output (after an initial bedding down period), adding at least 1 million carats for FY 2012. The Company has expanded its diamond marketing team to manage the increased carat production and tender activity.

### *Diamond prices*

On 19 September 2011, Petra published its preliminary results (unaudited) for FY 2011 which included a full commentary on trading for FY 2011. As stated within the preliminary results announcement, the US Dollar prices achieved by Petra from its rough diamond sales rose steadily from October 2010 to 30 June 2011. However, since July 2011 Petra (and the industry) has seen rough diamond prices adjust downwards from the June 2011 highs. The fall in rough diamond prices from July 2011 to 13 December 2011 (being the latest practicable date prior to the publication of this document), has resulted in Petra's gross revenues, over the same period, being ca. US$23.0 million lower (based on average rough diamond prices actually achieved) than the Group's expectations, based on the Directors' assumptions for rough diamond prices for FY 2012, which were as follows:

| *Mine* | *Weighted Average (US$)* | *ROM (US$)* | *Tailings/Other (US$)* |
|---|---|---|---|
| Cullinan | 163 | 170 | 100 |
| Finsch | 155 | 180 | 95 |
| Williamson (main pit excluding alluvials) | 230 | 230 | n/a |
| Koffiefontein | 549 | 600 | 480 – Ebenhaezer<br>200 – Tailings |
| Kimberley Underground | 325 | 325 | 150 |
| Fissures | 271 | 180 – 450 | n/a |

The Company remains confident that, in the medium term, rough diamond prices will stabilise and return to the approximate price levels disclosed in the table above (although the Company does not, as previously stated, expect to see the price highs of June 2011 for some time).

The revenue amounts referred to above for the period from July 2011 to 13 December 2011 are the estimates of the Directors and are unaudited. In line with past practice, Petra will publish a detailed trading statement for the full period of 1 July to 31 December 2011 in early 2012.

In the short term, global economic uncertainty may continue to cause some volatility in rough diamond pricing, but it should be noted that demand from Asia and other emerging markets is continuing to grow strongly and is lessening the reliance on the major US market. The long term fundamentals of the industry remain intact; whilst supply is forecast to remain flat or may decline, demand for diamonds is expected to continue to rise in both established and new markets as wealth and consumer spending increase.

***Exchange rates***

Since July 2011, the Rand has weakened significantly against the US Dollar. The bulk of the Group's operations are based in South Africa, with the Rand being the transactional currency whilst the Group's reporting currency is the US Dollar. For the period from 1 July to 13 December 2011 (being the latest practicable date prior to the publication of this document) the Rand averaged R7.5141 against the US Dollar, compared to management's business plan of R6.75.

The weakening of the Rand against the US Dollar during the period from July will reduce the Group's reported US Dollar operating costs and capital expenditure. It is not possible to accurately quantify an approximate US Dollar operating cost or capital expenditure effect at this time, but Petra notes that the exchange rate movement as set out above will have a significant positive effect.

**Taxation**

Information regarding taxation is set out in paragraph 12 of Part X of this document.

**Dividend Policy**

The Company has not declared or paid any dividends on the Ordinary Shares to date. The payment of any future dividends will depend upon earnings and the Company's financial condition, current and anticipated cash needs and such other factors as the Directors consider appropriate. The Directors do not intend to declare or pay a dividend in relation to the Company in the near-term as the Directors anticipate that the Company will retain future earnings and other cash resources for the operation, development and expansion of the business. Subject to the availability of sufficient distributable profits, the Directors do intend to commence the payment of dividends when it becomes commercially prudent to do so and to adopt a progressive dividend policy thereafter.

**Further Information and Risk Factors**

Your attention is drawn to the further information set out in this document. You should read the whole of this document and not rely solely on the information set out in this Part I. In particular, you should consider the section entitled 'Risk Factors' on pages 11 to 17 of this document.

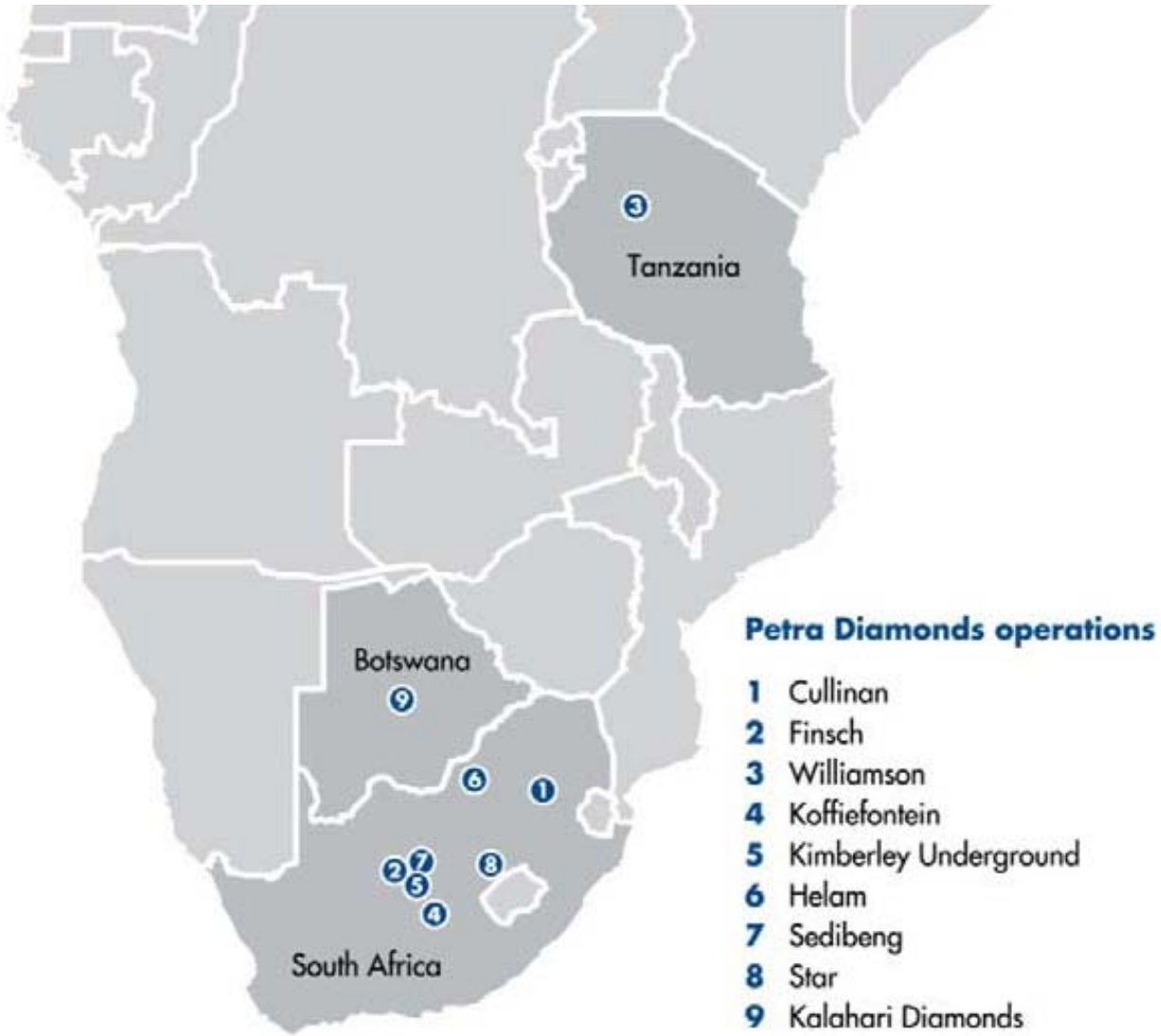
# PART II

# PRINCIPAL GROUP ASSETS

**Overview of Group Portfolio**

Petra has a well-diversified portfolio, with controlling interests in eight producing diamond mines, complemented by a highly focused exploration programme. The Group's portfolio incorporates the full range of kimberlite 'hardrock' operations, combining major underground pipe mines with low tonnage/high grade fissure mines and one large high volume open pit mine. The Group produced over 1.1 million carats in FY 2011 and its core objective is to steadily increase annual production to over 5 million carats by FY 2019.

The following map shows the Group's areas of operation in Africa.



**Reserves and Resources**

The Group controls one of the largest diamond resources in the world.

The following tables summarise the up to date Reserves and Resources information (i) for the Group (excluding Finsch) (table 1), (ii) for Finsch only (table 2) and (iii) for the Group including Finsch (table 3). The Reserves and Resources for each individual operation are listed separately below.

*Table 1*

*Petra's Group Reserves and Resources (excluding Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 53.191 | 41.89 | 22.283 | 39.364 | 41.89 | 16.490 |
| **Sub-total** | **69.814** | **33.59** | **23.452** | **51.667** | **33.59** | **17.356** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 408.894 | 48.40 | 197.897 | 303.569 | 48.26 | 146.494 |
| Inferred | 1,204.994 | 5.21 | 62.839 | 900.579 | 5.20 | 46.854 |
| **Total Resources inclusive of Reserves** | **1,629.614** | **16.08** | **262.040** | **1,215.786** | **15.98** | **194.313** |

*Table 2*

*Reserves and Resources – Finsch only*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 58.598 | 43.99 | 25.779 | 43.362 | 43.99 | 19.076 |
| **Sub-total** | **58.598** | **43.99** | **25.779** | **43.362** | **43.99** | **19.076** |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 54.408 | 47.98 | 26.102 | 40.262 | 47.98 | 19.316 |
| Inferred | 43.132 | 40.71 | 17.558 | 31.917 | 40.71 | 12.993 |
| **Total Resources inclusive of Reserves** | **97.539** | **44.76** | **43.661** | **72.179** | **44.76** | **32.309** |

*Table 3*

*Petra's Group Reserves and Resources (including Finsch)*

| *Category* | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 16.623 | 7.03 | 1.169 | 12.304 | 7.04 | 0.866 |
| Probable | 111.789 | 42.99 | 48.062 | 82.726 | 42.99 | 35.566 |
| **Sub-total** | **128.412** | **38.34** | **49.231** | **95.030** | **38.34** | **36.432** |
| **Resources** | | | | | | |
| Measured | 15.726 | 8.29 | 1.304 | 11.638 | 8.30 | 0.966 |
| Indicated | 463.302 | 48.35 | 223.999 | 343.830 | 48.22 | 165.809 |
| Inferred | 1,248.126 | 6.44 | 80.397 | 932.496 | 6.42 | 59.847 |
| **Total Resources inclusive of Reserves** | **1,727.154** | **17.70** | **305.701** | **1,287.965** | **17.60** | **226.622** |

**Notes** (these notes apply to tables 1, 2 and 3 above and also apply to the Reserves and Resources tables that follow for each of Petra's individual operations)

1. Resources are reported inclusive of Reserves
2. Tonnes are reported as millions; contained diamonds are reported as million carats
3. Tonnes are metric tonnes, and are rounded to the nearest 1,000 tonnes; carats are rounded to the nearest 1,000 carats; rounding off of numbers may result in minor computational discrepancies
4. Resource tonnages and grades are reported exclusive of internal waste, unless where otherwise stated
5. Reserve tonnages and grades are reported inclusive of external waste, mining and geological losses and plant modifying factors; reserve carats will generally be less than resource carats on conversion and this has been taken into account in the applicable statements
6. The Reserves and Resources Statement shown above is extracted without amendment from the Company's report and accounts for the financial year ended 30 June 2011 and includes information for Finsch, which was acquired on 14 September 2011.
7. Reserves and Resources have been reported in accordance with the SAMREC Code.

**Petra Diamond Mines – Vital Statistics**

| | *Cullinan* | *Finsch* | *Williamson* | *Koffiefontein* | *Kimberley Underground* | *Fissures* |
|---|---|---|---|---|---|---|
| **Location** | South Africa | South Africa | Tanzania | South Africa | South Africa | South Africa |
| **Size of kimberlite pipe or strike length of fissure at surface** | 32ha | 18ha | 146ha | 11ha | Bultfontein: 10ha<br>Dutoitspan: 11ha<br>Wesselton: 9ha | Helam: 6km<br>Sedibeng: 2.4km<br>Star: 4.5km |
| **Mine start date** | 1902 | 1967 | 1940 | 1870 | Bultfontein: 1869<br>Dutoitspan: 1869<br>Wesselton: 1890 | Helam: 1933<br>Sedibeng: 1952<br>Star: 1952 |
| **Gross Resources (Resources inclusive of Reserves)** | 203.7Mcts | 43.7Mcts | 40.1Mcts | 6.1Mcts | 7.1Mcts | 5.0Mcts |
| **Current depth of Resource[1]** | 1,073m | 1,000m | 580m | 690m | 1,060m | 970m |
| **Mining method** | Block cave | Block cave | Open pit | Front cave | Block cave | Helam & Sedibeng: Full shrinkage overhand stoping<br>Star: Open stope underhand |
| **Depth of current mining** | 747m | 630m | 65m average; 90m at deepest point | 490m | Bultfontein: 845m<br>Dutoitspan: 870m<br>Wesselton: 995m | Helam: 750m<br>Sedibeng: 750m<br>Star: 620m |
| **Mine plan** | 16 years | 18 years | 17 years | 14 years | 11 years | Helam: 20 years<br>Sedibeng: 11 years<br>Star: 15 years |
| **Potential mine life** | +50 years | +25 years | +50 years | +20 years | +12 years | + 15 years |

Note:
1 All Petra's Resources are open-ended at depth

The geology of Petra's mines is well understood; all of the mines have a long production history and are staffed by personnel with experience in the mining methods used on the various mines. Diamond grades and values are well established and the size and quality distribution of diamonds produced by each unique orebody is likewise well understood.

**Geology**

The Cullinan, Finsch, Koffiefontein, Wesselton, Dutoitspan, Bultfontein and Williamson mines are all based upon typical kimberlite pipes, although each is unique in terms of its emplacement history, the facies found in each pipe and the local geology through which it has been intruded and the level to which it has been eroded since intrusion.

The fissure mines exploit a number of en echelon dykes that probably represent dykes that fed kimberlite pipes that have now been eroded away.

Figure 2 below shows the erosional level of the Group's mines in relation to the kimberlite emplacement models.

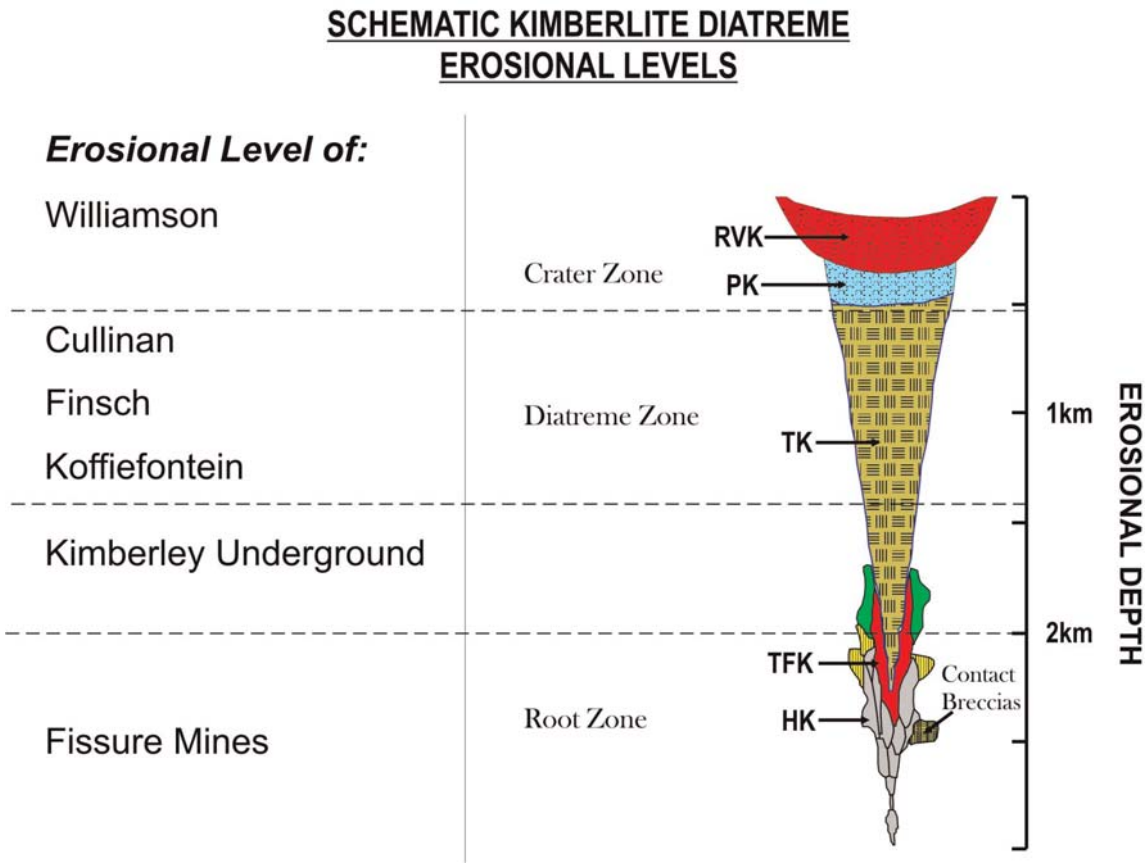



*Figure 2: model of a kimberlite pipe – n.b. 'erosional depth' refers to how much of the land surface has been eroded between the time of the kimberlite emplacement and the present day and does not refer to the mining depth from the current surface elevation*

While diamond populations within a kimberlite can show considerable variation in terms of grade and diamond quality, generally there is no change in the quality of diamonds or grade within a kimberlite facies. Changes in grade can usually be attributed to a change in kimberlite facies and/or a change in the amount of internal dilution and the amount of external waste introduced by mining.

## Background to diamond mining and exploration

### Mine production

#### *Block Caving*

Block caving was first introduced at Kimberley, South Africa in 1951 and is now used extensively as an underground mining method. It has proved to be a safe, low cost, high volume mining method. In recent years, advances in block caving technology have allowed the method to be used for ore extraction in many large-scale orebodies world-wide.

Block caving is currently used as the mining method at Finsch, Cullinan and Kimberley Underground. Figure 3 illustrates the general features of the block caving mining method. Utilising this method, the full orebody or an approximately equi-dimensional block of ore is fully undercut to initiate caving. The undercut zone is drilled and blasted progressively and some broken ore is drawn off to create a void into which initial caving of the overlying ore can take place. As more broken ore is drawn progressively following cave initiation, the cave propagates upwards through the orebody or block until the overlying rock also caves and surface subsidence occurs. The mechanisms by which caving takes place under the influence of redistributed stresses and/or gravity are extensively studied and well known.

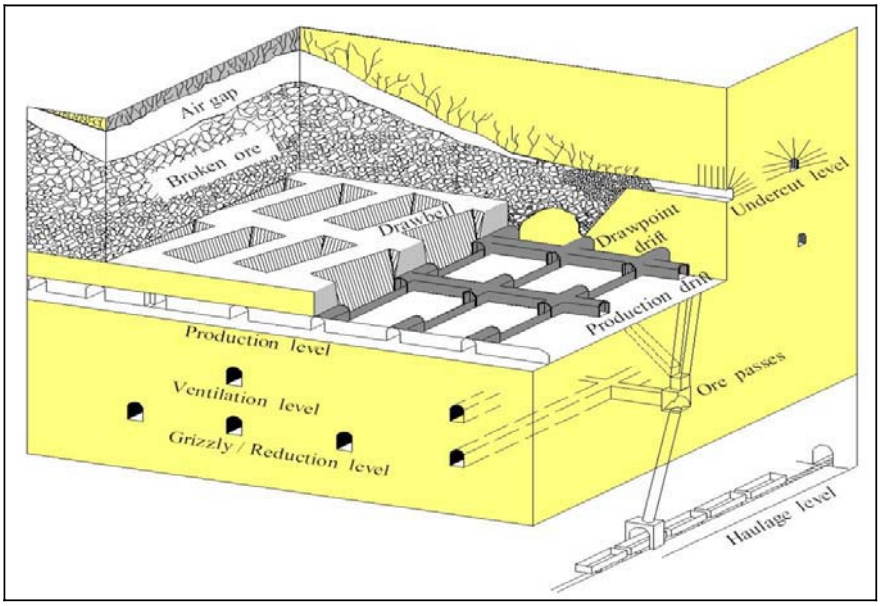



*Figure 3: diagram of a typical block cave layout*

The broken ore is removed through the production or extraction level developed below the undercut level and connected to it by drawbells through which the ore gravitates to drawpoints on the extraction level. In most current block caving operations, the broken ore is removed from the drawpoints by LHD vehicles, although the Kimberley Underground mines still use the more traditional gravity-based grizzly or slusher systems. From the extraction level, the ore is transported to the haulage level and out of the mine, sometimes following underground crushing. Block caving may be used in massive orebodies which have large, regular 'footprints' and either dip steeply or are of large vertical extent. It is initially a capital intensive process, requiring considerable investment in infrastructure and development before production can commence. However, once the caves have been propagated, it is a low cost mining method which is capable of automation to produce an underground 'rock factory'. Historically, block caving was used for large-scale, low strength and usually low grade orebodies which produced fine fragmentation.

Front caving was developed from the overdraw system used on the two lower levels of the sub-level caving operations at the Shabanie Mine, Zimbabwe. Front caving is used at Petra's Koffiefontein mine and the King mine, Zimbabwe, where the method is referred to as retreating brow caving. In essence, the method involves retreating on one or more levels from an initiating slot which can be in the centre of the orebody as at Koffiefontein, or against the orebody boundary. The lower level is the production level on which so-called semi-permanent drawpoints are fully developed ahead of undercutting on the upper level. This upper level also provides initial temporary drawpoints from which the swell from each blasted ring is drawn. The undercut is retreated in stages to points above

the semi-permanent drawpoints in a manner similar to that used in sub-level caving. Ideally, the method should work best with two production levels rather than one.

***Tailings Mining***

Treatment of the ROM kimberlite ore produces a sink (high density material in which diamonds are concentrated) and a float product. The float material (which still contains diamonds) is discarded onto a coarse tailings dump. Once the sink material has been further treated and examined for diamonds it is also discarded onto a recovery tailings dump. The discarded material can then be mined and treated at a later stage when this becomes economically feasible.

**Mineral Processing**

Diamond recovery processes include scrubbing, crushing and screening, DMS and final recovery.

***Scrubbing, Crushing and Screening***

The ROM ore, whether derived from underground or from an open pit, is delivered to primary crushers in sizes of less than 1 $m^3$. Primary crushers, which are situated in large chambers in the underground mines or on surface at an open pit, are either jaw, gyratory or mineral sizers and the ore is usually reduced by the crushers to fragments with a maximum dimension of less than 250 mm. The ore is then washed through a scrubber that removes much of the finer material and prepares the ore for sizing into several fractions.

The oversize material reports for secondary crushing to be reduced in size. The crushed product passes over a screen that separates and recycles the coarser material back to the crusher, with the undersize reporting to either a scrubber or DMS. On some operations, where the ore is exceptionally hard, a tertiary stage of crushing is employed.

There are two primary modes of crushing: geometric and inter-particle.

- *Geometric crushing* is used for larger particles and involves simply squeezing the particle between two metal plates. This type of crushing produces uniaxial stress and hence a flatter shaped product, and can be used to crush relatively large rocks. Gyratory, jaw and most cone crushers operate in this mode.
- *Inter-particle crushing* involves rock-on-rock crushing that can be induced by compressing a bed of broken rock. The resultant multi-axial stress results in a crushed product that is typically half the size of the operating gap in this type of crusher. This means that the diamonds are liberated without damage.

Crushed material is again washed through a scrubber, the product being screened and sprayed to remove undersize material, typically less than 1 mm or 1.5 mm. The undersize material, in the form of slurry, reports to the water recovery system, typically comprising of de-gritting and thickening. The slimes so generated are disposed of in a slimes dam. On some mine sites this process produces slurry that is dry enough to be disposed of with the coarse tailings.

***DMS and Concentration***

Custom-sized material moves to the DMS process – where the ore is separated into a dense, or sink, component and a float component that is discarded or subjected to sequential crushing for the coarser material. In mines that have the potential to yield larger diamonds, the above mentioned top-cut is lifted to accommodate the potential for that specific mine.

The medium used to achieve this separation is a mixture of water and ferro-silicon, which creates an apparent density of 3.1 $g/cm^3$ when passed through a cyclone. As diamonds have a density of 3.5 $g/cm^3$ they sink, and the majority of the ore, typically as much as 99%, floats. The ore that floats is discarded on a coarse tailings dump. At some plants this material is crushed and separated several times to improve overall diamond liberation. Several other minerals such as garnet, ilmenite, magnetite and diopside, sink along with the diamonds, producing a diamond-rich concentrate, which is transported to the final recovery process.

***Diamond Recovery***

Recovery methods for diamonds vary considerably, as they depend on the physical characteristics of the diamonds and the gangue that sinks along with the diamonds. Processes that are used include permanent magnetic roll separators, various types of X-ray separators, optical separation, grease belts and hand sorting. These are usually used in separate size streams to ensure maximum diamond

recovery efficiency. Tailings from these processes are usually discarded and stored in a secure area to ensure any losses can be reclaimed through further processing when deemed economically viable.

The concentrate generated from the recovery processes, which in some cases concentrates in a ratio of 1 part of product to 1,000 parts of discard, are usually sent to hand sorting for final diamond recovery in a secure environment. At each operation the diamonds are sized, weighed and packaged for dispatch to a regional sorting and valuation facility.

**Exploration**

Generally, kimberlites occur in clusters of up to five or more, in close proximity to each other. They are not necessarily all the consequence of a single volcanic event. Indeed, they may have resulted from several different events over a period of time, adding to the complexity of sampling and proving their economic potential.

Geologists use many methods to explore for kimberlites, including satellite remote sensing, geophysics and reconnaissance sampling. Any kimberlites discovered can then be drilled to establish whether or not they contain economic quantities of diamonds.

The first step is generally to investigate areas with a history of diamond recovery, and then to follow up with stream or deflation sampling for evidence of kimberlite indicators such as garnets. Thereafter, the use of geophysics to search for magnetic anomalies is applied. Sampling and drilling are then used to confirm whether the anomalies are indeed kimberlites.

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

If positive results are achieved through the initial processes mentioned above, then a company will be in a position to commence bulk sampling material by drilling the deposit and extracting core for analysis. The aim is here to establish the economics for mining a particular kimberlite, and will give indications of grade, cost per tonne and average value per carat. From here, a production decision can be made.

## The Group's operations

### Cullinan

#### *Introduction*

Cullinan is one of the world's most celebrated diamond mines and is a source of large, high-quality gem diamonds (Type II's). It earned its place in history with the discovery of the Cullinan diamond in 1905, the largest rough gem diamond ever found at 3,106 carats, and it has produced 745 stones of greater than 100 carats and more than a quarter of all the world's diamonds greater than 400 carats. It is also the world's only significant source of truly rare and highly valuable blue diamonds.

Since taking over the mine in July 2008, Petra has recovered several world-class diamonds, including a 39 carat blue diamond which sold for US$8.8 million, a 26 carat blue diamond which Petra cut into a 7 carat polished stone and sold for US$9.4 million, and a 507 carat white diamond which Petra named the Cullinan Heritage and sold for US$35.3 million, being the highest price on record for a rough diamond.

The Cullinan kimberlite pipe, situated 37 km north east of Pretoria in the Gauteng province, is the largest diamondiferous kimberlite ever found in South Africa, being 32 hectares at surface. Despite already being mined for over 100 years, it is still a large mine with a kimberlite footprint in excess of 16 hectares at the current mining levels.

Cullinan contains a world-class resource of 203.7 Mcts (including 16.9 Mcts in tailings). 133.1 Mcts are contained within the C-Cut which is situated beneath the B Block, where Petra is currently mining at a depth of 747 metres. Petra is implementing an expansion plan which will access the upper portions of the C-Cut, establish a new block cave and take ROM production from just over 850,000 carats in FY 2011 to 2.0 Mctpa by FY 2019. In conjunction with this expansion plan to access the C-Cut, Petra will implement efficiency programmes which will significantly reduce the number of times ore is handled with expectant cost benefit. ROM production will be augmented by tailings production, which will be increased to 0.4 Mctpa by FY 2014.

At the base of the C-Cut (1,073 metres), the kimberlite pipe is still of significant dimensions at 12 hectares and can, by geological extrapolation, be anticipated to contain economically viable ore to a depth of 1,500 metres. This can be evaluated by future exploration.

#### *Ownership*

Petra holds 74% in CDM (the Cullinan licence holder) via its subsidiary CIHL. Petra's BEE Partners at Cullinan (Thembinkosi and PDET) hold a 26% interest. Further details are set out in the 'Group Structure' in Part I of this document.

The shareholders of CDM being CIHL and the Cullinan BEE Partners, entered into a shareholders' agreement relating to Cullinan dated 1 February 2008, further details are set out in paragraph 10.14(a) of Part X of this document.

#### *History*

The Cullinan kimberlite pipe was discovered in 1902 and open pit mining commenced at the 'Premier' mine (as it was then known) in 1903. Since this time it has produced in excess of 350 Mt of ore yielding approximately 120 Mcts of diamonds. More than 75 Mt of coarse tailings material has been reprocessed and yielded 20 Mcts of diamonds. Ore extraction has been by underground mining methods since 1946 and has varied between 2 and 5 Mt per annum and ore treatment between 2 and 7 Mt per annum.

The mine was renamed 'Cullinan' as part of its centenary celebrations and to link the mine to the illustrious heritage of the Cullinan diamond, which provided the two main polished diamonds within the British Crown Jewels (the 530 carat Great Star of Africa and the 317 carat Lesser Star of Africa).

Petra initially acquired a 37% interest in the Cullinan mine from De Beers in 2008, but increased its direct interest in the mine to 74% in late 2009 when it acquired Al Rajhi's holding in the mine.

#### *Geology*

The Cullinan kimberlite pipe occurs within the stable, three billion year old Kaapvaal Craton and intrudes rocks of the Transvaal Supergroup (Pretoria and Rooiberg Groups), Bushveld Complex and the younger Waterberg Group. It is a Group 1 kimberlite and it is estimated by geological inference that the top 300 metres of the original pipe has been eroded away since the pipe was intruded 1,200 million years ago. The pipe has numerous facies, however there are three dominant facies, namely the brown TKB, the Grey TKB and the hypabyssal facies, which is contained within the Grey TKB. The

kimberlite pipe has intruded through a variety of rocks, the most important of which is norite, the rock type in which most of the current mine haulage system is based. The norite has been correlated with the main zone of the Bushveld Complex. Quartzites, shales, sandstones and dolomitic shales of the Transvaal Supergroup occur both above and beneath the norite. A unique feature of this kimberlite is the occurrence of an approximately 70 metre thick diabase sill (varies from gabbro to norite) that cuts across the occurrence at approximately the 500 metre elevation. Mining has progressed well below this horizon with no deleterious effect.

The pipe has an elongated, kidney-shaped exposure on surface with an east west axis 880 metres long and a north south axis 450 metres long. The pipe has a surface area of 32 hectares and decreases to a size of 13 hectares, 1,073 metres below surface. Three major kimberlite facies are recognised within the pipe: the brown kimberlite represents the first phase of intrusion and generally has the highest diamond grade of all the kimberlite facies in the Cullinan pipe; the grey kimberlite represents the second phase of intrusion; and the hypabyssal kimberlite represents the final phase of the major facies of the intrusion.

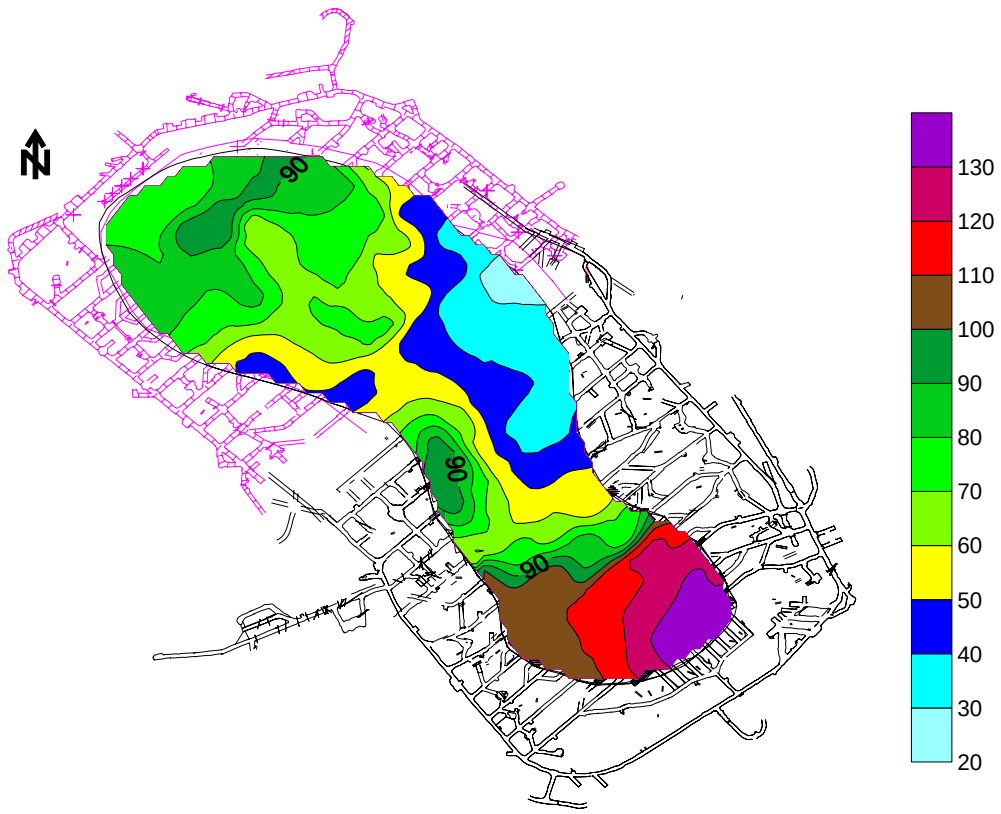



*Figure 4: the Cullinan kimberlite orebody showing in-situ grade distribution. The different colours correspond to the varying grades of the orebody, rising from pale blue (~20 cpht) to purple (~130 cpht).*

***Reserves & Resources***

| | Gross | | | Net attributable | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 41.082 | 48.58 | 19.958 | 30.400 | 48.58 | 14.769 |
| **Sub-total** | **41.082** | **48.58** | **19.958** | **30.400** | **48.58** | **14.769** |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 265.339 | 70.39 | 186.780 | 196.351 | 70.39 | 138.217 |
| Inferred | 168.502 | 10.04 | 16.918 | 124.692 | 10.04 | 12.519 |
| **Total Resources inclusive of Reserves** | **433.842** | **46.95** | **203.698** | **321.043** | **46.95** | **150.736** |

1. Resource bottom cut-off: 1mm
2. Reserve bottom cut off: 1mm
3. Resource tonnes and grade in current mining blocks are based on block cave depletion modelling, and include external waste
4. Reserve carats and grades are factorised as per the following resource to reserve liberation factors: 'brown' kimberlite 75.8%, grey kimberlite 71.4%, and hypabyssal kimberlite 71.8%
5. Probable Reserves have increased in accordance with the mine planning for the C-Cut Phase I and the addition of 18 new drawpoints in the current mining blocks.

The C-Cut resource was delineated by 16,672 metres of slim-line core drilling and evaluated by 12,300 metres of large diameter drilling. Tunnel sampling (593.4 carats from 1,016.6 tonnes) and micro-diamond sampling (3,794 stones from 2,553 kilogrammes of core) was also used in the evaluation of the resource.

***Mine Production***

Mining at Cullinan employs the block cave mining technique. Petra is currently mining the BB1E, BA5 and AUC blocks (see Figure 6 below) at a rate of 2.3 Mtpa at a grade of ca. 36 cpht. When Petra acquired the mine in July 2008, it initially 'right-sized' the operation by dropping production and then commenced increasing tonnes mined from approximately 2 Mtpa to a planned 4 Mtpa by FY 2019.

Cullinan has two fully equipped and operational shafts. No. 1 Shaft is dedicated to the hoisting of rock (ore and waste) to the washing plant on surface, where the oversize rock is screened out into a surge bin before it is sent to the crusher plant and the undersize rock is washed ready to be processed. If required, ore can also be conveyed to a 50,000 tonne stockpile alongside the treatment plant. The second shaft is equipped with a men-material winder used for transporting employees and material to and from designated levels, as well as taking equipment underground.

*Geotechnical Considerations*

The Cullinan kimberlite pipe exhibits a wide range of strength characteristics, from uniaxial compressive strengths of approximately 40 MPa for the 'brown' kimberlite, to more than 150 MPa for the hypabyssal.

Block caving has been used as a mining method at Cullinan for decades and is well understood by management. The best modelling techniques available, using international consultants, have been implemented to provide assurance and operational personnel are very experienced in all aspects of the mining operation.

*Ore Handling System*

The ore, once loaded from the drawpoints with LHDs, is tipped into a series of ore passes sited in the country rock surrounding the orebody. A conventional rail system is used to draw the ore from the orepasses and deliver it to either one of two underground crushing stations on the 805 metre level.

The underground jaw crushers crush the ore to a sub 250 mm size before it is conveyed up two 14 degree inclines to the loading station at the 541 metre level shaft prior to being hoisted to the surface.

*Mine Ventilation*

Cullinan's ventilation system consists of a 'Push/Pull' system that ensures that the mining area is continuously pressurised with fresh air that enters the mine to create a healthy, safe and productive working environment. In the macro ventilation system an air volume of 790 $m^3/s$ is required at an underground air density to ventilate the BB1E, BA5 and AUC sections. Fresh air enters the mine via a number of down-cast air facilities, shafts and through the open pit. Used air is returned via two main exhaust surface fan systems situated on surface, the north side of the main pit and on the south side.

*Water Management*

At Cullinan, underground water is pumped into a surface reservoir from where it is extracted into the closed water system that runs through the plants. All water released by the plants runs into sumps where it is pumped back to the fine tailings facility. The mine runs a closed circuit water reticulation system that recycles all water from No 7 dam. Any discharge from the mine into the water courses is closely monitored and carried out in line with CDM's permits.

The potable water supply is from the Wilge River pump station approximately 15 km away.

***Tailings***

Petra is increasing the quantity of tailings mined at Cullinan to treat the 165 Mt tailings resource (estimated to contain 16.9 Mcts). This tailings resource will be treated in a new modular, tailings plant currently under construction and expected to be commissioned in FY 2013. The Company plans to treat 1 Mt (for 100,000 carats) of tailings in FY 2012, gradually increasing to 4 Mt (for 400,000 carats) from FY 2014. At this level, Resources can be mined for 40 years.

In FYs 2010 and 2011, Petra completed treatment of the high grade OSP tailings and is now processing the ROM tailings through the modified OSP plant.

***Mineral Processing***

The current plant was commissioned in 1947 and has been continuously upgraded since this time and substantially modified in order to optimise its capability to treat the Reserves. Due to this continuous modification process, the plant has a footprint of some 27 hectares, including 13.5 km of conveyor belts. One of Petra's key objectives is to simplify and streamline the processing route taken by mined ore.

The Company has already implemented some major changes, the most important of which has been to move away from using grease as the sole recovery technique. 17 flow sort X-ray machines have been installed and commissioned as the first line of diamond recovery for high value goods. With the installation of these machines, Petra is now able to recover most diamonds larger than 4mm by X-ray and the original grease recovery method has become the back-up rather than the primary method.

Petra spent 18 months upgrading the Large Diamond Recovery Plant and this was successfully commissioned towards the end of the calendar 2009 year. The configuration is set to cater for potentially world-class diamonds (such as the Cullinan diamond at 3,106 carats) and ensures that the very large diamonds known to exist within the Cullinan pipe stand a good chance of being recovered intact.

As with its other mines, Petra has historic production records at Cullinan which detail the quality and size distribution of the diamonds recovered over time.

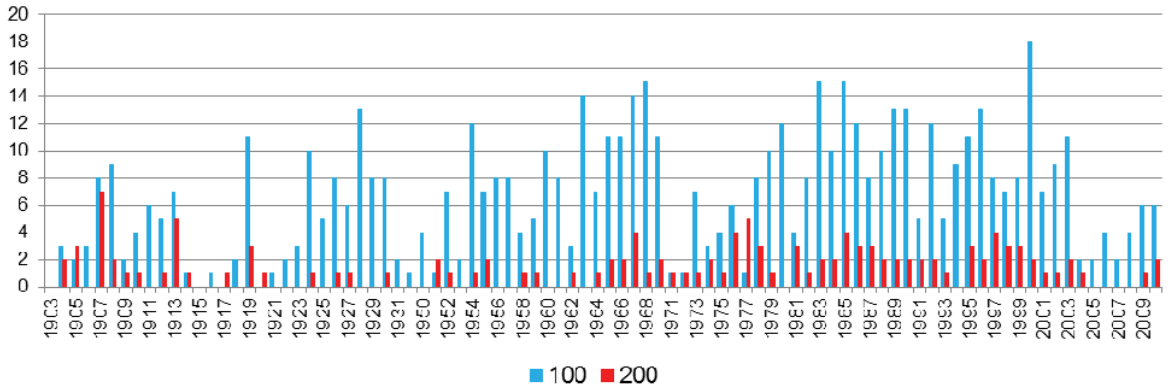



*Figure 5: chart showing the number of +100 and +200 carat diamonds recovered since the mine opened in 1903*

The Company plans to increase the ROM plant capacity at Cullinan from its current rate of 2.4 Mtpa to 4 Mtpa by FY 2019 in line with Petra's expansion plan.

***FY 2011 Operating Review***

| | *Unit* | *FY 2011* | *FY 2010* | *Variance* |
|---|---|---|---|---|
| **Sales** | | | | |
| Revenue | US$M | 140.2 | 127.0 | +10% |
| Diamonds sold | Carats | 944,405 | 903,861 | +4% |
| Average price per carat | US$ | 148 | 141 | +5% |
| **ROM Production** | | | | |
| Tonnes treated | Tonnes | 2,323,403 | 2,160,907 | +8% |
| Grade | Cpht | 36.6 | 38.9 | -6% |
| Diamonds recovered | Carats | 851,193 | 841,293 | +1% |
| **Tailings Production** | | | | |
| Tonnes treated | Tonnes | 575,605 | 248,380 | +132% |
| Grade | Cpht | 7.7 | 34.9 | -78% |
| Diamonds recovered | Carats | 44,246 | 86,638 | -49% |
| **Total Production** | | | | |
| Tonnes treated | Tonnes | 2,899,008 | 2,409,287 | +20% |
| Diamonds recovered | Carats | 895,439 | 927,931 | -4% |
| **Costs** | | | | |
| On-mine cost per tonne | ZAR | 164 | 167 | -2% |
| Total Capex | US$M | 33.9 | 20.4 | n/a |

During FY 2011, Cullinan was the major contributor to the Group, accounting for 64% of overall turnover and 80% of carat production. Going forward, it is intended that the Finsch mine will balance the importance of the Cullinan mine in Petra's portfolio.

The average value per carat (ROM and tailings combined) at Cullinan was US$148 for FY 2011, up 47% in comparison to the US$101 achieved in FY 2010 (the average for FY 2010 was US$141 before adjusting for the sale of the 507 carat Cullinan Heritage for US$35 million).

In FY 2011, 11 stones from Cullinan each sold for in excess of US$1 million; such stones are regarded as a regular feature of Cullinan's production profile.

Cullinan performed well in terms of throughput, with total tonnages treated (ROM and tailings) exceeding expectations. ROM grade of 36.6 cpht was approximately 6% lower than the previous year of 38.9 cpht, due to:

- an increase of the bottom cut for slimes discard from 0.8 mm to 1.3 mm (partially contributing to the increased average value per carat achieved); and

- the far higher than average rainfall experienced in many parts of South Africa, including Cullinan, which resulted in ore-handling difficulties relating to the clay, mud and moisture content of the ore.

ROM grade at Cullinan is expected to remain under pressure whilst production continues to be from the mature areas of the mine, due to the significant dilution of the ore drawn in these older production zones. However, the grade is forecast to rise to 50 cpht once the new cave is established from FY 2015 onwards as part of the C-Cut development programme on the 830 metre level and undiluted ore is mined and treated.

Although tailings throughput increased significantly to 575,605 tonnes during FY 2011, the total carats produced from tailings dropped by 49% to 44,246 carats as the high-grade OSP tailings dump was depleted as planned in the preceding year. The Company is now processing the ROM tailings material. The tailings grade of 7.7 cpht achieved for FY 2011 is expected to rise to approximately 10 cpht from FY 2012, once a re-crush system of material larger than 6 mm has been incorporated into the operation.

Despite South African cost pressures, unit costs per tonne at Cullinan decreased by 2% in FY 2011 due to increased volumes and other initiatives to mitigate cost pressures. Longer term, once the development plan has significantly progressed in the years to come, further unit cost efficiencies are expected to be driven by initiatives such as a simplified ore-handling system underground and further streamlining of the plant. The Company continues to focus on energy efficiency savings in order to minimise the effect of energy inflation on operating costs.

Capex at Cullinan increased to US$33.9 million for FY 2011, predominantly applied to the underground development work, the continued upgrading of the plant and the new underground fleet equipment.

***Cullinan Mine Plan***

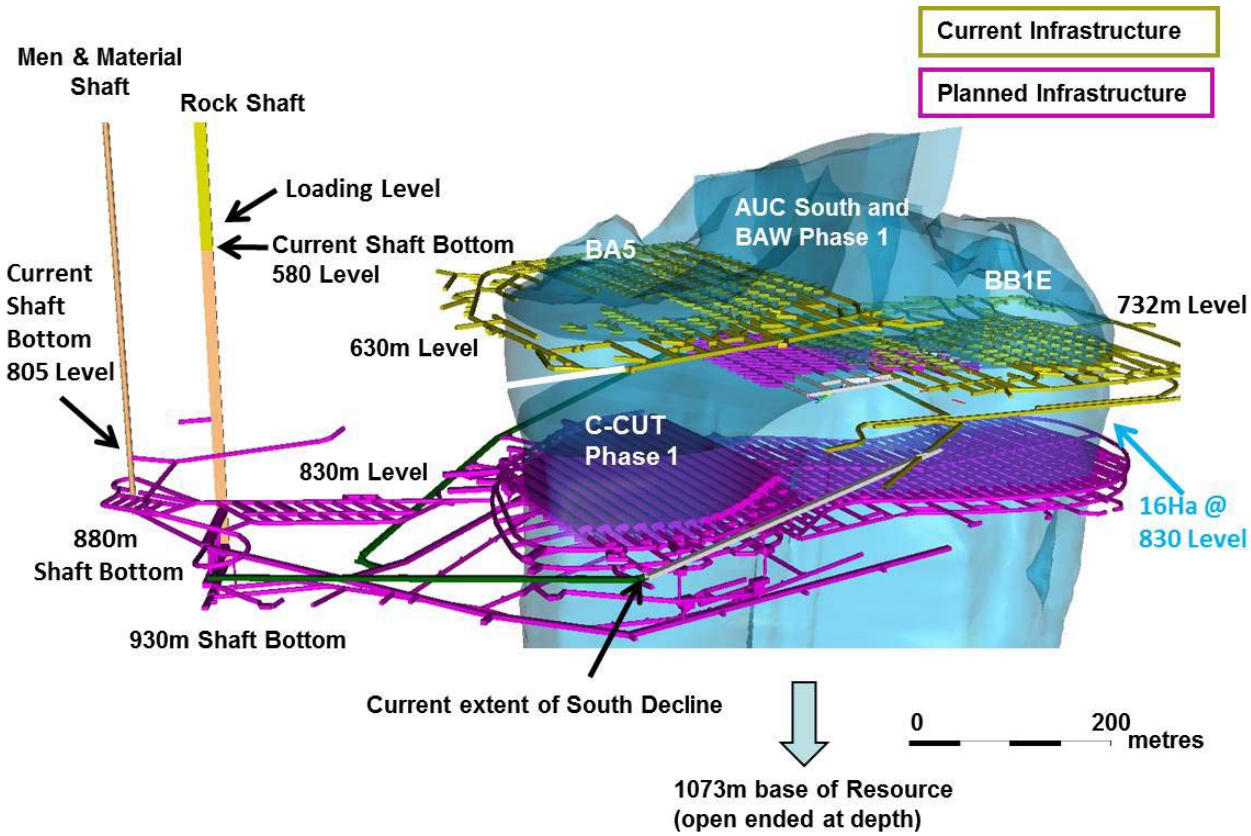



*Figure 6: schematic of the Cullinan orebody and mine infrastructure*

The C-Cut expansion programme at Cullinan is on track to develop a new block cave on the western side of the orebody which will access the higher grade BAW and AUC south areas of the orebody and produce at a rate of 2 Mctpa for approximately 20 years, supplemented by 0.4 Mctpa of tailings production. This will be carried out in a phased approach. Phase one will establish new tunnels on

747,732 and in the BA5 at 630 level to ensure that underground production is maintained at current levels.

Phase two will see ROM production rising to 4 Mtpa (2.0 Mctpa) by FY 2019. The expansion programme will gain access to upper portions of the C-Cut resource and will require the upgrading of the material handling infrastructure, including:

- upgrading the existing winders;
- establishing a decline from existing production levels to shaft bottom at 930 metres; and
- extending the existing shaft system down to 950 metres.

The current material handling will be improved and simplified, with the existing cumbersome conveyor belt system being replaced by FY 2016 which the Directors believe will yield significant savings to the operating costs at Cullinan.

The new production level will be at an optimal depth of between 810 and 850 metres. The south decline to access the new production level has now passed the 839 metre level below surface with the breakaway for the 830 metre undercut level having been established. Tenders have been received for shaft deepening (and related infrastructure) to 930 metres below surface and the award of this contract is imminent.

Petra is currently investigating the addition of a decline on the northern side of the orebody which has the potential to fast-track the kimberlite development of the new block cave and subsequent production build-up.

Whilst the C-Cut development programme is underway, Petra has established new drawpoints in both the BB1E and AUC south sections of the Cullinan pipe. This will allow the Company to draw from these production areas to maintain volumes and grade whilst the new block cave is established in the C-Cut.

50 cpht is a realistic target based on resource estimates and long term production records at Cullinan. In addition, historically and from sampling programmes, there has been a higher incidence of larger white diamonds and blue diamonds in the western blocks of the Cullinan kimberlite pipe, which bodes well for future recoveries of 'specials'.

Petra foresees a long life for the operation and has a current mine plan of 16 years, though this will only have exploited 21% of the C-Cut resource to 1,073 metres, leaving extensive Resources for future development.

***Capital Expenditure***

The Directors believe that in order to achieve the above Capex programmes, an estimated US$373 million) (2011 money) will be spent over the 10 year life of the expansion programme until 2019 (calculated at an exchange rate of R6.75/US$). The Capex required for this programme is expected to be financed from the Group's treasury, existing bank facilities and operating cashflows.

***Licences & Permits***

CDM holds a valid new order mining right ("the Cullinan Mining Right") dated 4 December 2007 in respect of the remaining extent of portion 3 of the farm Elandsfontein 480 JR, situated in Gauteng, Magisterial District of Cullinan, for an area of 453.2 hectares.

The Cullinan Mining Right was granted to De Beers pursuant to Item 7 of Schedule II of the MPRDA and was ceded from De Beers to CDM by a notarial deed of cession on 1 July 2008 pursuant to section 11 of the MPRDA in respect of the area covered by the Cullinan Mining Right. The cession was duly notarially executed and registered in the Mineral and Petroleum Titles Registration Office under reference number 36/2008 MR.

The Mining Right confers on CDM the exclusive right to mine for diamonds in relation to the licence areas. The Cullinan Mining Right has been granted until 3 December 2037. Pursuant to the MPRDA, the Cullinan Mining Right is renewable (for periods of up to 30 years for each renewal) and, provided that CDM has complied with the terms and conditions of the mining right, the Minister of Mineral Resources will renew the Cullinan Mining Right.

The Cullinan Mining Right was issued on terms and conditions that are regulated by government gazette for mining rights of this nature and contains no exceptional terms or conditions. Standard terms and conditions in the Cullinan Mining Right include the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act

28 of 2008 in respect of minerals recovered under the Cullinan Mining Right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the Cullinan Mining Right may be suspended or cancelled.

The surface rights in respect of the land on which the Cullinan mine is situated are held by Premier Transvaal, a wholly owned subsidiary of CDM. CDM has entered into an agreement with Premier Transvaal to access the land. CDM also has access rights to the land pursuant to the Cullinan Mining Right and Section 5 of the MPRDA.

**Finsch**

***Introduction***

Finsch is an underground block cave diamond mine with state-of-the-art mining infrastructure, including a modern processing plant which was upgraded by De Beers shortly before Petra acquired the mine at a cost of approximately US$100 million. The mine has a shaft capacity of 4.6 Mtpa and the plant a capacity of 7.2 Mtpa. Finsch produced an average of approximately 2 Mctpa over the five years to 2009, from a combination of underground mining and tailings retreatment, and has produced approximately 126 Mcts in its 40 plus year life to date.

Current production is from a mechanised block cave at the 630 metre level. Pre-feasibility studies have been completed to extend the ore extraction to greater depths and Petra will be reviewing and optimising mining plans.

Finsch has produced a number of large, special diamonds in its history and mine records reflect the recovery of an average of 27 stones of more than 45 carats per annum over the last four years. Recovery of such large, high-value stones can substantially increase the total value of production in any one year. In addition, the mine has produced a range of coloured diamonds, including pinks and yellows.

The mine is located approximately 165 km north west of Kimberley, in the Northern Cape province of South Africa.

***Ownership***

Petra holds a 74% interest in Finsch via its subsidiary Afropean Diamonds. Petra's BEE Partners at Finsch (Senakha Diamonds and PDET) hold a 26% interest also via Afropean Diamonds. Further details are set out in the 'Group Structure' in Part I of this document.

The shareholders of Afropean Diamonds, Petra and the BEE Partners, entered into a shareholders' agreement relating to the Finsch mine dated 3 February 2011, further details are set out in paragraph 10.14(c) of Part X of this document.

***History***

The Finsch kimberlite was discovered in 1960 and the mine was officially opened in 1967. Ore extraction was initially from the open pit. Sinking of the main shaft to access the mine from underground started in 1978. Two vertical shaft complexes, tunnels and ground handling infrastructure were prepared for the continuing exploitation of the pipe with the use of highly mechanised mining methods.

Petra purchased Finsch as a fully-staffed, operating mine from De Beers on 14 September 2011.

***Geology***

Finsch is a Group II kimberlite pipe with an age of ca. 118 Ma. The pipe was emplaced through a thick sequence of Transvaal Supergroup sedimentary rocks comprising dolomites, banded iron formation and shales that overlie the western part of the Kaapvaal craton. Preserved within the pipe are large fragments of Karoo-aged sediments, lavas and dolerite, which were present at the time of emplacement, but have subsequently been eroded away. The size and concentration of these Karoo-age sediments decreases with depth in the Finsch pipe. The pipe is made up of eight kimberlite facies, two of which make up the majority of the main pipe and are currently being mined. There is significant potential for mining at least one of the precursor kimberlite bodies attached to the main pipe.

The Finsch kimberlite pipe is a near vertical intrusion, has a surface footprint of 17.9 hectares and is elliptical in outline.

***Reserves & Resources***

| | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 58.598 | 43.99 | 25.779 | 43.362 | 43.99 | 19.076 |
| **Sub-total** | **58.598** | **43.99** | **25.779** | **43.362** | **43.99** | **19.076** |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 54.408 | 47.98 | 26.102 | 40.262 | 47.9 | 19.316 |
| Inferred | 43.132 | 40.71 | 17.558 | 31.917 | 40.71 | 12.993 |
| **Total Resources inclusive of Reserves** | **97.539** | **44.76** | **43.661** | **72.179** | **44.76** | **32.309** |

1. Resource bottom cut-off: 1.47mm
2. Reserve bottom cut-off 1.47mm
3. Reserve tonnes and grade are based on block cave depletion modelling, and include external waste

***Mine Production***

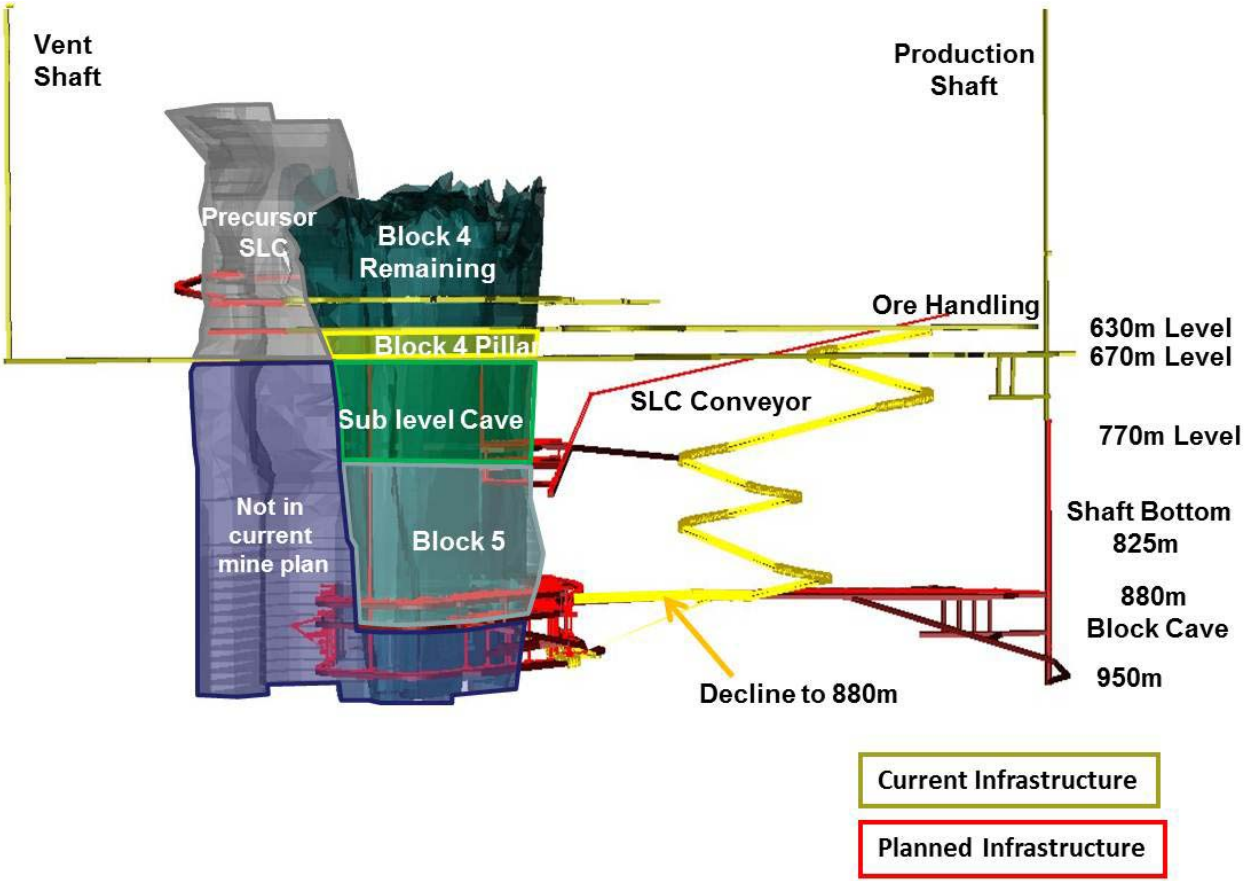



*Figure 7: schematic of the Finsch orebody and underground infrastructure*

Finsch was mined as an open pit mine until September 1990 at which time it extended to a depth of 423 metres. Approximately 110 Mt of waste rock and 98 Mt of diamond bearing kimberlite were mined from the open pit to produce approximately 79 Mcts.

Block 1 was mined as an open pit, Block 2 was mined from above as an open pit and from underground using open stoping mining methods, and Block 3 was mined from underground using open stoping mining methods. Block 4 spans from 510 – 630 metres in depth. In addition to the current underground mining of Block 4, Finsch is conducting surface mining of the coarse tailings dumps from the Pre-1979 TMR. Block 4 has been mined using sub level open stoping and block caving mining methods since January 2003.

Mine life for the current operations, including Block 4 and the Pre-79 TMR, is expected to continue to 2015 with the end of the economic life of Block 4 occurring in 2014 and the Pre-79 TMR continuing until 2015. Petra has plans to extend the mine's life considerably by exploitation of ore below Block 4 in addition to processing the tailings dumps from operations post-1979 ("Post-79 TD") (see section below on 'Finsch Mine Plan').

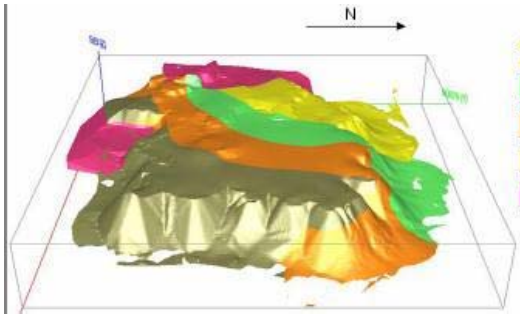



*Figure 8: The Pre-1979 TMR*

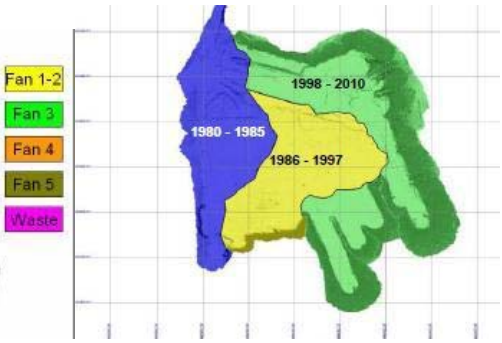



*Figure 9: The Post-1979 TD*

*Geotechnical Considerations*

The Block 4 block cave operations have proved remarkably successful with few geotechnical problems.

*Ore Handling System*

The Finsch orebody is accessed via a nine metre diameter, vertical concrete-lined 763 metre deep shaft. The shaft is equipped with three automatic Koepewinders. Conveyances for three winders operate within the shaft via four main compartments – these are the men and material cage, the service winder cage and two 28 tonne capacity skips. There is also a decline from surface to a depth of 880 metres giving access to Block 5.

The men and material cage has a payload of 25 tonnes (or 100 people per trip) while the service winder is permitted to carry 12 people per trip. The rock winder is capable of hoisting 32 skips per hour under its current permit conditions.

The shaft has an annual maximum capacity of approximately 4.6 Mt, and is currently operating at 3.2 Mt.

Following transfer from the 630 metre level drawpoints by manned LHDs, the mined ore is trammed by automated dump trucks to the main underground crusher, which has a throughput capacity of 1,500 tph. The ore from the 610 metre level is taken to two mineral sizers with a throughput capacity of 1,200 tph each. After crushing, the ground is transported by means of conveyor belts and deposited into ore storage passes, until they are at a level suitable for hoisting. These passes have a total capacity of about 3,000 tonnes. From the ore passes, the ground is conveyed to the shaft measuring flasks, which have a 28 tonne capacity.

*Mine Ventilation*

A five metre diameter concrete-lined ventilation shaft is in place to ventilate the underground operation.

A total volume of more than 240 $m^3/s$ is exhausted and positive pressurisation is maintained at 15%. The ventilation layout and parameters are designed to ensure effective ventilation for all workplaces

and to keep occupational exposure limits with regards to dust, fire, and blasting and exhaust fumes at a minimum.

*Water Management*

Finsch obtains potable water for domestic use as well as ore treatment from the Sedibeng Water Board. Raw water is drawn from the Vaal River just beyond the Vaal and Hartswater confluence. A series of dams are used to collect, store and distribute potable and process water and in some cases this water is used for water balancing purposes.

***Tailings***

Tailings are wet screened at the tailings resource, pumped into a storage facility and blended with ROM ore at a present rate of 2.2 Mtpa. The Pre-1979 TMR has an estimated grade of 18.1 cpht and the Post-1979 TD has an estimated grade of 10 cpht.

***Mineral Processing***

Finsch's state-of-the-art mining infrastructure includes a modern processing plant which was recently upgraded and has a capacity of 7.2 Mtpa.

Underground ROM ore (smaller than 300 mm) is transported at a rate of 3.2 Mtpa by the rock hoist to surface and tipped into a surge bin at the shaft. At surface it is reduced to less than 100 mm for further treatment in the diamond recovery plant. The ore is treated and sized before it is treated in the DMS process. The recent plant upgrade introduced two high pressure roll crushers to liberate any locked-up diamonds which were not liberated in the earlier crushing stages.

The pre-1979 TMR tailings ore is reclaimed at a rate of 2.2 Mtpa and the product (-20 mm) is pumped, de-slimed, de-watered and stacked onto a stockpile, before it is fed into the main plant.

***Finsch Mine Plan***

Subsequent to the depletion of Block 4, underground production will be derived principally from Block 5, a new block cave beneath the current operations, which has Probable Reserves of 22.1 Mcts at a grade of 47.6 cpht. Petra intends to maintain production levels from underground during the transition from the Block 4 block cave to the Block 5 block cave by developing smaller sub-level caves within the precursor orebody (adjacent to the main orebody) at Block 4 level and within Block 5 itself. By so doing, Petra expects to maintain underground production levels at approximately 3.2 Mtpa, ramping up to around 3.5 Mtpa by FY 2018 once the Block 5 cave is fully operational.

Underground production is supplemented by tailings retreatment. Finsch is currently treating the pre-1979 TMR (tailings from mining operations pre-1979) which has a recovered grade of approximately 18.1 cpht. The pre-1979 TMR is expected to be treated at a rate of approximately 3.5 Mtpa until depleted in FY 2015. Thereafter, the post-1979 TD (tailings from mining operations post-1979), which carry a lower grade of approximately 10 cpht, remain available for treatment. It is expected that tailings production will cease in FY 2020.

Petra's current mine plan forecasts initial annual production of approximately 1.5 Mctpa (comprising approximately 900,000 carats from underground and 600,000 carats from tailings), increasing with the commencement of the Block 5 block cave to a steady state production of nearly 2 Mctpa. Given the major Reserves and Resources base of 43.7 Mcts at Finsch (including 25.8 Mcts in the reserve category and 2.5 Mcts in tailings), Petra foresees a long life for the operation and has a current mine plan of 18 years, though the orebody remains open-ended at depth.

***Capital Expenditure***

The Capex over the next six years for the underground and infrastructure development programme is estimated by management to be approximately US$348 million (in 2011 money terms, calculated at an exchange rate of R6.75/US$). The Capex required for this programme is expected to be financed from a combination of the Group's existing debt facilities secured on the Finsch asset and the Group operational cashflow.

***Licences and Permits***

Petra's 74% owned subsidiary Afropean Diamonds holds a valid new order mining right ("the Finsch Mining Right") dated 15 October 2008. The Finsch Mining Right was initially issued to De Beers under item 7 of Schedule II of the MPRDA and was ceded to the Company by notarial deed of cession on 8 September 2011 and duly notarially executed and registered in the Mineral and Petroleum Titles Registration Office under reference number 25/2011.

The Finsch Mining Right relates to portion 26 (Brits) and portion 34 (a portion of the remaining extent) of the farm Carter Block 458, Magisterial District of Hay, Northern Cape Province for an area of 1,567.5377 hectares.

The Finsch Mining Right confers on Afropean Diamonds the exclusive right to mine for diamonds in relation to the licence areas until 14 October 2038. Pursuant to the MPRDA, the Finsch Mining Right is renewable (for periods of up to 30 years for each renewal) and provided that Afropean Diamonds has complied with the terms and conditions of the mining right, the Minister of Mineral Resources will renew the Finsch Mining Right.

The Finsch Mining Right was issued on terms and conditions that are regulated by government gazette for mining rights of this nature and contains no exceptional terms or conditions. Standard terms and conditions in the Finsch Mining Right include the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the Finsch Mining Right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the Finsch Mining Right may be suspended or cancelled.

**Williamson**

***Introduction***

Williamson mine is the world's largest economic kimberlite by surface area at 146 hectares in size. It is a historic source of high value Type II diamonds and fancy pinks. It is Petra's only open pit operation and despite having been in continuous operation since 1940, the pit is only 90 metres at its deepest point due to the vast size of the deposit. The Mwadui kimberlite pipe, upon which the Williamson mine is based, contains a major diamond resource of approximately 40.1 Mcts.

The mine is located at Mwadui, 40 km north east of Shinyanga, the capital of the Shinyanga Region of Tanzania.

***Ownership***

Petra holds a 75% interest in Williamson via its subsidiary Willcroft, and the remaining 25% is owned by the Government of Tanzania. Further details are set out in the 'Group Structure' in Part I of this document.

The shareholders of Williamson Diamonds, Willcroft and the Government of Tanzania, entered into a shareholders' agreement relating to the Williamson mine dated 7 October 2011, further details of which are set out in paragraph 10.15 of Part X of this document.

***History***

The mine was discovered in 1940 by Dr John Williamson, a Canadian Geologist, and is the largest economic primary diamond deposit to be in continuous production. Williamson has been successfully mined for over 70 consecutive years, and as such holds the record for the world's longest running uninterrupted diamond mining operation. By the 1950's the mine had developed into a successful operation with state-of-the-art equipment and a labour force of several thousand.

The mine was closely managed by Dr. Williamson until his death in 1958. During this period production was predominantly from near-surface eluvial deposits that had undergone significant secondary diamond concentration, with grades that ranged from 30 cpht to 100 cpht and an annual production approaching 1 Mcts. In 1958, the mine was sold to an equal partnership between De Beers and the colonial Government of Tanganyika. De Beers operated the mine until 1973. Tonnages and carats produced increased dramatically during this period, but grades dropped to well below 30 cpht as the open pit entered primary RVK material underneath the near-surface zone of eluvial enrichment.

From 1974 to 1993, the mine was operated by STAMICO (the Tanzanian State mining organisation). Grades varied between 5 and 12 cpht and diamond output fell dramatically relative to the previous 15 years to approximately 70,000 carats per annum. In 1993 De Beers returned to Williamson as operator, together with a recapitalisation and ownership restructuring. Production increased to approximately 195,000 carats per annum to 2005. Despite the increase in tonnages treated the mine

did not return to profitability, and De Beers decided to sell its 75% interest to Petra in November 2008. Petra completed the acquisition of Williamson in February 2009.

***Geology***

The Mwadui kimberlite pipe (upon which the Williamson mine is based) represents the largest diamondiferous kimberlite ever mined economically on a continuous basis. It was emplaced into Archaean granitic basement and meta-sediments, and it is one of the few kimberlite pipes in production with an almost perfectly preserved example of an infilled kimberlite crater. Many of the kimberlite occurrences in and around the Shinyanga area are characterised by the presence of crater deposits, suggesting that minimal erosion has taken place in this region since the period when the kimberlite was emplaced approximately 60 million years ago. Crater deposits were formed by kimberlitic material and country rock ejected during eruption that have subsequently slumped or have been washed back into the open crater.

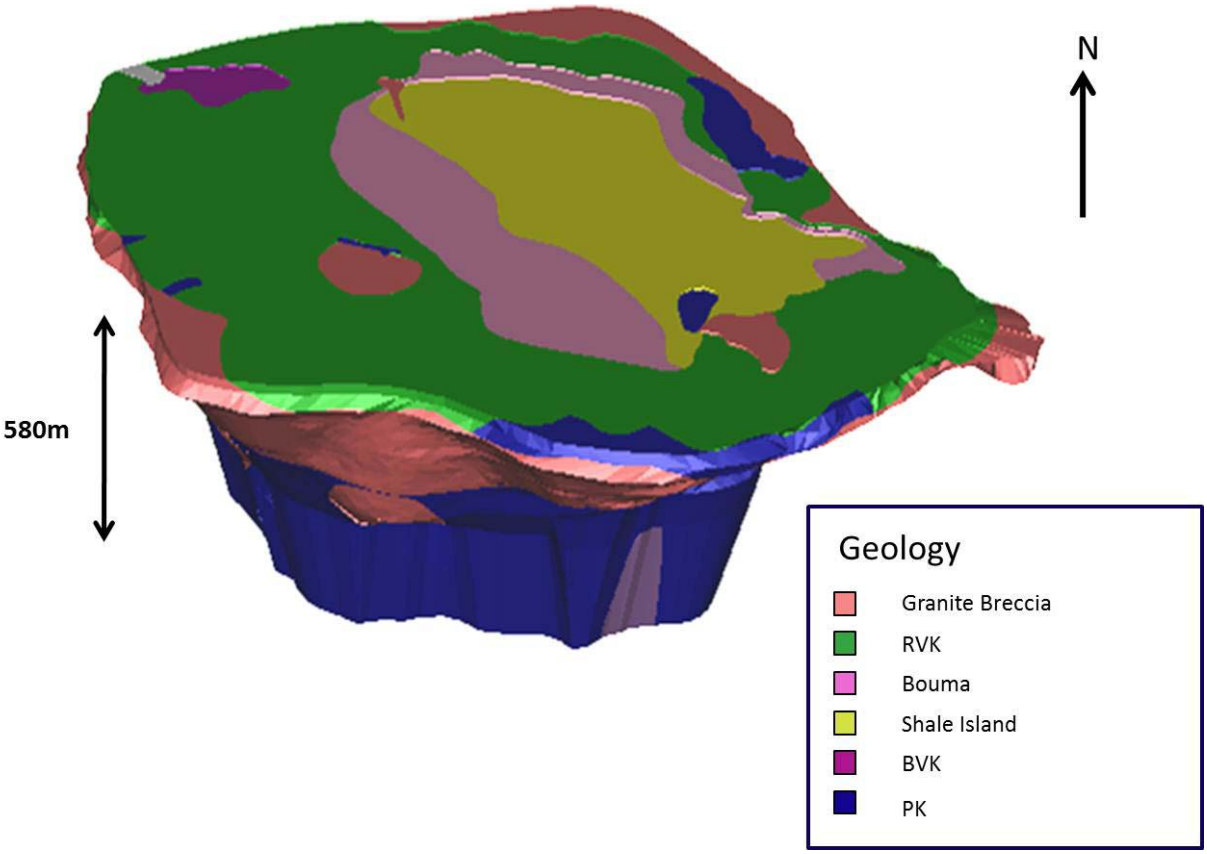



*Figure 10: the Williamson orebody*

Through exhaustive exploration, the geology of the Mwadui pipe is well known and documented. The geology of the Mwadui deposit consists of a central shale basin, turbidite (or "Bouma") facies, reworked volcanistic kimberlite deposits, and peripheral granite breccias Primary pyroclastic kimberlite underlies these facies types. Present mining is restricted to the near surface crater infill, which is comprised of RVK, BVK and GB, turbidite deposits and a central shale basin.

***Reserves & Resources***

| | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | — | — | — | — | — | — |
| **Sub-total** | — | — | — | — | — | — |
| **Resources** | | | | | | |
| Measured | — | — | — | — | — | — |
| Indicated | 98.634 | 5.00 | 4.928 | 73.975 | 5.00 | 3.696 |
| Inferred | 888.123 | 3.96 | 35.158 | 666.092 | 3.96 | 26.368 |
| **Total Resources inclusive of Reserves** | **986.756** | **4.06** | **40.086** | **740.067** | **4.06** | **30.065** |

1. Resource bottom cut-off: 1mm
2. Resource depletion calculated from in-pit survey
3. Stockpile of 955,000 tonnes of RVK and BVK accumulated since plant shutdown at the end of March 2010
4. Increase in total carats based on an increase in RVK tonnages in the northern section of the open pit delineated by diamond drilling during 2010

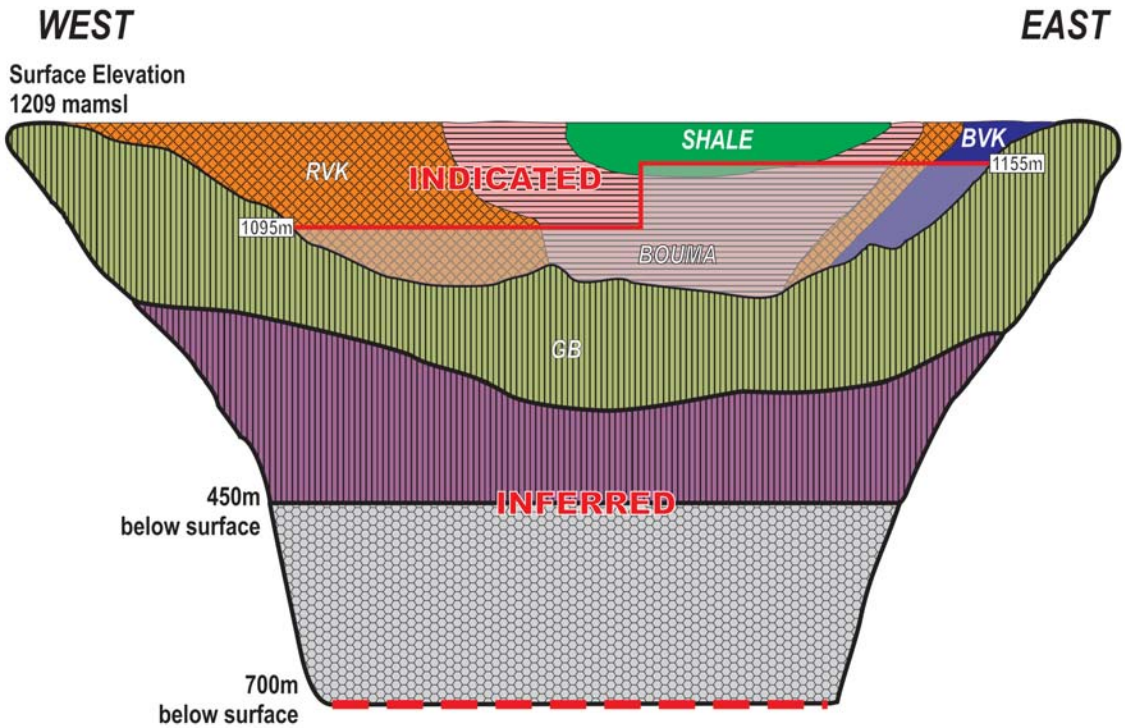



*Figure 11: extent of Williamson resource base*

*Mine Production*

Williamson is a conventional truck and shovel open pit operation. Blasted ore is loaded onto trucks by face shovels, and is then hauled to stockpiles adjacent to a classifying section where the different size fractions are stockpiled separately for treatment.

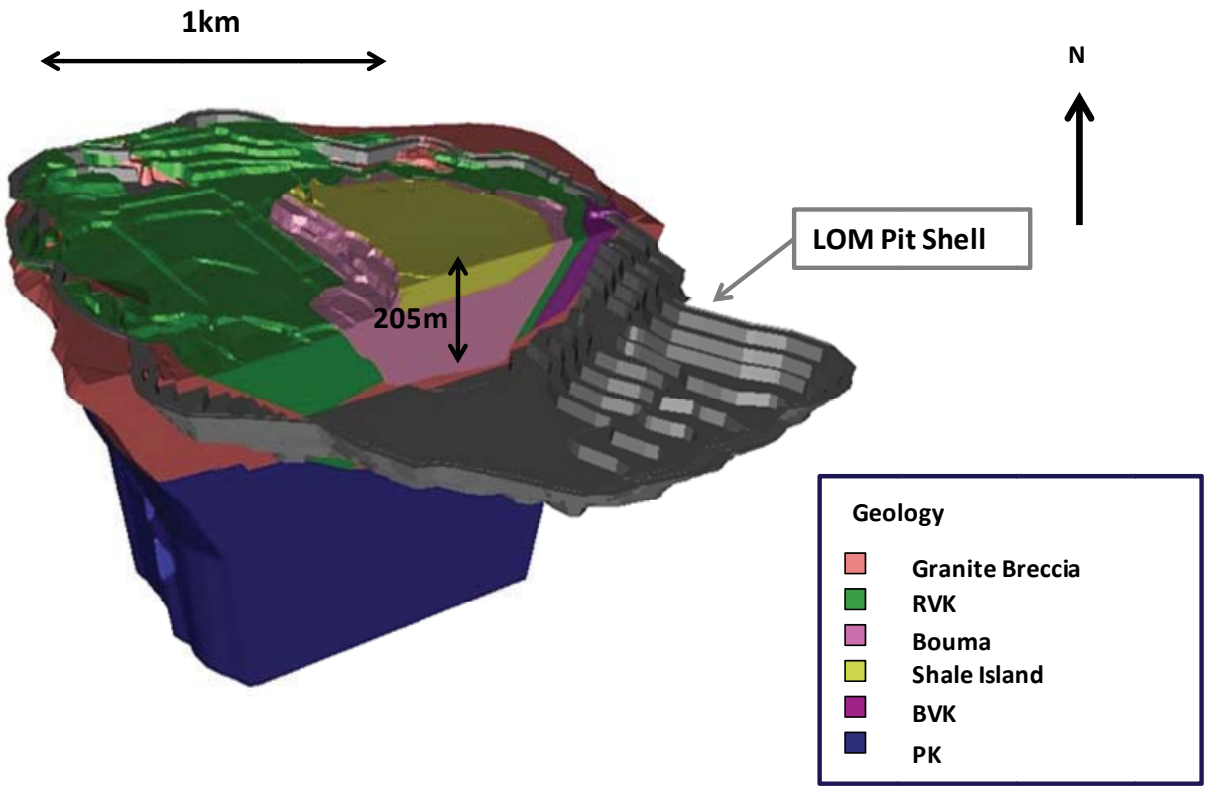



*Figure 12: schematic showing cut-away geology and planned open pit*

The average mining depth is 65 metres, with the pit being 90 metres deep at its deepest point. Mining takes place mainly within the RVK on the western portion of the pipe. GB, Bouma and BVK are also mined primarily for blending purposes, and a minimal amount of shale is stripped as part of the mining operations. The large, shallow nature of the pipe results in a very low stripping ratio of 0.24.

The mine and plant usually operate on a continuous basis (seven days per week, 24 hours per day), but at present there is no production from the main pit while the expansion plan is underway. Currently the processing facility at Williamson is undergoing a substantial rebuild. Drilling, blasting, loading and hauling activities are contracted out to Caspian Mining, a local Tanzanian mining contractor.

Williamson has installed capacity of 12 MVA. Tanesco Limited, a company owned 100% by the Government of Tanzania, is responsible for 98% of the country's electricity supply. Two thirds of Tanzania's installed capacity is hydro-powered. The Tanzanian Government has recently proposed a bill to liberalise the virtual monopoly held by Tanesco. This move is expected to pave the way for electricity trading, both physical and financial, and electricity installation.

Power supply from Tanesco has generally been reliable but at the date of this document, there are power supply issues in Tanzania which are impacting upon power supply to the mine. The Government of Tanzania is addressing these power supply issues and the Company continues to monitor the situation carefully. Orders have been placed by Petra for generators that will provide sufficient power to run the 3 Mtpa rebuilt plant and are expected to be installed and commissioned by February 2012.

*Alluvial Mining*

There are limited amounts of alluvial gravels at Williamson and alluvial mining is currently carried out by contract miners. These deposits are not included in Petra's resource statement.

*Geotechnical Considerations*

Sidewalls are maintained at an angle of 40°-45° within the pit due to the clay-rich nature of the RVK, though steeper sidewalls have been left by previous mining activities in the south west edge of the pit within GB and country rock granite, and are still stable after several years of inactivity. The Williamson pit is therefore large and stable resulting in very low potential for sidewall failure.

*Water Management*

In Tanzania, Petra is licensed under the Ministry of Water and Irrigation, which issues water rights, and acts in compliance with the Water Resource Management Act, 2009. The Williamson mine sources its water from the Songwa, New Alamasi and Nhumbu dams. There is a closed circuit water system and no water is discharged into the environment.

***Mineral Processing***

Petra elected to carry out a substantial rebuild of the existing 3 Mtpa plant at Williamson. The commissioning of the rebuilt plant has commenced and it is expected to be in production in Q3 FY 2012. It is anticipated that this 3 Mtpa plant will treat approximately 0.5 to 0.9 Mt in FY 2012, at an expected grade of 6 cpht.

In order to take advantage of economies of scale and the large diamond resource, Petra is planning to construct a new 10 Mtpa plant at Williamson, which will include an autogenous mill. However electricity supply issues experienced recently have led to Petra revisiting the timing of the longer-term expansion project to establish a 10 Mtpa operation. When Petra has completed its analysis and planning with regards to the revised timing of the new 10 Mtpa plant, which is expected to be by end Q3 FY 2012, it will update all stakeholders.

There will be considerable benefits having two plants on site, including the fact that the smaller plant can be run whenever the main plant is undergoing routine maintenance.

***Tailings***

The old mine dumps at Williamson are being processed in limited quantities by contractors. The tailings material is loaded by wheel loaders into dump trucks and taken to a pan plant for further processing. There is in excess of 33 Mt of dump material. Treatment of the tailings resource is not included in Petra's mine plan for Williamson.

***FY 2011 Operating Review***

| | *Unit* | *FY 2011* | *FY 2010* | *Variance* |
|---|---|---|---|---|
| **Sales** | | | | |
| Revenue | US$M | 9.5 | 14.4 | -34% |
| Diamonds sold | Carats | 31,555 | 91,901 | -66% |
| Average price per carat | US$ | 302 | 157 | +92% |
| **ROM Production** | | | | |
| Tonnes treated | Tonnes | n/a | 1,334,656 | n/a |
| Grade | Cpht | n/a | 6.3 | n/a |
| Diamonds recovered | Carats | n/a | 84,241 | n/a |
| **Alluvial Production** | | | | |
| Tonnes treated | Tonnes | 530,689 | 423,665 | +25% |
| Grade | Cpht | 5.6 | 4.0 | +40% |
| Diamonds recovered | Carats | 29,510 | 16,830 | +75% |
| **Total Production** | | | | |
| Tonnes treated | Tonnes | 530,689 | 1,758,321 | -70% |
| Diamonds recovered | Carats | 29,510 | 101,071 | -71% |
| **Costs** | | | | |
| Cash cost per tonne | US$M | n/a | n/a | n/a |
| Total Capex | US$M | 36.6 | 11.6 | n/a |

During FY 2010 the mine was in a bulk sampling phase and in FY 2011 the mine results represent alluvial production only; neither period reflects conditions associated with normal production.

There was no treatment of main pit material at Williamson in FY 2011, as the project to rebuild the 3 Mtpa plant was underway. Contract mining of alluvial diamonds recovered 29,510 carats, sold for

an average value of US$302. Alluvial production is expected to be lower in FY 2012 due to the depletion of available alluvial gravels.

The ROM stockpile at Williamson, which has been established by Petra due to the pit-shaping operations, has increased to approximately 900,000 tonnes, estimated to contain ca. 45,000 carats.

Capex at Williamson in FY 2011 of US$36.6 million (including US$0.8 million borrowing costs capitalised) was spent as follows:

- US$18.8 million on the rebuild of the 3 Mtpa plant; and
- US$17 million on other production related activities, including pit shaping/shale removal, haul road construction and slime handling facilities.

***Williamson Mine Plan***

The following conditions are unique to Williamson:

- a large resource located within an open pit lending itself to economies of scale;
- a low stripping ratio;
- a soft ore that lends itself to autogenous milling; and
- ore that contains sufficient grinding material in the form of granite.

The confluence of factors listed above led Petra to put in place an appropriate expansion plan for Williamson, which is expected to (subject to completion of the revised mine planning and timing) increase total throughput to 10 Mtpa, which the Directors believe will yield an estimated annual production of some 600,000 carats and a life of mine plan of 17 years, whilst targeting unit operating costs of US$7.6 per tonne. This will take mining to a depth of approximately 205 metres below surface, extracting 148 million tonnes of the 986 million tonnes resource. Petra foresees a long life for the operation, particularly since the orebody remains open-ended at depth.

***Capital Expenditure***

The Capex (total; including amount already spent by Petra) for the rebuild and expansion programme is estimated to be approximately US$115.1 million (in 2011 money terms). The Directors expect the Capex required for this programme to be financed from the IFC and US$ Loan and Guarantee Agreement and Group operational cashflow.

***Licences & Permits***

Williamson Diamonds holds a valid and unencumbered special mining licence ("SML") number 216/2005 dated 25 May 2005 in respect of property described by co-ordinates in the SML located in the Mwadui area in the Shinyanga region, for an area of ca. 29.73 $km^2$.

The SML confers on Williamson Diamonds the exclusive right to mine for diamonds in relation to the licence areas until 24 May 2030. The SML may be renewed for a further period, not exceeding the estimated life of the remaining ore body, unless Williamson Diamonds is in default, development has not proceeded with reasonable speed, minerals do not remain in reasonable quantities or the mining or environmental plans are not satisfactory.

The SML has been issued in accordance with the laws of Tanzania and is subject to such statutory or other legislative requirements as are customary for licences of this nature. The terms and conditions of the SML require that Williamson Diamonds mines in accordance with the approved Mining Plan and approved Environmental Management Plan, taking reasonable steps to ensure health and safety and, to the extent reasonably possible, employ Tanzanian citizens.

**Koffiefontein**

***Introduction***

Koffiefontein mine is one of the world's top diamond mines by average value per carat and produces exceptional white and coloured diamonds, a regular proportion of which are of between 5 and 30 carats. It is an underground kimberlite pipe mine currently mining at a depth of 490 metres. An expansion plan to increase production from just under 48,000 carats in FY 2011 to ca. 100,000 carats pa by FY 2017 is underway.

Underground mining of the high value, low grade Koffiefontein kimberlite pipe is supplemented by a 65 Mt tailings deposit and the ca. 5 hectare satellite pipe named Ebenhaezer (presently only open cast mined to a depth of 35 metres).

***Ownership***

Petra holds a 70% interest in Koffiefontein, via its subsidiary BDM, with its BEE Partner, Re Teng, holding 30%. Petra has a further 4% interest in Koffiefontein via its 13.33% shareholding in Re Teng (held by Petra's wholly owned subsidiary BDM), taking its total effective interest in Koffiefontein to 74%. Further details are set out in the 'Group Structure' in Part I of this document.

A joint venture agreement was entered into between Re Teng and BDM in relation to Koffiefontein Mine dated 11 October 2006, further details of which are set out in paragraph 10.17 of Part X of this document.

***History***

Diamonds were first discovered on the Koffiefontein farm in 1870. Mining started in the form of small claims that were later amalgamated into Koffiefontein Mine Limited. De Beers acquired control of Koffiefontein Mine Limited in 1911. Since the De Beers acquisition of Koffiefontein, the mining operations were continuous until the advent of the Great Depression in 1932 when work was suspended. Between 1950 and 1953, a prospecting shaft was sunk which was followed by limited production. The mine was reopened in 1970 and preparations for increased production were completed in August 1971. Immediately after completing the preparations, production from the open pit commenced and proceeded to a depth of 270 metres. Underground development started in 1974 through a sampling programme. Underground production briefly took place in 1982 but ceased soon thereafter due to the 1981 slump in the diamond market. These operations were resumed in March 1987. During the period from 1972 to the end of 2004, approximately 69.5 Mt of kimberlite ore were mined and 6.1 Mcts were recovered.

In February 2006, De Beers ceased mining when the old order mining right for Koffiefontein expired and in July of that year Petra commenced operating the mine under care and maintenance conditions. Petra completed the acquisition of the mine in July 2007 and was subsequently able to commence diamond recoveries by starting to process the stockpile through the plant.

***Geology***

The Koffiefontein pipe has been classified as a Group 1 kimberlite, falling into the post-Cretaceous grouping of kimberlites in South Africa that were intruded approximately 80 to 90 million years ago, and is the largest and most economic of a cluster of three pipes in the area, the others being Ebenhaezer and Klipfontein lying to the north west.

The Koffiefontein pipe was emplaced through basement granite gneiss and Karoo sediments with an area of 11.1 hectares at surface, narrowing to 7.8 hectares at the 490 metre level, currently the lowest production level. The Koffiefontein pipe consists of multiple intrusions. The first phase was the intrusion of the east and west fissures followed by the west speckled TKB. This was followed by the emplacement of the east speckled TKB, with a mudstone breccia slotting in between the previously mentioned two facies.

***Reserves & Resources***

| | Gross | | | Net attributable | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 15.179 | 3.20 | 0.485 | 11.232 | 3.20 | 0.359 |
| Probable | 6.551 | 9.57 | 0.627 | 4.848 | 9.57 | 0.464 |
| **Sub-total** | **21.730** | **5.12** | **1.112** | **16.080** | **5.12** | **0.823** |
| **Resources** | | | | | | |
| Measured | 15.179 | 3.20 | 0.485 | 11.232 | 3.20 | 0.359 |
| Indicated | 34.702 | 8.35 | 2.898 | 25.679 | 8.35 | 2.144 |
| Inferred | 90.412 | 3.04 | 2.751 | 66.905 | 3.04 | 2.036 |
| **Total Resources inclusive of Reserves** | **140.293** | **4.37** | **6.135** | **103.817** | **4.37** | **4.540** |

1. Resource bottom cut-off (Koffiefontein underground and Ebenhaezer): 0.5mm
2. Resource bottom cut-off (Eskom tailings): 1mm
3. Reserve bottom cut-off: 1mm
4. 690L Probable Reserve moved back to Indicated Resource pending mine plan re-evaluation based on numerical modelling

The resource of Koffiefontein mine consists of the Koffiefontein kimberlite pipe, the Ebenhaezer kimberlite pipe and tailings Resources.

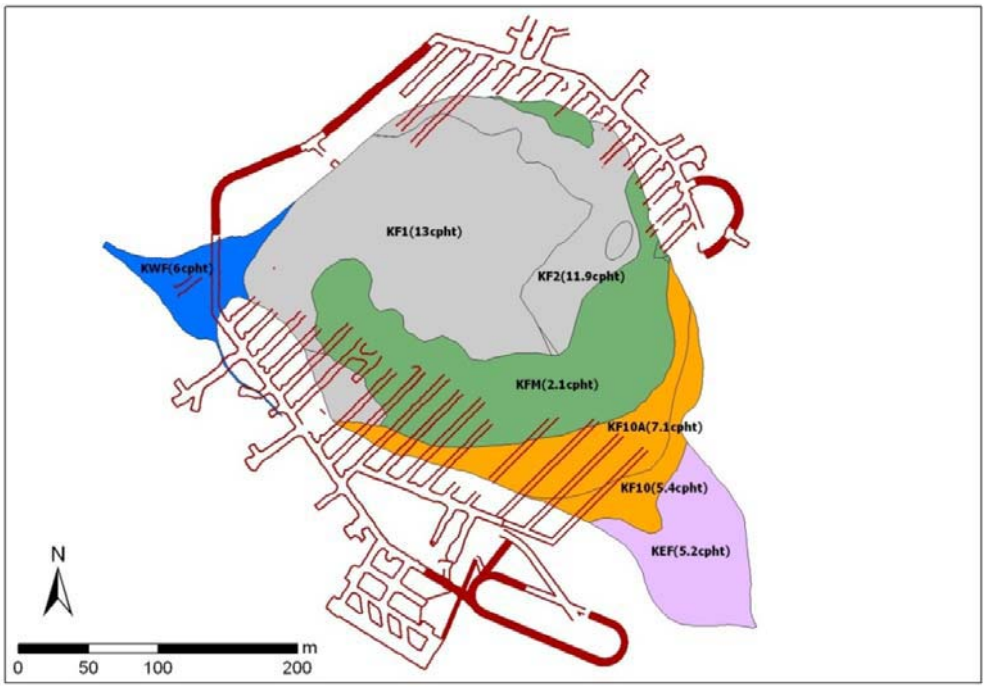



*Figure 13: Koffiefontein Geology And Resource Grades (0.5mm Bottom Cut-Off) at 480m Level*

***Mine Production***

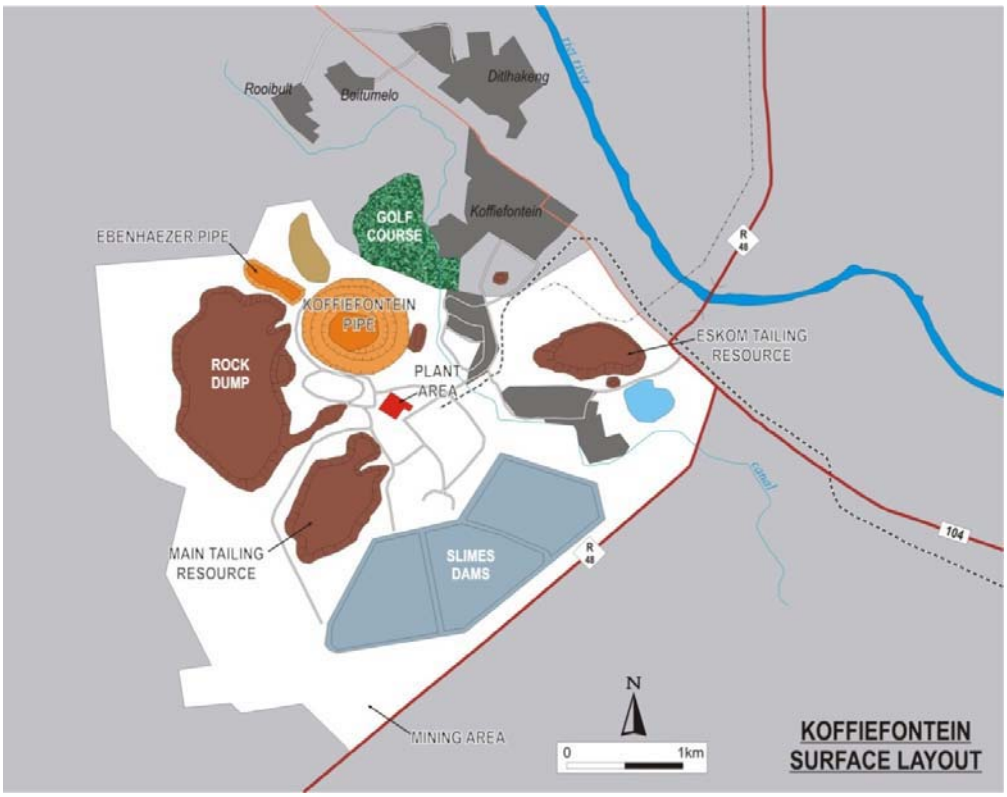



*Figure 14: the Koffiefontein mining area*

The Koffiefontein pipe was mined as an open pit mine from 1970 to 1981. On completion of the open pit operations the pit had a surface area of 44 hectares and a diameter of 750 metres, plus a depth in excess of 270 metres. Access to the underground operations is via the roadway decline down to 52 level (520 metres below surface) and via No.2 Main Rock Shaft. This shaft was sunk in 1974 and has a diameter of 7.5 metres and a depth of 654 metres below surface.

The transition to an underground mining operation took place in 1981. The kimberlite ore was initially extracted from underground on the 370 metre level by means of blast hole open stoping. Due to excessive dolerite pit sidewall failures this mining method was subsequently changed to sub-level undercutting mining method. Development of the Front Cave started in 1996 and reached full production in 2000.

The front cave mining method, which has an effective height of 100-120 metres, was found to be technically and financially attractive for Koffiefontein mine since it required the minimum up-front financial outlay and could supply sufficient tonnes to maintain the desired production rates. This method enables the mine to continue on the upper levels concurrent to mining of the front cave on the lower levels. Since this mining method is a very dynamic one with progression of the cave along the width being in strict accordance with pre-set rules and constraints, the integrated draw control system, comprising a dispatch system linked to a linear programme base, is an important key to the success of the front cave mining method. Ore from underground is removed from the face via tunnels that have been developed in a north south direction across the diameter of the pipe.

Mining is currently taking place at Koffiefontein on the 480, 490 and 520 metre levels. In FY 2011, Petra mined 0.7 Mt ROM ore at a grade of 4.9 cpht to recover 35,139 carats.

Production at Koffiefontein was impacted as a result of new sections of the front cave on the 490 and 520 metre levels taking longer than anticipated to induce natural caving. This meant that Petra had reduced production flexibility in terms of which drawpoints could be accessed and as a result of this, significant amounts of diluted front cave material had to be drawn from the main cave on the 480 metre level, whilst allowing the east, west and recovery level caves to reach maturity by pulling lower tonnages from these areas.

*Geotechnical Considerations*

Front caving, a variant of cave mining, was introduced by De Beers at Koffiefontein. Planned mining layouts at Koffiefontein are being extensively modelled and no plans are adopted unless they are judged to be geotechnically feasible.

*Ore Handling System*

Ore from underground is removed from the face via tunnels that have been developed in a north south direction across the diameter of the pipe. Ore from underground is removed from a series of parallel tunnels that have been developed in a north south direction across the diameter of the pipe. A fleet of LHD vehicles is used to load ore from draw points and transport the ore from these drawpoints back through the loading tunnels to the orepass infrastructure.

The material is dumped into a series of orepasses, each equipped with a grizzly, where the oversize is broken up via a fleet of mobile rock breakers to enable it to pass through the grizzly openings and down into the orepasses. Koffiefontein currently has a shaft capacity of 3 Mtpa.

*Mine Ventilation*

Koffiefontein ventilates 280 $m^3/s$ of air from the mine.

*Water Management*

At Koffiefontein, water is withdrawn from underground, as well as from the Kalkfontein dam, which is located 25 km from the mine. The water from the dam is pumped directly into the Koffiefontein dam through a concrete canal. The underground water, as well as the recycled water from the slime dams, goes to settling dams from where it is pumped to the raw water dam for use in the mine. Only water required is pumped from the Koffiefontein dam to the raw water dam and eventually all surplus water on the mine goes back to Koffiefontein dam via the settling dams.

***Mineral Processing***

Ore is delivered to the plant after having been crushed underground to less than 150 mm in size. The crushed ore is then washed through a scrubber that removes much of the fine material and prepares the ore for sizing into several fractions. The oversize (+35 mm) reports for secondary crushing to reduce the size to less than 35 mm.

Petra has completed a major refurbishment of the plant since taking over the mine and it currently has a treatment capacity of 1.7 Mtpa.

***Ebenhaezer***

Ebenhaezer is the only other economically important kimberlite in the cluster. It is approximately half the size of the Koffiefontein pipe, with a surface area of approximately 5 hectares. A number of narrow kimberlite dykes in the wall rock adjacent to the Koffiefontein pipe strike directly towards Ebenhaezer. Very little information is available on the geology at depth. The Ebenhaezer pipe is mined on surface by conventional shovel/truck open pit mining methods and is currently at a maximum depth of 35 metres.

***Tailings***

Excess capacity created in the plant is being utilised by feeding material from the Eskom tailings dump. This is a pre-1937 dump generated when 'flooring' was still a practice, meaning the coarser material of +25 mm went straight to the dumps without crushing. This tailings programme is now fully operational and supplying significant ore to the main plant.

There is a 65 Mt tailings resource at Koffiefontein estimated to hold 1.43 Mcts. Petra's plan is to continue to process the Eskom tailings resource at a rate of 500,000 tpa delivering over 10,000 carats pa over the life of mine.

*FY 2011 Operating Review*

| | *Unit* | *FY 2011* | *FY 2010* | *Variance* |
|---|---|---|---|---|
| **Sales** | | | | |
| Revenue | US$M | 30.8 | 22.8 | +35% |
| Diamonds sold | Carats | 54,640 | 56,707 | -4% |
| Average price per carat | US$ | 564 | 402 | +40% |
| **ROM Production** | | | | |
| Tonnes treated | Tonnes | 712,988 | 884,058 | -19% |
| Grade | Cpht | 4.9 | 6.0 | -18% |
| Diamonds recovered | Carats | 35,139 | 53,026 | -34% |
| **Tailings / Ebenhaezer Production** | | | | |
| Tonnes treated | Tonnes | 675,147 | 243,714 | +177% |
| Grade | Cpht | 1.9 | 3.0 | -36% |
| Diamonds recovered | Carats | 12,817 | 7,234 | +77% |
| **Total Production** | | | | |
| Tonnes treated | Tonnes | 1,388,135 | 1,127,772 | +23% |
| Diamonds recovered | Carats | 47,956 | 60,260 | -20% |
| **Costs** | | | | |
| On-mine cost per tonne | ZAR | 115 | 123 | -7% |
| Total Capex | US$M | 11.0 | 4.6 | n/a |

Koffiefontein is one of the world's top kimberlite mines by average value per carat, achieving US$564 for FY 2011, up 40% on the comparative period despite the fact that the overall average has to some extent been reduced by the higher proportion of lower value tailings production in the total sales mix.

Post year-end, a six carat pink diamond from Koffiefontein was sold for US$601,000, illustrating the exceptional fancy pinks that this mine can produce.

The high average value per carat achieved in FY 2011 caused revenue at Koffiefontein to rise by 35% to US$30.8 million for FY 2011, despite the fall in production. ROM production for the year was 35,139 carats (H1 FY 2011: 27,390 carats; H2 FY 2011: 7,749 carats). Tailings production was 12,817 carats for the period (H1 FY 2011: 7,110 carats; H2 FY 2011: 5,707 carats).

The reduced underground production at Koffiefontein was mainly due to a greater than expected level of waste ingress from the remnant columns at 48 level resulting in revised plans and reduced extraction in H2. The tonnage shortfalls at Koffiefontein were exacerbated by the production stoppages and remedial actions at the mine following a fatality in January 2011 (as reported in Petra's interims in February 2011). Production at the high grade 52 recovery level was interrupted for most of H2 FY 2011 as a result.

Whilst the waste ingress and reduced production from 52 level have significantly affected the ROM grade at Koffiefontein (3.1 cpht in H2 FY 2011 as compared to 5.9 cpht in H1 FY 2011), the development work to access high grade ore at the 58 level front cave has been expedited. As at Cullinan, Petra's development plan at Koffiefontein will eventually establish new production levels where the Company will have access to fresh, undiluted ore. Once this has been achieved, Petra expects the overall grade at Koffiefontein to improve significantly, but it is expected that lower grades will be reported until FY 2014.

To give operational flexibility, Petra has recommenced production at the satellite Ebenhaezer pipe. The Company will use tonnages from Ebenhaezer to augment the capacity of the plant at Koffiefontein.

The ramping up of the tailings programme at Koffiefontein is now complete, with the Company reaching its targeted throughput of this low grade material.

Unit costs per tonne improved during FY 2011 due to the higher volumes of lower cost tailings tonnages processed.

Capex of US$11.0 million for FY 2011 was mostly spent on underground development and mining equipment.

***Koffiefontein Mine Plan***

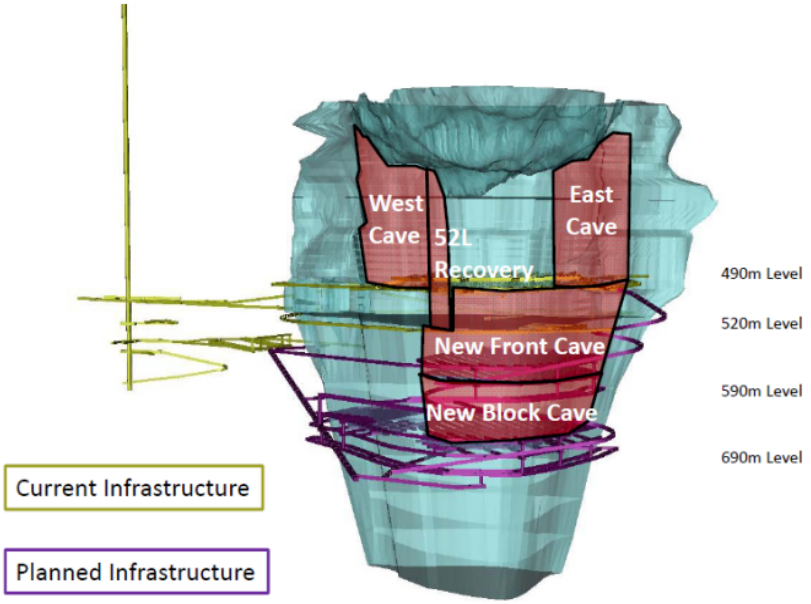



*Figure 15: schematic of Koffiefontein kimberlite pipe and mining blocks*

Petra is well advanced in the establishment of an expansion plan at Koffiefontein and annual production is expected to exceed 1 Mtpa in approximately three years. This should deliver over 100,000 carats per annum (ROM and tailings) by FY 2017.

Petra's development plan at Koffiefontein will eventually establish new production levels at 58 level where the Company will have access to fresh, undiluted ore.

The deepening process to 58 level is well advanced and thereafter the mine will continue to be deepened to 68 level.

Petra foresees a long life for the operation and has a current mine plan of 14 years, though the orebody remains open-ended at depth.

***Capital Expenditure***

Management estimates total Capex over the next 10 years at US$48 million (2011 money, calculated at an exchange rate of R6.75/US$) (subject to the mining right being renewed prior to its expiration on 1 February 2017), which is expected to be funded from the Group's operational cashflows.

***Licences & Permits***

Petra's wholly owned subsidiary BDM holds a valid and unencumbered new order mining right dated 2 February 2007 ("the Koffiefontein Mining Right"), granted to it pursuant to section 23 of the MPRDA. The Koffiefontein Mining Right was duly notarially executed by the DMR and duly registered in the Mineral & Petroleum Titles Registration Office under reference number 20/2008 MR.

The Koffiefontein Mining Right relates to the remaining extent of the farm Koffiefontein 733, Magisterial District of Koffiefontein Free State Province, for an area of 968.5600 hectares.

The Koffiefontein Mining Right confers on BDM the exclusive right to mine for diamonds in relation to the licence areas until 1 February 2017. Pursuant to the MPRDA, the Koffiefontein Mining Right is renewable (for periods of up to 30 years for each renewal) and, provided that BDM has complied with the terms and conditions of the mining right, the Minister of Mineral Resources will renew the Koffiefontein Mining Right.

The Koffiefontein Mining Right has been issued on terms and conditions that are regulated by government gazette for mining rights of this nature and contains no exceptional terms or conditions. Standard terms and conditions in the Koffiefontein Mining Right include the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the Koffiefontein Mining Right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply

with its empowerment commitments and the procedures that need to be followed or the Koffiefontein Mining Right may be suspended or cancelled.

**Kimberley Underground**

***Introduction***

Kimberley Underground currently comprises of three kimberlite pipe mines in close proximity: Bultfontein, Dutoitspan and Wesselton. These mines were integral to the economic development of South Africa as their output effectively financed development of the nascent gold industry. They are currently mining at depths of between 845 and 995 metres below surface.

The mines have a history of producing large diamonds and fancy yellows, such as the Oppenheimer (253 carats rough) and the Kimberley Octahedral, at 616 carats currently the largest uncut diamond in the world.

***Ownership***

Petra holds a 74% interest in Kimberley Underground, via its subsidiary Crown Resources, with its BEE Partner, Sedibeng Mining holding 26%. Further details are set out in the 'Group Structure' in Part I of this document.

A joint venture agreement was entered into between Sedibeng Mining and Crown Resources in relation to Kimberley Underground dated 1 October 2007, further details are set out in paragraph 10.14(b) of Part X of this document.

***History***

The Kimberley mines were amalgamated into De Beers by 1890. All the pipes are typical kimberlite pipes and in each pipe a number of kimberlite facies are present. The Dutoitspan pipe was mined as an open pit to a depth of 122 metres and Wesselton and Bultfontein were mined as open pits to depths of 76 metres. The mines were then converted to a chambering as an underground mining method during the period 1890 to 1950, before implementing the more efficient and safer block caving method, which is still being used on all three of the mines.

The mines were closed by De Beers in August 2005 and subsequently Petra operated Kimberley Underground under care and maintenance from September 2007. Petra was given approval to operate the mines under De Beers's licence, demonstrating the level of confidence De Beers has in Petra's overall ability to rehabilitate and operate deep underground diamond mines. This care and maintenance period enabled Petra to complete all the rehabilitation work required in order to ready the operation to recommence production. The acquisition was completed in May 2010 and a summary of the agreement in respect thereof is contained at paragraph 10.14(b) of Part X of this document.

***Geology***

The three kimberlite pipes (Bultfontein, Dutoitspan and Wesselton) being mined by Petra at Kimberley Underground are Group 1 kimberlites of Cretaceous age, having been intruded between 80 and 90 million years ago. At surface, Bultfontein was 9.7 hectares, Dutoitspan was 10.8 hectares and Wesselton was 8.7 hectares.

The kimberlite pipes in the Kimberley area were intruded into the horizontally bedded, black and grey carbonaceous shales of the Karoo Supergroup, with minor interbedded sandstone and siltstone layers. This formation conformably overlies an erratically developed Dwyka tillite, which seldom exceeds three metres in thickness. This sequence has been intruded by a dolerite sill up to 30 metres thick. Locally this sill has acted as a barrier to kimberlite intrusion with the resultant formation of kimberlite sills at or near the base of the dolerite sill. The Karoo rocks unconformably overlie the Ventersdorp Supergroup strata of variable thickness. The Ventersdorp Lavas in turn unconformably overlie the uneven basement granite. Bultfontein at the 845 metre level consists of remnants of mainly TKB. At the 870 metre level Dutoitspan, the largest of the three mines, is a strung out complex of different mining blocks and different geology. Wesselton at the 985 metre level consists of several kimberlite facies.

***Reserves & Resources***

| | Gross | | | Net attributable | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | — | — | — | — | — | — |
| Probable | 3.515 | 12.98 | 0.456 | 2.601 | 12.98 | 0.338 |
| **Sub-total** | **3.515** | **12.98** | **0.456** | **2.601** | **12.98** | **0.338** |
| **Resources** | | | | | | |
| Measured | | | | | | |
| Indicated | 9.393 | 18.97 | 1.782 | 6.951 | 18.97 | 1.318 |
| Inferred | 56.303 | 9.44 | 5.314 | 41.664 | 9.44 | 3.932 |
| **Total Resources inclusive of Reserves** | **65.696** | **10.80** | **7.095** | **48.615** | **10.80** | **5.251** |

1. Resource bottom cut-off (Dutoitspan West Extension): 1mm
2. Resource bottom cut-off (all other underground blocks): 0.5mm
3. Reserve bottom cut-off: 1mm
4. Changes in Probable Reserves due to a reduction in ROM grade based on accurate waste measurements taken from producing drawpoints at Bultfontein and Dutoitspan. Wesselton ROM grade based on 1060L bulk sampling, adjusted for external waste

***Mine Production***

The Kimberley Underground mines are serviced by two separate shaft infrastructures. Joint Shaft services the Bultfontein and Dutoitspan Mines, which are close to each other. Wesselton Mine is approximately 5 km away from Joint Shaft and is serviced by its own Wesselton Shaft infrastructure.

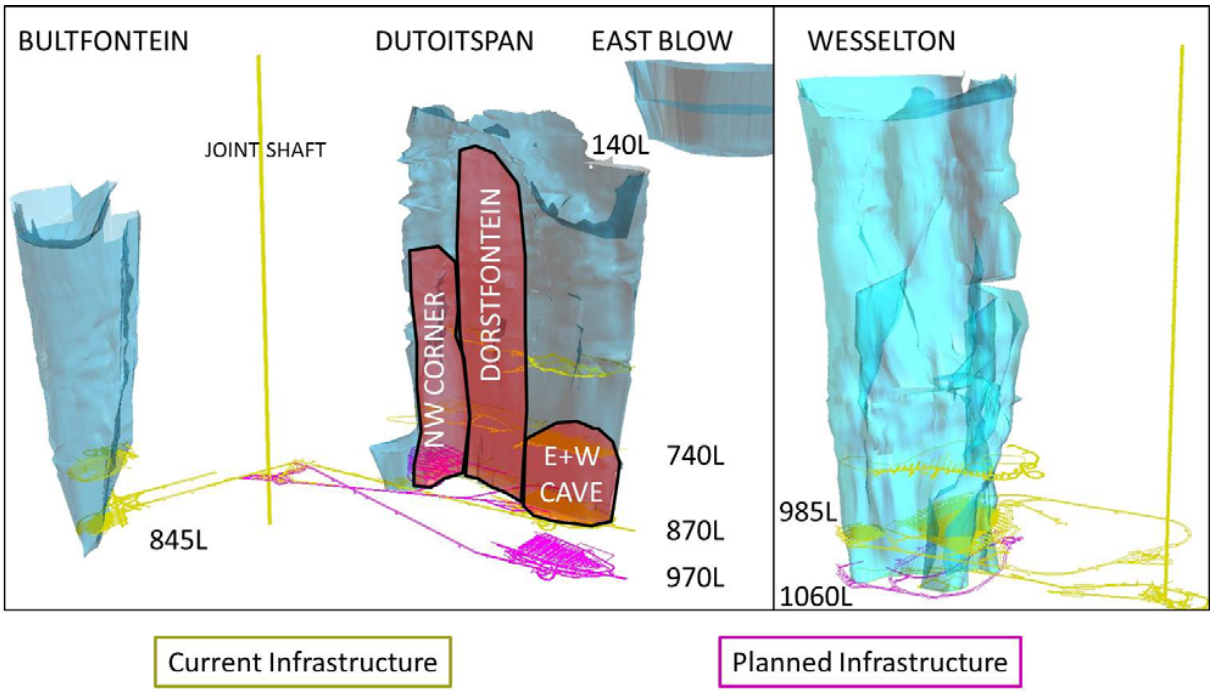



*Figure 16: Schematic showing the Bultfontein, Dutoitspan and Wesselton kimberlite pipes at Kimberley Underground*

Currently the Joint Shaft plant is processing kimberlite from the Bultfontein 845 metre level and the Dutoitspan West cave on the 870 metre level. In the near future production will come from the north west corner 760 metre level as well. Current diamond grades are at approximately 13 cpht from Joint Shaft.

Mining at Wesselton is currently at 995 metres and this kimberlite is being stockpiled whilst commissioning of the Wesselton plant is being completed.

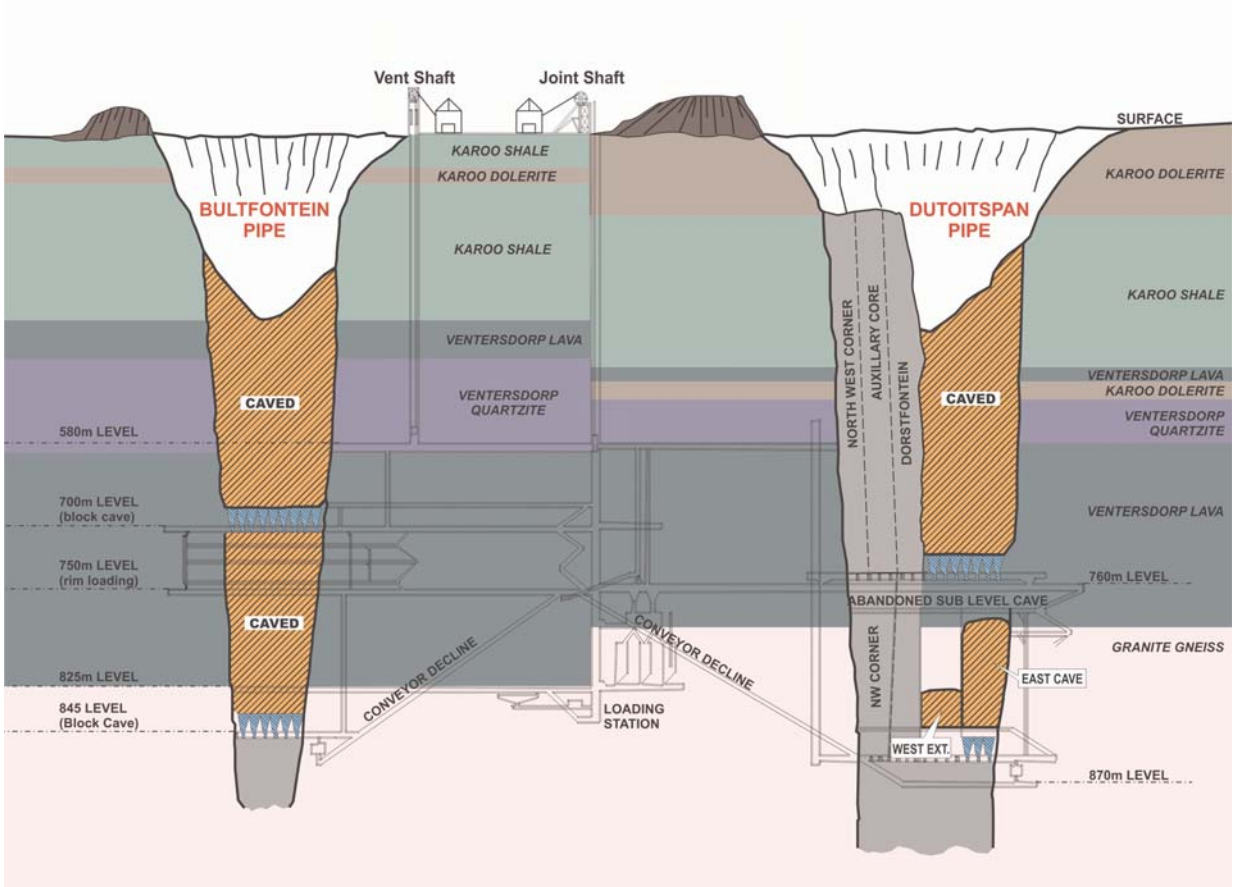



*Figure 17: diagrammatic section through Joint Shaft showing the Bultfontein and Dutoitspan mines*

*Bultfontein*

Two trains convey the ore to the shaft orepasses where it is passed through primary crushers and hoisted to surface. On surface the material is stockpiled and then processed through the new Joint Shaft plant.

The 845 metre level is mined using a slusher drift block cave mining method simultaneously with the rim loading section. This production level consists of six parallel concrete lined tunnels (drifts) that traverse the pipe. Ore reports from the block cave into the drifts through a number of drawpoints. Once the ore is in the drift, it is pulled to the stockpile area in the front of the drift by a double drum winch and scoop arrangement. From the stockpile the material is tipped into a train that takes the material to the local ore pass where it is crushed, delivered onto a conveyor belt system and transported to the shaft where it is hoisted to the surface.

*Dutoitspan*

The Dutoitspan pipe, the largest of the three pipes, was discovered in 1869 and was mined using various mining methods. The current method is slusher drift block caving on the 870 metre level. Ore handling is similar to Bultfontein.

*Wesselton*

The Wesselton pipe, the second largest of the three pipes after Dutoitspan, was discovered in 1892 and has been mined using various mining methods. The most recent method was slusher drift block caving on the 995 metre level.

Trains tip the material directly into the shaft orepass system and, due to the proximity of the orepasses to the shaft, there are no lengthy conveyor belts between the crushers and shaft loading arrangement.

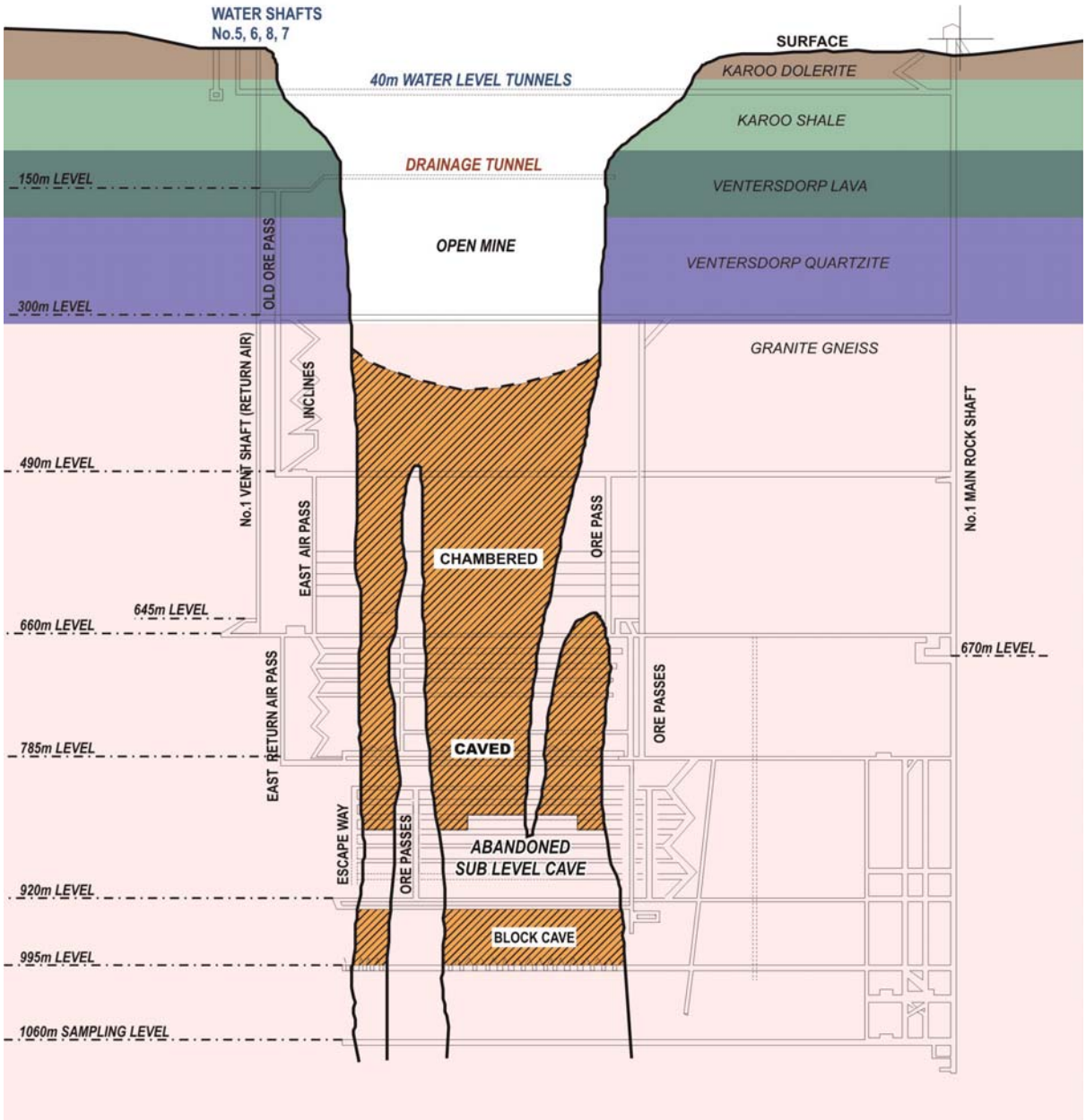



*Figure 18: diagrammatic section of the Wesselton mine*

*Geotechnical Considerations*

The Kimberley Underground workings carry geotechnical risk as a result of the occurrence of mud pushes at Dutoitspan, and potentially at Wesselton, the failure of some of the drifts as a result of excessive pressure/loading from ore accumulating above, and the poor competency of some areas. These issues are being addressed by Petra and are carefully monitored on a continuous basis.

*Ore Handling System*

Kimberley Underground mines are serviced by two separate shaft infrastructures. 'Joint Shaft' services the Bultfontein and Dutoitspan mines, whilst Wesselton is serviced by its own shaft infrastructure. Petra is currently utilising only a small proportion of the potential ground handling capacities of the mines.

*Mine Ventilation*

The Kimberley mines ventilate at the following capacities:

- Wesselton 153 $m^3/s$;

- Dutoitspan 185 $m^3/s$; and
- Bultfontein 187 $m^3/s$.

*Water Handling*

Potable water is sourced from the municipal network whilst process water is reclaimed from the Dutoitspan Pan.

***Mineral Processing***

The old De Beers New Treatment Plant was commissioned in 1956 and decommissioned in 2005. Due to the plant's antiquity and poor state of repair, Petra decided not to purchase it and instead designed and built a new plant at Joint Shaft to service Bultfontein and Dutoitspan (capable of processing of 600,000 tpa). The innovative design implemented by the Petra team makes possible the recovery of the larger and high quality diamonds known to exist within the Dutoitspan kimberlite pipe. All sections of the plant were created by Petra's in-house team leading to significant savings for the Group compared to using external contractors. The plant has a highly environmentally efficient footprint of just one hectare.

At Wesselton, Petra will use a combination of a mobile pan plant, together with a new plant (similar to that constructed at Joint Shaft). The mobile pan plant is currently at the commissioning stage and Petra is constructing a main plant to be commissioned in Q4 FY 2012. The mobile pan plant will process 40,000 tpm and has been brought in early to assist in processing the significant stockpile that has been built up over the past three years at Wesselton whilst this mine has lacked a processing facility. Subsequently, the main plant at Wesselton is expected to be commissioned in April 2012 and will treat a further 40,000 tpm.

***FY 2011 Operating Review***

| | *Unit* | *FY 2011* | *FY 2010*[1] | *Variance* |
|---|---|---|---|---|
| **Sales** | | | | |
| Revenue | US$M | 18.2 | n/a | n/a |
| Diamonds sold | Carats | 54,733 | n/a | n/a |
| Average price per carat | US$ | 333 | n/a | n/a |
| **Total production (all ROM)** | | | | |
| Tonnes treated | Tonnes | 443,655 | 9,141 | n/a |
| Grade | Cpht | 12.9 | 14.9 | n/a |
| Diamonds recovered | Carats | 57,402 | 1,362 | n/a |
| **Costs** | | | | |
| On-mine cost per tonne[2] | ZAR | 191 | n/a | n/a |
| Total Capex | US$M | 13.0 | 10.2 | n/a |

1. The acquisition of Kimberley Underground completed in May 2010 and therefore comparable FY 2010 results are not available
2. On-mine cash costs exclude costs assigned to ROM stockpiles

FY 2011 marked the first full year for Kimberley Underground under Petra management, following completion of the acquisition in May 2010. The Company was particularly encouraged by the prices achieved for Kimberley Underground production, with the average of US$333 per carat for the period considerably exceeding initial expectations.

A substantial stockpile of ore, estimated to be 0.3 Mt, has been built up on surface at Wesselton whilst no processing facility has been available.

The slimes and tailings disposal difficulties with the new plant at Joint Shaft were largely addressed during H2 FY 2011 and tonnages processed increased from 176,527 in H1 FY 2011 to 267,128 in H2 FY 2011. At the current bottom-cut discard size of 2 mm, the grade is expected to revert to the planned 14 cpht during FY 2012 as the oversize circuit has now been brought into production. The Joint Shaft plant is expected to deliver approximately 80,000 carats for FY 2012.

Petra announced a revised business plan for processing at Wesselton at the time of the Company's full year trading update in July 2011, which involves a combination of a mobile pan plant together with a new plant (similar to that constructed at Joint Shaft). The mobile pan plant operation is currently being commissioned and is expected to process some 40,000 tpm. Subsequently, the main

plant at Wesselton is expected to be commissioned in April 2012 and will treat a further 40,000 tpm. Wesselton is expected to contribute approximately 50,000 carats during FY 2012.

Unit costs of approximately R191 per tonne were negatively impacted by reduced throughput. Management expects the unit costs to improve once the Wesselton plant is fully operational.

Of the US$13 million Capex, approximately US$9.5 million was spent on improvements to the Joint Shaft treatment plant. A further US$3.5 million was applied to the acquisition of adjacent land, buildings and infrastructure relating to water reticulation and slimes handling facilities (by assuming a rehabilitation guarantee).

***Kimberley Underground Mine Plan***

Petra's mine plan at Kimberley Underground is expected to see production rise from approximately 57,000 carats in FY 2011 to approximately 150,000 carats by FY 2013.

Petra has a current mine plan of 11 years, which could be extended as the Company more thoroughly investigates the Resources of these mines at depth and the East Blow at surface.

***Capital Expenditure***

Expansion Capex over the next three to four years is estimated at US$35 million (2011 money calculated at an exchange rate of R6.75/US$), all of which will be funded from Group operational cashflows and existing debt facilities.

***Licences & Permits***

Petra's wholly owned subsidiary Crown Resources holds a valid and unencumbered new order mining right ("the Kimberley Underground Mining Right") dated 7 May 2010. The Kimberley Underground Mining Right was initially granted to De Beers pursuant to item 7 of Schedule II of the MPRDA and was ceded to Crown Resources by notarial deed of cession registered in the Mineral and Petroleum Titles Registration Office dated 11 May 2010 under reference number MPT 28/2010.

The Kimberley Underground Mining Right relates to portions of the farms Alexandersfontein 123, Benauwdheidfontein 124, Bultfontein 80, Dorstfontein 77 and Du Toitspan 119, Magisterial District of Kimberley and Boshoff, for an area of 378.8482 hectares.

The Kimberley Underground Mining Right confers on Crown Resources the exclusive right for the period covered thereby to mine for diamonds in relation to the licence areas until 6 May 2040. Pursuant to the MPRDA, the Kimberley Underground Mining Right is renewable (for periods of up to 30 years for each renewal) and, if Crown Resources has complied with the terms and conditions of the mining right, the Minister of Mineral Resources will renew the Kimberley Underground Mining Right.

The Kimberley Underground Mining Right was issued on terms and conditions that are regulated by government gazette for mining rights of this nature and contains no exceptional terms or conditions. Standard terms and conditions in the Kimberley Underground Mining Right include the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the Kimberley Underground Mining Right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the Kimberley Underground Mining Right may be suspended or cancelled.

**Fissure Mines**

***Introduction***

The fissure mine asset portfolio comprises three mines: Helam, Sedibeng and Star. The Sedibeng operation is an amalgamation of two mines: Messina and Dancarl. The mines are operating at depths of between 620 and 750 metres. Plans to increase production from ca. 87,000 carats in FY 2011 to ca. 140,000 carats per annum by FY 2015 are currently being implemented. Sedibeng is located 80 km north west of Kimberley in the Northern Cape Province, whilst Star is located some 40 km south of Welkom in the Free State Province. Helam is located 70 km west of Rustenburg in the North West Province.

***Ownership***

Petra holds a 74% interest in Helam Mining via its subsidiary, Crown Resources, with its BEE Partner Sedibeng Mining holding 26%.

Petra holds a 74.5% interest in Sedibeng Resources, with its BEE Partners, Sedibeng Mining and Bokone holding a 17.85% and 7.65% interest, respectively, in Sedibeng. A joint venture agreement was entered into between Dancarl Diamonds and Messina Diamonds in relation to Sedibeng dated 7 June 2005, further details of which are set out in paragraph 10.16 of Part X of this document.

Petra holds a 74% interest in Star Diamonds, via its subsidiary Messina Investments (Pty) Ltd, with its BEE Partner, Sedibeng Mining, holding a 26% interest in Star Diamonds.

Further details are set out in the 'Group Structure' in Part I of the document.

***History***

Helam, Sedibeng and Star are all well-established underground fissure mines which have been in operation for more than 50 years. Each mine exploits narrow diamondiferous kimberlite fissures using labour intensive mining methods.

***Geology***

Diamond-bearing fissure systems are found at surface when the effects of erosion have worn away the upper levels of the overlying diamond pipe. These fissures, where economically viable, are characterised by high diamond grades and narrow widths, whilst they have a strike extent of several kilometres and continue down-dip for hundreds of metres. All three fissure systems fall into the Group II kimberlite category, with Sedibeng and Star both having been intruded ca. 120 million years ago, whilst Helam was intruded ca. 155 million years ago.

At Sedibeng, Star and Helam, the nature of the fissures, their steep dip and the mining method employed at each mine effectively preclude the use of exploration and grade control drilling to evaluate each of these fissures ahead of mining in any practical way. Instead the geological and grade continuity characteristics of the fissures are derived from historical and current mining information. This historical information, spanning over more than 50 years at each mine, has provided effective and continuous sampling of each deposit and affords a high degree of confidence and general knowledge about the geology and grade characteristics of each of the fissures.

The kimberlite fissures show some similarities, but are more variable geologically than the kimberlite pipes. Typically the fissures are influenced by the country rock through which they have been emplaced. As with the kimberlite pipes, the fissures show considerable differences in terms of grades and quality of diamonds.

The Sedibeng operation is an amalgamation of two mines: Messina and Dancarl. The kimberlite fissure at Sedibeng is hosted by flat-lying, layered sediments belonging to the Campbell-Rand Series of the Transvaal Supergroup. The Messina mine extends over the northern 1,700 metres of the 2,430 metre-long Bobbejaan Fissure. Immediately to the south of Messina, and covering the southern 730 metres of the fissure, is the contiguous Dancarl mine. The fissure at Dancarl and Messina ranges in width from 20 to 90 centimetres, with an average width of 52 centimetres.

The Helam fissure mine extends over a 6 km strike length of a kimberlite fissure system, known as the Swartruggens Fissure Swarm. Three fissures are present at Helam, namely the Main Fissure, the Changehouse Fissure and the Male/Muil Fissure. Only the Main Fissure is currently being mined with an average fissure width of 60 cm.

The Star mine property is underlain by a 520 metre thick sequence of flat-lying Karoo rocks which overlie rocks of the 2,700 million year old Witwatersrand Supergroup. A 30 metre thick succession of Permian-age Dwyka group tillites forms the basal unit to the Karoo sequence. These tillites are overlain by rocks of the Ecca group comprising a 135 metre thick unit of argillaceous sandstone overlain by a 200 metre thick sequence of carbonaceous mudstones and shales. The Ecca sediments are further overlain by a 150 metre thick package of Beaufort group shales and mudstones.

The Star mine extends over a 4.5 km strike length of the east west trending Star kimberlite fissure system, which can be traced over a total distance of some 15 km. The fissure is a vertical compound structure comprising several fissures with an *en echelon* arrangement. The individual kimberlite fissures generally range in width from 5 cm to 80 cm with an average width of about 51 cm.

***Reserves & Resources***

| | *Gross* | | | *Net attributable* | | |
|---|---|---|---|---|---|---|
| *Category* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* | *Tonnes (millions)* | *Grade (cpht)* | *Contained Diamonds (Mcts)* |
| **Reserves** | | | | | | |
| Proved | 1.444 | 47.35 | 0.684 | 1.071 | 47.29 | 0.507 |
| Probable | 2.044 | 60.78 | 1.242 | 1.514 | 60.74 | 0.920 |
| **Sub-total** | **3.488** | **55.22** | **1.926** | **2.586** | **55.17** | **1.426** |
| **Resources** | | | | | | |
| Measured | 0.547 | 149.61 | 0.82 | 0.406 | 149.39 | 0.606 |
| Indicated | 0.827 | 182.60 | 1.509 | 0.612 | 182.46 | 1.117 |
| Inferred | 1.654 | 163.12 | 2.698 | 1.226 | 163.00 | 1.998 |
| **Total Resources inclusive of Reserves** | **3.028** | **166.00** | **5.026** | **2.244** | **165.85** | **3.722** |

1. Resource bottom cut-off: 1mm
2. Reserve bottom cut-off: 1mm
3. Measured Resources are classified as one level below current workings, or where a block is bounded above and below by current workings
4. Indicated Resources are classified as two levels below Measured Resources
5. Inferred Resources are classified as three levels below Indicated Resources
6. Measured and Indicated Resources have been converted to Reserves by applying historically derived external dilution and in-stope loss factors to resource tonnages and grades
7. Increase in Inferred Resource based on the diamond drilling programme at Sedibeng

***Mine Production***

Helam practises full shrinkage overhand stoping, Sedibeng full shrinkage overhand stoping and Star open underhand stoping.

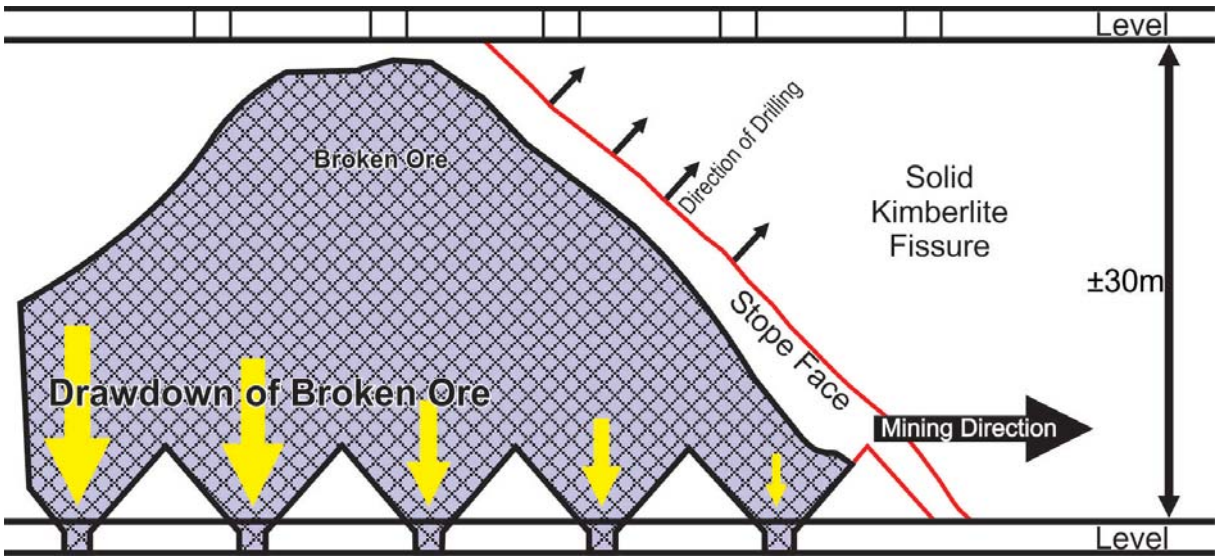



*Figure 19: Schematic illustrating cross section of shrinkage overhand stoping as practised on the Sedibeng and Helam fissure mines*

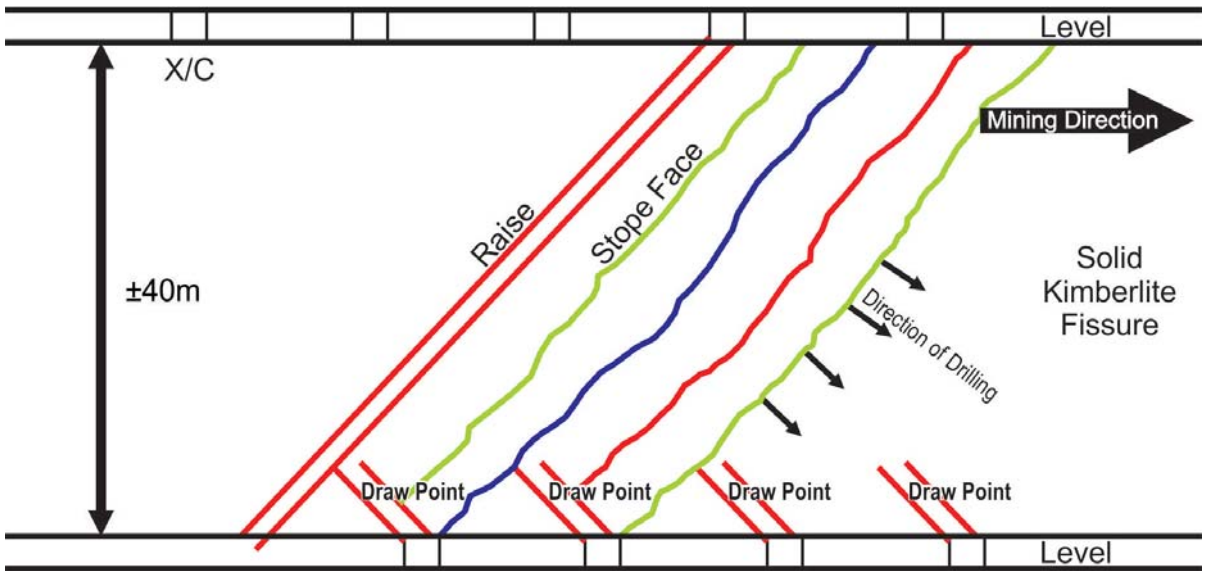



*Figure 20: Schematic illustrating underhand open stoping as practised on the Star fissure mine*

*Geotechnical Considerations*

Some geotechnical considerations have been identified related to remnant pillars and depth of mining, however these are continuously addressed.

*Ore Handling System*

ROM ore from the drawpoints is mechanically loaded into 1 tonne hoppers by means of Eimco 12b loaders. The ore is then transported by locomotive to the shaft, where the rock from the hoppers is manually tipped into the grizzly for loading onto the skips and hoisted to surface.

At surface, ore and waste are tipped into separate bins. Waste rock is then taken by truck to the waste dump whilst hoisted ore is trucked to the plant.

*Mine Ventilation*

The mine shafts are downcast, working places are pressurised and the stale air is extracted via fans.

*Water Management*

The mines are continually dewatered by pumping systems that elevate water to surface. This water is used for plant purposes.

***Mineral Processing***

Other than the waste hand-sorting, the processing of ore from the fissures follows the standard process used at the pipe mines of sequential crushing and recovery using a DMS unit, before final recovery (X-ray followed by grease tables).

***FY 2011 Review***

| | *Unit* | *FY 2011* | *FY 2010* | *Variance* |
|---|---|---|---|---|
| **Sales** | | | | |
| Revenue | US$M | 21.8 | 13.5 | +62% |
| Diamonds sold | Carats | 89,491 | 72,629 | +23% |
| Average price per carat | US$ | 244 | 185 | +32% |
| **ROM Production** | | | | |
| Tonnes treated | Tonnes | 183,506 | 168,840 | +9% |
| Grade | Cpht | 45.7 | 42.0 | +9% |
| Diamonds recovered | Carats | 83,876 | 70,950 | +18% |
| **Tailings Production** | | | | |
| Tonnes treated | Tonnes | 52,389 | 30,640 | +71% |
| Grade | Cpht | 6.9 | 10.7 | -36% |
| Diamonds recovered | Carats | 3,612 | 3,282 | +10% |
| **Total Production** | | | | |
| Tonnes treated | Tonnes | 235,895 | 199,480 | +18% |
| Diamonds recovered | Carats | 87,488 | 74,232 | +18% |
| **Costs** | | | | |
| On-mine cost per tonne | ZAR | 684 | 669 | +2% |
| Total Capex | US$M | 5.2 | 2.5 | n/a |

Helam and Sedibeng put in a strong performance in FY 2011, with revenue for the fissures unit as a whole up 62% to US$21.8 million and overall production up 18% to 87,488 carats. The average value per carat achieved also increased 32% to US$244.

For FY 2012, Petra expects a similar level of combined production across the fissure portfolio to FY 2011.

At Star, where operations are challenging, a disappointing performance was recorded for the year, as reflected in the impairment charge incurred.

Due to the limited tonnages that can be mined from narrow-vein kimberlite fissure operations, operating costs per tonne are higher than in the larger block cave mines; this is partially offset by the higher grades of the fissure orebodies. In FY 2011, unit costs at the Fissure Mines remained flat despite cost pressures specifically relating to electricity and labour. The majority of the US$5.2 million Capex was spent on continuing underground development across the Fissure Mines including a head gear installation at Sedibeng's Dancarl shaft.

A further US$11.0 million Capex spend was incurred in respect of the Helam projects manufacturing facility for equipment under construction for other mines and projects within the Group.

***Fissure Mines Plan***

Plans to increase production from ca. 87,000 carats in FY 2011 to ca. 140,000 carats per annum by FY 2015 are being implemented.

***Capital Expenditure***

Ongoing underground development at the Fissure Mines is funded by Group operational cashflow. Total Capex across the fissures is not significant when compared to the Group's total capital profile.

***Licences & Permits***

*Helam Mining Right*

Helam Mining holds an old order mining right (ML4/1995) in respect of portions 9, 18, 39, 40, 3, 4, 12, 43, 50, 35, 19, 47, 11, 37, 38 and 49 of the farm Nooitgedacht 381 JP and portion 10 of the farm Winkelhaak 403 JP, Magisterial District Swartruggens, North West Province, for an area of 113.425 hectares (the "Helam old order Mining Right").

The Helam old order Mining Right was lodged for conversion on 30 May 2005 and remains in full force and effect until it has been converted into a new order mining right in terms of item 7(7) of Schedule II to the MPRDA. The duration of the new order mining right being sought is 30 years.

The Helam old order Mining Right confers on Helam Mining the exclusive right until conversion to mine for diamonds in relation to the licence areas.

Until such time as the Helam old order Mining Right is converted, the old order mining right remains in force subject to the terms and conditions under which it was granted. Upon conversion Helam Mining will be required to comply with standard terms and conditions in the converted mining right including the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the mining right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the mining right may be suspended or cancelled.

*Dancarl Mining Right*

Dancarl Diamonds holds an old order mining right (ML 12/94) in respect of the farm no 84 Barkley West, Magisterial District Barkley West, Region North Cape, for an area of 80.2 hectares namely the Dancarl Mine (the "Dancarl old order Mining Right").

The Dancarl old order Mining Right was lodged for conversion on 17 April 2009 and remains in full force and effect until it has been converted into a new order mining right in terms of item 7(7) of Schedule II to the MPRDA, 2002. The duration of the new order mining right being sought is 30 years.

The Dancarl old order Mining Right confers on Dancarl Diamonds the exclusive right for the period covered thereby to mine for diamonds in relation to the licence areas.

Until such time as the Dancarl old order Mining Right is converted, the old order mining right remains in force subject to the terms and conditions under which it was granted. Upon conversion Dancarl Diamonds will be required to comply with standard terms and conditions in the converted mining right including the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the mining right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the mining right may be suspended or cancelled.

*Messina Mining Right*

Messina Diamonds holds an old order mining right (ML 1/1995) in respect of farm no 85 Barkley West, Magisterial District Barkley West, Region North Cape, for an area of 9.42 hectares (the "Messina Mining Right").

The Messina Mining Right was lodged for conversion on 17 April 2009 and remains in full force and effect until it has been converted into a new order mining right in terms of item 7(7) of Schedule II to the MPRDA. The duration of the new order mining right being sought is 30 years.

The Messina Mining Right confers on Messina Diamonds the exclusive right until conversion to mine for diamonds in relation to the licence areas.

Until such time as the Messina Mining Right is converted, the old order mining right remains in force subject to the terms and conditions under which it was granted. Upon conversion Messina Diamonds will be required to comply with standard terms and conditions in the converted mining right including the requirement that a royalty must be paid to the South African government in terms

of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the mining right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the mining right may be suspended or cancelled.

*Star Mining Right*

Star Diamonds holds an old order mining right (ML 11/1996) in respect of the remaining extent of the farm Clewer 104, sub-divisions 2, 4, 5, 6 and 7 and the remaining extent of the farm Wynandsfontein 53 and the farm The Missing Link 102, Magisterial District Theunissen, Free State region, for an area of 246.29 hectares (the "Star Diamonds old order Mining Right").

The Star Diamonds old order Mining Right was lodged for conversion on 7 October 2004 and remains in full force and effect until it has been converted into a new order mining right in terms of item 7(7) of Schedule II to the MPRDA. The duration of the new order mining right sought is 30 years.

The Star Diamonds old order Mining Right confers on Star Diamonds the exclusive right to mine for diamonds in relation to the licence areas until conversion of the old order mining right.

Until such time as the Star Diamonds old order Mining Right is converted, the old order mining right remains in force subject to the terms and conditions under which it was granted. Upon conversion Star Diamonds will be required to comply with standard terms and conditions in the converted mining right including the requirement that a royalty must be paid to the South African government in terms of the Mineral and Petroleum Resources Royalty Act 28 of 2008 in respect of minerals recovered under the mining right, mining must be conducted in accordance with the mining work programme, environmental management programme and social and labour plan concerned, the right may not be transferred without the Minister of Mineral Resources' consent, the holder of the right is required to comply with its empowerment commitments and the procedures that need to be followed before the mining right may be suspended or cancelled.

## KALAHARI DIAMONDS

***Introduction***

Kalahari Diamonds is a diamond exploration company that has been active in Botswana since 2002. Initially formed to explore for diamonds under an exploration alliance with BHP Billiton, it has achieved considerable success under Petra's management as is evidenced through the discovery of five new kimberlites since 2006.

Botswana is the world's largest diamond producer by value and host to two of the world's biggest diamond mines, Orapa and Jwaneng. It is considered to offer an exceptional basis for exploration in that it ranks highly with regards to diamond prospectivity, yet it ranks well with regards to operating costs.

Kalahari Diamonds, through its wholly-owned Botswana subsidiary, Sekaka Diamonds, is the holder of approximately 22,250 $km^2$ of diamond prospecting ground, all of which is "on craton" (the geological formation known to host economic primary diamond deposits). This is one of the largest precious stones exploration holdings in the country. In addition to this landholding, a further 1,500 $km^2$ have been designated for allocation to Petra, with a further 6,000 $km^2$ being under application.

Apart from a highly focused, ongoing exploration programme, Petra's prime focus is to evaluate recent discoveries with a view of further developing these potentially economic orebodies.

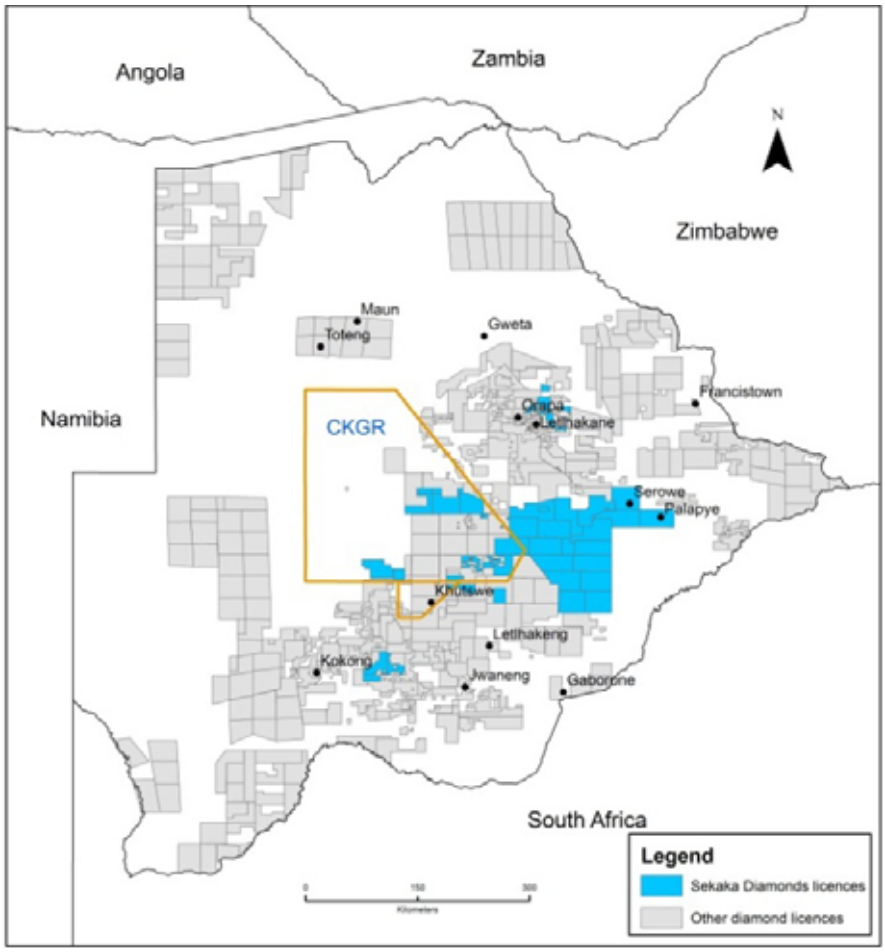



*Figure 21: map showing KDL's current landholding in Botswana (as at 30 June 2011)*

***History***

In September 2005, Petra acquired the entire issued share capital of Kalahari Diamonds from KDR, the holding company of Kalahari Diamonds. The founding shareholders of Kalahari Diamonds included BHP Billiton (20%), IFC (approximately 9.7%) and some of the world's leading diamantaires (approximately 40% in total).

At the time, Kalahari Diamonds, through its wholly-owned Botswana subsidiary, Sekaka Diamonds, held diamond prospecting licences in Botswana covering approximately 77,000 $km^2$ and Petra subsequently became the holder of the largest land area under precious stones prospecting licence in Botswana. In addition, the ground holdings covered 29 known kimberlites historically viewed as being non-economic.

Through Kalahari's relationship with BHP Billiton, rights were obtained to direct deployment of BHP Billiton's proprietary Falcon$^{TM}$ technology and access to an experienced Falcon$^{TM}$ and geophysics exploration team. As this technology was viewed as having its greatest value in prospective areas covered by Kalahari sediments, where the efficacy of traditional exploration techniques (such as kimberlitic indicator mineral sampling, magnetic and electro-magnetic surveys) is greatly diminished, the application of BHP Billiton's Falcon$^{TM}$ Airborne Gravity Gradiometer ("AGG") system became the core activity in the Kalahari diamond project. Over a three and a half year period, nearly 250,000 line km of Falcon$^{TM}$ data were acquired in total.

By the end of 2005, 140 anomalies had been followed up with ground geophysics, 116 of which were surveyed geochemically and 76 sampled for heavy mineral analysis. Drilling targets were selected on the basis of ground follow-up results. In total, 69 anomalies (86 holes constituting approximately 6,150 metres of drilling) were drill tested using a conventional air percussion drill rig with a 6.5 inch hole diameter. No kimberlites were discovered.

Over the last five years Petra has changed the emphasis of the exploration programme and is focusing on new areas and prospective targets.

***Geology***

Kalahari Diamonds' current project landholding is predominantly covered by tertiary sediments of Kalahari sand cover, ranging in thickness from almost 30 metres in the south, to a maximum of 120 metres in the eastern part of the Central Kalahari Game Reserve ("CKGR"). The pre-Kalahari geology is relatively consistent, wholly covered by the Stormberg flood basalts of the Karoo Supergroup. Beneath the basalt lies the sedimentary sequence of the Karoo Supergroup (Lebung, Beaufort, Ecca and Dwyka Groups).

The precise thickness of the basalt in the CKGR is unknown, but it is evident from the Government of Botswana's aeromagnetic survey data that the basalt is heavily faulted and its thickness varies considerably from area to area, thus making the area structurally complex. Major faults seem to have a north-west – south-east and north-east – south-west orientation. These major structures are the main targets in kimberlite exploration as they are zones of structural weakness where kimberlites may be emplaced.

***Exploration***

The application of Xcalibur Airborne Geophysics' horizontal gradient magnetic acquisition system remains Petra's primary exploration tool to be utilised in clearly defined areas of interest. Following ground magnetic, gravity and heavy mineral sampling follow-up over identified targets, high priority targets are selected for further investigation and percussion drilling.

On discovery, orebody delineation is enhanced through the application of advanced high resolution geophysical techniques and modelling, followed by definition drilling. Orebody evaluation is done through additional heavy mineral analyses, microdiamond analyses and mini bulk sampling.

This strategy has proven highly successful, leading to the discovery of five new kimberlites by Petra. Four of these discoveries were made in areas that have been explored by several reputable exploration companies over the past 25 years. Furthermore, it has led to a significant reduction in ground holding (which in turn has allowed for an even more focused exploration effort), as well as the identification and acquisition of new, highly prospective ground holdings.

Going forward, Petra's exploration focus will be on areas where Petra has made discoveries as well as on more recently acquired ground. In this respect plans are afoot to conduct a 400 $km^2$ airborne electro-magnetic survey and a 22,000 line km high resolution magnetic horizontal gradient (Xcalibur) airborne survey.

***Petra's Exploration Assets***

Petra's properties consist of prospecting licences issued by the Minister of Minerals, Energy and Water Affairs in terms of the Mines and Minerals Act (Act No. 17 of 1999) of the Republic of Botswana. These areas cover an aggregate area of about 22,250 $km^2$ in 42 current prospecting licences.

Petra's geographic information systems ("GIS")-based exploration database, initially established by MPH (a geological consultancy) and augmented by Sekaka Diamonds, forms the base of all regional target generation undertaken. Consisting of comprehensive soil sampling and regional government aeromagnetic datasets (country-wide), it also incorporates ca. 246,500 line km of relatively high resolution Falcon$^{TM}$ AGG system gravity gradiometer and magnetic data, as well as ca. 82,500 line km of high resolution magnetic gradiometer (Xcalibur) data. Geophysical ground follow-up data (ca. 81,000 gravity stations and 7,300 line km of magnetic data) as well as ca. 5,200 metres of exploration and ca. 4,000 metres of evaluation drilling data complete the database.

In mid 2008, Petra reported the discovery of diamondiferous kimberlite BK1S in the Orapa region. The kimberlite, petrographically classified as an incipient transitional, hypabyssal-facies, partly segregationary, macrocrystic, altered monticellite kimberlite, extends northwards into the Debswana mining licence for the Damtshaa mine. Debswana is in the process of re-evaluating kimberlite BK1, subsequent to which Petra will re-enter into discussions with regard to the future exploitation of the shared orebody.

The discovery of the diamondiferous kimberlite Kx36, estimated to be approximately five hectares in size, is viewed as highly significant in that it is located in an area approximately 65 km from the nearest known kimberlite and may indicate the presence of a new diamondiferous kimberlite field. During a 2011 delineation/evaluation campaign, orebody/basalt host contacts were determined from four delineation boreholes (Kx36H2, Kx36H4-H6). The fifth borehole (Kx36H7) was terminated in kimberlite at a vertical depth of approximately 505 metres below surface (calcretised kimberlite was

first intersected at approximately 75 metres below surface). Samples have been submitted for micro-diamond analysis for this kimberlite that has already been proven to be diamondiferous and has good kimberlite indicator mineral chemistry.

***FY 2011 Operating Review***

During FY 2011, large tracts of well-explored ground that had come to the end of their seven year licence tenure were relinquished, resulting in a total current landholding of some 22,250 $km^2$, which is one of the largest diamond exploration holdings in the country.

Geophysical ground follow-up and Heavy Mineral Analysis of 46 high priority targets selected from High Resolution Airborne Magnetic data were completed across Petra's various project areas. At the end of FY 2011, six targets had been drilled as part of an ongoing exploration drilling campaign – no additional kimberlites were discovered.

In addition, a 4,500 line kilometre Xcalibur HiRes Airborne Magnetic Gradiometer survey was successfully commissioned and conducted over historical kimberlite indicator mineral recoveries in the Kukama East project area. The application of Xcalibur Airborne Geophysics' horizontal gradient magnetic acquisition system remains Petra's primary exploration tool to be utilised in clearly defined areas of interest and a 22,000 line km survey covering newly acquired ground is now planned.

Initial delineation drilling (five boreholes, totalling 1,730 metres) undertaken on the Kx36 kimberlite was completed by the end of FY 2011. All boreholes were surveyed (directional) and a down-hole geophysical wireline logging programme was successfully completed. Following detailed lithological logging of all drillcore retrieved, samples were submitted for petrographic and micro-diamond analyses. All results (expected FY 2012) will be used to update the existing 3D geological (Gemcom) model to assist with the calculation of material volumes and a preliminary grade estimate.

Significant progress has also been made with both the geophysical and geological 3D modelling of the portion of kimberlite BK1S discovered on Petra ground adjoining the Damtshaa Mining Licence in mid-2008. Results will be used for the calculation of material volumes for the portion of the kimberlite body BK1 (15 – 20%) that falls outside the Debswana mining lease and within Petra's prospecting licence.

***Diamond Reserves & Resources***

There are currently no Reserves or Resources calculated for Petra's exploration projects.

***Infrastructure***

Petra's project concessions are located in several parts of Botswana (Figure 21). The establishment of the Orapa and Letlhakane mines have accelerated national infrastructure in the Central District with all major routes to these mines being tarred and project specific power-lines and groundwater well-fields developed to supply plant and potable water. The BK1S project area is located approximately 20 km east of the Orapa mine and 10 km north of Letlhakane village and is accessed via Letlhakane – Mmatshumu gravel road.

The Kx36 project area lies somewhat remote from established road access, but several roads and tracks have been developed over the years by previous prospectors and ranchers.

All the other licence blocks have primary or secondary sealed roads passing through or close to them.

***Licences and Permits***

Sekaka Diamonds holds 42 valid prospecting licences, covering an area of approximately 22,250 $km^2$ included in this are five licences, covering an area of 280 $km^2$, which are currently being renewed. The licences, apart from those being renewed, expire on either 31 March 2012, 30 June 2012 or 31 December 2012. In addition, folio applications (ground designated for allocation to Sekaka Diamonds) totalling approximately 1,500 $km^2$, with another 18 licences (covering a total area of approximately 6,000 $km^2$) currently under application.

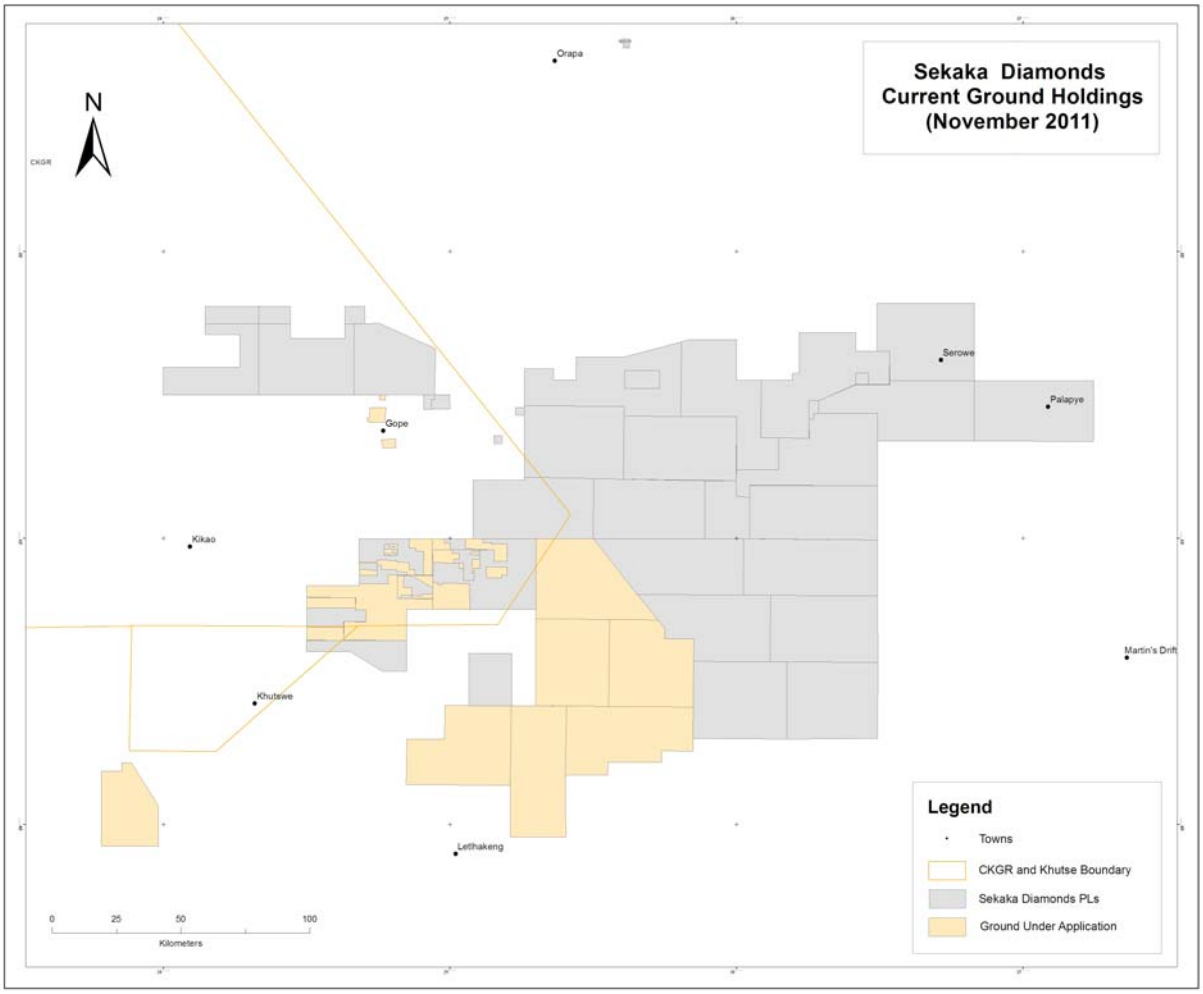



*Figure 22: Sekaka Diamonds' licence holdings*

# PART III

# INFORMATION ON SOUTH AFRICA, TANZANIA AND BOTSWANA

**South Africa – Country Profile**

***Overview***

The Republic of South Africa is a democratic republic situated on the southernmost tip of the continent of Africa. It has a land surface area of approximately 1,219,090 $km^2$ (CIA World Factbook) bordered by the ocean and by the countries of Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe.

The population is estimated at approximately 49 million (CIA World Factbook). There are 11 official languages in South Africa with English, Afrikaans, Xhosa, Zulu and Sotho being the most widely spoken. Business in South Africa is conducted mainly in English.

South Africa is host to a wealth of natural resources including diamonds, gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, rare earth elements, uranium, platinum, copper, vanadium, salt and natural gas.

The modern diamond industry as we know it originated in South Africa in the 1860s, with the first major commercial diamond finds in Kimberley, later known as the 'City of Diamonds'. The diamond industry is therefore firmly entrenched, with many generations' experience having been developed in mining communities across the diamond fields.

***Government***

South Africa's transition from apartheid to constitutional democracy was an important landmark political transformation. The African National Congress won South Africa's first non-racial, democratic, all-party national election in April 1994, culminating in a Government of National Unity and the appointment of Nelson Mandela as President. The current President of South Africa, Jacob Zuma, was elected in April 2009.

With effect from February 1997, South Africa adopted a new constitution, the Constitution of the Republic of South Africa (the "Constitution"). The Constitution provides for a common citizenship for all South Africans, the creation of a sovereign and democratic constitutional state, nine provinces with defined legislative and executive powers, an independent judiciary that includes a constitutional court, a supreme court of appeal and high courts in the various provinces.

South Africa has introduced black economic empowerment at a legislative level in an effort to provide previously disadvantaged individuals with access to property, business opportunities and other benefits advancement.

***Economy***

South Africa is an industrialised country with a middle-income market economy, characterised by well-developed mining, energy, manufacturing and financial sectors.

South Africa's economic policy is based upon a strategy of low public debt, many years of budgetary discipline, supported by successful capital markets which have provided access to the finance necessary for the Government to expand spending in infrastructure and social services over recent years.

***Currency***

Macro-economic indicators such as interest rates and the strength of the Rand are critical to growth in South Africa. The Rand remains vulnerable to shifts in global sentiment and commodity prices, and to local policy developments; gradual Rand depreciation is forecasted during the outlook period (2011-15).

***Taxes***

| | |
|---|---|
| Corporate Tax | 28% |
| Diamond Royalty | Formula based royalty dependent on profitability of the mining operation |
| VAT | 14% |
| Rough Diamond Export Levy | 5%, certain exemptions apply |

**Summary of South Africa Mining Legislation**

***Primary Legislation***

The primary legislation governing exploration and mining activities in South Africa is the Mineral and Petroleum Resources Development Act, 28 of 2002 (''MPRDA''). In terms of the MPRDA, custodianship of the mineral Resources of South Africa vests in the South African government (''Government'' or ''State'') and the Government grants, issues and administers prospecting and mining rights.

As a result of a policy shift from private ownership of mineral rights to the principle of State custodianship set out in the MPRDA, the MPRDA had to contain certain transitional provisions enabling holders of prospecting and mining rights existing under the previous dispensation to convert their old order rights to new order rights. Holders of old order mining rights, for instance, had a period of five years to lodge their old order mining rights for conversion to new order mining rights.

Provided that a property is not already subject to a prospecting or mining right, applicants may apply for a prospecting or a mining right in relation to a specified mineral for a piece of land. If the applicant meets certain criteria set out in the MPRDA, the Minister of Mineral Resources is obliged to issue the prospecting or mining right.

The holders of a prospecting or mining right may enter upon the land concerned, bring machinery and equipment, build and construct, prospect or mine (as the case may be) and carry out other incidental activities.

A prospecting or mining right, an interest in any such right or a controlling interest in a company or close corporation holding a prospecting or mining right may not be transferred without the written consent of the Minister of Mineral Resources. The consent must be granted if the person receiving the right is capable of complying with the terms and conditions of the right concerned.

The holders of a mining right are required to comply with the terms and conditions set out in the mining right (including such obligations as may be imposed in the social and labour plan, mining work programme and environmental management programme).

***Black Economic Empowerment***

Implicit in the objectives of the MPRDA is the development of a broad-based socio-economic transformation strategy. The MPRDA makes provision for charters to be developed and adopted by the mineral and petroleum industry.

The Broad Based Socio Economic Empowerment Charter for the South African Mining Industry 2002 (as amended in 2010) was issued in terms of section 100(2) of the MPRDA (''the Charter''). The Charter requires the holder of new order rights to achieve HDSA equity ownership of 15% by 2009 and 26% by 2014. HDSA participation extends beyond ownership levels to employment equity, management, procurement spending and trickle dividends, irrespective of the funding arrangements. Mining companies will by 2014, be obliged to procure 40% of their capital goods, 70% of their services and 50% of their consumer goods from BEE entities. Mining companies are also required to ensure that workplace equity achieves a level of 40%, with representation at all levels of management, and core and critical skills levels. The 2010 amendment to the Charter introduces the concept of suspension and forfeiture of mining rights in the event that a mining right holder fails to comply with these provisions as measured by a scorecard.

On 29 April 2009 the Codes of Good Practice for the Minerals Industry (''Mining Code'') was published.

***Environmental Obligations***

Section 38 of the MPRDA requires the holder of a right to manage all environmental impacts in accordance with an approved Environmental Management Programme and as an integral part of the operation. The holder is responsible for environmental rehabilitation and any environmental damage, pollution or ecological degradation as a result of the mining operations.

***Diamonds Act***

Possession and dealing in rough diamonds is governed by the Diamonds Act, 56 of 1986 (''Diamonds Act''). Persons are not allowed to be in possession of rough diamonds unless they are producers or hold a licence or other authorisation from the appropriate authorities.

The Diamonds Act sets out certain procedures aimed at increasing local beneficiation and which producers are obliged to comply with. The producers are obliged to offer up to 10% of their rough

diamond production (in value and carats) to the State Diamond Trader ("SDT") at fair market value and on a run of mine basis ("representative sample"). The prices at which the production is offered to the SDT is to be verified by the government diamond valuator, failing which an independent diamond valuator may be appointed. Once the prices have been verified or agreed, the SDT is entitled to purchase the representative sample, failing which the producer may sell them independently.

In addition to the SDT process, diamonds that are intended for export must first be offered for sale at the Diamond Exchange and Export Centre at fair market value before they can be exported.

***Statutory Royalties***

The Mineral and Petroleum Resources Royalty Act 28 of 2008 ("the Royalty Act") came into effect on 1 May 2009 and in terms of the Royalty Act, holders of mining rights are required to pay a royalty to the National Revenue Fund.

Pursuant to the Royalty Act, the royalty is to be paid on gross sales in accordance with a defined formula set out in the Royalty Act. The formula applicable to diamonds is as follows:

0.5% + (earnings before interest and taxes[1]/(gross sales x 9) x 100).

The percentage determined in accordance is therefore subject to a minimum of 0.5%, but must however not exceed 7%.

**Tanzania – Country Profile**

***Overview***

Tanzania was formed in 1964 from the union of Tanganyika and Zanzibar after they achieved independence a year previously.

Located in central eastern Africa, Tanzania has an approximate area of 945,000 $km^2$. It borders Kenya, Mozambique, Burundi, the Democratic Republic of the Congo, Malawi, Rwanda, Uganda and Zambia, with the Indian Ocean to the east.

With a population of approximately 45 million (UN, 2010), there are some 120 ethnic groups. The official languages are Swahili and English; with English being the official language of business. The legislative capital of Tanzania is the city of Dodoma in central Tanzania, while the coastal city of Dar es Salaam, with a population of 2.8 million, serves as the main commercial capital and seaport for Tanzania.

***Government***

The Government of Tanzania is a unitary republic consisting of the Union Government and the Zanzibar Revolutionary Government (together the "Tanzanian Government"). It is a stable country with an improving democracy. Despite the large number of different ethnic groups which comprise the population, mainland Tanzania has in recent years remained peaceful, with few tribal or regional divisions.

Since independence in 1961, Tanzania has maintained one of the strongest track records of political stability in Africa. From the mid-1980s the Tanzanian Government shifted its economic focus in favour of market-oriented economic management and private sector development. Consequently, investment in mining has been encouraged by Tanzania's history of stable and democratically-elected governments as well as an established legal and regulatory framework for mining companies.

The ruling party is the Chama cha Mapinduzi ("CCM") and on 30 October 2010, the incumbent president Mr Jakaya Kikwete was re-elected for his second term in office. President Kikwete has undertaken to continue the economic reforms that have allowed Tanzania to have one of Africa's fastest-growing economies in the 2000s.

**Economy**

Tanzania's robust economy reflects its stable political situation and ensures that it is highly attractive for foreign investment in Africa.

Tanzania's economy is primarily based around the agriculture, tourism, and mining sectors. Mineral exploration and production in diamonds, gold, nickel and tanzanite has grown significantly in the last

1 EBIT is the aggregate of: gross sales less any amount allowed as deductible under the Income Tax Act, 1962 (Act No 58 of 1962) during the year of assessment including but not limited to capital expenditure. There is a deemed nil royalty rate where EBIT is negative (i.e. loss)

decade, and represents Tanzania's biggest source of economic growth, providing over 3% of GDP, and accounts for half of Tanzania's exports.

The country has enjoyed strong economic growth in recent years, with an average of 7% GDP growth per year between 2000 and 2008, making Tanzania one of the fastest growing economies in sub-Saharan Africa. Key drivers for the future include private consumption, exports, gross fixed capital, tourism and private investment. Gold was an additional driver of growth in 2010 and 2011, and will continue to be in the foreseeable future, as Tanzania is Africa's fourth largest gold producer.

**Currency**

The Tanzania shilling ("TZS") is the official currency of Tanzania, although there is widespread usage of US Dollars.

**Taxes**

| | |
|---|---|
| Corporate Tax | 30% |
| Diamond Royalty | 5% |
| VAT rate | 18% |
| Rough Diamond Export Levy | n/a |
| Withholding taxes on interest and Dividends | 10% |

**Summary of Tanzania Mining Legislation**

The mining industry in Tanzania is regulated at the national level. There is a Ministry of Energy and Minerals ("the Ministry"), which is the overall supervisor of the minerals and energy sector. There is a Commissioner for Minerals ("the Commissioner") within the Ministry appointed by the President of Tanzania whose responsibility is to supervise and regulate the proper and effectual carrying out of the provisions of the Mining Act No 14 of 2010 ("the Mining Act"). There is also a Mining Advisory Committee constituted pursuant to the Mining Act, which has the responsibility of advising the Minister for Minerals on matters concerning the mining sector generally.

The principal legislation governing the mining sector is the Mining Act. There are regulations issued pursuant to the Mining Act including: The Mining (Environmental Protection For Small Scale Mining) Regulations, 2010, The Mining (Mineral Beneficiation) Regulations, 2010, The Mining (Mineral Rights) Regulations, 2010, The Mining (Mineral Trading) Regulations, 2010, The Mining (Radioactive Minerals) Regulations, 2010 and the Mining (Safety, Occupational Health and Environment Protection) Regulations, 2010. The Environmental Management Act, 2004 is also relevant. Other relevant laws include the Income Tax Act 2004 (as amended from time to time), which sets out a special regime for the mining sector; the Tanzania Investment Act, which contains provisions that guarantee profit and capital repatriation as well as access to international arbitral process; and the Explosives Act, chapter 45 of the Laws of Tanzania.

The principal regulatory body for the mining sector is the Ministry. Both the Minister for Energy and Minerals ("the Minister") and the Commissioner are the recognised licensing authorities acting individually or collectively under the Mining Act. There is an inspector of mines and other departments, which oversee the sector according to the requirements of the Mining Act.

In terms of the Mining Act, the entire property and control over minerals in or under the land is vested in Tanzania. No one may prospect for minerals or carry on mining operations except under the authority of a licence issued pursuant to the Mining Act. Geological data covering the entire country is available from the Ministry and all zonal mines offices to private parties who wish to invest in the mining sector.

**Botswana – Country Profile**

***Overview***

The Republic of Botswana is a south-central African landlocked country with an area of 581,730 $km^2$ bordering South Africa, Namibia, Zambia and Zimbabwe. The terrain is predominately flat with up to 70% of the country covered by the Kalahari Desert, with an accordingly sparse population of 2,065,398 (July 2011 CIA estimate). The majority of Botswana's citizens are from the Setswana-speaking tribes, although English is the official language of government and business.

***Government***

Botswana is one of Africa's most stable countries and the continent's longest continuous multi-party democracy, since independence from the UK in September 1966. Seated in Gaborone, the current party, the Botswana Democratic Party, maintains an unbroken record of continued government since independence. The current President is Ian Khama of the Botswana Democratic Party, who was inaugurated as Botswana's fourth President in 2009.

Botswana has the highest sovereign credit rating in Africa, attributed to sound fiscal policies by successive governments with presidents notably holding prior financial positions. Botswana is also ranked the least corrupt country in Africa by Transparency International, and the 37$^{th}$ least corrupt country in the world, which further encourages foreign investment.

Stable civilian leadership, multi-party democracy and a track record of good governance over the last four decades, coupled with effective use of revenues from mineral resources, progressive socio-economic policies and significant capital investment have generated one of the most dynamic economies in Africa.

***Economy***

Botswana is one of the world's great development success stories, transforming itself in the four decades following independence to middle income status with one of the fastest growing economies in the world. As well as growing tourism, agriculture and financial services sectors, the economy is dominated by mining, principally diamond mining. Botswana is the world's largest producer of diamonds by value, with production mainly coming from Debswana's (50:50 joint venture company between the Botswana government and De Beers) four mines: Jwaneng, Orapa, Letlhakane and Damtshaa. Diamond mining currently accounts for more than one-third of GDP, approximately 50% of export earnings, and approximately 50% of the government's revenues.

The royalty revenues and tax from diamond mining have been invested into education, basic services (water), universal healthcare and infrastructure. These all contribute to the creation of a stable platform for future economic development and support economic diversification.

Botswana is growing in attractiveness for external investment due to robust macroeconomic policies, good governance, an efficient financial sector, and fairly well developed infrastructure from prior sustained investment.

***Currency***

The Botswana Pula is the official currency of Botswana, although there is widespread usage of US Dollars.

***Taxes***

| | |
|---|---|
| Corporate Tax | 22% |
| Diamond Royalty | 10% |
| VAT | 10% |
| Rough Diamond Export Levy | n/a |

**Summary of Botswana Mining and Exploration Legislation**

The legislation that governs rights to minerals is the Mines and Minerals Act of 1999 ("MMA").

***Prospecting Licence***

Prospecting licences are issued for three years with two options to renew, each period not exceeding two years. On each renewal the holder relinquishes 50% of the licence area. The prospecting licences cover such areas provided for in the licence, which are not to exceed 1,000 km$^2$ under the terms of the MMA. The minister may however renew a licence for additional periods where a discovery has been made and evaluation work has not, despite proper efforts, been completed.

The MMA obliges the holder of a prospecting licence to:-

1. commence prospecting operations within three months or such further period as the minister may allow, of the date of issue of his licence;
2. carry on prospecting operations in accordance with the programme of prospecting operations as set out in the prospecting licence; and

3. notify the minster of the discovery of the mineral to which his prospecting licence relates within a period of 30 days of such discovery or discovery of any mineral deposit of economic value.

The holder of a prospecting licence may at any time not later than three months before the expiry of the licence apply to the minister for renewal thereof, submitting a report on prospecting operations to be carried out and the estimated cost thereof.

At the end of the period of the prospecting licence the rights granted to the holder thereof, under the terms of the MMA, cease, and the holder is required to vacate the area to which the licence relates and take such measures as are necessary to restore the land substantially to the condition it was in prior to the commencement of prospecting operations, the holder being obliged to make adequate on-going financial provision for compliance with such obligations.

A prospecting licence or an interest therein or any controlling interest in the holder thereof may be transferred from one person to another, with the prior approval of the minister.

The holder of a prospecting licence may apply to the minister for a retention licence in respect of the area and mineral covered by the prospecting licence.

***Mining Licence***

A person wishing to obtain a mining licence is entitled to apply to the minister and he shall grant a mining licence if he is satisfied that the applicant is the holder of a prospecting licence, retention licence or a waiver issued (if the area over which a mining licence is required has been sufficiently prospected and that no other person has exclusive rights over that area). Upon the issuing of the mining licence, the government of Botswana shall have an option to acquire a negotiated interest.

The mining licence once granted is valid for a period as is reasonably required to carry out the mining programme but not exceeding 25 years.

The holder of the licence shall be liable to pay royalties based on the consideration received for the disposal of minerals or purchase according to the percentages determined in the MMA (10% on gross value in the case of precious stones).

# PART IV

# DIAMOND INDUSTRY OVERVIEW

**Introduction**

Demand for gem-quality diamonds (which form the vast majority of Petra's production on a value basis) is driven by their use in the retail and luxury goods sectors. As such, gem-quality diamonds are discretionary items which vie for consumer demand alongside other jewellery/high-end decorative products. However, due to their entrenched association with certain culturally and socially important events (i.e. engagements, weddings and anniversaries) a solid foundation for diamond demand can be found in countries such as the United States and, to a growing extent, developing countries such as China and India.

There is a positive long-term outlook for the rough diamond market due, primarily, to inherent supply constraints which suggest that supply will struggle to keep pace with demand. Many of the world's largest diamond mines are now past their peak production levels with some undergoing an open-pit to underground transition, and, so far as the Directors are aware, there will not be a sufficient number of new mines to compensate for this production trend. While exploration techniques have improved there remains a low probability of success in finding economic kimberlites. In addition, rising global prosperity and growth in consumption from emerging economies will ensure that demand continues to rise.

**Historical Overview**

Diamonds have been highly valued since antiquity, however only since the late 19$^{th}$ century have they become an important element of the global economy. Alluvial deposits were discovered first in India as early as 2000 BC. It was, however, the discovery of the first hardrock source of diamonds (ancient volcano orebodies known as 'kimberlites' and 'lamproites') in South Africa in the late 1860s that would launch the modern diamond market.

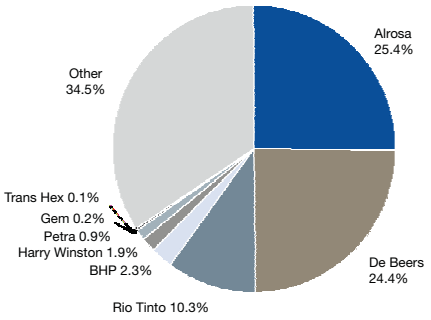
The discovery of hardrock kimberlite orebodies provided a steady supply of diamonds to the market, (taking global production into the millions of carats for the first time) and this, along with advances in cutting and polishing techniques, enabled a mass market for diamond jewellery to develop. Consumer demand was further stimulated by concerted marketing from the long-time industry leader De Beers, which promoted the idea of the diamond engagement ring (still the driver of the diamond jewellery market to this day) and created one of the world's most famous and enduring advertising campaigns with 'A Diamond Is Forever' in 1947.

Once a virtual monopoly, with the diamond industry dominated by De Beers and, following the discovery of major deposits in the Russian Federation, Alrosa, the market opened up to new, independent producers in the 1990s. Today, the diamond mining industry is populated by a number of international diamond mining companies, although De Beers and Alrosa together still dominated approximately 50% of the total worldwide production by volume in 2010. At the smaller end, the diamond market is highly fragmented, particularly given the many artisanal operators of alluvial deposits in Africa and South America.

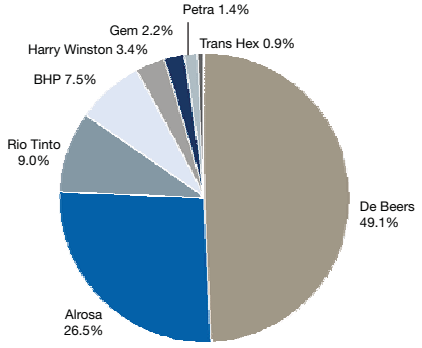
## Supply

The rough diamond market is dominated by the four major producers – De Beers, Alrosa, Rio Tinto and BHP Billiton – who accounted for approximately 85% of the global diamond market by value in 2010, with De Beers leading at just under 50% by value. The balance comes from various smaller international producers.

**Share of World Production: 2010E**

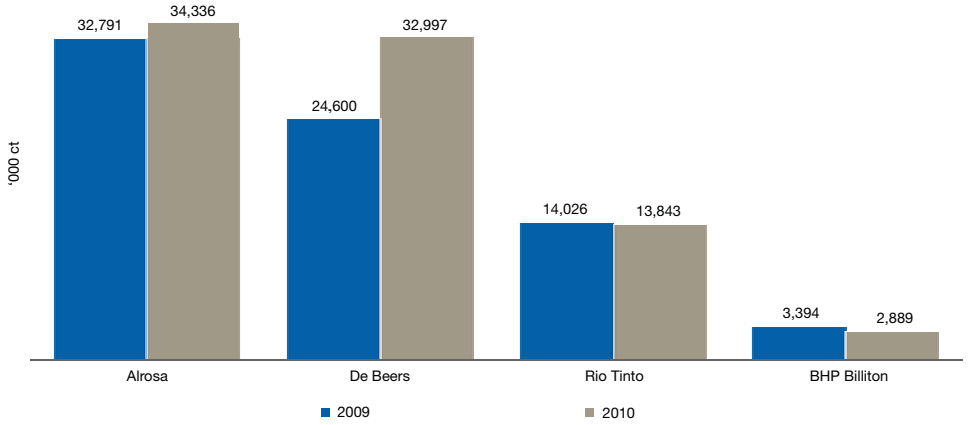



**Share of Known World Diamond Revenue: 2010E**




*Source: Deutsche Bank AG – 'Diamonds set to sparkle' – 19 April 2011*

**Diamond Production by Main Producers**

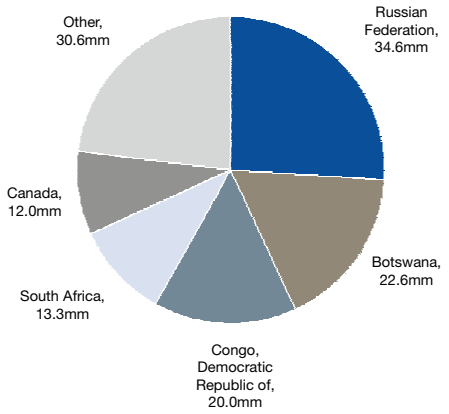



*Source: RBC Europe Limited (trading as RBC Capital Markets) Diamonds: 'Fundamentals Shine Through' – July 2011*

According to the Kimberley Process Certification Scheme, the major producing countries are Botswana, the Russian Federation, Canada, South Africa, the Democratic Republic of Congo and Angola. Australia used to be included in this list but its annual production has fallen dramatically in recent years due to the ageing of the Argyle mine, its most important diamond producer. Approximately 60% of the worldwide rough diamond production by value originates in Africa.

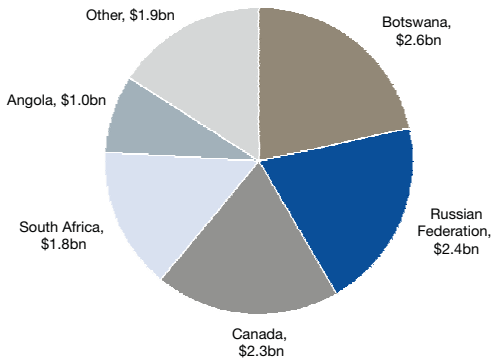
Charts showing 2010 global production by volume and by value are shown below:

**By Volume (carats)**




**Total = 133,120,897.85**

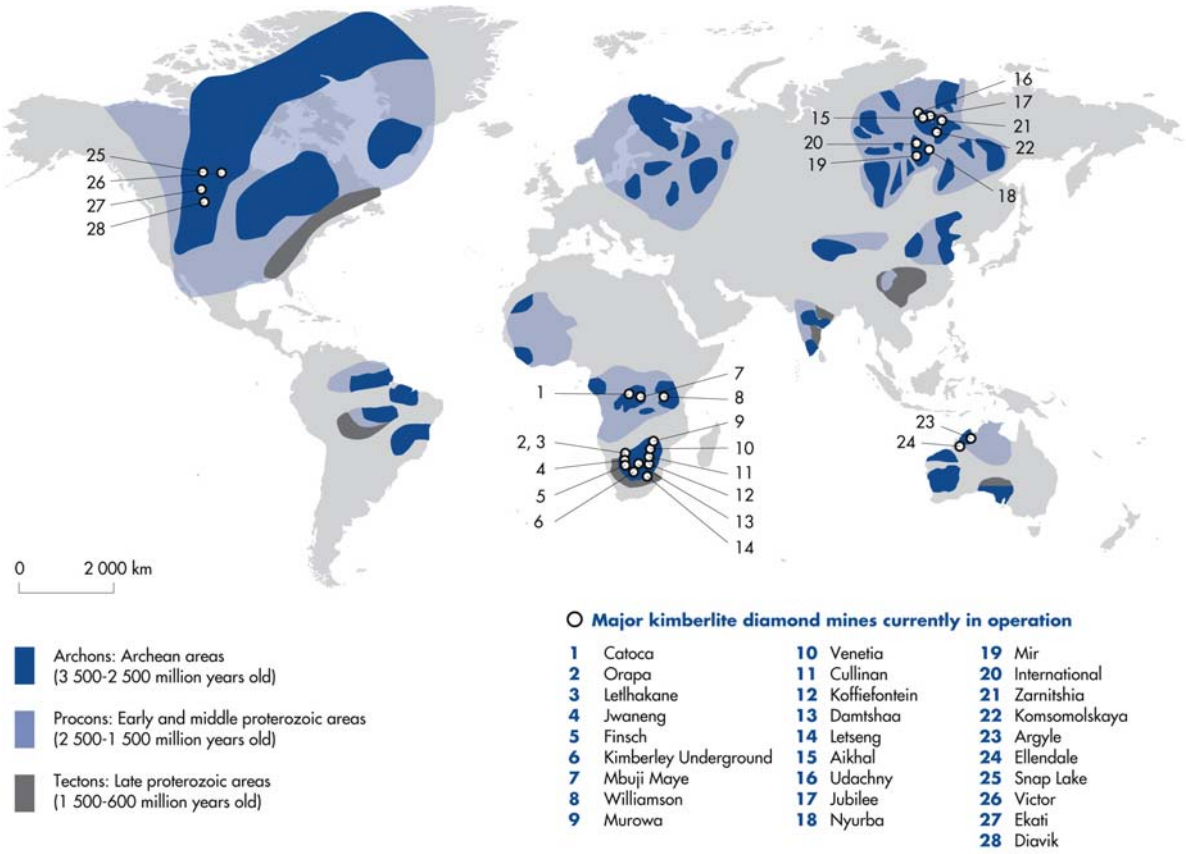
**By Value (US$)**




**Total = $11,998,001,931.79**

*Source: Kimberley Process Certification Scheme*

A key characteristic of diamond deposits are their scarcity, in contrast to many other commodities, and there are less than 30 significant diamond mines operating in the world today. To date, the most important discoveries (other than Argyle in Australia) have clustered into three regions of the world: southern Africa, Siberia, and western Canada.




*Source: Petra Diamonds Limited*

Successful diamond exploration remains challenging – of the +6,000 kimberlites/lamproites discovered globally, fewer than 1% of these have proven to be economic. Despite a high level of diamond

exploration activity over the last few decades, there have been no major new hardrock discoveries since the discovery of Diavik and Ekati in Canada in the early 1990's.

Even if there are some important new exploration successes to counteract the declining supply trend, new diamond mines are costly to build and the lead time from the announcement of the discovery of a major new resource to full production is generally quite long, taking approximately eight years.

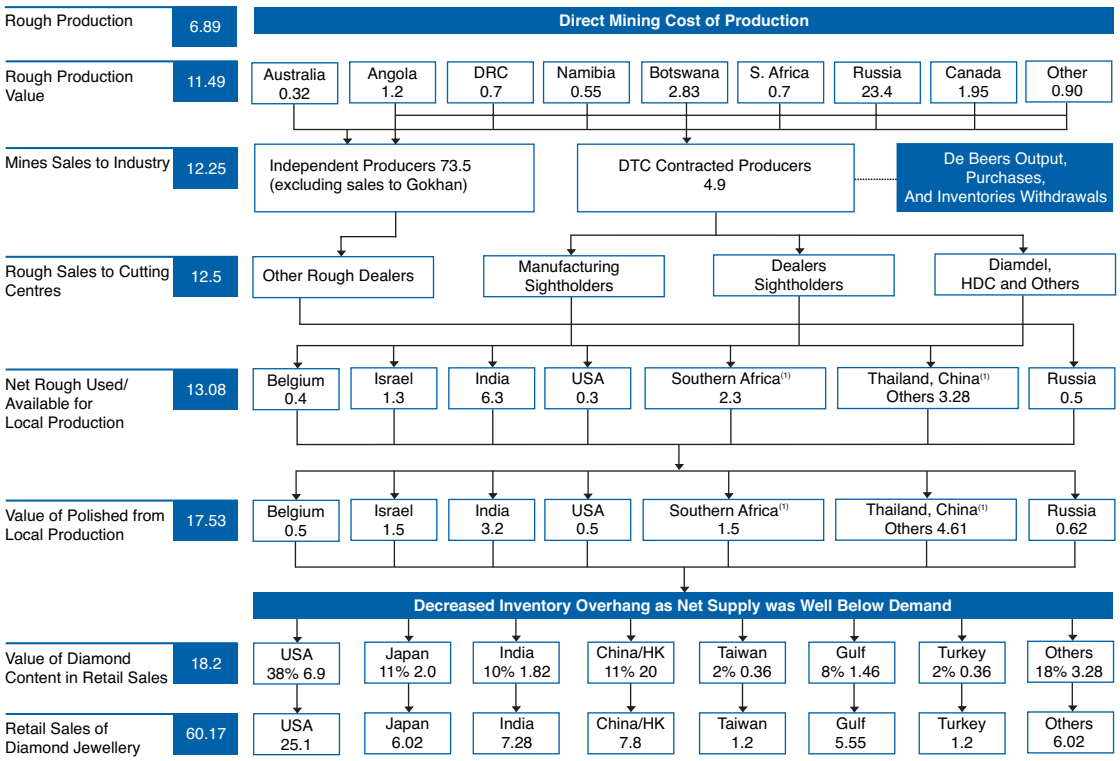
In addition to the difficulty in finding new sources of supply, the majority of the world's major diamond mines have been in operation for decades and are now in decline as they cannot maintain previous high levels of output. In some cases, open pit operations are having to move underground, which naturally limits the volumes which can be extracted from the orebody. Whilst certain new mines are coming on stream in the next few years, so far as the Directors are aware, the new production will not be of sufficient size to make up for this shortfall.

In 2010, some 133 million carats of rough diamonds were produced globally, with a value of approximately US$11.5 billion. This was an increase in volume of approximately 11% from 2009's total of 120 million carats with a value of approximately US$8 billion. Much of the increase in value was attributable to a strong increase in rough diamond prices and an increase in production which was due to producers ramping up operations following strategic shut-downs during the global economic downturn of late 2008/early 2009. The average value per carat mined in 2010 was ca. US$90 per carat (ca. US$69 per carat in 2009).

The 2010 production level remained below the previous highs of 176 million carats in 2005 and 2006. Tacy Ltd, a diamond consultancy, forecasts that, up to 2020, annual rough supply will hover around a much lower 120-130 million carat level (without taking new supply from Zimbabwe into account), and then start to fall unless significant new discoveries are made.

### The Diamond Pipeline

The chart below shows the value uplift in diamonds from their rough state (ca. US$11.5 billion mined in 2010) to their polished form (ca. US$17.5 billion in 2010) and their eventual setting in jewellery in the retail market (ca. US$60.2 billion). The highest margin areas of the diamond pipeline are recognised to be the mining and retail ends, with many specialist operators occupying the middle of the pipeline where margins are tighter and a high level of expertise is required in order to trade diamonds lucratively due to their non-homogenous qualities.




*Source: Tacy Ltd*

*(1) All figures above in US$bn*

*(2) Southern Africa includes South Africa, Botswana and Namibia*

Whilst it was once the case that diamonds were habitually traded many times before eventually entering the retail market (often remaining within the pipeline for some 18 to 24 months), a tighter supply outlook is leading to increased vertical integration. It is now common to see manufacturers and retailers buying direct from the producers, serving to intensify competition for rough as more parties vie to secure supply.

A further recent change is the emergence of 'beneficiation' regulations in producer countries, which aim to benefit the domestic economy by stimulating the local downstream market. South Africa, Russia, Canada and Botswana are among the countries that have recently required a proportion of sales of diamonds to be locally beneficiated.

**Demand**

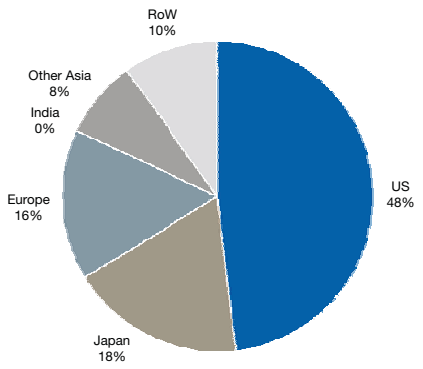
Whilst supply to the market is forecast to remain constrained, demand for diamonds continues to rise in both established and emerging markets as global wealth and consumer spending increase.

Demand growth for diamonds is being driven by the following factors:

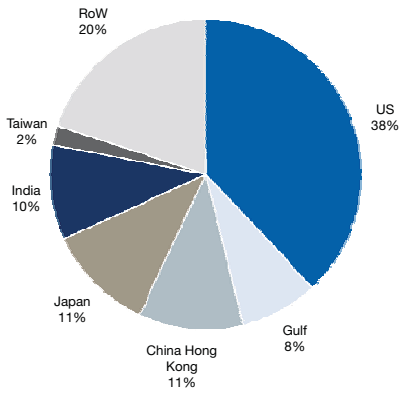
- the urbanisation trend in emerging markets and the rise of a growing class of consumers;
- continued growth in mature markets such as the US;
- increasing wealth globally and an escalation in the number of HNWIs;
- the trend towards the use of higher diamond content in jewellery (especially in more mature markets) and the widespread use of diamonds across luxury goods items (most notably in the watch industry); and
- a growing interest in diamonds as a hard-asset class for investment purposes.

The charts below show how over the last decade global demand for diamonds has changed:

**World Diamond Jewellery Sales 2000**




**World Diamond Jewellery Sales 2010**




*Source: RBC Europe Limited (trading as RBC Capital Markets) – Diamonds – Fundamentals Shine Through – July 2011*

De Beers calculates that the global diamond jewellery market grew by 8% in 2010, whilst the US, which remains the largest single consumer market for diamonds with around 38% of global demand, grew by 7% in 2010. This performance from the world's largest diamond market was better than anticipated and affirms that the diamond buying culture in the US remains intact and that demand growth is likely to continue in line with economic recovery.

Demand in emerging markets grew at substantially higher rates. The fastest growing new consumer markets for diamonds are China and India, both of which recorded double digit growth in 2010, up 25% and 31% in local currency respectively, with China recently overtaking Japan as the world's second largest market for diamonds. These markets are predicted to continue their rapid expansion, accounting for more than 50% of incremental growth over the next five years. De Beers expects the Far East (classified as China, Hong Kong, Taiwan, India and the Gulf) to eventually account for approximately 40% of global demand by 2015.

In addition, significant growth markets such as China and India have a reach along the diamond pipeline that the US does not, thereby enhancing their influence on the trade. India, in particular, has

an unmatched depth in diamond manufacturers and dealers with an estimated 6,000 cutting factories in operation employing over 500,000 workers. China is likewise developing as a highly competitive manufacturing centre and the Chinese government has put fiscal incentives in place to assist its expansion.

*The Urbanisation Trend & the Rise of the Emerging Markets Consumer*

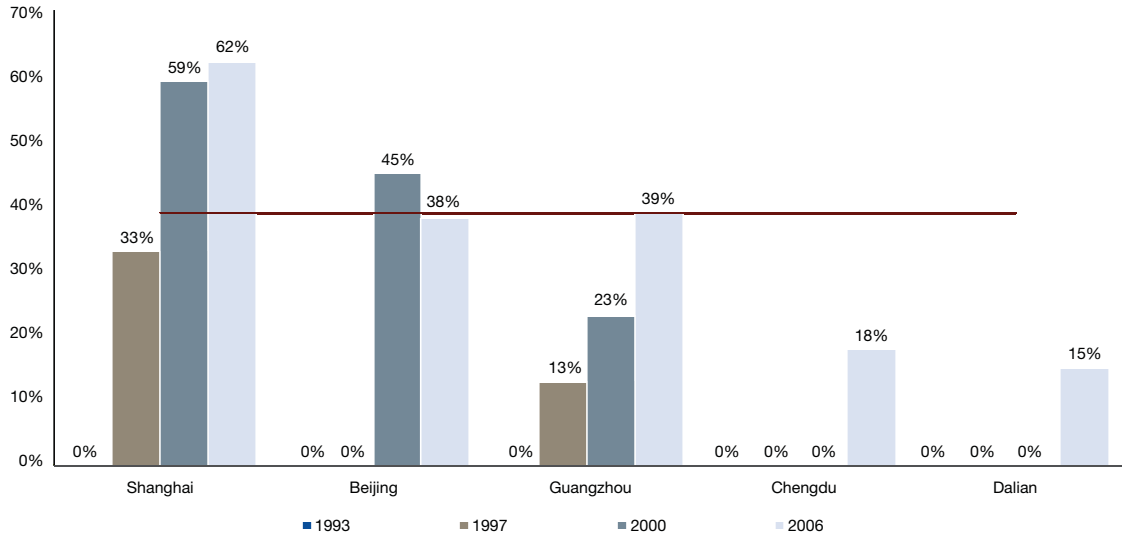
The percentage of the world's population in urban areas now exceeds that of those in rural areas. In general urban residents are better educated, more productive and have higher income levels. Diamond consumption is driven by the later stages of economic development and demand will benefit from the secular rise of the emerging economies, where rapid income growth is pushing large numbers of consumers in developing regions into the global middle class.

As income levels increase, spending patterns also change, with consumers increasingly shifting consumption from basic food and clothing into other goods and services. This is driving a significant expansion of aggregate purchasing power in the mid-tier, even as income growth slows for middle class consumers in developed regions. According to World Bank projections, the number of middle income consumers will increase by over 800 million by 2030, and half of these new consumers will be located in China and India.

Much of this urbanisation trend can be attributed to the many developing 'Tier 2' and 'Tier 3' cities in China which are not as yet well known in the West. McKinsey estimates that some 350 million new people will move into urban China over the next 15 years and that by 2025 there will be 221 Chinese cities each with a population of over 1 million people, versus 107 in Europe, Japan and the US combined.

Marketing is effective in terms of entrenching the idea of a diamond as a symbol of committed love, and the bedrock of the diamond market in China, as elsewhere, is the bridal segment. First popular in Beijing and Shanghai, the trend has spread to other major cities across China. Engagement rings in China, typically solitaires ranging from 0.2 to 0.5 carats in size, are viewed as a symbol of international, elegant status and, importantly, as a store of value. In China there are over 11 million marriages every year and in India there are over 10 million. There is also evidence to suggest that wearing diamond jewellery appeals strongly to men in both China and India, in contrast to social conventions in the West.

**China DER (Diamond Engagement Ring) Acquisition Rate**




*Source: De Beers, 'China DER (Diamond Engagement Ring) acquisition rate' quoted in RBC Europe Limited's (trading as RBC Capital Markets) – 'Diamonds – Fundamentals Shine Through' – July 2011*

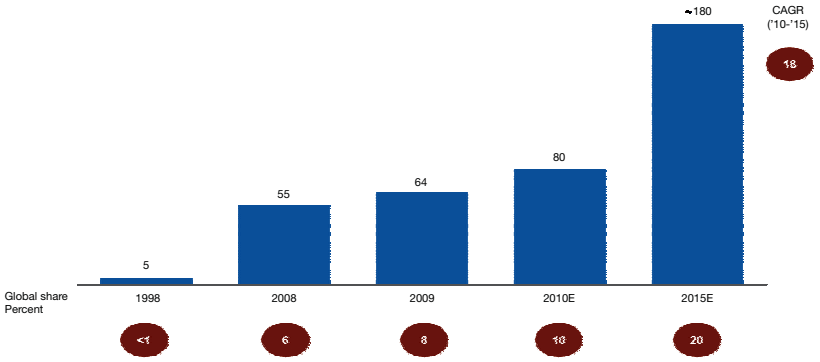
Diamond consumption per capita in emerging regions is currently far below the established regions of the US and Japan, and can therefore be expected to rise as the emerging markets mature, as per capita incomes continue to rise, and as consumers become more knowledgeable and expect increasing product diversification.

*A Different Type of Luxury Consumer*

The Far Eastern markets are particularly notable for their love of luxury goods as the de-rigueur symbols of wealth and social status. The fast growth of the luxury goods market in China has been of particular interest, and it is predicted to be on track to reach RMB 180 billion in 2015 (US$27 billion at a fixed exchange rate), at which point it will overtake Japan to become the world's largest luxury market.

**Chinese Luxury Consumption is Projected to Grow 18% Annually from 2010 to 2015, Accounting for over 20% of the Global Luxury Market**

**Luxury goods consumption[1] in China 1998-2015 (billion RMB[2])**




*Notes:*

*1. Luxury goods include fashion ready to wear, leather goods/handbags, watches and fine jewellery*

*2. 2010 real RMB*

*Source: McKinsey Insights China - Wealth Consumer Studies (2008, 2010); Deutsche Bank; interviews; literature search*

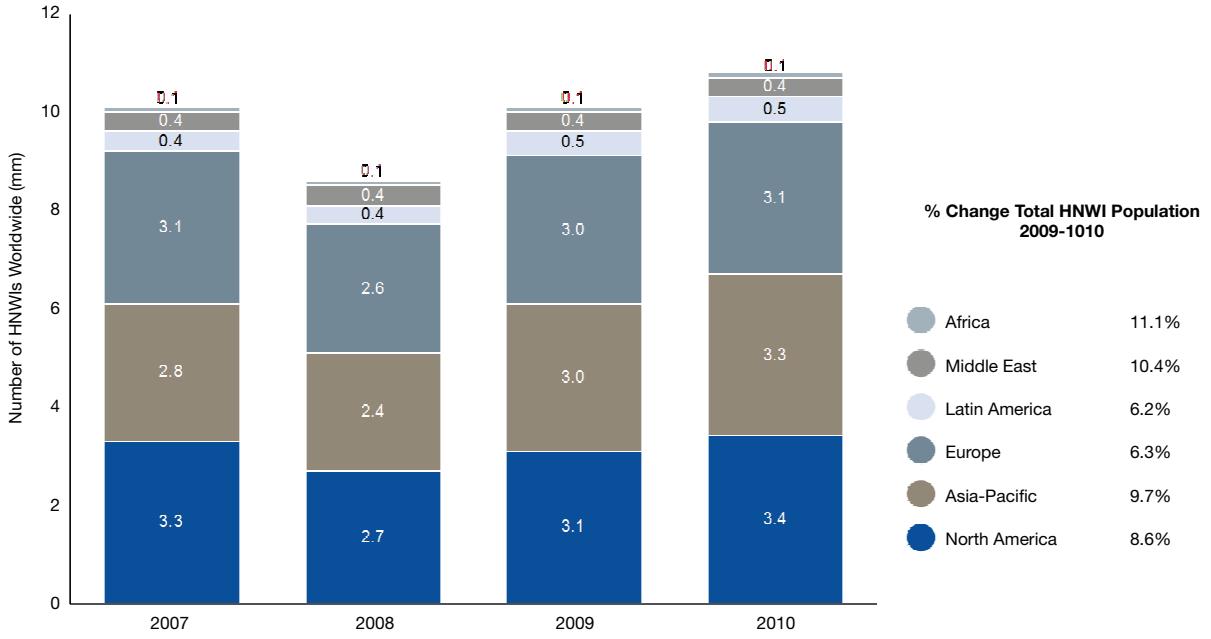
A social predilection towards the display of wealth and status, combined with the desire to own authentic, high quality goods, underpins a natural 'affinity to diamonds' and based on research by De Beers, women in both India and China rank diamonds among the top three discretionary luxury products they aspire to own. The size of the potential diamond market is substantial: by 2015, China is forecast to have in excess of 76 million upper middle class households (incomes in excess of US$30,000), and this social grouping in China outspends European and American consumers with similar incomes by seven times on luxury goods.

There is consequently a very positive outlook for the diamond markets in both China and India, which are expected to continue double-digit growth in the years to come. De Beers recently commented in May 2011 that "if in 15 years from now the Chinese urban per capita income increases to the level of Taiwan today (a very reasonable assumption) and if urban Chinese consumers acquire diamonds at the same per capita rate as the Taiwanese do today, the diamond industry will need to nearly double the supply of diamonds annually just to meet this demand."

*Increasing Numbers of High Net Worth Individuals*

Whilst the world is currently seeing a huge influx into the middle class, the rich continue to get richer. The world's population of HNWI expanded in 2010, as did their wealth, but the growth was more moderate than in 2009 when many markets ricocheted back from the significant crisis-related losses of 2008. Globally, HNWI financial wealth grew by 9.7% in 2010 to reach US$42.7 trillion, surpassing the 2007 pre-crisis peak. The global population of HNWI grew 8.3% to 10.9 million. The chart below shows the global breakdown of the HNWI population and its growth since 2007:

**HNWI Population, 2007-2010 (by Region)**




*Source: Capgemini Lorenz curve analysis, 2011, quoted in the Capgermini and Merrill Lynch Global Wealth Management – World Wealth Report 2011*
*Note: Chart numbers and quoted percentages may not add up due to rounding*

The population of HNWI in the Asia-Pacific region, at 3.3 million individuals, is now the second largest in the world behind North America, and ahead of Europe for the first time. The combined wealth of Asia-Pacific HNWI had already topped Europe's in 2009, and that gap widened in 2010. China is leading the way, with one key metric being the huge rise in the country's billionaires – up 140% in 2010. According to Forbes, China was the 35$^{th}$ ranked country by number of billionaires in 2005. By 2010, it was second.

Capgemini/Merrill Lynch's 'World Wealth Report 2011' states that 'jewellery, gems and watches' accounted for 22% of all HNWI 'investments of passion' in 2010. Record prices for diamonds at international auctions in 2010 exemplified the growing trend among the world's HNWI to see large diamonds as a safe and high-growth investment alternative. Current demand at the top end of the market appears to be largely from Russia and the Middle East, but demand from Chinese and other Asia-Pacific investors is also growing fast.

*The Widespread Use of Diamonds in Luxury Goods:*

The prices of smaller gem quality diamonds have recently been increasing at a much faster rate than those of larger diamonds due to their high demand across a wide range of luxury goods, but particularly in the watches segment. The Chief Financial Officer of Swatch Group, the world's largest watchmaker, was quoted by Reuters in July 2011 saying "The demand for watches with diamond decoration has increased explosively. We can't store enough diamonds, and on the market the desired quality are only available in too small numbers." The Swatch Group now claims to be the fifth-biggest consumer of diamonds. Likewise, there is a now a trend for all manner of luxury goods to be adorned with diamonds, such as pens, mobile phones and other portable digital devices.

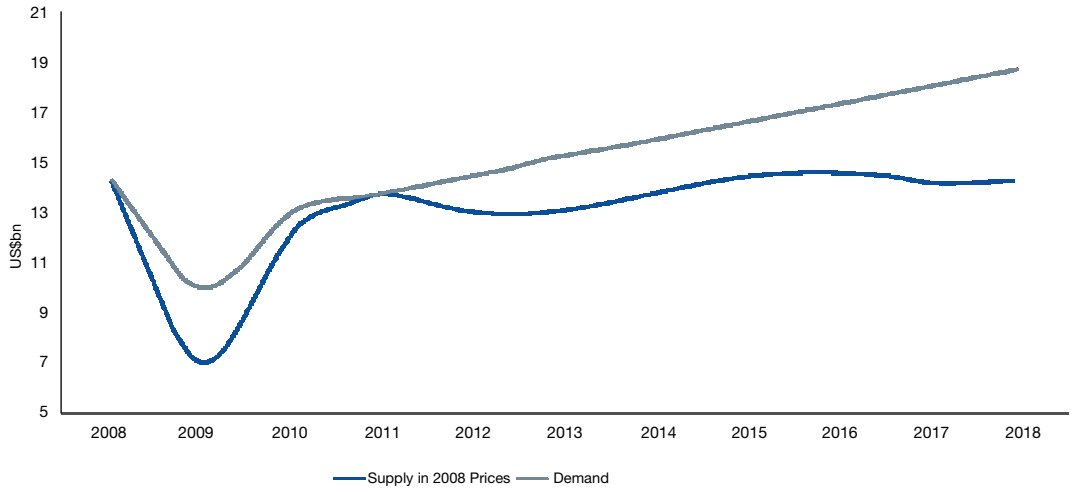
*Diamonds as a Hard Asset Investment Class:*

Whilst it is impossible to commoditise diamonds due to their non-fungible properties, increasing investor interest in this market is evident further to the launch of a number of diamond investment

funds over the last few years. Such funds typically buy and hold diamonds of particularly high quality (such as large or coloured stones) which are likely to appreciate in value over time.

**Outlook**

Although current economic uncertainty may continue to impact on diamond pricing in the short term, due to the confluence of factors highlighted above, current industry forecasts project a sustained widening of the supply/demand gap over the next ten years and this imbalance supports a positive outlook for rough values in the medium to long-term.




*Source: Deutsche Bank AG and Alrosa – 'Diamonds set to Sparkle' – 19 April 2011*

The supply/demand model above is Alrosa's forecast of the impending supply/demand imbalance and indicates that the market could be under-supplied after 2012, unless new production is brought on-stream to fill the gap. Alrosa is therefore predicting rough prices to increase by more than 50% in nominal terms over the next seven years as new production fails to keep up with potential demand growth.

*Conflict Diamonds and the Role of the Kimberley Process*

Given the 'emotional' value placed on diamonds and the way they are used to celebrate life's most important occasions, consumer confidence in the integrity of the product and the industry is crucial.

In the 1990s, the diamond trade suffered from a connection to civil unrest in west and central Africa and the trade of so-called 'conflict diamonds' – i.e. diamonds that originate from areas controlled by forces or factions opposed to legitimate and internationally recognised governments, and are used to fund military action in opposition to those governments.

In 2003, the industry adopted the Kimberley Process, an unprecedented collaboration between governments, non-governmental organisations and the diamond industry, who joined together to stem the flow of conflict diamonds. The UN-backed Kimberley Process Certification Scheme requires that all diamonds are certified and labelled as originating legally from conflict-free mines. The scheme has virtually eliminated the trade in conflict diamonds, and today over 99% of the world's supply of diamonds is from conflict-free sources.

*Synthetics*

Man-made or 'synthetic' diamonds have been available for many years, but to date have predominantly been used to manufacture smaller diamonds for industrial purposes. Their manufacture involves the use of very high temperature and pressure techniques that render them generally uneconomic for larger gem-quality stones. The widespread availability of cheaper, synthetic 'gem' diamonds for use in jewellery is considered a risk to demand for natural diamonds, but such stones are not yet available on a significant scale. Identification and appropriate classification is key and De Beers has developed equipment that is able to detect synthetics, thus reducing the substitution threat.

Further, synthetic diamonds are required to be separately certified, a key industry control, and whilst it is likely that a larger market for their use in jewellery will develop in the future, this could serve to run in parallel to the natural diamond market (in a similar manner to farmed pearls, which are valued at a notable discount to natural pearls).

# PART V

# MANAGEMENT, CORPORATE GOVERNANCE AND EMPLOYEES

**Board of Directors**

The Directors of the Company are as follows:

| *Name* | *Age* | *Position* |
|---|---|---|
| Adonis Pouroulis | 41 | Non-Executive Chairman |
| Johan Dippenaar | 54 | Chief Executive Officer |
| David Abery | 49 | Finance Director |
| Jim Davidson | 67 | Technical Director |
| Dr Patrick Bartlett | 66 | Independent Non-Executive Director |
| Gordon Hamilton | 66 | Independent Non-Executive Director |
| Dr Omar Kamal | 38 | Non-Executive Director |

*Adonis Pouroulis – Non-Executive Chairman*

Year of Appointment: 1997

Committees: Nomination Committee (Chairman)

Qualification: Mining Engineer – University of Witswatersrand, South Africa

Mr Pouroulis is a mining entrepreneur whose expertise lies in the discovery and exploration of natural resources across Africa, including diamonds, precious/base metals, coal and oil and gas, and bringing these assets into production. Mr Pouroulis founded the Company in 1997 and it became the first diamond company to float on AIM. He has since chaired Petra as it has developed into a mid-tier diamond producer and London's largest quoted diamond mining group. Mr Pouroulis also founded and chairs Chariot Oil & Gas Limited, an AIM-quoted oil exploration company active in Namibia.

*Christoffel Johannes ("Johan") Dippenaar – Chief Executive Officer*

Year of Appointment: 2005

Committees: Executive Committee; HSSE Committee (Chairman)

Qualification: Chartered Accountant – South African Institute of Chartered Accountants

Mr Dippenaar has over 20 years' experience in the leadership and management of producing diamond mining companies. Prior to his appointment as Chief Executive Officer of Petra, he was Chief Executive Officer of ASX-quoted Crown Diamonds which merged with Petra in 2005. Since the merger, he has led Petra through a period of extraordinary growth, taking the Group's portfolio of producing diamond mines from three to eight and firmly establishing the Company as one of the leading independent producers.

*David Gary Abery – Finance Director*

Year of Appointment: 2003

Committees: Executive Committee

Qualification: Chartered Accountant – ICAEW

Mr Abery brings to Petra extensive experience as a Finance Director in both the South African and UK business environments. He has been integral to the structuring and delivery of strategic group corporate development and acquisitions at Petra, as well as the instigation of a number of innovative financing transactions. Mr Abery is responsible for all matters pertaining to Petra's UK listing.

*James ("Jim") Murry Davidson – Technical Director*

Year of Appointment: 2005

Committees: Executive Committee

Qualification: Geologist – member of the Geological Society of South Africa and registered with the South African Council for Natural Scientific Professions

Mr Davidson is acknowledged in the industry as a leading expert on kimberlite geology and exploration, who has pioneered research into kimberlite indicator mineral chemistry and microdiamond analysis. He has spent in excess of 30 years associated with diamond exploration and

mining, of which over 20 years have included mine management in South Africa, and was formerly Head of Diamond Exploration in southern Africa for BP Minerals (subsequently Rio Tinto) before joining Crown Diamonds.

*Dr Patrick John Bartlett – Independent Non-Executive Director*

Year of Appointment: 2011

Committees: Audit Committee; Remuneration Committee; Nomination Committee

Qualification: Ph.D Mining Engineering; Member of the South African Institute of Mining and Metallurgy; registered Professional Natural Scientist

Dr Bartlett is an acknowledged expert on kimberlite geology and on the design and geotechnical aspects of block cave mining. He has presented numerous technical papers at international mining conferences throughout the world on all aspects of the geotechnical design of block cave mines and the geotechnical risks associated with massive mining operations. He was formerly a Chief Geologist for De Beers with responsibility for all De Beers kimberlite mines in South Africa; he retired from De Beers in 2003 in order to pursue consulting work. Dr Bartlett has previously acted as an independent technical adviser to Petra. Dr Bartlett has extensive experience working across southern Africa and has an in-depth knowledge of several of Petra's mines, having previously worked at Finsch, Koffiefontein, Kimberley Underground and Cullinan, where he was a geologist from 1983 to 2003, responsible for all geological and geotechnical aspects of this major diamond mine. Since retiring he has been involved in block caving projects for BHP Billiton, Anglo American and Rio Tinto. He was elected to the Board of Trustees for the De Beers Benefit Society in 2010 and the De Beers Pension Fund in 2011.

*Alexander Gordon ("Gordon") Kelso Hamilton – Independent Non-Executive Director*

Year of Appointment: 2011

Committees: Audit Committee (Chairman); Remuneration Committee (Chairman, pending appointment of third independent Non-Executive Director); Nomination Committee

Qualification: Chartered Accountant – ICAEW

Mr Hamilton has extensive experience as a Non-Executive Director across a wide range of businesses including the JSE listed Barloworld, Fairbairn Private Bank and other related companies within the Nedbank Group, and the LSE listed Lloyds of London insurance underwriter Beazley, for all of which he also chairs their Audit Committees. Mr Hamilton retired from Deloitte & Touche LLP in 2006 after more than 30 years as a partner primarily responsible for multinational and FTSE 100 listed company audits, mainly in the mining, oil and gas and aerospace and defence industries, as well as heading the Deloitte South Africa desk in London. He served for nine years until 2011 as a member of the UK Financial Reporting Review Panel.

*Dr Omar Kamal – Non-Executive Director*

Year of Appointment: 2010

Committees: None

Qualification: Ph.D. Management (Banking & Finance)

Dr Kamal is a Managing Director of Investments for Al Rajhi, Petra's largest shareholder, where his main responsibility is co-managing the international investments in various asset classes with a focus on equities, private equity, and real estate. In addition, Dr Kamal possesses a broad spectrum of expertise and knowledge ranging from his past experience as an academic, working in the financial industry and as a strategy consultant with a global financial services firm.

**Senior Management**

The Group's Senior Management team, in addition to the Board listed above, is as follows:

| *Name* | *Age* | *Position* |
|---|---|---|
| Jacobus Visser | 41 | Group Operations Manager |
| Jacques Breytenbach | 39 | Finance Manager – Operations |
| Teon Swanepoel | 41 | Head of Mining Operations |

The Group's Senior Managers are complemented by broad operational management teams at each Petra operation, including a General Manager at each mine and other senior operational employees.

In addition, Petra has a number of specialist in-house Group employees covering the areas of finance, legal, human resources, support services, health and safety, environmental, social, marketing and communications.

The management expertise and experience of the Group's Senior Managers are set out below:

*Jacobus ("Koos") Johannes Visser – Group Operations Manager*

Year of Appointment: 2005

Committees: HSSE Committee

Qualification: Bachelor's Degree in Electrical and Electronic Engineering – University of Potchefstroom

As Operations Manager at Petra, Mr Visser is responsible for management of all Group operations, including production and roll-out of the Group's expansion plans (with a focus on plant design and operational efficiency improvements). Prior to joining Petra, he gained broad industry experience working for Impala Platinum as the Utilities and Technical Services Manager from 2001, the Project Engineer for Electrical and Process Control from 1997 and Operational Engineer from 1995.

*Jacques Breytenbach – Finance Manager – Operations*

Year of Appointment: 2006

Committees: Advisory Body – Defined Contribution Pension Fund; Board of Trustees – Petra Defined Benefit Pension Fund

Qualification: Chartered Accountant; Post Graduate Diploma in Auditing (WITS University); CTA / Hons. B.Compt. (UNISA)

Mr Breytenbach is responsible for financial management across the Group's operations and has extensive industry/finance experience. He joined Petra from Anglo Platinum, where he was the Finance Manager overseeing Anglo Platinum's extensive capital expansion programmes. He joined Anglo Platinum in 1999 at its Bafokeng Rasimone Platinum mine as Business Area Accountant, whereafter he took up the position as Head of Finance across Anglo Platinum's smelting operations, before promotion to Finance Manager – Capital Projects for Anglo Platinum.

*Teon Swanepoel – Head of Mining Operations*

Year of Appointment: 2007

Committees: HSSE Committee

Qualification: Mining Engineer – University of Johannesburg

Mr Swanepoel is Head of Mining Operations and is responsible for all mining operations at the Petra Group. He joined Petra in 2007 as Mine Manager and was appointed Cullinan General Manager upon acquisition of the mine in July 2008. He commenced his career at Impala Platinum and over the past 21 years worked at a number of resource companies gaining both open-cut and underground mining experience. His experience covers a wide range of mining methods in mineral deposits containing gold, platinum, chrome, copper and diamonds. His appointments varied within the technical, planning and project environment to being responsible for mining operations, and included: Technical Services Manager at RUC Murray & Roberts Palabora Underground Project; Section Manager Mining Operations at De Beers; and Senior Divisional Mining Engineer at Debswana.

**Employees**

The table below shows the total number of employees and permanent contractors within the Group at the end of the last three financial years ending 30 June.

| | *FY 2011* | *FY 2010* | *FY 2009* |
|---|---|---|---|
| Employees | 3,902 | 3,713 | 3,574 |
| Contractors | 707 | 664 | 688 |
| **TOTAL** | **4,609** | **4,377** | **4,262** |
| Administration | 173 | 164 | 138 |
| Mining | 1,605 | 1,579 | 2,075 |
| Treatment / Recovery Plant | 625 | 533 | 725 |
| Engineering | 555 | 491 | 720 |
| Human Resources | 86 | 65 | 33 |
| Security | 178 | 167 | 175 |
| Safety, Health and Environmental | 48 | 53 | 44 |
| Non-mining operations | 149 | 165 | 341 |
| Capital Expansion Programmes | 1,190 | 1,160 | 11 |
| **TOTAL** | **4,609** | **4,377** | **4,262** |

Petra completed the acquisition of the Finsch mine in September 2011 (post 30 June 2011), which added an additional 752 employees and 311 contractors to the Group. The enlarged Group has 4,654 permanent employees and 1,018 contractors as at 30 October 2011.

**Corporate Governance**

*The Corporate Governance Code*

The Company is not subject to a code of corporate governance in its country of incorporation, Bermuda. However, with effect from Admission, as the Company will be listed on the premium segment of the Official List, it will be required to comply with corporate governance policies and practices consistent with the Corporate Governance Code or otherwise explain why it has not complied in its annual report and accounts.

The Board has considered the principles and recommendations set out in the Corporate Governance Code. As at the date of this document and at Admission, the Company does, and will, comply with the recommendations of the Corporate Governance Code, other than as described below.

The Corporate Governance Code recommends that a company's chairman be independent on appointment. The chairman's role is to ensure good corporate governance. His responsibilities include leading the board, ensuring the effectiveness of the board in all aspects of its role, ensuring effective communication with shareholders, setting the board's agenda and ensuring that all directors are encouraged to participate fully in the activities and decision-making process of the board. Adonis Pouroulis, the Non-Executive Chairman of the Company, is not independent within the meaning of the Corporate Governance Code. However, the Board considers that, in view of Mr Pouroulis' history with the Group and his importance to it, it is currently and for the foreseeable future, in the best interests of Shareholders for him to be the Company's Chairman notwithstanding this lack of independence.

The Corporate Governance Code recommends that at least half a company's board, excluding the chairman, should be independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgment. Currently, the Board is composed of seven members, consisting of three Executive Directors, two independent Non-Executive Directors, one Non-Executive Director (who is not considered to be independent) and the Non-Executive Chairman. Consequently, at Admission, the Company will not comply with the Corporate Governance Code recommendations regarding composition of the Board. The Board is fully committed to adhering to the good principles of corporate governance enshrined in the Corporate Governance Code, and as such, is currently assessing the composition of the Board with respect to this provision. The Board plans to appoint one or more independent Non-Executive Directors as soon as practicable in FY 2012.

The Corporate Governance Code also recommends that a company's board should appoint one of the independent non-executive directors as its senior independent non-executive director. The senior independent non-executive director serves as an additional contact point for shareholders if they feel that their concerns are not being addressed through normal channels. The senior independent non-executive director, furthermore, will be available to any fellow non-executive directors, either individually or collectively, should they wish to discuss matters of concern in a forum that does not include the executive directors. At Admission, the Company will not comply with the Corporate Governance Code recommendations regarding the appointment of a senior independent non-executive director. However, the Board plans to appoint one of its independent non-executive directors as its senior independent non-executive director as soon as practicable following the appointment of one or more additional independent non-executive directors as referred to above.

The Board meets regularly to discharge the responsibilities summarised above and to evaluate, control, review and implement the Company's objectives and operations. Following Admission, the Board will hold at least four regularly scheduled meetings in each financial year and additional meetings as appropriate.

The Board has established Nomination, Remuneration, Audit and HSSE Committees with formally delegated duties and responsibilities with written terms of references.

Following Admission becoming effective, the members of each Board committee will be as follows:

| | *Chairman* | *Members* |
|---|---|---|
| Nomination Committee | Adonis Pouroulis | Gordon Hamilton; Dr Patrick Bartlett |
| Remuneration Committee | Gordon Hamilton[1] | Dr Patrick Bartlett |
| Audit Committee | Gordon Hamilton | Dr Patrick Bartlett |
| HSSE Committee | Johan Dippenaar | Key members of the Senior Operational Management team as is appropriate from time to time |

1 Pending appointment of a third independent Non-Executive Director.

From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Please see paragraph 6 of Part X for a summary of the Company's Bye-Laws, including details of the provisions relating to the appointment and removal of Directors.

*Nomination Committee*

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and appointment of Senior Management. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters.

The Corporate Governance Code prescribes that a majority of the members of the Nomination Committee should be independent Non-Executive Directors and that the Chairman or an independent Non-Executive Director should chair the Nomination Committee. Membership of the Nomination Committee is set out in the table above. The Company considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Nomination Committee.

The quorum for meetings of the Nomination Committee is three members, comprising at least two independent Non-Executive Directors and the Chairman. No one other than the Chairman of the Nomination Committee and its members is entitled to attend or vote at a meeting of the Nomination Committee, although Executive Directors and other third parties may attend if invited to do so by the Nomination Committee. Meetings of the Nomination Committee shall he held at such times as the Nomination Committee deems appropriate, and in any event shall be held not less than two times a year. The Nomination Committee is authorised by the Board to obtain whatever external professional advice it considers necessary.

*Duties of the Nomination Committee*

The principal duties of the Nomination Committee include the following:

- to review regularly the structure, size and composition of the Board (including the skills, knowledge and experience) and make recommendations to the Board with regard to any changes;
- to identify, nominate and recommend for the approval of the Board, appropriate candidates to fill Board vacancies as and when they arise;
- to evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- to satisfy itself with regard to succession planning that processes and plans are in place with regard to both Board and Senior Management appointments;
- to review annually the time required from Non-Executive Directors and use performance evaluation to assess whether the Non-Executive Director has devoted sufficient time to his or her duties;
- to recommend to the Board the re-election (or not) by Shareholders of any Director under the retirement and re-election provisions in the Company's Bye-Laws;
- to make recommendations to the Board concerning membership of the Audit and Remuneration Committees; and
- to ensure that on appointment to the Board, Non-Executive Directors receive formal written terms of appointment.

*Audit Committee*

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements and unaudited quarterly financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on and monitoring the performance and independence of the external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Corporate Governance Code recommends that the Audit Committee should comprise of at least three members who should all be independent non-executive directors, and that at least one member should have recent and relevant financial experience. Although at Admission the Audit Committee will only have two members, a third member will be appointed when a further Non-Executive Directors is appointed to the Board. The Board considers that Mr Hamilton has the requisite recent and relevant financial experience to Chair the Audit Committee. In addition, the Chairman of the Committee must be a non-executive director.

The membership of the Company's Audit Committee is set out in the table above. The Company considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Audit Committees, other than the three member minimum which will be addressed as above.

The quorum for meetings of the Audit Committee will be two members. The Audit Committee may invite the Chairman, the Chief Executive Officer, the Finance Director or any other person to advise and/or join meetings when required. However, no one other than the Chairman of the Audit Committee and its members will be entitled to vote at a meeting. There should be at least one meeting each year which the external auditors attend without management present. The Audit Committee will meet formally at least twice a year and otherwise as required. The Audit Committee will be authorised by the Board at the expense of the Company to obtain external professional advice and to secure the attendance of third parties with relevant experience at meetings when it considers it necessary. The Audit Committee is required to report its findings to the Board, and make recommendations in respect of any area within its remit where action or improvement is required.

*Duties of the Audit Committee*

The Audit Committee will have authority to investigate areas of concern as to financial impropriety that arise and will be able to obtain outside legal or other independent professional advice in

connection with those matters. The principal functions of the Audit Committee will include the following:

- to monitor the integrity of all financial statements made by the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review and challenge where necessary accounting policies and practices, decisions requiring a major element of judgement, the clarity of disclosures, compliance with accounting standards, and compliance with FSA, London Stock Exchange and other legal requirements;
- to review the Company's internal audit function and ensure it is adequately resourced;
- to consider the appointment, re-appointment and removal of the external auditor and to recommend the remuneration and terms of engagement of the external auditor;
- to assess the external auditor's independence and objectivity;
- to review the engagement of the external auditor to ensure the provision of non-audit services by the external audit firm does not impair its independence or objectivity; and
- to give due consideration to relevant laws and regulations, the provisions of the Corporate Governance Code and the requirements of the Listing Rules.

*Remuneration Committee*

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of Senior Management below Board level. The Remuneration Committee does not decide upon the remuneration of the Non-Executive Directors, which is decided by the Board in accordance with the limits set out in the Company's Bye-laws.

The Corporate Governance Code provides that the Remuneration Committee should consist of at least three members who are all independent Non-Executive Directors and that the Chairman of the Committee must be a Non-Executive Director. In addition, the Chairman of the Company may be a member (but not chair) of the Committee if he was considered independent on appointment as Chairman of the Company. Although at Admission the Remuneration Committee will only have two members, a third member will be appointed when a further Non-Executive Director is appointed to the Board.

The membership of the Company's Remuneration Committee is set out in the table above. The Company considers that it complies with the Corporate Governance Code recommendations regarding the composition of the Remuneration Committee, other than the three member minimum which will be addressed as above.

The quorum for meetings of the Remuneration Committee is two members. The Remuneration Committee may invite the Chief Executive Officer, the Finance Director or any other person to advise and/or join meetings. However, no one other than the Chairman of the Remuneration Committee and its members is entitled to vote at a meeting. No Director or Senior Manager shall be involved in any decisions as to his or her own remuneration. The Remuneration Committee will meet formally at least two times a year and otherwise as required. The Remuneration Committee is authorised by the Board at the expense of the Company to obtain external professional advice and to secure the attendance of third parties with relevant experience at meetings when it considers it necessary.

*Duties of the Remuneration Committee*

The principal duties of the Remuneration Committee include the following:

- to agree with the Board a framework and policy for remuneration of the Executive Directors and the Senior Management;
- to agree with the Board the Company's policy on the duration of contracts with Executive Directors and notice periods and termination payments under such contracts;
- to advise on the design of and determine the total individual remuneration package of each of the Executive Directors and Senior Management including bonus, pension, other benefits, incentive payments and share options or other share awards and benefits;
- to review and note annually the remuneration trends across the Group; and

- to oversee any major changes in employee benefits structures throughout the Group and advise on any such changes.

**Share Incentive Plans**

The Company's 1997 Share Option Plan and the subsequent 2005 Share Option Plan are designed to advance the interests of the Company by encouraging eligible employees within the Group to have equity participation within the Group through the acquisition of Ordinary Shares. Options are granted to Directors, Senior Management or certain employees at the discretion of the Directors. The 1997 Share Option Plan was utilised until 2005 when the Company merged with Crown Diamonds and the 2005 Share Option Plan was introduced. No further options may be granted under the 1997 Share Option Plan.

The Company adopted the 2011 Longer Term Share Plan ("the LTSP") on 13 December 2011 to support the next phase of the Company's development, by enabling performance share awards to be granted to the Group's Executive Directors and management personnel. It is key to the Group's successful development and long term production growth that the various expansion programmes that are planned across the Group are effectively and timeously delivered. A key component of ensuring the roll-out of the expansion programmes is the retention of the Group's management, hence the period of the vesting of the awards under the LTSP (as set out with other details in Part X of this document). It is the intention of the Board that awards are made to management personnel involved in the expansion plans.

The maximum number of Ordinary Shares that may be issued (as new or transferred out of treasury) in any 10 year period pursuant to rights under the LTSP, the 2005 Share Option Plan, the 1997 Share Option Plan and any other employees' share scheme of the Company, including rights that have been granted and remain exercisable, shall not exceed 10% of the Share Capital of the Company from time to time.

Further information on the Company's LTSP and both the 1997 Share Option Plan and the 2005 Share Option Plan is set out in paragraphs 7.3 to 7.5 of Part X of this document.

**Pensions**

The Group operates a defined benefit scheme and defined contribution scheme. The defined benefit scheme was acquired as part of the acquisition of CDM (and more recently Finsch) and is closed to new members. All new employees at Petra's mining operations are required to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group's assets.

*Defined Benefit Scheme*

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions.

The pension charge or income for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The most important assumptions made in connection with the charge or income were that the number of members were 128 (2010: 149) and that the return on the funds will be 9.01% (30 June 2010: 11.39%), based on the average yield of South African Government long dated bonds plus 6.47%, and that salaries will be increased at 7.30% (30 June 2010: 7.20%), based on current South African consumer price index plus 1%. The market value of the assets of the defined benefit scheme at 30 June 2011 is R132.8 million (US$19.4 million) (30 June 2010: R140.1 million (US$18.3 million)) and the actuarial valuation of the assets on an ongoing basis represented 116.1% (30 June 2010: 128.7%) of the benefit of R120.6 million (US$17.6 million) (30 June 2010: R108.8 million (US$14.2 million)) that had accrued to members allowing for expected future increases in earnings. As at 30 June 2011, the pension surplus is R12.2 million (US$1.8 million) (30 June 2010: R31.3 million (US$4.1 million)). The pension fund values are converted using the 30 June 2011 foreign exchange rate of US$/R 6.83 (30 June 2010: US$/R7.65).

*Defined Contribution Scheme*

The Group's South African operations are registered as participating employers in the FundsAtWork Umbrella Pension Fund, registration number 12/8/32082 and South African Revenue Services approval number 18/20/4/38865. The Fund operates as a defined contribution pension fund.

The advisory body in conjunction with a qualified actuary has developed a bespoke investment solution for Petra's employees. This philosophy is based on an individual member's years to

retirement. Investments for members with an expected long to medium contribution and investment term are invested with a growth bias and as members near retirement the assets gradually move to more conservative investment vehicles. The investments are managed on a Multi Manager basis to diversify the investment manager risk.

**Medical**

The Group operates a post-employment health care liability scheme. The post-employment health care liability scheme was acquired when CDM was acquired and is closed to new members. All new employees will be responsible for funding their own post-employment health care liability costs.

The benefit liability for the post-employment health care liability scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The Group obtained a valuation using a third party actuary at 30 June 2010 and management has updated that valuation report for 30 June 2011. This is considered sufficient to achieve a materially accurate valuation. The Group's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. The most important assumptions made in connection with the charge or income were that the health care cost of inflation will be 6.75% (30 June 2010: 6.75%), based on the average yield of South African government long dated bonds of 9.25% (30 June 2010: 9.25%). The actuarial accrued liability of the post-employment health care liability scheme at 30 June 2011 is R45.5 million (US$6.7 million) (30 June 2010: R40.7 million (US$5.2 million)). The post-employment health care liability values are converted using the year-end foreign exchange rate of US$/R6.83 (30 June 2010: US$/R7.65).

**Model Code**

Subject to Admission, the Company has adopted an updated code of securities dealing in relation to the Group (including the Ordinary Shares) which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The code adopted will apply to the Directors and other relevant employees of the Group.

# PART VI

# OPERATING AND FINANCIAL REVIEW

*The following discussion of the Group's financial condition and results of operations (for the three year period ending 30 June 2011) should be read in conjunction with the rest of this document, including the historical financial information contained in Part VII and the information relating to the business of the Group in Part I and reliance should not be placed solely on the key or summarised information contained within this Part VI.*

*This discussion contains forward-looking statements that involve risks and uncertainties which could cause Petra's actual results to differ materially from those expressed or implied by such forward-looking statements as a result of the factors discussed below and elsewhere in this document, particularly in the section entitled 'Risk Factors' (as set out on pages 11 to 17). Investors should read the whole of this document, including the historical financial information set out in Part VII and not rely on summarised information.*

## 1. Overview

Petra is a leading independent diamond mining group focused on the continent of Africa. It has controlling interests in eight producing diamond mines – seven in South Africa and one in Tanzania – and an exploration programme in Botswana. The Company has stated plans to increase production from just over 1.1 Mcts in FY 2011 to over 5 Mcts by FY 2019.

As a result of Petra's stated strategy, the Company has undertaken several material acquisitions over the past few years. Petra merged with Crown Diamonds in May 2005, bringing three fissure mines into the Petra Group. In 2007, Petra acquired the Koffiefontein mine from De Beers and since then has acquired a further four major mines from De Beers, being Cullinan, Williamson, Kimberley Underground and Finsch. The acquisitions of these mines and the corresponding increases in carat production, revenues, costs and Capex that these significantly enhanced operations bring to the Petra Group, is set out below in this review.

The acquisition of Finsch completed after the end of FY 2011 on 14 September 2011. Finsch is a long-life, major diamond producer which introduces another flagship asset to complement and balance the Cullinan mine in Petra's portfolio. The acquisition increases the Company's gross resource base to over 300 million carats, making it one of the world's largest diamond resources.

## 2. Summary of Key Financial Risks

The Group's activities expose it to a variety of financial risks: market, commodity, credit, liquidity, foreign exchange and interest rate risk. These risks are managed under Board approved directives through the Audit Committee. The Group's principal financial instruments comprise interest bearing cash and short term deposits, interest bearing borrowings, trade receivables and trade payables, which arise directly from operations.

## 3. Significant Factors Affecting Results of Operations

The Directors consider that the following factors are those most likely to influence the Group's financial condition and results of operations:

*Diamond Prices*

The Group generates its income from the sale of rough diamonds, and as a result its sales are directly related to the market prices for such diamonds. Diamond prices can fluctuate significantly and are affected by numerous factors over which producers do not have control, including international economic and political conditions, levels of supply and demand driven by consumer preferences, the availability and costs of substitute synthetic and/or manufactured products, stockpiles maintained by producers, the competitive landscape of the diamond market and the extent of governmental regulation and taxation.

Recent economic uncertainty has caused, as has been the case in the past, a significant degree of volatility in rough diamond pricing. As far as Petra's tender results are concerned, prices rose steadily from October 2010 to the end of 30 June 2011, although subsequent tenders have seen prices reduce from June 2011 highs. It is important to bear in mind that this fall in US Dollar prices for rough diamonds is to a large extent offset by the significant weakening of the Rand over the same period, as Petra records the revenue from the sales of its South African production in Rands. Petra (along

with many other industry participants) is confident that the medium to long term outlook for pricing remains strong. During times of diamond price volatility, Petra's revenues and trading results will be significantly affected and management carefully monitors market developments to ensure that the Company continues to adapt to the changing environment.

*Diamond Quality and Size*

The diamond price achieved on sale may vary significantly based on the size and quality (i.e. the colour and clarity) of the diamonds being sold, with large gem quality diamonds generally achieving a higher price per carat than smaller gem quality diamonds.

*Production Volumes*

The Group's results of operations and financial condition will, to a significant extent, depend on diamond production levels during each reporting period. The number of carats that can be produced in a reporting period can be affected by a number of factors, including unexpected fluctuations in mining and recovery rates and variations in the grade of ore mined. Unexpected downtime of processing and recovery plants will also affect production levels. The volume of carats produced in a given operating period has had, and will continue to have, a significant impact on the Group's financial condition and operating results.

*Production Costs and Efficiency*

Other than diamond prices, Petra's profitability is, to a significant extent, dependent on its ability to maintain cost-effective mining operations.

The majority of Petra's cost-base is comprised of mining and production costs. These costs consist primarily of blasting (where required), loading, hauling, hoisting, crushing, classifying and separation of diamondiferous ore, final recovery of diamonds, salaries and related employee costs, diesel and utility costs and maintenance and depreciation on mining related assets.

In South Africa, inflationary pressures on costs can mainly be ascribed to electricity prices (which rose by 25% in FY 2011 and are due to rise +25% in FY 2012) and labour costs; Petra continuously endeavours to manage its electricity consumption as the Group's production profile increases and the Company has achieved good success in this area. Going into FY 2012, Petra anticipates that labour cost increases will continue to be above inflation.

*Development and Expansion Costs*

Development and expansion costs consist primarily of the costs related to shaft sinking or deepening, tunnel development, establishing treatment facilities and mining-related infrastructure.

It is important to the Group's future production plans that development and expansion programmes are delivered on time and that costs of the plans are well managed and controlled. Petra constantly reviews its progress against the development and expansion plans as well as the corresponding costs to date and revised expectations (if applicable) to complete a specific project.

*Depreciation*

The value of a mine, plant and infrastructure will be amortised over its useful production life. Depreciation will increase as Petra's substantial development and expansion programme is delivered and the associated costs are incurred. Variables such as over- or under-expenditure on development and expansion costs, revaluation of replacement costs and estimates or useful life will influence the depreciation charge in the income statement.

*Life of Mine*

The Company's accounting estimates for depreciation are based on the estimated life-of-mine plans for each Group operation. Significant changes in the life-of-mine plans can occur as a result of mining experience, changes in mining methods and rates, process changes, investment in new equipment and technology, diamond price assumptions, and other factors.

*Interest Rates*

The Group is affected by fluctuations in interest rates, which directly impact upon the Group's interest income and interest expense. Further, fluctuations in interest rates impact the valuation of the Group's financial instruments and impact the calculation of the value in use of the Group's property, plant and equipment. Fluctuations in interest rates may result in gains or losses being recorded in the income statement as a consequence of changes in the value of the Group's assets and liabilities.

*Exchange Rate*

Petra reports in US Dollars. However, the functional currency of the operating companies within the Group and the currency for the majority of its costs is the South African Rand, whilst Petra sells rough and polished diamonds in prices that are referenced to the US Dollar. Accordingly both the trading and financial position of Petra may be materially affected by exchange rate fluctuations between the US Dollar and the Rand. Petra also conducts operations in Tanzania and Botswana in the local currency. Whilst Petra is exposed to currency risk across the Group, it does utilise derivatives to manage forward exchange risk, although the Company will only consider currency protection measures subject to appropriate measures established by the Directors.

The Group's net assets arising from its foreign operations are exposed to currency risk resulting in gains and losses on translation into US Dollars. Whilst the Group has substantial inter-company loan balances that are in different currencies and against the background of the Rand having been a volatile currency, it is expected that exchange profits/losses will have a material effect on Petra's results going forward.

*Share Based Payments*

Equity instruments, such as options, issued in return for goods or services are accounted for as share based payments. The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments on the date they are granted. This cost is then recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period).

*Factors Affecting Comparability*

The Company has undertaken several material acquisitions over the past few years. In 2007, Petra acquired the Koffiefontein mine from De Beers and since then has acquired a further four major mines from De Beers, being Cullinan, Williamson, Kimberley Underground and Finsch.

The acquisition of Finsch completed after the end of FY 2011 on 14 September 2011. Finsch is a long-life, major diamond producer which introduces another flagship asset to complement and balance the Cullinan mine in Petra's portfolio.

The acquisitions undertaken by Petra over recent years significantly affect the comparability of Petra's operating and financial results to 30 June 2011. The acquisition of Finsch in September 2011 will further significantly affect the comparison of FY 2012 results with prior years.

**4. Critical Accounting Judgements in applying the Company's Accounting Policies**

Preparation of the Group's financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as at the date of the financial statements and the reported revenue and expenses during the periods presented therein. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details regarding the nature of these assumptions and conditions may be found in the relevant notes to the Group's historical financial information in Part VII.

*Reserve Estimates*

Reserves are estimates of the carats of diamonds that can be economically extracted from the Group's existing operations. In order to calculate Reserves, estimates and assumptions must be made with respect to a range of geological, technical and economic factors, including expected quantities, grades, production techniques, recovery rates, production costs, transport costs, diamond demand, diamond prices and exchange rates. Estimating the quantity and/or grade of Reserves requires the size, shape and depth of orebodies to be determined by analysing geological data. This process may require complex and difficult geological judgements and calculations to interpret the data.

The Group is required to determine and report ore Reserves under the principles incorporated in the SAMREC Code.

Changes in reported Reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cashflows, depreciation, depletion and amortisation charged to the statement of comprehensive income may vary where such charges are determined by the units of production basis, or where the useful economic lives of assets change;
- site restoration and environmental provisions may differ where changes in estimated Reserves affect expectations about the timing or cost of these activities; and
- the carrying value of deferred tax assets may differ due to changes in estimates of the likely recovery of the tax benefits.

*Share Based Payments*

The Group issues equity-settled share based payments to employees. Such payments are measured at their fair value on the date they are granted. Fair value is measured using a binomial pricing model that requires the exercise of judgement in relation to variables such as expected volatilities and dividend yields based on information available at the time the fair value is measured.

*Impairments and Restatements*

The Group undertakes impairment testing annually, or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. 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. An impairment test involves comparing the value in use of an asset with its carrying value. In determining value in use, the Group uses assumptions including the expected carats recoverable, expected grades achievable, expected plant throughput and costs of extracting and processing, expected prices per carat achievable on sale, life of mine, future development and production costs and appropriate discount/inflation/foreign exchange rates.

*Rehabilitation and Decommissioning*

The Group's accounting policy requires the recognition of provisions for the rehabilitation of each mine site. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of rehabilitation provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; and the timing, extent and costs of required rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting the rehabilitation provision. Such changes give rise to a change in future depreciation and financial charges.

The Company is required to conduct ongoing assessment of its rehabilitation obligations at its various operations and of the amounts required to compy with these obligations. In South Africa, Petra must notify the DMR of the results of these assessments and once approved, is obliged to deliver guarantees to cover the estimated closure costs. In Tanzania, the Company does not at this time require an environmental rehabilitation bond, but should such a requirement arise, this will also increase the values of the environmental bonds to be supplied by the Company.

*Derivative Financial Instruments*

The Group may use derivative financial instruments to provide protection against unfavourable fluctuations in foreign exchange rates. At each reporting date, the fair value of outstanding derivative financial instruments is measured using pricing models that require the exercise of judgement in relation to variables such as expected volatilities based on information available at the reporting date. As the underlying drivers for those judgements are constantly changing, the reported derivative financial assets and liabilities may materially change following the balance date.

*Taxation*

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial

position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cashflows. These in turn, depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgements are also required regarding the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position, as well as the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

## 5. Segment Reporting

The Group's business is considered from both a geographic and functional perspective, based on the Group's management and internal reporting structure. Segment information is presented in the Group's financial statements in respect of the following operating and geographical segments:

- Mining – the extraction and sale of rough diamonds from mining operations in South Africa and Tanzania; and
- Exploration – exploration activities in Botswana.

## 6. Results of Operations

The following discussion and analysis of the Group's results of operations and financial condition is based on the Group's historical results as extracted from the financial information contained in Part VII.

| **Consolidated Income Statement** | *12 months to 30 June 2011 (US$M)* | *12 months to 30 June 2010 (US$M)* | *12 months to 30 June 2009 (US$M)* |
|---|---|---|---|
| Revenue | **220.6** | **163.7**[1] | **69.3** |
| Mining and processing costs[2] | (146.9) | (98.9) | (64.0) |
| Other direct income | 2.7 | 2.4 | 2.5 |
| **Profit from mining activity**[2] | **76.4** | **67.2** | **7.8** |
| Other income | — | 5.4 | 3.2 |
| Exploration income / (expense) | (1.3) | 1.2 | (13.7) |
| Corporate overhead | (8.0) | (7.5) | (5.9) |
| Deferred taxation on inventory fair value adjustment | — | (7.4) | — |
| Inventory fair value adjustment | — | (19.0)[3] | — |
| Cullinan fair value adjustment | — | 31.0[4] | — |
| **Adjusted EBITDA**[5] | **67.1** | **70.9** | **(8.6)** |
| Net reversal of impairments | 6.5 | — | (75.3) |
| Recycling of foreign exchange differences on exploration projects | — | 12.3 | — |
| Depreciation | (22.4) | (11.8) | (11.6) |
| Amortisation | — | (1.0) | (3.3) |
| Share based expense | (1.9) | (1.7) | (2.3) |
| Net unrealised foreign exchange gain[6] | 18.6 | 0.8 | 13.4 |
| Net finance expense[6] | (3.5) | (0.5) | (6.3) |
| Profit from discontinued operations | — | — | 1.6 |
| Tax (expense) / credit | (5.2) | 1.2 | 3.4 |
| **Net profit / (loss) after tax – Group** | **59.2** | **70.2** | **(89.0)** |

Notes:

1. For the Period 1 July to 16 November 2009, Petra accounted for its interest in Cullinan under the gross method of proportional consolidation, recognising 50% of revenue and 13% minority (non controlling) interests. With effect from 17 November 2009, the effective date of control for accounting purposes that Petra acquired the remaining 50% interest in CIHL from Al Rajhi, Petra consolidates 100% of revenue and 26% minority (non controlling) interests in line with IFRS.
2. Stated before depreciation, interest paid, foreign exchange gains and losses, asset impairment charges, inventory fair value adjustment, deferred taxation on inventory fair value adjustment and share based payments.
3. During FY 2010 the Group sold the 168 carat and 507 carat diamonds (from Cullinan) for US$6.3 million and US$35.3 million respectively. At mine level this realised a profit of US$41.6 million, as the production cost for the diamonds was not material. On acquiring the second 50% of CIHL (before the diamonds were sold), management conservatively estimated the value of the stones for accounting purposes at US$4 million and US$15 million respectively, and this became the cost to the Group for IFRS reporting purposes.
4. The acquisition of the second 50% of CIHL was treated as a stepped acquisition under IFRS3 (revised). The total fair value gain of US$31 million reflected the difference between the book value of the original 50% interest and the fair value (as determined by the price paid for the second 50%) of the net assets held at the time that the second 50% was acquired. A significant component of this related to the difference between the production cost of the exceptional Cullinan stones and management's valuation (US$19 million combined) of these stones. In assessing the fair values of the second 50% of net assets acquired, management allocated the premium of consideration over net assets to mineral rights (US$12 million) and inventories.
5. Earnings before interest, tax, depreciation and amortisation ("EBITDA") disclosures are "adjusted EBITDA", being stated before impairments, share based expense, foreign exchange gains and recycling of foreign exchange differences on exploration projects.
6. Net unrealised foreign exchange gain comprises unrealised foreign exchange gains of US$34.1 million (FY 2010: US$15.3 million; FY 2009: US$17.4 million) and unrealised foreign exchange losses of US$15.5 million (FY 2010: US$14.5 million; FY 2009: US$3.9 million). Net finance expense of US$3.5 million (FY 2010: US$0.5 million; FY 2009: US$6.3 million loss) is comprised of the remaining income and expenses.

**Group Sales and Production (gross 100% figures)**

| | *12 months to 30 June 2011 (carats)* | *12 months to 30 June 2010 (carats)* | *12 months to 30 June 2009 (carats)* |
|---|---|---|---|
| **Sales** | | | |
| Diamonds sold | 1,174,825[1] | 1,125,098 | 1,011,707 |
| **Production** | | | |
| ROM diamonds | 1,027,609 | 1,050,874 | n/a[2] |
| Tailings & alluvial diamonds | 90,186 | 113,982 | n/a[2] |
| Total diamonds | 1,117,795 | 1,164,856 | 1,099,367 |

Notes:

1. Although overall production in FY 2011 fell by 4%, carats sold increased by 4% due to the movement in opening and closing stock levels;
2. Petra did not provide the split between ROM and tailings/alluvial production prior to FY 2010.

**Year Ended 30 June 2011 ("FY 2011") compared to Year Ended 30 June 2010 ("FY 2010")**

*Revenue*

Gross revenue of US$220.6 million was recorded for FY 2011, an increase of 24% on the US$177.7 million gross revenue recorded in the 12 months to 30 June 2010 (Group revenue for FY 2010 was US$163.7 million due to partial consolidation of Cullinan during FY 2010; for FY 2011, gross revenue and Group revenue are the same).

The increase in gross revenue was mainly due to the steady rise in rough diamond prices from October 2010 to year-end, as evidenced by revenue of US$90.0 million in H1 FY 2011, rising to US$130.6 million in H2 FY 2011. Adjusting for the exceptional sale of the US$35 million Cullinan Heritage diamond in FY 2010, underlying revenue increased by 55% year-on-year.

*Mining and Processing Costs*

Gross mining and processing costs (before depreciation) for the South African operations increased in ZAR terms by approximately 25% due to:

- upwards pressure on electricity and labour costs (accounting for 11% of the increase);
- treatment of higher tonnages across the operations in FY 2011 versus the previous year (accounting for 8% of the increase); and
- the ramp-up of production at Kimberley Underground (accounting for the remaining 6% of the increase).

The volatility in the Rand is a significant factor in reporting the Group's costs on a US Dollar basis. In US Dollar reporting terms, consolidated mining and processing costs increased due to the strengthening of the Rand during FY 2011 (by approximately 8%).

Certain cost categories in South Africa increased significantly in excess of South African inflation (South African Consumer Price Index was 5.0% at 30 June 2011). However, Petra's effective cost focus, coupled with higher tonnage throughput, enabled the Group to partially mitigate the direct effect of the high inflationary pressures experienced during FY 2011. Costs on a unit basis across the South African operations were therefore well contained. Two key areas where costs are under pressure in South Africa are energy and labour.

*Energy*

Inflationary pressures on costs can mainly be ascribed to electricity prices, which rose by 25% in FY 2011. A further increase has been approved by the South African National Energy Regulator in excess of 25% for FY 2012. Beyond FY 2012, any further increases have not yet been publicised by the South African national energy regulator, but Petra is including further above inflation increases in its mine planning.

Petra's electricity usage accounted for approximately 13% of cash on-mine costs for FY 2011 Petra continuously endeavours to manage its electricity consumption as the Group's production profile increases and the Company has achieved good success in this area.

*Labour*

Labour accounts for approximately 47% of cash on-mine costs at the pipe mines and 63% of cash on-mine costs at the Fissure Mines. Going into FY 2012, Petra anticipates that labour cost increases will continue to be marginally above inflation.

*Mining Profit*

A profit on mining activity of US$76.4 million was recorded for FY 2011, against a profit of US$67.2 million for the corresponding period (the profit for FY 2010 included the profit on the sale of the 507 carat Cullinan Heritage diamond). This mining profit reflects the strengthening in diamond prices throughout FY 2011, combined with Petra's stringent cost control.

*Exploration*

Petra maintains a focused and cost-effective exploration programme in Botswana and exploration expenditure (before depreciation of US$0.1 million (FY 2010: US$0.1 million)) remained relatively flat for FY 2011 at US$1.3 million (FY 2010: US$1.2 million income, due to Angolan withdrawal). A summary of the Botswana operations is set out in Part II.

*Corporate Overhead*

Corporate overhead increased slightly to US$8.0 million for FY 2011 (FY 2010: US$7.5 million), reflecting the increasing size of the Group. Tight control of corporate overhead remains of key importance to management.

*Net Impairment Charge and Reversal*

In FY 2009, as required in accordance with IAS 36 "Impairment of Assets", the Company impaired the carrying value of the Helam mine and the Star mine by US$12.9 million and US$10.8 million respectively. These impairments arose due to the significant downward adjustment in diamond prices that was experienced in the global economic downturn at the time.

Rough diamond prices have recovered significantly since the FY 2009 impairment, and in accordance with IAS 36, the Directors have reviewed the carrying value of both mines.

The impairment recorded in FY 2009 for Helam of US$12.9 million was reversed in FY 2011 with an impairment reversal of US$11.7 million being recognised (the difference of US$1.2 million is due to depreciation adjustment on the impairment from FY 2009 to FY 2011). With regards to Star, where operations continue to be challenging, the Directors have further impaired the carrying value by US$5.2 million. The net effect of the reversal at Helam and the further impairment at Star is a net impairment reversal of US$6.5 million.

*Depreciation*

Depreciation for FY 2011 was US$22.4 million (FY 2010: US$11.9 million). The increase was mainly attributable to:

- CDM (US$5.7 million) due to additions to fixed assets and the consolidation of 100% of expenses following the acquisition of a further 37% interest in Cullinan in November 2009; and
- Kimberley JV (US$2.6 million) due to significantly increased production during FY 2011, as compared to FY 2010; depreciation is applied on a units of production basis.

*Net Unrealised Foreign Exchange Gain*

During FY 2011, the Group reported net unrealised foreign exchange gains of US$18.6 million (FY 2010: US$0.8 million) which arose on the annual retranslation of foreign subsidiary intercompany loans.

*Net Finance Expense*

The Group incurred net finance expenses of US$3.5 million (FY 2010: US$0.5 million). This is comprised of:

- interest payable on the Group's IFC/RMB debt facility of US$0.7 million (stated after the capitalisation of interest of US$3.5 million in accordance with IAS32 and IAS39); interest on the Al Rajhi Loan Agreement (which was settled in November 2010) of US$0.9 million; interest on the Group's working capital facility of US$0.3 million;
- interest accretion on the Al Rajhi/Cullinan deferred cash consideration of US$1.8 million; and

- the charge for the unwinding of the present value adjustment for Group rehabilitation costs of US$3.8 million.

These interest charges are offset by:

- interest received on the Group's cash balances of US$2.2 million;
- net interest receivable from BEE Partners' loans of US$1.5 million; and
- realised foreign exchange gains of US$0.3 million.

*Tax Charge*

A tax charge of US$5.2 million (FY 2010: credit of US$1.2 million) is comprised of a deferred tax charge (net of charges and credits) of US$6.4 million and a South African income tax credit of US$1.2 million resulting from a reversal of a prior period tax provision.

*Group Profit*

A net profit after tax of US$59.2 million was recorded for FY 2011 (FY 2010: US$70.2 million; note that results for FY 2010 included the exceptional sale of the 507 carat Cullinan Heritage diamond for US$35 million). The Company recorded a profit of 12.83 cents per share, post the issue of 136,698,212 new Ordinary Shares in January 2011 (FY 2010: 22.65 cents per share).

**Year Ended 30 June 2010 ("FY 2010") compared to Year Ended 30 June 2009 ("FY 2009")**

*Revenue*

Gross revenue of US$177.7 million was recorded for FY 2010, an increase of 88% on the US$94.4 million recorded in the 12 months to 30 June 2009. Group revenue was up 136% to US$163.7 million, against the US$69.3 million recorded in the 12 months to 30 June 2009. A direct comparison of Group revenues between the periods is complicated due to the increased interest in Cullinan acquired during FY 2010. For future reporting periods, Petra consolidated 100% of the results for the Cullinan mine.

With Petra's operations mainly in South Africa, but diamond sales based in US Dollars, the volatility and movement in the Rand is a significant factor to the Group. In FY 2010, the Rand traded in a range of R7.17/US$1 and R8.31/US$1, averaging R7.61 for the year (FY 2009: R9.05).

*Mining and Processing Costs*

Mining and processing unit costs (before depreciation) for the South African operations increased in ZAR terms by approximately 3%, being largely due to upwards pressure on electricity and labour costs experienced for FY 2010, offset by increased throughput of both underground and tailings tonnes. In US$ reporting terms, mining and processing costs increased further due to the strengthening of the Rand during FY 2010 by approximately 15.9%, the consolidation of 100% of the mining and processing costs for Cullinan from 17 November 2009, the inclusion of Williamson for the full year and the start-up of the Kimberley Underground operations late in FY 2010.

*Mining Profit*

A profit on mining activity of US$67.2 million was recorded for FY 2010, against a profit of US$7.8 million for the corresponding period. The Directors believe that these strong results reflected the robust nature of Petra's assets, which were net profitable even throughout the downturn.

*Other Income*

As at 1 July 2009, the Company had written down to zero the carrying value of the plant and equipment that remained in Angola following its withdrawal from the Alto Cuilo and Luangue projects. These assets were sold during FY 2010 for US$3.8 million cash and a profit on disposal of the assets of US$3.8 million is included within other income.

During FY 2010, Petra exchanged its interest in the Kono Project in Sierra Leone with Stellar, the project's joint venture partner, for a total consideration of US$0.9 million, that was settled by the issue to Petra of 4,500,000 new ordinary shares in the share capital of Stellar.

Management consultancy fees of US$0.7 million (US$3.2 million in FY 2009) arose due to Petra's recharge of management internal resources to third parties.

*Exploration Income/Costs*

Petra is focused primarily on production, but it has retained some exposure to exploration whilst minimising funding commitments. The Group's modest annual exploration budget is focused in

Botswana, which is considered to offer a highly attractive operating environment. The net exploration income for FY 2010 (excluding amortisation charges) was comprised of exploration costs in Botswana of US$0.8 million and a one-off credit of US$2 million (US$13.8 million in FY 2009). Further to the Company's withdrawal from exploration activities in Angola, provisions for withdrawal and associated costs of US$2 million were no longer required and were therefore credited to the income statement within exploration income.

During FY 2010, the Company took the last required charge for the amortisation of the licences in Botswana and there have been no further amortisation charges in this respect for subsequent accounting periods.

*Corporate Overhead*

Corporate overheads (before depreciation and share based payments) increased to US$7.5 million for FY 2010 (US$5.9 million in FY 2009). This was largely due to an increase to staff costs, rising from US$2.4 million (FY 2009) to US$3.6 million (FY 2010), in line with Petra's growth during the year.

*Inventory Fair Value Adjustment*

During FY 2010 the Group sold the 168 carat and 507 carat stones from Cullinan for US$6.3 million and US$35.3 million respectively. At mine level this realised a profit of US$41.6 million, as the production cost for the stones was not material. On acquiring the second 50% of CIHL, management prudently estimated the value of the stones for accounting purposes at US$19 million, and this became the cost to the Group for IFRS reporting purposes. The deferred taxation on the inventory fair value adjustment of US$7.4 million was realised on the sale of inventories that had been fair valued as at the acquisition date.

*Cullinan Fair Value Adjustment*

The Cullinan fair value adjustment of US$31 million arose due to the acquisition of the second 50% of CIHL, which was treated as a stepped acquisition under IFRS3 (revised). The fair value gain of US$31 million reflected the difference between the book value of the original 50% interest in CIHL and the fair value (as determined by the price paid for the second 50%) of the net assets held at the time that the second 50% was acquired. A significant component of this related to the difference between the production cost of the exceptional Cullinan stones and management's valuation of these stones. In assessing the fair values of the second 50% of net assets acquired, management allocated the premium of consideration over net assets to mineral rights and inventories.

*Recycling of Foreign Exchange Differences on Exploration Projects*

In prior periods, foreign exchange gains relating to Petra's exploration assets in Angola were taken directly to reserves. Following the Group's exit from Angola and disposal of the remaining assets, these gains have been taken to the income statement, in accordance with accounting standards.

*Net Unrealised Foreign Exchange Gain*

During FY 2010 (and FY 2009), the Group generated net unrealised foreign exchange gains of US$0.5 million (US$13.5 million in FY 2009), the majority of which were due to unrealised foreign exchange movements on the annual restatement of foreign subsidiary intercompany loans.

*Net Finance Expense*

The Group incurred net finance costs of US$0.5 million (US$6.3 million in FY 2009), being interest payable on the Al Rajhi Loan Agreement, the Al Rajhi Convertible Loan (which was settled in December 2009), the Group's working capital facility and the fair value adjustment on the CIHL/Al Rajhi deferred cash consideration, offset by interest received on cash balance, interest received from the BEE Partners loans and realised foreign exchange gains of US$4.2 million (primarily on settlement of the Al Rajhi Convertible Loan).

*Tax Credit*

A tax credit of US$1.2 million (US$3.4 million in FY 2009), being tax payable of US$0.1 million by Premier and BDM, tax refundable of US$0.2 million to Messina Diamonds and Dancarl Diamonds, deferred tax debit of US$10.4 million for Cullinan, Crown Resources and Messina Diamonds and deferred tax credits of US$3.8 million for Dancarl Diamonds and US$7.4 million in respect of deferred tax liabilities recognised on the step-up acquisition of CIHL.

*Group Profit*

A net profit after tax of US$70.2 million was recorded for FY 2010, in comparison to a loss of US$89.0 million for the prior period (of which US$75.3 million was largely attributed to the write-down of Petra's exploration portfolio). The strong asset and production growth that Petra recorded in the prior years had now translated into financial results for Shareholders, as diamond prices recovered and stabilised from the global economic downturn. The Company recorded earnings of 22.65 cents per share.

**7. Liquidity and Capital Resources**

The Company's principal source of liquidity is its cash resources which, at 30 June 2011, amounted to US$324.9 million. Cash at bank comprised unrestricted cash and restricted cash balances of US$96.9 million and US$228 million respectively (30 June 2010: US$24.8 million and US$9.7 million). The restricted balance of US$228 million was high as US$213.2 million was defined as restricted whilst the Finsch consideration remained in escrow. An additional US$14.8 million of the 30 June 2011 balance is held by Petra's bankers as security for environmental rehabilitation bonds lodged by the bankers with the DMR.

The majority of the Group's cash resources has been invested in rolling short term higher interest money market deposits and has historically been held in a combination of US Dollars and Pounds Sterling. The principal use of cash to date has been to fund the purchase consideration of diamond mines acquired from De Beers and to fund the development and expansion of the Group's key operations.

Historically the Group has relied on equity placings, cash generated from operations and bank loan facilities to finance acquisitions, development costs, working capital and to ensure its liquidity.

It is the Company's current intention that the Group's on-going mine development and expansion costs and working capital will be funded out of existing cash resources, internally generated cashflow and the facilities in place from both RMB and the IFC. The acquisition consideration for Finsch was paid to De Beers in September 2011 and there are no amounts outstanding with reference to the acquisition consideration of the mines acquired from De Beers.

In January 2011, Petra completed an equity raising of US$325.9 million, pursuant to a placing of Ordinary Shares. The placing proceeds were utilised as follows:

- US$192 million for the acquisition of Finsch (completed on 14 September 2011);
- US$15 million to settle part of the deferred Al Rajhi/Cullinan consideration (remaining balance of US$20 million due 31 December 2011); and
- the remainder being applied to Capex and for general Group working capital purposes.

As at 13 December 2011, being the latest practicable date prior to the publication of this document, and following the payment of consideration due under the Finsch Sale and Purchase Agreement, Petra had cash at bank of US$85.6 million.

*Cashflows*

The following table shows the Group's net cashflows for the previous three financial years.

| | *FY 2011* | *FY 2010* | *FY 2009* |
|---|---|---|---|
| | *US$ million* | *US$ million* | *US$ million* |
| Net cash generated from operating activities | 50.6 | 48.8 | 4.6 |
| Net cash utilised in investing activities | (330.4) | (52.6) | (113.1) |
| Net cash generated from financing activities | 349.8 | 21.7 | 95.5 |
| Net increase/(decrease) in cash and cash equivalents | 70.0 | 17.9 | (13.0) |
| Cash and cash equivalents at beginning of the year | 24.8 | 6.7 | 19.8 |
| Cash and cash equivalents at the end of the year | 96.9 | 24.8 | 6.7 |

Note: Cash and cash equivalents do not include restricted cash balances.

*Net Cash Generated from Operating Activities*

The Group's net cash from operating activities was US$50.6 million in the 12 months ended 30 June 2011 compared to the net cash generated from operating activities of US$48.8 million in the 12 months ended 30 June 2010. The increase in cash generated from operating activities was due to a

higher operating profit arising from the recovery of diamond prices in FY 2011 and Petra's 100% consolidation of CDM for a full financial period. The positive impact of the increase in diamond prices was offset by the decrease in Williamson revenue due to the rollout of the plant refurbishment and capital expansion programme during FY 2011, and increased trade receivables as at 30 June 2011 due to the timing of the June 2011 tender close, whereby a substantial amount of the tender proceeds was received at the beginning of July 2011.

The Group's net cash from operating activities was US$48.8 million in the 12 months ended 30 June 2010 compared to the net cash generated from operating activities of US$4.6 million in the 12 months ended 30 June 2009. The increase in cash generated from operating activities was attributable primarily to an 88% increase in revenue mitigated in part by significantly higher inventory levels at 30 June 2010 due to stockpiled Kimberley Underground ROM ore pending transfer of ownership from De Beers as well as higher diamond inventories at 30 June 2010 due to the FIFA 2010 World Cup interrupting the usual timing of Petra's June diamond tender.

*Net Cash Generated Utilised in Investing Activities*

The Group's net cash utilised in investing activities was US$330.4 million in the 12 months ended 30 June 2011 compared to a US$52.6 million in the year ended 30 June 2010. The increase in cash utilised in investing activities was primarily attributable to the transfer of US$218.3 million to restricted cash for the pending completion of the Finsch acquisition and a 215% increase in property, plant and equipment over the prior period due in main to the role out of the Cullinan C-Cut capital expansion programme and the Williamson expansion and plant refurbishment programme.

The Group's net cash utilised in investing activities was US$52.6 million in the 12 months ended 30 June 2010 compared to a US$113.1 million in the year ended 30 June 2009. The decrease in cash used in investing activities was primarily attributable to the acquisition of Kimberley Underground for US$18.6 million, compared against the prior year's US$71.2 million combined cost of the Cullinan and Williamson acquisitions.

*Net Cash Generated from Financing Activities*

The Group's net cash from financing activities was US$349.8 million in the 12 months ended 30 June 2011 compared to US$21.7 million in the 12 months ended 30 June 2010. The increase was attributable to the Company's proceeds from the issuance of new shares of US$339.1 million (placing and warrant/option exercises), compared to an equivalent US$120.1 million in the prior year (new shares issues), as well as a net increase in non-current borrowings of US$28.3 million against a prior year net borrowings repayment of US$91.8 million.

The Group's net cash from financing activities was US$21.7 million in the 12 months ended 30 June 2010 compared to US$95.5 million in the 12 months ended 30 June 2009. The decrease between the two periods was primarily attributable to net borrowings repayment of US$91.8 million, out of the US$120.1 million share capital issuance (noted above), paid towards the settlement of the Al Rajhi convertible bond and portion of the Al Rajhi CDM loan advance combined with reduced reliance on working capital facilities on the back of stronger operational results.

*Borrowings*

*IFC /RMB Facilities*

On 3 November 2010, Petra achieved financial close of the IFC/RMB Debt Facilities with IFC and RMB of approximately US$83.5 million in total. These debt facilities provide Petra with a US$40 million loan from IFC and a US$43.5 million (ZAR300 million) loan from RMB, as well as the extension of the Company's existing US$10.2 million (ZAR70 million) FirstRand Facility.

The facilities were mainly put in place to finance the expansions of Williamson and Cullinan (together with contributions from Petra's own treasury).

The security provided under the IFC/RMB Debt Facilities includes bonds over the mining right and moveable and immovable assets of CDM, a cession of the CIHL shareholding and claims in CDM, a cession of the Company's shares and claims in CIHL, a cession of the Company's shares and claims in BDM, a cession of the Company's shares and claims in Willcroft and the cession by Willcroft of its shares and claims in Williamson Diamonds.

The IFC/RMB Debt Facilities are available for the Company's draw-down until 14 September 2012 and a capital repayment holiday period to 14 September 2012. The loan is repayable in eight semi-annual payments commencing after the capital repayment holiday period with the final payment due on 15 March 2016. The US$ Loan and Guarantee Agreement incurs interest at the US$ six month

LIBOR rate plus 4.5% and is payable in semi-annual payments from commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 is 8.9%. The ZAR Loan and Guarantee Agreement incurs interest at the South African three month JIBAR rate plus 4.5% and is payable in semi-annual payments from commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 was 14.0%.

At 30 June 2011, debt of US$90.1 million (FY 2010: US$64.5 million) was mainly comprised of:

- US$69.6 million drawn-down on the IFC/RMB facilities (net of a US$8.6 million adjustment in accordance with IAS32 and IAS39 for the accounting treatment of facility fees and warrant costs associated with the IFC/RMB facilities, and US$2.7 million in interest accretion on the facilities); the gross cash drawn-down on the facilities is US$75.5 million; and
- US$18.7 million (US$20 million gross) due to Al Rajhi in December 2011 (the outstanding Option Consideration).

With regards to the IFC/RMB Debt Facilities, as at 13 December 2011, US$7.5 million remains available for draw-down by the Company before November 2012.

*RMB Facility*

On 29 November 2011 Petra and Afropean Diamonds concluded the Revolving Credit Facility and the Working Credit Facility with RMB of approximately US$48 million (ZAR400 million). These debt facilities provide Afropean Diamonds with US$36 million (ZAR300 million) pursuant to the Revolving Credit Facility and US$12 million (ZAR100 million) pursuant to the Working Credit Facility. The Revolving Credit Facility provides Petra and Afropean Diamonds with up to US$24 million (ZAR200 million), with a further US$12 million (ZAR100 million) being made available upon Admission.

The Revolving Credit Facility and the Working Credit Facility, which are secured on the Finsch assets, were put in place to mainly provide additional financing lines to the Group as a whole, should the need so arise.

The Revolving Credit Facility is available for the Company's draw-down for up to 22 months from 30 November 2011 subject to a capital repayment holiday period of 19 months to 1 July 2013 whereafter the maximum available Revolving Credit Facility amount will reduce by 25%. The Revolving Credit Facility is fully repayable by 1 December 2013. The Working Credit Facility is available to Afropean Diamonds until 30 October 2012 and is subject to annual review.

The Revolving Credit Facility incurs interest at the South African three month JIBAR rate plus 2.5% and is payable in semi-annual payments from commencement date of the loan facility. The Working Credit Facility incurs interest at the South African three month JIBAR rate plus 2.4%.

With regards to the Revolving Credit Facility and the Working Credit Facility, as at 13 December 2011, US$48.9 million (ZAR400 million) remains available to draw-down by the Company.

*FirstRand Facility*

As at 30 June 2011, the Company's South African subsidiaries had a total loan (overdraft) facility of ZAR70.0 million (US$10.2 million) (30 June 2010: ZAR70.0 million (US$9.1 million)) with FirstRand Bank of which ZARnil (US$nil) (30 June 2010: ZARnil (US$nil)) has been drawn-down.

The above facility is secured by a guarantee issued by the Company, suretyships from Star Diamonds, Helam Mining, Sedibeng JV and BDM, and cessions of intergroup loans payable in favour of First National Bank.

With regards to the First Rand Facility, as at 13 December 2011, ZAR70 million remains available to draw-down by the Company.

*Borrowing Summary*

The following table sets out information relating to the Group's short term and long term borrowings for the last three financial years (the table does not include the deferred Al Rajhi/Cullinan consideration – refer to note 9 below).

| | *FY 2011* | *FY 2010* | *FY 2009* |
|---|---|---|---|
| | *US$ million* | *US$ million* | *US$ million* |
| Short term borrowings (including current portion of long term borrowings) | — | 17.4 | 57.4 |
| Long term borrowings | 71.4 | 15,1 | 44.3 |
| **Total** | 71.4 | 32.5 | 101.7 |

As at 13 December 2011, being the latest practicable date prior to the publication of this document, Petra had short term borrowings of US$13.7 million and long term borrowings of US$50.5 million (excluding the deferred Al Rajhi/Cullinan consideration – refer to note 9 below).

**8. Off-balance Sheet Arrangements**

The Group had no off-balance sheet arrangements as at 30 June 2011, 30 June 2010 or 30 June 2009.

**9. Contractual Obligations and Commercial Commitments**

A summary of the Group's total contractual obligations and commercial commitments to make future payments as at 30 June 2011 is set out below.

| | *Total* | *Less than one year* | *Between one and two years* | *Between three and five years* |
|---|---|---|---|---|
| | *US$ million* | *US$ million* | *US$ million* | *US$ million* |
| Deferred Cullinan consideration | 20.0 | 20.0 | — | — |
| Finance lease and borrowing obligations | 77.4 | — | 18.9 | 58.5 |
| **Total** | 97.4 | 20.0 | 18.9 | 58.5 |

The Group's financial commitments and contingent liabilities are generally limited to controllable expenditures at the Group's operations. The above mentioned commitments are to be funded through the Group's existing cash resources.

*Deferred Cullinan Consideration Due to Al Rajhi*

Pursuant to the option agreement dated 17 November 2009 between the Company and Al Rajhi (refer to 10.13(b) in Part X of this document), US$20 million of the option agreement consideration remains outstanding and is due to be settled by Petra to Al Rajhi on 31 December 2011. The Company has taken account of this cash outflow in planning its working capital and funding requirements. As security for this payment, Al Rajhi holds a share mortgage over the shareholding of the Company in CIHL. The deferred consideration owed to Al Rajhi is interest free.

**10. Capital Expenditure**

Total Capex for FY 2011 was US$110.9 million (FY 2010: US$33.4 million), being cash Capex of US$105.2 million and capitalisation of Capex related borrowing costs of US$5.7 million. This increased Capex spend reflects the acceleration of the Company's development programmes, most notably at Cullinan and Williamson, and additional assets of US$3.5 million at Kimberley Underground assumed in exchange for the environmental rehabilitation liability specific to these assets.

Capex of the Group going forward will primarily focus on the future development of the Group's producing mines, including the underground development work at Cullinan through the C-Cut expansion, the Block 5 cave at Finsch and further programmes at both Koffiefontein and Kimberley Underground. Capex at Williamson will focus on reshaping the open pit in order to increase the extraction rate, while building infrastructure and systems for improved recoveries. The Directors

believe that the planned Capex programmes of the Company will significantly enhance production and optimise recoveries in a cost efficient manner.

The Group plans to finance its Capex profile from its internal treasury, operational cashflows and through the Group's debt facilities. For additional information on these funding sources, please refer to paragraph 7 above – Liquidity and Capital Resources.

**Capitalisation and Indebtedness**

The following table shows the consolidated gross indebtedness of the Group as at 30 September 2011 and the consolidated Group capitalisation as at 30 June 2011. The figures for capitalisation have been extracted without material adjustment from the consolidated financial information of the Group for the year ended 30 June 2011 included in Part VII. The indebtedness figures have been extracted from the underlying accounting records of the Group as at 30 September 2011.

| | *As at 30 September 2011 (US$ million) (unaudited)* |
|---|---|
| **Total current debt:** | |
| – Secured[1] | 28 |
| – Unguaranteed/unsecured | 20 |
| **Total non-current debt (excluding current portion of long-term debt):** | |
| – Secured[1] | 52 |
| **Total indebtedness** | **100** |

| | *As at 30 June 2011 (US$ million) (unaudited)* |
|---|---|
| **Capitalisation:** | |
| – Share capital | 85 |
| – Legal reserve[2] | 646 |
| – Other reserves | (1) |
| **Total capitalisation** | **730** |

(1) Assets secured comprise Petra's shareholding in Cullinan Diamond Mine (Pty) Ltd, its mining right, moveable and immoveable assets as well as Petra's shareholding in Blue Diamond Mines (Pty) Ltd and in Williamson Diamonds Limited.

(2) Comprises the share premium reserve.

Capitalisation does not include retained losses, foreign currency translation reserve, the share-based payment reserve in respect of share option schemes, or other reserves.

There has been no material change in the Company's capitalisation since 30 June 2011 to the date of this document.

The following table shows the consolidated Group net financial indebtedness as at 30 September 2011.

| | *As at 30 September 2011 (US$ million) (unaudited)* |
|---|---|
| Cash and cash equivalents – unrestricted | 43.9 |
| Cash – restricted | 36.3 |
| Available for sale financial assets | 0.2 |
| **Liquidity** | **80.4** |
| **Current financial receivables** | **7.4** |
| Current bank debt | (14.3) |
| Current portion of non-current debt | (14.0) |
| Other current financial debt | (21.9) |
| **Current financial debt** | **(50.2)** |
| **Net current liquidity** | **37.6** |
| Non-current financial receivables | 93.2 |
| Non-current bank loans[1] | (52.4) |
| Other non-current loans | (72.1) |
| **Non-current financial indebtedness** | **(31.3)** |
| **Net liquidity** | **6.3** |

(1) The portion of facility fees and warrant value charges of US$8.6 million associated with the IFC/RMB Debt Facilities draw-down have been debited against the gross draw-down value of US$75.5 million, in accordance with IAS32 and IAS39 to reflect a net interest bearing liability of US$69.6 million. The remaining US$1.3 million of facility fees and warrant fair value charges associated within the indrawn facility are held in prepayments as the loan facility is expected to be utilised.

As at 30 September 2011, the Group had no material indirect or contingent indebtedness, other than as disclosed in paragraphs 7 and 9 above.

The Group also has Forex contracts not reflected in the analysis above with a mark to market fair value of (US$1,793,626) as at 30 September 2011.

# PART VII

# HISTORICAL FINANCIAL INFORMATION ON THE GROUP

## SECTION A – ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION ON THE GROUP FOR THE THREE YEARS ENDED 30 JUNE 2011

BDO LLP
55 Baker Street
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15 December 2011

The Directors
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RBC Europe Limited
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EC4R 3BF

Dear Sirs

**Petra Diamonds Limited (the "Company") and its subsidiary undertakings (together, the "Group")**

**Introduction**

We report on the financial information set out in Section B of Part VII. This financial information has been prepared for inclusion in the prospectus dated 15 December 2011 of Petra Diamonds Limited (the "Prospectus") on the basis of the accounting policies set out in note 1 to the financial information. This report is required by item 20.1 of annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex I of the PD Regulation consenting to its inclusion in the Prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at 30 June 2009, 2010 and 2011 and of its results, cashflows and changes in equity for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

BDO LLP

Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## SECTION B – HISTORICAL FINANCIAL INFORMATION ON PETRA FOR THE THREE YEARS ENDED 30 JUNE 2011

**Consolidated income statement**

| | | *Year ended 30 June* | | |
|---|---|---|---|---|
| | *Notes* | *2009* | *2010* | *2011* |
| | | *US$ million* | *US$ million* | *US$ million* |
| **Revenue** | | 69.3 | 163.7 | 220.6 |
| Other income | 4 | 3.2 | 5.4 | — |
| **Total operating income** | | 72.5 | 169.1 | 220.6 |
| Fair value uplift on acquisition of Cullinan Investment Holdings Limited ("CIHL") | 3(b) | — | 31.0 | — |
| Recycling of foreign exchange differences on exploration projects | | — | 12.3 | — |
| **Total income** | | 72.5 | 212.4 | 220.6 |
| Mining and processing costs | 5 | (72.9) | (137.7) | (169.7) |
| Other direct income | 6 | 2.6 | 2.4 | 2.7 |
| Exploration expenditure | 7 | (19.7) | 0.2 | (1.4) |
| Corporate expenditure | 8 | (8.3) | (8.6) | (9.4) |
| Impairment reversal | 9 | — | — | 11.7 |
| Impairment charges | 9 | (75.3) | — | (5.2) |
| **Total costs** | | (173.6) | (143.7) | (171.3) |
| Financial income | | 20.7 | 27.6 | 42.5 |
| Financial expense | | (13.5) | (27.3) | (27.4) |
| Net financing income | 10 | 7.2 | 0.3 | 15.1 |
| **(Loss)/profit before tax** | | (93.9) | 69.0 | 64.4 |
| Income tax credit (charge) | 11 | 3.4 | 1.2 | (5.2) |
| **(Loss)/profit for the year from continuing operations** | | (90.5) | 70.2 | 59.2 |
| Profit on discontinued operations (net of tax) | 33 | 1.5 | — | — |
| **(Loss)/profit for the year** | | (89.0) | 70.2 | 59.2 |
| (Loss)/profit for the year attributable to: | | | | |
| Equity holders of the parent company | | (90.9) | 63.5 | 53.2 |
| Non-controlling interest | | 1.9 | 6.7 | 6.0 |
| | | (89.0) | 70.2 | 59.2 |
| **(Loss)/profit per share attributable to the equity holders of the parent during the year:** | | | | |
| **From continuing operations** | | | | |
| Basic (loss)/profit – US cents | 13 | (50.23) | 22.65 | 12.83 |
| Diluted (loss)/profit – US cents | 13 | (50.23) | 22.20 | 12.35 |
| **From continuing and discontinued operations** | | | | |
| Basic (loss)/profit – US cents | 13 | (49.38) | 22.65 | 12.83 |
| Diluted (loss)/profit – US cents | 13 | (49.38) | 22.20 | 12.35 |

**Consolidated statement of other comprehensive income**

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Profit/(loss) for the year | (89.0) | 70.2 | 59.2 |
| Profit on hedges transferred directly to reserves | 0.1 | | |
| Exchange differences recognised on translation of the share based payment reserve | (0.5) | (0.5) | 0.2 |
| Recycling of foreign exchange differences on exploration projects | — | (12.3) | — |
| Exchange differences on translation of foreign operations | (16.9) | (6.9) | 15.4 |
| Exchange differences on non-controlling interest | — | — | 4.0 |
| Valuation loss on available for sale financial asset | — | (0.1) | (0.4) |
| **Total comprehensive income for the year** | **(106.3)** | **50.4** | **78.4** |
| Total comprehensive income for the year attributable to: | | | |
| Equity holders of the parent company | (107.7) | 43.7 | 68.4 |
| Non-controlling interest | 1.4 | 6.7 | 10.0 |
| | **(106.3)** | **50.4** | **78.4** |

There is no interest arising from items of other comprehensive income.

## Consolidated statement of changes in equity

| | *Share capital US$ million* | *Share premium account US$ million* | *Foreign currency translation reserve US$ million* | *Hedging reserve US$ million* | *Share-based payment reserve US$ million* | *Other reserves US$ million* | *Retained losses US$ million* | *Sub total US$ million* | *Non-controlling interest US$ million* | *Total US$ million* |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 July 2008 | 33.5 | 212.9 | 9.5 | (0.1) | 3.1 | 4.0 | (109.7) | 153.2 | 9.2 | 162.4 |
| Total comprehensive income | — | — | (16.4) | 0.1 | (0.5) | — | (90.9) | (107.7) | 1.4 | (106.3) |
| Non-controlling interest share of dividend paid to subsidiary | — | — | — | — | — | — | — | — | (1.1) | (1.1) |
| Equity settled share-based payments transferred between reserves | — | — | — | — | (3.1) | — | 3.1 | — | — | — |
| Equity settled share-based payments | — | — | — | — | 2.3 | — | — | 2.3 | — | 2.3 |
| **At 30 June 2009** | 33.5 | 212.9 | (6.9) | — | (1.8) | 4.0 | (197.5) | 47.8 | 9.5 | 57.3 |
| At 1 July 2009 | 33.5 | 212.9 | (6.9) | — | 1.8 | 4.0 | (197.5) | 47.8 | 9.5 | 57.3 |
| Total comprehensive income | — | — | (19.2) | — | (0.5) | (0.1) | 63.5 | 43.7 | 6.7 | 50.4 |
| Non-controlling interest acquired | — | — | — | — | — | — | — | — | 17.4 | 17.4 |
| Equity settled share-based payments | — | — | — | — | 1.7 | — | — | 1.7 | — | 1.7 |
| Transfer of equity portion of convertible bond | — | — | — | — | — | (4.0) | 4.0 | — | — | — |
| Allotments during the year: | | | | | | | | | | |
| – Fundraising | 20.0 | 99.9 | — | — | — | — | — | 119.9 | — | 119.9 |
| – Settlement of loans and borrowings | 1.9 | 9.0 | — | — | — | — | — | 10.9 | — | 10.9 |
| – Acquisition of second 50% of CIHL – Note 3(b) | 6.0 | 33.8 | — | — | — | — | — | 39.8 | — | 39.8 |
| – Share options exercised | — | 0.1 | — | — | — | — | — | 0.1 | — | 0.1 |
| Share issue costs | — | (8.2) | — | — | 1.6 | — | — | (6.6) | — | (6.6) |
| **At 30 June 2010** | 61.4 | 347.5 | (26.1) | — | 4.6 | (0.1) | (130.0) | 257.3 | 33.6 | 290.9 |
| At 1 July 2010 | 61.4 | 347.5 | (26.1) | — | 4.6 | (0.1) | (130.0) | 257.3 | 33.6 | 290.9 |
| Profit for the year | — | — | — | — | — | — | 53.2 | 53.2 | 6.0 | 59.2 |
| Other comprehensive income | — | — | 15.4 | — | 0.2 | (0.4) | — | 15.2 | 4.0 | 19.2 |
| 4% non-controlling interest purchased – Koffiefontein (note 3(a)) | — | — | — | — | — | — | 0.9 | 0.9 | (1.7) | (0.8) |
| 26% disposal of Helam[1] | — | — | — | — | — | — | 6.0 | 6.0 | (6.0) | — |
| 26% disposal of Star[1] | — | — | — | — | — | — | 3.9 | 3.9 | (3.9) | — |
| Transfer between reserves for exercise of options and warrants | — | — | — | — | (4.1) | — | 4.1 | — | — | — |
| Equity settled share based payments | — | — | — | — | 1.9 | — | — | 1.9 | — | 1.9 |
| Share based payments cancelled[2] | — | — | — | — | (0.8) | — | — | (0.8) | — | (0.8) |
| Equity warrants issued[3] | — | — | — | — | 7.9 | — | — | 7.9 | — | 7.9 |
| Allotments during the year: | | | | | | | | | | |
| – Fundraising | 21.7 | 304.2 | — | — | — | — | — | 325.9 | — | 325.9 |
| – Share options exercised | 0.4 | 1.3 | — | — | — | — | — | 1.7 | — | 1.7 |
| – Warrants exercised | 1.3 | 10.2 | — | — | — | — | — | 11.5 | — | 11.5 |
| Share issue costs | — | (17.6) | — | — | — | — | — | (17.6) | — | (17.6) |
| **At 30 June 2011** | 84.8 | 645.6 | (10.7) | — | 9.7 | (0.5) | (61.9) | 667.0 | 32.0 | 699.0 |

1 During the year ended 30 June 2011, the Group disposed of 26% of its shareholdings in Helam and Star to the Group's BEE partners which represented a change in ownership interest in which the Group retained control.

2 During the year ended 30 June 2011, employees received cash payments of US$0.8 million in respect of options cancelled. The payments equate to the fair value at the date of cancellation and the Group recognised a charge to equity in accordance with IFRS2 together with the accleration of the remaining unamortised fair value in respect of the options of US$0.1 million in the income statement.

3 The fair value of warrants granted during the year ended 30 June 2011 is disclosed in note 28.

### Share capital

The Share Capital comprises the issued ordinary shares of the Company at par.

### Share premium account

The share premium account 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 and foreign exchange differences on net investments in foreign operations.

**Hedging reserve**

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

**Share-based payment reserve**

The share-based payment reserve comprises:

- the fair value of employee options as measured at grant date and spread over the period during which the employees become unconditionally entitled to the options;
- the fair value of warrants as measured at grant date and recognised immediately to reflect the vesting conditions; and
- amounts transferred to retained losses in respect of exercised and lapsed warrants and options.

**Other reserves**

The other reserves comprise the equity portion of the interest free convertible bond US$nil (2010: US$nil, 2009: US$4.0 million) and the fair value of the 2,000,000 warrants issued with the convertible bond, as well as gains or losses arising from available for sale financial assets of US$0.5 milion (2010: US$0.1 million, 2009: US$nil).

**Retained losses**

The retained losses comprise the Group's cumulative accounting losses incurred since incorporation.

**Non-controlling interest**

Non-controlling interest comprises amounts attributable to third party shareholders in the Cullinan, Kimberley Underground, Koffiefontein, Star, Helam and Sedibeng mines. The non-controlling interest of total comprehensive income includes US$10.0 million (2010: US$6.7 million, 30 June 2009: US$1.4 million) of profit for the year.

**Consolidated statement of financial position**

| | Notes | As at 30 June 2009 US$ million | 2010 US$ million | 2011 US$ million |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 14 | 176.7 | 371.0 | 501.4 |
| Intangible assets | 15 | 1.0 | — | — |
| Investment in associates | 16 | — | — | — |
| Available for sale financial assets | 17 | — | 0.8 | 0.4 |
| Loans and other receivables | 19 | 19.7 | 32.2 | 51.1 |
| **Total non-current assets** | | 197.4 | 404.0 | 552.9 |
| **Current assets** | | | | |
| Inventories | 18 | 14.8 | 29.4 | 32.9 |
| Trade and other receivables | 19 | 18.9 | 23.5 | 49.8 |
| Derivative financial assets | 26 | — | — | 6.0 |
| Cash and cash equivalents – unrestricted | 20 | 6.7 | 24.8 | 96.9 |
| Cash and cash equivalents – restricted | 20 | 4.4 | 9.7 | 228.0 |
| **Total current assets** | | 44.8 | 87.4 | 413.6 |
| **Total assets** | | 242.2 | 491.4 | 966.5 |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 21 | 33.5 | 61.4 | 84.8 |
| Share premium account | | 212.9 | 347.5 | 645.6 |
| Foreign currency translation reserve | | (6.9) | (26.1) | (10.7) |
| Share-based payment reserve | | 1.8 | 4.6 | 9.7 |
| Other reserves | | 4.0 | (0.1) | (0.5) |
| Retained losses | | (197.5) | (130.0) | (61.9) |
| **Attributable to equity holders of the parent company** | | 47.8 | 257.3 | 667.0 |
| Non-controlling interest | | 9.5 | 33.6 | 32.0 |
| **Total equity** | | 57.3 | 290.9 | 699.0 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 22 | 44.3 | 47.1 | 71.4 |
| Trade and other payables | 23 | 19.1 | 23.2 | 29.0 |
| Provisions | 24 | 28.0 | 50.0 | 63.1 |
| Deferred tax liabilities | 25 | 7.4 | 30.3 | 37.7 |
| **Total non-current liabilities** | | 98.8 | 150.6 | 201.2 |
| **Current liabilities** | | | | |
| Loans and borrowings | 22 | 57.4 | 17.4 | 18.7 |
| Other current liabilities – firm commitment | 26 | — | — | 6.0 |
| Trade and other payables | 23 | 23.7 | 29.2 | 39.4 |
| Current tax payable | 23 | 2.8 | 1.1 | — |
| Provisions | 24 | 2.2 | 2.2 | 2.2 |
| **Total current liabilities** | | 86.1 | 49.9 | 66.3 |
| **Total liabilities** | | 184.9 | 200.5 | 267.5 |
| **Total equity and liabilities** | | 242.2 | 491.4 | 966.5 |

**Consolidated statement of cashflows**

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **(Loss)/profit before taxation for the year from continuing and discontinued operations** | (92.3) | 69.0 | 64.4 |
| Depreciation of property plant and equipment – exploration | 2.7 | 0.1 | 0.1 |
| Depreciation of property plant and equipment – mining | 8.9 | 11.6 | 22.2 |
| Depreciation of property plant and equipment – other | 0.1 | 0.2 | 0.1 |
| Amortisation of intangible assets | 3.3 | 1.0 | — |
| Reversal of impairment | — | — | (11.7) |
| Impairment | 75.3 | — | 5.2 |
| Profit on sale of Kono project | — | (0.8) | — |
| Profit/(loss) on sale of property plant and equipment | 0.2 | (3.7) | 0.3 |
| Recycling of foreign exchange differences on exploration projects | — | (12.3) | — |
| Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL | — | 26.4 | — |
| Fair value uplift on acquisition of additional 50% of CIHL | — | (31.0) | — |
| Increase/(decrease) in provisions | 8.7 | (2.1) | 1.4 |
| Finance income | (3.2) | (7.8) | (7.7) |
| Finance expense | 9.2 | 12.6 | 11.5 |
| Present value adjustment of rehabilitation provision – change in assumptions | (4.6) | — | — |
| Share based payment provision | 2.3 | 0.9 | 1.9 |
| Payments for share options cancelled | — | — | (0.8) |
| Foreign exchange gain | (13.4) | (5.1) | (18.9) |
| **Operating (loss)/profit before working capital changes** | (2.8) | 59.0 | 68.0 |
| Decrease/(increase) in trade and other receivables | 25.2 | (0.3) | (24.8) |
| (Decrease)/increase in trade and other payables | (10.6) | 4.6 | 12.5 |
| Decrease/(increase) in inventories | 0.8 | (11.2) | (3.5) |
| **Cash generated from operations** | 12.6 | 52.1 | 52.2 |
| Finance expense | (6.6) | (1.6) | (1.2) |
| Taxation paid | (1.4) | (1.7) | (0.4) |
| **Net cash generated from operating activities** | 4.6 | 48.8 | 50.6 |

**Consolidated statement of cashflows**

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Cashflows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | 0.3 | 3.9 | 0.1 |
| Disposal of subsidiary net of cash | 1.4 | — | — |
| Acquisition of subsidiary net of cash | (8.7) | 0.4 | — |
| Acquisition of CIHL net of cash acquired | (62.5) | — | — |
| Acquisition of assets at Kimberley Underground net of cash | — | (2.0) | 0.3 |
| Acquisition of assets at Kimberley Underground pre-acquisition | — | (16.6) | — |
| Acquisition of interest in Koffiefontein | — | — | (0.8) |
| Finance income | 3.5 | 0.4 | 2.2 |
| Increase in long term receivables | (19.5) | — | — |
| Acquisition of property, plant and equipment | (38.8) | (33.4) | (105.2) |
| Development expenditure | (2.1) | — | (8.7) |
| Transfer from/(to) restricted cash deposits | 13.3 | (5.3) | (218.3) |
| **Net cash utilised in investing activities** | (113.1) | (52.6) | (330.4) |
| **Cashflows from financing activities** | | | |
| Proceeds from the issuance of share capital | — | 120.1 | 339.1 |
| Payment of share placing costs | — | (6.6) | (17.6) |
| Increase in non-current borrowings | — | — | 75.6 |
| Increase/(repayment) of non-current borrowings | 58.0 | (43.8) | (15.0) |
| Increase/(repayment) of current borrowings | 37.5 | (48.0) | (32.3) |
| **Net cash generated from financing activities** | 95.5 | 21.7 | 349.8 |
| **Net (decrease)/increase in cash and cash equivalents** | (13.0) | 17.9 | 70.0 |
| Cash and cash equivalents at beginning of the year | 19.8 | 6.7 | 24.8 |
| Effect of exchange rate fluctuations on cash held | (0.1) | 0.2 | 2.1 |
| **Cash and cash equivalents at end of the year** | 6.7 | 24.8 | 96.9 |

Significant non-cashflow transactions which are not reflected in the consolidated statement of cashflows are set out in note 31.

**Notes to the financial information**

**1 Accounting polices**

Petra Diamonds Limited ("Petra", or "the Company", or "the Group"), a limited liability company quoted on AIM, is registered in Bermuda with its group management office domiciled in Jersey. The Company's registered address is 2 Church Street, Hamilton, Bermuda. The financial information incorporates the principal accounting policies set out below.

***1.1 Basis of preparation***

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

***Going concern***

The notes to the financial information set out the Group's objectives, policies and processes for managing its capital, exposures to credit risk and liquidity risk. As detailed in note 22 (xiv), the Group is to repay the deferred Al Rajhi / Cullinan consideration of US$18.7 million in December 2011.

The Directors have reviewed the Group's current cash resources, funding requirements and ongoing trading of the operations. As a result of the review, the going concern basis has been adopted in preparing the financial information and the Directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

***Currency reporting***

The functional currency of the Company is Pounds Sterling ("GBP") and the functional currency of the Group's business transactions in Botswana, Tanzania and Sierra Leone is US Dollars. The functional currency of the South African operations is South African Rand ("ZAR"), reference to transactions in ZAR in the financial information is denoted by an R. The Group financial information is presented in US Dollars. Also refer to the foreign currency accounting policy in note 1.14. ZAR balances are translated to US Dollars at R6.83 (2010: R7.65, 2009: R7.88) as at 30 June 2011 and at an average rate of R7.00 (2010: R7.61, 2009: R9.04) for transactions during the year ended 30 June 2011.

***1.2 New standards and interpretations applied***

The IASB issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 July 2009 which were adopted by the Group for the first time in the year ended 30 June 2010.

| | | *Effective period commencing on or after* | *Impact on Group* |
|---|---|---|---|
| IAS 1 | Amendment – Presentation of financial statements: a revised presentation | 1 January 2009 | Yes |
| IAS 23 | Amendment – Borrowing costs | 1 January 2009 | No |
| IAS 27 | Amendment – Consolidated and separate financial statements | 1 July 2009 | Yes |
| IAS 32 and IAS 1 | Amendments – Puttable financial instruments and obligations arising on Liquidation | 1 January 2009 | No |
| IAS 39 | Amendment – Financial Instruments: Recognition and measurement of eligible hedged items | 1 July 2009 | No |
| IFRS 1 | First-time adoption of international accounting standards | 1 July 2009 | No |
| IFRS 1 and IAS 27 | Amendments – Cost of an investment in a subsidiary, jointly controlled entity or associate | 1 January 2009 | No |
| IFRS 2 | Amendment – Share-based payment: vesting conditions and cancellations | 1 January 2009 | No |

| | | *Effective period commencing on or after* | *Impact on Group* |
|---|---|---|---|
| IFRS 3 | Revised – Business combinations | 1 July 2009 | Yes |
| IFRS 7 | Amendment – Improving Disclosure about Financial Instruments | 1 January 2009 | Yes |
| IFRS 8 | Operating segments | 1 January 2009 | Yes |
| General | Improvements to IFRSs (2009) | 1 January 2009 | No |
| IFRIC 9 and IAS 39 | Amendment – Embedded derivatives | 30 June 2009 | No |
| IFRIC 15 | Agreements for the Construction of Real Estate | 1 January 2009 | No |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 | No |
| IFRIC 17 | Distributions of Non-cash Assets to owners | 1 July 2009 | No |
| IFRIC 18 | Transfer of Assets from Customers | 1 July 2009 | No |

As a result of the amendments to IAS 27, the Group now recognises non-controlling interests in subsidiaries which have net liabilities. From the year ended 30 June 2010 non-controlling interest in gains and losses are recognised as they occur. The standard did not require the restatement of prior period figures and therefore the historic 30 June 2009 presented in this report has not been restated.

The Group has complied with the requirement to adopt IFRS 3 (revised). The revised standard required that all acquisition costs are written off to profit and loss instead of including them in the cost of the investment. The revised standard did not require the restatement of previous business combinations which would have been included in and prior to 30 June 2009.

The IASB has issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 July 2010 which have been adopted by the Group for the first time this year:

| | | *Effective period commencing on or after* | *Impact on Group* |
|---|---|---|---|
| IAS 32 | Amendment – Classification of Rights Issues | 1 February 2010 | No |
| IFRS 1 | Amendment – First-time Adopters of IFRS | 1 July 2010 | No |
| IFRS 1 | Additional Exemptions for First-time Adopters | 1 January 2010 | No |
| IFRS 2 | Amendment – Group Cash-settled Share-based Payment Transactions | 1 January 2010 | No |
| General | Improvements to IFRS (2009) | 1 January 2010 | No |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 | No |

***New standards and interpretations not yet effective***

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 July 2011 or later periods and which the Group has decided not to adopt early. These are:

| | | *Effective period commencing on or after* |
|---|---|---|
| IAS 24 | Revised – Related Party Disclosures | 1 January 2011 |
| IFRIC 14 | Amendment – IAS 19 Limit on a Defined Benefit Asset | 1 January 2011 |
| | Improvements to IFRSs (2010) | 1 January 2011 |
| IFRS 7* | Amendment – Transfer of Financial Assets | 1 July 2011 |
| IFRS 1* | Amendment – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | 1 July 2011 |
| IAS 12* | Amendment – Deferred Tax: Recovery of Underlying Assets | 1 January 2012 |
| IAS 1* | Amendment – Presentation of Items of Other Comprehensive Income | 1 July 2012 |
| IFRS 9* | Financial Instruments | 1 January 2013 |
| IFRS 10* | Consolidated Financial Statements | 1 January 2013 |
| IFRS 11* | Joint Arrangements | 1 January 2013 |
| IFRS 12* | Disclosure of Interests in Other Entities | 1 January 2013 |
| IFRS 13* | Fair Value Measurement | 1 January 2013 |
| IAS 27* | Amendment – Separate Financial Statements | 1 January 2013 |
| IAS 28* | Amendment – Investments in Associates and Joint Ventures | 1 January 2013 |
| IAS 19* | Amendment – Employee Benefits | 1 January 2013 |
| IFRIC 20* | Stripping Cost in the Production Phase of a Surface Mine | 1 January 2013 |

* Not yet adopted by the European Union

The Group is currently assessing the impact of these standards on the financial information.

***1.3 Basis of consolidation***

***Subsidiaries***

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

***Business combinations***

The results of business combinations are accounted for using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Other Comprehensive Income from the date on which control is obtained. Business combinations are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the fair value of the assets, liabilities and contingent liabilities recognised. In the period ended 30 June 2010 all costs incurred on business combinations were charged to the Consolidated Income Statement, whereas in the year ended 30 June 2009 all costs were capitalised as part of the investment.

Changes in the Group's ownership interests that do not result in a loss of control are accounted for as equity transactions.

***Non-controlling interests***

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of

changes in equity since the date of the combination. As a result of the revision to IAS 27, in the period ending 30 June 2010, Consolidated and Separate Financial Statements, the non-controlling interests' share of losses, where applicable, are attributed to the non-controlling interests. Whereas, in the year ended 30 June 2009, the Group's portion of the loss in a non-controlling interest would only be recognised if the non-controlling shareholders had a binding obligation and were able to make an additional investment to cover the losses.

***Associates***

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

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

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

***Transactions eliminated on consolidation***

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

***1.4 Property, plant and equipment***

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

The depreciation rates are as follows:

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

Mineral properties for the Group's operating mines, Cullinan, Williamson, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star, are based on current life of mine plans. The current mine plans indicate useful life of the mines of between 12 and 22 years. Resources remaining after the current life of mine plans have not been included in depreciation calculations.

Cullinan mining assets relating to the C-Cut have not been depreciated as the C-Cut has not yet been accessed. Assets transferrable to the C-Cut phase one development programme are being depreciated over the specific tonnes associated with the identified areas where they are currently in use. All other Cullinan assets are being depreciated over the life of mine of specific areas mined.

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

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

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

### *1.5 Leases*

***Finance leases***

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired 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 Consolidated Statement of Financial Position.

Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period and the capital repayment, which reduces the liability to the lessor.

***Operating leases***

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

### *1.6 Exploration and evaluation costs*

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

Exploration and evaluation expenditure on brownfield sites, being those adjacent to deposits already being mined or where the economic feasibility of existing deposits has yet to be proven, is capitalised within mineral properties. Amortisation only occurs upon commencement of commercial production.

### *1.7 Intangible assets*

Mineral rights are capitalised at cost and are amortised on a unit of production basis for operating mines and over the estimated useful life for prospecting rights. Amortisation is included within mining and processing costs or exploration expenditure as appropriate.

### *1.8 Impairment*

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

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

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

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

Refer to note 9 for detailed disclosure of the results of reversal of impairments and impairment reviews performed. Reversal of impairments and impairment charges and reversals are charged to a separate line item under total costs in the Consolidated Income Statement.

### *1.9 Financial instruments*

***Financial assets***

The Group classifies its financial assets into one of the following categories and the Group's accounting policy for each category is as follows:

***Fair value through profit or loss***

This category comprises only in-the-money derivatives that were not designated and effective for hedge accounting at inception. They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Income Statement in the finance income or finance expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

***Loans and receivables***

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

***Available-for-sale***

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally of the Group's strategic investment in the entities not qualifying as subsidiaries, associates or jointly controlled entities. The assets are carried at fair value with changes in fair value recognised directly in the Consolidated Statement of Other Comprehensive Income and accumulated in other reserves. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the Consolidated Income Statement. Fair values of quoted investments are based on current market prices. The Group only holds quoted investments. Available for sale financial assets are fair valued at each reported date and reviewed as set out above. As at 30 June 2011 a cumulative loss of US$0.5 million (30 June 2010: loss of US$0.1 million) was recorded in other reserves in respect of the available-for-sale financial assets.

***Financial liabilities***

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

***Fair value through profit or loss***

This category comprises only out-of-the-money derivatives that were not designated and effective for hedge accounting at inception (see financial assets for "in-the-money" derivatives). The liabilities are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Income Statement in the finance income or finance expense line.

***Other liabilities***

***Trade payables and other short-term and long-term monetary liabilities***

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

***Interest-bearing borrowings***

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

***Hedging instruments***

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date that relevant derivative contracts are entered into, the Group may designate the derivative for hedge accounting. Where a hedge instrument is designated for hedge accounting at inception, the Group formally assesses, at inception and on an on-going basis, whether the derivatives are highly effective in offsetting changes in the fair value or cashflows of the hedged item.

***Cashflow hedges***

Changes in the fair value of a derivative that is effective in offsetting changes in the cashflow of the hedged item, and that is designated and qualifies as a cashflow hedge, are recognised directly in equity. Changes in the fair value of derivatives that do not qualify for hedge accounting or were not designated for hedge accounting at inception are recognised in the Consolidated Income Statement. Amounts recognised in equity are transferred to the Consolidated Income Statement in the period during which the hedged forecast impacts net profit or loss. Any ineffective element of a cashflow hedge, which has been designated for hedge accounting, is taken to the Consolidated Income Statement. The Group has not had any hedging instruments designated as cashflow hedges for hedge accounting as at 30 June 2011, 30 June 2010 or 30 June 2009.

***Fair value hedges***

Where derivatives are used to hedge the Group's exposure to fair value risk and qualify and are designated as fair value hedges, both the derivative and hedged item are measured at fair value with changes in fair value recognised in the Consolidated Income Statement within financial income / (expense). During the year, the Group has designated forward currency contracts and restricted foreign currency deposits as hedging instruments; representing a fair value hedge of the foreign exchange risk on the firm commitment to purchase the Finsch mine. The hedging instruments are recognised in the Consolidated Statement of Financial Position at fair value and changes in fair value are recognised in the Consolidated Income Statement. The change in the fair value of the unrecognised firm commitment attributable to the hedged risk (foreign exchange variation) is recognised as an other asset / (liability) and recognised within the Consolidated Income Statement to the extent that the hedge is effective.

***Impairment of financial assets***

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated Income Statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

***Fair value hierarchy***

Financial assets and liabilities measured at fair value are classified according to their fair value hierarchy as disclosed in note 26.

### *1.10 Revenue*

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and are 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. This is deemed to be the point at which the tender is awarded.

Revenue from test production on projects pending confirmation of commercial viability is credited to revenue and an equal amount charged to cost of sales and credited to mineral properties so as to record zero margin.

### *1.11 Finance and other income*

Finance and other income comprises income from interest and other non-operating income. Interest is recognised on a time apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

### *1.12 Tax*

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *1.13 Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

***Decommissioning, mine closure and environmental rehabilitation***

The estimated cost of decommissioning and rehabilitation will generally occur on or after closure of the mine, based on current legal requirements and existing technology. A provision is raised based on the present value of the estimated costs. Decommissioning costs are included in the cost of the related asset. The capitalised assets are depreciated in accordance with the accounting policy for property, plant and equipment. Annual increases in the provision, as a result of the change in the net present value, are charged to the Consolidated Income Statement. Annual increases in the provision due to the unwinding of the discount are recognised as a finance expense. The cost of the ongoing programmes to prevent and control pollution and ongoing rehabilitation costs of the Group's operations, is charged against income as incurred.

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

### *1.14 Foreign currency*

***Foreign currency transactions***

Transactions in foreign currencies are recorded at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to, or charged against, income. The issue of shares are included in share capital and share premium at the prevailing US Dollar/GBP spot rate at the date of the transaction.

***Financial statements of foreign entities***

Assets and liabilities of foreign entities (i.e. those with a functional currency other than US Dollar) are translated at rates of exchange ruling at the financial year-end; income and expenditure and cashflow items are translated at rates of exchange ruling at the date of the transaction or at rates approximating the rates of exchange at the date of the translation where appropriate. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the reporting date. Exchange differences arising from the translation of foreign entities are taken directly to a foreign currency translation reserve.

***Foreign operations***

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are not expected to be repaid in the foreseeable future are treated as part of the net investment in foreign operations. The unrealised foreign exchange gains and losses attributable to foreign operations are taken directly to the Consolidated Statement of Other Comprehensive Income and reflected in the foreign currency translation reserve.

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are expected to be repaid in the foreseeable future are recognised in the Consolidated Income Statement.

### *1.15 Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the reporting date. The provisions have been calculated based on current wage and salary rates.

### *1.16 Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments, and net of bank overdrafts, all of which are available for use by the Group unless otherwise stated. Restricted cash represents amounts held by banks as a guarantee in respect of environmental rehabilitation obligations in respect of the Group's South African mines and deposits held in escrow accounts not freely available to the Group.

### *1.17 Employee pension schemes*

***Defined contribution scheme***

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated Income Statement as incurred.

***Defined benefit scheme***

The defined benefit liability or asset recognised in the financial information represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets ("the corridor"), that portion is recognised in the Consolidated Statement of Other Comprehensive Income over the expected average remaining service lines of participating employees. Actuarial gains or losses within the corridor are not recognised. The actuarial calculation is performed by

a qualified actuary using the projected unit credit method. Any net asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and any reduction in future contributions that the Company is entitled to in terms of Section 15E of the Pension Funds Act in South Africa.

Actuarial gains and losses are recognised to the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the projected benefit obligation and the fair value of the plan assets ("the corridor"), that portion is recognised in the Consolidated Statement of Other Comprehensive Income over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The actuarial calculation is performed by a qualified actuary using the projected unit credit method.

### *1.18 Post retirement medical fund*

The Group operates a post retirement medical fund, which is unfunded and therefore recognised as a liability on the Consolidated Statement of Financial Position within provisions. The liability is based on an actuarial valuation performed at each year-end reporting date.

### *1.19 Share-based payments*

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

### *1.20 Inventories*

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

### *1.21 Convertible notes*

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments and are accordingly split between debt and equity in the Group's financial information. 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 cashflows, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the Consolidated Income Statement is calculated using the effective interest rate method. Also see interest-bearing borrowings in note 1.9.

### *1.22 Segment reporting*

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

### *1.23 Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. No such costs were incurred within the Group during the year ended 30 June 2011. Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

### *1.24 Critical assumptions and judgements*

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

***Judgements:***

***Life of mine and ore Reserves***

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

***Impairment reviews***

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future rough diamond prices, ore Reserves, rehabilitation costs, feasibility studies, future development and production costs. Changes in estimates used can result in significant changes to the Consolidated Income Statement. The policy in respect of impairment reviews is set out in note 1.8 and details of impairment reviews carried out during the year are set out in note 9.

***Taxation judgement***

The Group has received a number of historical tax claims in respect of its mining operations, relating to the period prior to the operations being acquired by the Group. Judgement is applied by management, having consulted with local tax advisors, on the probability of payments being made to settle the claims. A provision of US$2.2 million (30 June 2010: US$2.2 million; 30 June 2009: US$2.2 million) has been made in respect of these claims.

***Capitalisation of feasibility and development costs at the Williamson mine***

Judgement has been applied by management during the year ended 30 June 2010 in determining whether feasibility expenditure should be capitalised or expensed. The Group embarked on a feasibility study at the Williamson mine through an intensive bulk sampling programme with a view to better understanding the orebody. This was done to optimise the design of the treatment plant to further increase production in the future. Based on management's judgements, direct expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group in line with guidance from IAS 16. All other costs are expensed as care and maintenance costs. During the year ended 30 June 2011, the Group incurred costs as part of its refurbishment and expansion project to upgrade the plant. All direct costs incurred by the Group, including internal development costs, which are directly attributable to bringing the asset into use and which increase the future economic benefits that will flow to the Group, have been capitalised.

***Assumptions and estimates:***

***Provision for rehabilitation***

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, management used a discount rate range of 8% – 9% (30 June 2010: 6% – 9%; 30 June 2009: 8.9%), current life of mine plans of 11 to 53 years (30 June 2010: 11 to 53 years; 30 June 2009: 12 to 22 years) and an inflation rate range of 6.9% – 7.0% (30 June 2010: 5.5% – 7.0%; 30 June 2009: 6.9%). The carrying value of rehabilitation provisions at the reporting date is US$55.8 million; (30 June 2010: US$44.7 million; 30 June 2009: US$26.0 million).

***Valuation of share options***

In determining the fair value of share-based payments made during the year to employees, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The total charge to the Consolidated Income Statement in respect of share-based payments for the year is US$1.9 million (30 June 2010: US$1.7 million, 30 June 2009: US$ 2.3 million).

***Valuation of warrants***

In determining the fair value of warrants issued during the year, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The fair value of the warrants is debited against pre-payments until such time as the loan is drawn-down. When the loan is drawn-down, the fair value is debited against the interest bearing non-current borrowings and the effective interest rate and associated accretion charges adjusted accordingly. The fair value of the warrants for the year is US$7.9 million (30 June 2010: US$nil, 30 June 2009: US$nil) of which US$6.8 million (30 June 2010: US$nil, 30 June 2009: US$nil) has been debited against the interest bearing non-current borrowings.

During FY 2010, a number of assumptions were made by management in respect of warrants issued as part of a capital raising exercise. The details of these assumptions are set out in note 28. The fair value of the warrants (US$1.6 million) was debited against the share premium account being a directly attributable cost of the capital raising exercise.

***Deferred tax***

Judgement is applied in making assumptions about future taxable income, including diamond prices, production, rehabilitation costs and expenditure to determine the extent to which the Group recognises deferred tax assets.

## 2 Segment information

Segment information is presented in respect of the Group's operating and geographical segments:

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

**Exploration** – exploration activities in Botswana. The Group exited from exploration activities in Sierra Leone in May 2010 as a result of the disposal of its interest in Basama Diamonds. The Group exited from exploration activities in Angola during FY 2009 and realised profits on disposal of its Angolan assets in FY 2010.

Segments are based on the Group's management and internal reporting structure. Management reviews the Group's performance by reviewing the results of the mining activities in South Africa and Tanzania, reviewing the results of the exploration activities in Botswana and reviewing the corporate administration expenses in Jersey. Each segment derives, or aims to derive, its revenue from diamond mining and diamond sales, except for the corporate and administration cost centre.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results are calculated after charging direct mining costs and depreciation. Unallocated items comprise mainly interest-earning assets and income, interest-bearing borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire or construct segment assets that are expected to be used for more than one period. Eliminations comprise transactions between Group companies that are cancelled on consolidation. The results are not materially affected by seasonal

variations. Revenues are generated from tenders held in Johannesburg and Antwerp for external customers from various countries; the ultimate customers of which are not known to the Group.

The Group's non-current assets are located in South Africa US$472.5 million (30 June 2010: US$358.6 million), Tanzania US$79.9 million (30 June 2010: US$44.6 million) and Jersey US$0.5 million (30 June 2010: US$0.8 million).

| *Operating segments* | *South Africa – mining activities* | | | | *Tanzania – mining activities* | *Botswana* | | | |
|---|---|---|---|---|---|---|---|---|---|
| *US$ million* | *Cullinan* | *Koffiefontein* | *Kimberley Underground* | *Fissures* | *Williamson* | *Exploration* | *Corporate administration* | *Inter-segment* | *Consolidated* |
| **2011** | | | | | | | | | |
| Revenue | 140.2 | 30.8 | 18.2 | 21.8 | 9.5 | — | — | 0.1 | 220.6 |
| Segment result | 47.0 | (1.2) | (0.3) | (5.4) | (6.8) | (1.5) | 12.1 | (3.8) | 40.1 |
| Other income / (expense) | 1.9 | 0.5 | (0.4) | 0.4 | 0.3 | — | — | — | 2.7 |
| Operating profit / (loss) | 48.9 | (0.7) | (0.7) | (5.0) | (6.5) | (1.5) | 12.1 | (3.8) | 42.8 |
| Reversal of impairment – Fissures | | | | 11.7 | | | | | 11.7 |
| Impairment – Fissures | | | | (5.2) | | | | | (5.2) |
| Financial income | | | | | | | | | 42.5 |
| Financial expense | | | | | | | | | (27.4) |
| Income tax expense | | | | | | | | | (5.2) |
| Non-controlling interest | | | | | | | | | (5.9) |
| Profit attributable to equity holders of the parent company | | | | | | | | | 59.2 |
| Segment assets | 409.7 | 57.7 | 71.5 | 110.1 | 90.0 | 8.8 | 1 000.7 | (782.0) | 966.5 |
| Segment liabilities | 199.3 | 30.1 | 77.9 | 140.5 | 196.0 | 27.2 | 320.2 | (723.7) | 267.5 |
| Share-based payments | 0.2 | 0.2 | — | 0.1 | 0.1 | — | 1.3 | — | 1.9 |
| Capital expenditure | 33.9 | 11.0 | 13.0 | 16.2 | 36.6 | — | 0.2 | — | 110.9 |

Capital expenditure at the Helam Project's internal equipment manufacturing operation (a division within the Fissure operations) includes work-in-progress of US$11.0 million in respect of the manufacture of plant and equipment for other mines within the Group. Other income in respect of the Fissure Mines includes US$21.2 million of revenue and US$21.4 million of costs in respect of Helam projects for the manufacture of plant and equipment for other mines within the Group. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation. Capital expenditure at Williamson includes US$35.8 million of cash costs capitalised, in respect of the plant rebuild and expansion programme.

| *Operating segments* | *South Africa mining activities* | | | | *Tanzania mining activities* | *Angola Botswana Sierra Leone* | | | |
|---|---|---|---|---|---|---|---|---|---|
| *US$ million* | *Cullinan* | *Koffiefontein* | *Kimberley Underground* | *Fissures* | *Williamson* | *Exploration* | *Corporate administration* | *Inter-segment* | *Consolidated* |
| **2010** | | | | | | | | | |
| Revenue | 112.7 | 22.8 | — | 13.5 | 14.4 | — | 0.3 | — | 163.7 |
| Segment result | 24.2 | 0.2 | (4.9) | (5.4) | (6.0) | (1.9) | 11.4 | — | 17.6 |
| Other income | 1.2 | 0.6 | 0.2 | 0.1 | 0.3 | 0.5 | 4.2 | 0.7 | 7.8 |
| Operating profit/(loss) | 25.4 | 0.8 | (4.7) | (5.3) | (5.7) | (1.4) | 15.6 | 0.7 | 25.4 |
| Fair value uplift on CIHL acquisition | | | | | | | | | 31.0 |
| Recycling of foreign exchange differences on exploration projects | | | | | | | | | 12.3 |
| Financial income | | | | | | | | | 27.6 |
| Financial expense | | | | | | | | | (27.3) |
| Income tax credit | | | | | | | | | 1.2 |
| Non-controlling interest | | | | | | | | | (6.7) |
| Profit attributable to equity holders of the parent company | | | | | | | | | 63.5 |
| Segment assets | 320.4 | 65.6 | 47.5 | 83.6 | 48.9 | 7.2 | 601.4 | (683.2) | 491.4 |
| Segment liabilities | 177.4 | 40.9 | 54.4 | 112.4 | 144.3 | 37.9 | 213.6 | (580.4) | 200.5 |
| Share-based payments | 0.3 | 0.2 | — | 0.2 | 0.1 | — | 0.9 | — | 1.7 |
| Capital expenditure | 17.3 | 4.6 | 19.6 | 2.5 | 11.6 | — | 0.1 | (5.9) | 49.8 |

Capital expenditure at Kimberley Underground includes US$16.4 million of capital expenditure incurred prior to acquisition. Capital expenditure at Williamson includes US$7.8 million of feasibility

costs capitalised. Other income in respect of the Fissure Mines includes US$15.8 million of revenue and US$15.1 million of costs in respect of the manufacture of plant and equipment for other mines within the Group. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

| | *Cullinan mine* | *Koffiefontein mine* | *South Africa mining activities Kimberley Underground mine* | *Fissure Mines* | *Tanzania mining activities Williamson mine* | *Angola Botswana Sierra Leone Exploration* | *Corporate administration* | *South Africa Beneficiation* | *Intersegment* | *Consolidated* |
|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | | | |
| Revenue | 25.6 | 18.3 | — | 15.3 | 9.5 | 0.3 | 0.3 | 1.0 | (1) | 69.3 |
| Segment result | 0.6 | 1.5 | — | (6.1) | (2.4) | (13.9) | (8.3) | (1.0) | (0.1) | (29.7) |
| Other income/(expense) | 0.7 | 4.2 | (2.1) | (0.9) | 0.2 | — | 0.7 | — | — | 2.8 |
| Operating profit/(loss) | 1.3 | 5.7 | (2.1) | (7) | (2.2) | (13.9) | (7.6) | (1) | (0.1) | (26.9) |
| Impairments | | | | | | | | | | (75.3) |
| Profit on sale of assets | | | | | | | | | | 2.6 |
| Financial income | | | | | | | | | | 20.7 |
| Financial expense | | | | | | | | | | (13.5) |
| Income tax credit | | | | | | | | | | 3.4 |
| Non-controlling interest | | | | | | | | | | (1.9) |
| Loss attributable to equity holders of the parent company | | | | | | | | | | (90.9) |
| Segment assets | 117.1 | 72.9 | 25.6 | 87.7 | 29.1 | 2.8 | 372.6 | — | (465.6) | 242.2 |
| Segment liabilities | 75.6 | 50.9 | 7.5 | 146.9 | | | | | | |
| Share-based payments | — | — | — | — | | | | | | |
| Capital expenditure | 4.2 | 3.7 | 8.7 | 8.6 | | | | | | |

## 3 Acquisitions and disposals

### 30 June 2011

### 3 (a) Increase in effective interest in the Koffiefontein mine to 74%

On 10 December 2010, the Company increased its effective interest in the Koffiefontein mine in South Africa from 70% to 74% for a cash consideration of R6.0 million (US$0.8 million).

The additional 4% interest in Koffiefontein was purchased by BDM, a wholly owned subsidiary of the Company, through the acquisition of a shareholding in Re Teng, the holding company of Petra's BEE partners at Koffiefontein; the interests in Koffiefontein are now Petra 74%, BEE partners 26%.

In the year to 30 June 2011, Koffiefontein recorded a net loss before taxation of R1.4 million (US$0.2 million). If the acquisition had occurred on 1 July 2010, the Group's share of the loss from the Koffiefontein mine for the year to 30 June 2011 would have increased by R0.06 million (US$0.01 million) and the non-controlling interest share would have reduced accordingly.

***Effect of the acquisition***

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

Koffiefontein net assets at acquisition date:

| | *US$ million* |
|---|---|
| Book value of net assets at 10 December 2010 | 43.8 |
| Book value of 4% interest acquired | 1.7 |
| Fair value of consideration paid: | |
| Settled in cash | 0.8 |
| Excess of carrying value of 4% interest purchased over fair value consideration paid | 0.9 |

In accordance with IAS 27, as the purchase represents a transaction with existing shareholders which has not resulted in the gain or loss of control, the carrying value of the 4% interest acquired of US$1.7 million as at 10 December 2010 has been deducted from the Group's non-controlling interest balance relating to Koffiefontein. The US$0.9 million excess of the carrying value of the 4% acquired in Koffiefontein over the fair value consideration of US$0.8 million has been recognised directly in equity and attributed to the Group.

**30 June 2010**

**3 (b) Investment in the Cullinan mine**

On 15 July 2008, the Company, as a shareholder in CIHL, acquired a 37% interest in the Cullinan mine in South Africa. Petra held a 50% interest in, and jointly controlled, CIHL. CIHL has a 74% interest in, and controls, CDM, the company which acquired the assets and liabilities of the Cullinan mine from De Beers. CIHL consolidates the Cullinan operations and recognises a 26% non-controlling interest, being the interests of Petra's BEE Partners in the Cullinan mine. In the period ending 30 June 2009, the Group used the proportionate method of consolidation and therefore reflected 50% of the Cullinan operating results, assets and liabilities, and a 13% non-controlling interest.

On 17 December 2009, the Company acquired Al Rajhi's 50% interest in CIHL, which in turn increased Petra's ownership in the mine to 74%. On acquisition of Al Rajhi's 50% interest in CIHL, the Company assumed responsibility for the US$80.0 million Cullinan loan (plus accrued interest of approximately US$9.6 million) that was due to Al Rajhi. The consideration was satisfied by the issue of 36 million Petra shares (fair value of US$39.8 million based on the prevailing share price at the transaction date) and a deferred consideration of US$35.0 million payable by December 2011. The deferred consideration has been discounted over a period of 24 months using a discount factor of 6% to US$31.0 million at acquisition. The discounted deferred consideration balance is being accreted over the period of 24 months to the full settlement value of US$35.0 million. During the year, the Group settled US$15.0 million of the deferred consideration and the discounted liability was adjusted accordingly. After this US$15.0 million payment, the balance of the deferred consideration that is payable by 31 December 2011 is US$20.0 million.

There are two elements to the accounting for the transaction to acquire Al Rajhi's 50% interest. Under IFRS 3 (revised), the transaction was accounted for as a stepped acquisition. Petra's original equity interest in CIHL has been revalued to fair value (based upon the fair value of the purchase consideration of the second 50%) of US$71.0 million as at the date of the acquisition of the second 50%, resulting in an income statement gain of US$31.0 million as reflected on the income statement as the fair value uplift on the acquisition of CIHL.

The second 50% of CIHL acquired was recognised at fair value on the acquisition date. The fair value of the consideration paid was used as the best estimate of the fair value of the net assets acquired; this gave rise to a fair value adjustment of US$61.8 million to the mining property, plant and equipment, mineral properties, and inventory (deferred taxation was provided on the fair value adjustment). The Group now has a 100% interest in CIHL, which has a 74% interest in and controls the Cullinan operations; CIHL consolidates the Cullinan operations and reflects a 26% non-controlling interest. The Group therefore now also consolidates the Cullinan mine as a subsidiary with a 26% non-controlling interest. Full consolidation commenced on the acquisition date of 17 November 2009, being the date on which control passed. The passing of control occurred prior to the formal completion of the transaction. Prior to this date, the Group used the gross method of proportional consolidation.

In the 12 months to 30 June 2010, the CIHL Group recorded a net profit before taxation of US$57.5 million. If the acquisition had occurred on 1 July 2009, the Group's profit from the CIHL Group for the period ending 30 June 2010 would have increased by US$1.4 million. The underlying Cullinan mine generated revenue for the 12 months to 30 June 2010 of R966.9 million (US$127.0 million) and revenue of R748.6 million (US$98.3 million) since the date of the acquisition of the second 50% of CIHL. Costs associated with the acquisition have been expensed in full in the income statement.

***Effect of the acquisition***

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

CIHL net assets at acquisition date:

| | *Book values US$ million* | *Fair value adjustments US$ million* | *Fair values US$ million* |
|---|---|---|---|
| Mining property, plant & equipment, mineral properties and inventories | 166.8 | 85.9 | 252.7 |
| Trade and other receivables | 87.2 | — | 87.2 |
| Cash and cash equivalents | 0.8 | — | 0.8 |
| Deferred tax | 5.2 | (24.1) | (18.9) |
| Environmental liabilities | (15.0) | — | (15.0) |
| Long term payables | (131.0) | — | (131.0) |
| Employee related payables | (11.1) | — | (11.1) |
| Trade and other payables | (11.3) | — | (11.3) |
| Net assets acquired | 91.6 | 61.8 | 153.4 |
| Non-controlling interest | | | (11.6) |
| Fair value of assets attributable to the parent company | | | 141.8 |
| Satisfied as follows: | | | |
| Consideration satisfied in shares | | | 39.8 |
| Present value of deferred loan consideration | | | 31.0 |
| Fair value of initial 37% equity stake | | | 71.0 |
| Fair value cost of business combination | | | 141.8 |

**3 (c) Acquisition of the Kimberley Underground mines assets**

On 19 May 2010, the Company announced the completion of its previously announced transaction with De Beers to acquire the mining and associated assets ("Assets") previously used by De Beers in the operation of the Kimberley Underground diamond mines in Kimberley, South Africa. The Company and De Beers entered into the agreement for the sale of the Kimberley Underground Assets in September 2007, however the transaction took longer than originally anticipated to complete due to complexities related to the New Order Mining Right, which have now been completely resolved.

The consideration of R78.5 million (US$10.4 million) was settled by Petra assuming De Beers' rehabilitation obligations with regards to Kimberley Underground of R63.5 million (US$8.4 million), and the payment in cash by Petra to De Beers of R15.0 million (US$2.0 million).

During the period from September 2007 to the date of acquisition, certain pre-acquisition expenditure was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group as disclosed in note 1.4 of the financial statements for the year ending 30 June 2009. All other costs were expensed as care and maintenance costs. Care and maintenance costs of R53.9 million (US$7.1 million) were expensed. Costs related to ore stockpiles of R37.6 million (US$4.9 million) and fixed assets costs of R204.6 million (US$27.0 million) were included in inventory and fixed assets respectively and treated as part of the consideration paid, as set out in the table below.

As set out above, the Group incurred care and maintenance costs in respect of the Kimberley Underground mine in the pre-acquisition period; these care and maintenance costs would have given rise to a loss before taxation of the same amount. In the 12 months to 30 June 2010, Kimberley Underground incurred care and maintenance costs of US$2.1 million which were recorded in the books of the Group. Therefore if the acquisition had occurred on 1 July 2009 there would have been no change to the losses recorded in respect of Kimberley Underground. Kimberley Underground recorded no revenues in the pre or post-acquisition period.

***Effect of the acquisition***

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

Kimberley Underground net assets at acquisition date:

| | *Book values at acquisition date US$ million* | *Pre-acquisition expenditure capitalised US$ million* | *Total acquired book values US$ million* | *Fair value adjustments US$ million* | *Fair values US$ million* |
|---|---|---|---|---|---|
| Mining property, plant & equipment, mineral properties and inventories | 10.0 | 31.9 | 41.9 | 0.5 | 42.4 |
| Trade and other receivables | — | 1.8 | 1.8 | — | 1.8 |
| Cash and cash equivalents | — | 0.1 | 0.1 | — | 0.1 |
| Deferred tax | — | — | — | (0.1) | (0.1) |
| Environmental liabilities | (8.4) | — | (8.4) | — | (8.4) |
| Trade and other payables | — | (11.8) | (11.8) | — | (11.8) |
| Net assets acquired | 1.6 | 22.0 | 23.6 | 0.4 | 24.0 |
| Non-controlling interest | | | | | (6.2) |
| Fair value of assets attributable to the parent company | | | | | 17.8 |
| Satisfied as follows: | | | | | |
| Consideration satisfied in cash | | | | | 2.0 |
| Expenditure capitalised | | | | | 22.0 |
| Contribution from non-controlling interests | | | | | (6.2) |
| Fair value cost of business combination | | | | | 17.8 |

Judgement was applied by management in determining whether pre-acquisition expenditure should be capitalised or expensed. Management exercised judgement based on whether the Group exercised control over the asset, a consideration of guidance from IAS 11, and an assessment of the nature of the expenditure which was incurred to bring the mining asset back into a condition in which it can be utilised for mining and production. Based on management's judgements, expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets are expected to flow to the Group. All other costs were expensed as care and maintenance costs. The Group has capitalised and expensed pre-acquisition costs during the year as set out above.

**3 (d) Acquisition of subsidiary Williamson Diamond Mine ("Williamson")**

On 10 November 2008, Petra acquired the entire share capital of Willcroft from Cheviot Holdings Ltd, a wholly owned subsidiary of De Beers for a cash consideration of US$10 million. A fair value adjustment of US$5.7 million to mineral properties arose at the date of acquisition as a result of the premium attributable to the mineral properties purchased (grossed up for deferred taxation) from De Beers.

During the period ending 30 June 2010, the mineral properties fair value adjustment of US$5.7 million was increased to US$7.1 million gross of tax as a result of a review of the acquisition book values for trade and other receivables and inventories.

The Company continued with the feasibility study at Williamson until 31 March 2010 at which point management considered the feasibility study to be substantially complete and had achieved sufficient understanding of the orebody and plant requirements. To the date that the feasibility was confirmed, all direct costs net of associated revenue were capitalised as part of the Williamson feasibility project. Subsequently, having confirmed the commercial feasibility, a programme of plant rebuild and

expansion commenced and direct costs associated with the plant rebuild and expansion have been capitalised. The plant rebuild costs are capitalised when the works are considered to have enhanced the economic returns of the asset. Williamson generated revenue for the 12 months to 30 June 2010 of US$14.4 million.

***Effect of the acquisition***

The effect of the fair value adjustment on acquisition had the following effect on the Group's assets and liabilities:

Williamson net assets at acquisition date (revised):

| | *Book Values US$ million* | *Fair Value Adjustments US$ million* | *Fair Values US$ million* |
|---|---|---|---|
| Fair value of net assets of entity acquired | | | |
| Mining property, plant & equipment | 18.8 | — | 18.8 |
| Mineral properties | — | 7.1 | 7.1 |
| Trade and other receivables | 4.3 | (0.8) | 3.5 |
| Inventory | 6.4 | (3.8) | 2.6 |
| Cash assets | 1.2 | — | 1.2 |
| Deferred tax | — | (1.7) | (1.7) |
| Environmental liabilities | (11.0) | — | (11.0) |
| Trade and other payables | (8.3) | (2.2) | (10.5) |
| Inter-group loans | (97.9) | 97.9 | — |
| Consideration amount satisfied in cash | (86.5) | 96.5 | 10.0 |

**3 (e) Disposal of interest in the Kono Project**

On 4 May 2010, Petra announced that it had reached agreement with Stellar to exchange its interest in the Kono Project in Sierra Leone for shares in Stellar, the project's joint venture partner. This kimberlite fissure project, whilst at an advanced stage of exploration and demonstrating positive project parameters, was not of a suitable scale to contribute to the Group's objective on delivering substantial production and revenue growth from its portfolio of assets. The Kono Project had no carrying value in Petra's Consolidated Statement of Financial Position and therefore there were no impairments to be recognised by Petra with regards to the divestment.

The terms of the acquisition were that Stellar issue to Petra 4,500,000 new ordinary Stellar shares (at a price of £0.14 per share) for a total consideration of £0.6 million (US$0.9 million) in return for Petra's interest in Kono, held via joint venture company Basama Diamonds. As a result of the Stellar shares being issued to Petra, Petra became a 4.45% shareholder in Stellar. Petra agreed (subject to certain exceptions) not to dispose of any of the Stellar shares for 12 months from the date of completion of the transaction, which was 24 May 2010. As part of the transaction both Petra and Stellar agreed to form a cooperation agreement whereby Stellar will give Petra the first option to joint venture any project in the Stellar portfolio which Stellar seeks to develop with a partner. Petra's interest in the Kono Project was fully impaired as at 30 June 2009 and therefore 100% of the consideration was recorded as a gain in other income of US$0.9 million (£0.6 million).

## 4 Other income

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009 US$ million* | *2010 US$ million* | *2011 US$ million* |
| Profit on sale of residual Angolan assets | — | 3.7 | — |
| Profit on sale of interest in the Kono Project | — | 0.9 | — |
| Management and consulting fees | 3.2 | 0.8 | — |
| | 3.2 | 5.4 | — |

## 5 Mining and processing costs

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Raw materials and consumables used | 34.4 | 77.5 | 77.7 |
| Employee expenses | 30.5 | 53.9 | 75.0 |
| Depreciation of mining assets | 8.9 | 11.6 | 22.2 |
| Changes in inventory of finished goods | (0.9) | (5.3) | (5.2) |
| | 72.9 | 137.7 | 169.7 |

Included within mining and processing costs in the year ended 30 June 2010 is US$2.9 million relating to a shipment of diamonds stolen in October 2009 at OR Tambo International airport, whilst in transit from Williamson in Tanzania to the Company's sales office in Antwerp. Whilst the Company takes insurance for diamond transits, underwriters have denied the claim lodged by the Company for this loss. Due to the particular circumstances surrounding this loss, and whilst the Company is considering its options that may include legal actions, no recovery from underwriters or any other party is currently recognised.

Immediately subsequent to this theft, the Company changed the method and route of shipment from Williamson to Antwerp as well as the insurance provider.

## 6 Other direct (income)

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Loss on disposal of fixed assets | 0.2 | 0.1 | 0.3 |
| Retrenchment costs | 0.9 | — | — |
| Care and maintenance | 2.1 | 2.0 | — |
| Rehabilitation liability revaluation – change in assumptions | (4.6) | — | — |
| Other mining income | (1.2) | (4.5) | (3.0) |
| | (2.6) | (2.4) | (2.7) |

## 7 Exploration expenditure

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Employee expenses | 4.1 | 0.5 | 0.5 |
| Depreciation of exploration assets | 2.7 | 0.1 | 0.1 |
| Amortisation of intangible assets | 5.9 | 1.0 | — |
| Drilling and air survey expenses | 1.0 | 0.1 | 0.5 |
| Rental and equipment hire | 0.3 | 0.1 | 0.1 |
| Other exploration expenses | 5.7 | (2.0) | 0.2 |
| | 19.7 | (0.2) | 1.4 |

The credit of US$2.0 million to other exploration expenses in the year ended 30 June 2010 relates to the reversal of a provision for closure costs in Angola; the Angolan assets were sold during FY 2010 which resulted in a much lower level of costs being incurred than originally anticipated.

## 8 Corporate expenditure

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Auditors' remuneration | | | |
| – audit services | 0.4 | 0.4 | 0.4 |
| – non-audit services | — | — | 0.1 |
| Depreciation of property, plant and equipment | 0.1 | 0.2 | 0.1 |
| Operating lease rentals – buildings | 0.2 | 0.4 | 0.4 |
| Staff costs | 2.4 | 3.6 | 4.3 |
| Other charges | 2.9 | 3.1 | 2.8 |
| Share-based payments | | | |
| – Directors | 1.8 | 0.7 | 0.6 |
| – Senior Management | 0.5 | 0.2 | 0.7 |
| | 8.3 | 8.6 | 9.4 |

In addition to the above, the audit fee payable in 2012 in respect of the 2011 audit by the Group to its current auditors is US$0.5 million.

All share-based payments are in respect of equity settled share option schemes as stated in note 28.

## 9 Impairment and reversal of impairments of operational assets and investments

In accordance with IAS 36 "Impairment of Assets", when events or changes in market conditions indicate that tangible or intangible assets may be impaired, such assets are reviewed in detail to determine whether their carrying value is higher than their recoverable value, which could lead to recording an impairment loss (recoverable value is the higher of value in use and fair value less costs to sell). Value in use is estimated by calculating the present value of the future cashflows expected to be derived from the asset. Fair value less costs to sell is based on the most reliable information available (market statistics, recent transactions, etc.) The discounted cashflow basis has been used to calculate a value in use for the mining operations for those mines for which the value in use exceeds fair value less cost to sell.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

When determining recoverable values of investments and property, plant and equipment, assumptions and estimates are made, based primarily on historical performance, market outlooks, obsolescence and sale or liquidation disposal values. Any change in these assumptions can have a significant effect on the recoverable amount and could lead to a revision of recorded impairment losses.

### 30 June 2011

During the year to 30 June 2011, the Group has reviewed the carrying values of its investments and operational assets for indicators of impairment and, following that assessment, a reversal of a prior impairment to Helam's property, plant and equipment and a further impairment to Star's property, plant and equipment is considered to be appropriate. The reversal of previous impairment charges at Helam reflects improved diamond prices, production and cashflows and has been determined net of depreciation which would have arisen if the asset had not been impaired. The additional impairment to Star reflects continued production levels which are insufficient to support the carrying value on a value in use basis. The impairment of Star has been determined based on fair value less costs to sell which is considered to exceed value in use. Impairment reversals of US$11.7 million (30 June 2010: US$nil) have been recorded in the income statement for 2011 in respect of Helam's assets. Impairment charges of US$5.2 million have been recorded in the income statement in respect of Star's assets for 2011 (30 June 2010: US$nil).

## Impairment reversal

| | *Asset class* | *Segment* | *Net book value[1] (US$ million)* | *Reversal of impairment (US$ million)* | *Carrying value (US$ million)* |
|---|---|---|---|---|---|
| Helam Mining | Property, plant & equipment | Fissure Mines | 9.0 | 15.2 | 24.2 |
| | Mineral Properties | | | 7.4 | |
| | Underground development | | | 4.8 | |
| | Buildings | | | 1.0 | |
| | Mining property, plant & equipment | | | 2.0 | |
| | Forex movement | | — | (3.5) | (3.5) |
| Sub-total | | | 9.0 | 11.7 | 20.7 |

1 Net book value refers to the carrying value of the amounts including the previous impairments.

2 Helam's assets were previously impaired in December 2008 by US$12.9 million (R114.5 million) using an exchange rate of US$/R 8.87. In FY 2011 the initial impairment of R114.5 million in the subsidiary was reversed less depreciation that would have been incurred had the impairment never taken place. The resulting impairment reversal was US$15.2 million (R103.7 million) using an exchange rate of US$/R 6.83. US$3.5 million of the reversal has been recognised in the foreign currency translation reserve to take into account the movement in the foreign exchange rate from the date of the initial impairment to the date of the reversal when translating the Rand value to US Dollars; with US$11.7 million recognised as an income statement gain.

## Operational assets impaired

| | *Asset class* | *Segment* | *Net book value (US$ million)* | *Impairment raised (US$ million)* | *Carrying value (US$ million)* |
|---|---|---|---|---|---|
| Star Diamonds | Property, plant & equipment | Fissure Mines | 7.0 | (5.2) | 1.8 |
| | Underground development | | | (1.7) | |
| | Land & buildings | | | (2.1) | |
| | Mining property, plant & equipment | | | (1.4) | |
| Sub-total | | | 7.0 | (5.2) | 1.8 |
| Net impairment reversal – Helam and Star | | | — | 6.5 | — |

### 30 June 2010

During the year to 30 June 2010, the Group reviewed the carrying values of its investments and operational assets for indicators of impairment and, following that assessment, no impairment of investments, property, plant and equipment or reversal of impairment losses incurred in prior periods was considered appropriate. This assessment was based on the assumptions set out in notes 9.1 and 9.2. Impairments of US$nil were recorded in 2010.

**30 June 2009**

During the year to 30 June 2009, the Group reviewed the carrying values of its investments and operational assets for indications of impairment and, following that assessment, resulted in an impairment on the assets shown in the table below. The impairments were determined based on fair value less costs to sell, which were considered to exceed value in use.

| | *Asset class* | *Segment* | *Book value US$ million* | *Impairment adjustment US$ million* | *Carrying Value US$ million* |
|---|---|---|---|---|---|
| 40% equity interest in Moyoweno – Angolan registered company with a 13% interest in the Alto Cuilo kimberlite exploration contract (Note 1) | Investment | Corporate administration | 6.0 | 6.0 | — |
| 39% equity interest in the Project Luangue kimberlite exploration project (Note 2) | Intangible asset-prospecting licence | Exploration | 37.1 | 37.1 | — |
| Kono Project (Sierra Leone) | Property, plant & equipment | Exploration | 8.5 | 8.5 | — |
| Helam Mining (Note 3) | Property, plant & equipment | Fissure Mines | 28.2 | 12.9 | 15.3* |
| | Mineral properties | | | 6.3 | |
| | UG development | | | 3.8 | |
| | Buildings | | | 0.2 | |
| | Mining property, plant & equipment | | | 2.6 | |
| Star Diamonds (Note 3) | Property, plant & equipment | Fissure Mines | 16.1 | 10.8 | 5.3 |
| | Mineral properties | | | 5.1 | |
| | UG development | | | 3.1 | |
| | Buildings | | | 1.2 | |
| | Mining property, plant & equipment | | | 1.4 | |
| Total | | | | 75.3 | |

Note 1 – On 13 May 2008 Petra announced the transfer of BHP Billiton's 75% interest in the Alto Cuilo Joint Venture to Petra, with the Company taking control of the project with effect from 1 April 2008. The consideration price of US$1 was paid for the acquisition of BHP Billiton's 75% interest in the Alto Cuilo Joint Venture; no value was assigned to the assets acquired due to the Group's decision to withdraw from its exploration projects in Angola.

On 19 December 2008, Petra announced that based on the results achieved and the global weakness in financial markets that it had decided to withdraw from the Alto Cuilo project (effective end December 2008). Care and maintenance was not an option that was permissible under the Angolan contractual conditions, so Petra therefore decided to withdraw completely and its interest in Alto Cuilo reverted (at no cost) to Endiama.

Due to the withdrawal from Angola the Company impaired its 40% equity interest in Organizações Moyoweno – Comércio Geral, Lda. (Moyoweno), an Angolan registered company, in the Group's statement of financial position to US$nil. Moyoweno's sole asset is a 13% interest in the Alto Cuilo kimberlite exploration contract.

Note 2 – On 13 May 2008 Petra announced the transfer of BHP Billiton's 25% interest in the Luangue Joint Venture to Petra, with the Company assuming the exploration funding obligations of the project with effect from 1 May 2008. The consideration price of US$1 was paid for the acquisition of BHP Billiton's 25% interest in the Luangue Joint Venture; no value was assigned to the assets acquired due to the Group's decision to withdraw from its exploration projects in Angola. Similar to the Alto Cuilo project, Petra announced at the time of BHP Billiton's withdrawal that it would monitor the ongoing exploration results with regards to further investment. On 2 February 2009 Petra announced that it had decided based on the ongoing exploration results and global weakness in financial markets, to withdraw from the Luangue project (effective end December 2008). As with Alto Cuilo, care and maintenance was not an option permissible under the Angolan contractual conditions, so Petra's interest in Luangue reverted to Endiama.

Note 3 – The mining operations recoverable amount was estimated on a discounted cashflow basis at a discount rate of 12% and cost escalation based on the current South African inflation rate.

* The Group's project division is housed in Helam Mining. Included in the carrying value of US$15.3 million is Group project related work in progress of US$9.8 million. Had these amounts not been included, Helam's carrying value would be US$6.3 million

### *9.1 Impairment testing assumptions*

**a) Helam Mining and Star Diamonds**

The key assumptions used in determining the recoverable value calculations for Helam, determined on a value in use basis, are listed in the table below in respect of the years ending 30 June 2011, 30 June 2010 and 30 June 2009:

| *Key assumptions* | *Explanation* |
|---|---|
| 1. Recoverable value of reserves and resources | Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to Life of mine below for further information. |
| 2. Diamond prices | Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price used in the calculations was US$185 – US$200 (2010: US$90 – US$200, 2009: US$40 – US$120). |
| 3. Discount rate | The discount rate used represents the before tax risk free rate per the RSA Government bonds adjusted for market risk and volatility. |
| 4. Inflation rate | A long-term inflation rate of 4% (30 June 2010 and 2009: 0%) above a long term US inflation rate of 2.5% (2010: 2.5%; 2009: 2.5%) per annum was used for US$ diamond prices, long term inflation rate of 3.5% (2010: 3.5%; 2009: 3.5%) above the prevailing US inflation rate was used for Opex and Capex valuations. |
| 5. Exchange rates | Exchange rates are based on external market consensus and after considering long term market expectations. The US$/ZAR exchange rate range used commenced at R6.99 (2010: R7.60; 2009: R9.50); further devaluing at 3.5% (2010: 3.5%; 2009: 3.5%) per annum. |
| 6. Life of mine | 20 years (30 June 2010: 21 years, 30 June 2009: 20 years) life of mine; total extractable resource 2.03 Mt (30 June 2010: 2.6 Mt; 30 June 2009: 2.6 Mt) at extraction rate of 101 ktpa (30 June 2010: 125 ktpa; 30 June 2009: 125 ktpa). |
| 7. Stay in business capex | Management has estimated the timing of the capital expenditure based on the Group's current and future financing plans for each operation. |
| 8. Valuation basis | Discounted present value of future cashflows. |
| 9. Sensitivity | Management do not consider there to be any reasonable change in assumption which may give rise to any impairment loss. |

Star's impairment has been determined based on the recoverable amount at 30 June 2011. The Directors have assessed the recoverable amount using fair value less costs to sell. The carrying value of assets was determined with reference to the plant and equipment that management considers to be saleable or transferrable to other mines within the Group for use in a manner which will generate sufficient future economic value to support the carrying value of those specific assets. The carrying value of these assets approximates fair value less cost to sell for the cash generating unit.

### 9.2 *Impairment tests – other mining operations*

The Group performs impairment testing on an annual basis of all operations and when there are potential indicators which may require impairment. In addition to Helam Mining and Star Diamonds, the Group also performed impairment testing for CDM, Koffiefontein Mine JV, Kimberley JV, Sedibeng JV and Williamson Diamonds. The results of the impairment testing performed did not indicate any additional impairments on the remaining mining operations. The key assumptions used in determining the recoverable value calculations, determined on a value in use, basis are listed in the table below:

| *Key assumptions* | *Explanation* |
|---|---|
| 1. Recoverable value of reserves and resources | Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to Life of mine below for further information. |
| 2. Diamond prices | Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price range used in the calculations was US$180 – US$640 (2010: US$90 – US$420; 2009: US$40 – US$255). |
| 3. Discount rate | The discount rate used for the South African operations represents the before tax risk free rate per the RSA Government bonds adjusted for market risk and volatility.<br>The discount rate used for Williamson represents the before tax risk free rate per the Tanzanian Government bonds adjusted for market risk and volatility. |
| 4. Inflation rate | A long-term inflation rate of 4% (30 June 2010 and 2009: 0%) above a long term US inflation rate of 2.5% (2010: 2.5%; 2009: 2.5%) per annum was used for US$ diamond prices.<br>Long term inflation rates of 3.5% to 4.5% (2010: 3.5%; 2009: 3.5%) above the prevailing US inflation rate were used for Opex and Capex valuations. |
| 5. Exchange rates | Exchange rates are based on external market consensus and after considering long term market expectations. The US$/ZAR exchange rate range used commenced at R6.99 (2010: R7.60; 2009: R9.50); further devaluing at 3.5% (2010: 3.5%, 2009: 3.5%) per annum. |
| 6. Life of mine | Cullinan – 16 years (2010: 22 years; 2009: 22 years) life of mine; total extractable resource 54.4 Mt (2010: 56.6 Mt; 2009: 71.6 Mt) at extraction rate of 2.4 Mtpa (2010: 2.6 Mtpa, 2009: 3.25 Mtpa).<br>Koffiefontein – 14 years (2010: 20 years; 2009: +20 years) life of mine; total extractable resource 16.1 Mt (2010: 23.5 Mt, 2009: 23.5 Mt) at extraction rate of 0.9 Mtpa (2010: 0.9 Mtpa, 2009: 1.2 Mtpa).<br>Kimberley Underground – 11 years (2010: 12 years; 2009: 12 years) life of mine; total extractable resource 9.4 Mt (2010 and 2009: 9.9 Mt) at extraction rate of 1.0 Mtpa (2010 and 2009: 0.8 Mtpa).<br>Sedibeng – 11 years (2010: 13 years; 2009: 12 years) life of mine; total extractable resource 1.4 Mt (2010: 1.579 Mt, 2009: 1.448 Mt) at extraction rate of 126 ktpa (2010: 126ktpa, 2009: 126ktpa).<br>Williamson – 17 years (30 June 2010: 18 years, 2009: 19 years) life of mine: total extractable resource 155.9 Mt (2010: 158 Mt, 2009: 992 Mt) at extraction rate of 2.7 increasing to 10 Mtpa (2010: 8.8 Mtpa; 2009: 7.5 – 10 Mtpa).<br>Resources remaining after the current life of mine plans have not been included in impairment testing for the above operations. |
| 7. Stay in business Capex | Management has estimated the timing of the capital expenditure based on the Group's current and future financing plans for each operation. |
| 8. Valuation basis | Discounted present value of future cashflows. |

| *Key assumptions* | *Explanation* |
|---|---|
| 9. Sensitivity | Management note that a 5% movement in diamond prices as compared to the average for FY 2011 at Sedibeng would result in break-even. Sedibeng has the lowest headroom of the mines detailed above. Management do not consider there to be any reasonable change in assumption which may give rise to any impairment loss at the remaining mines. |

## 10 Net financing income

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Interest expense on bank loans and overdrafts[1] | (0.7) | (1.6) | (1.0) |
| Other debt finance costs[1] | (7.5) | (8.4) | (6.7) |
| Unwinding of present value adjustment for rehabilitation costs | (1.0) | (2.6) | (3.8) |
| Realised foreign exchange losses | (0.4) | (0.1) | — |
| Other foreign exchange losses realised | — | (0.1) | (0.4) |
| Unrealised foreign exchange losses | (3.9) | (14.5) | (15.5) |
| Financial expense | (13.5) | (27.3) | (27.4) |
| Realised foreign exchange gains | 0.1 | 4.5 | 0.7 |
| Gain on partial settlement of long term liability[2] | — | 4.2 | — |
| Other unrealised foreign exchange gains | 17.4 | 15.3 | 34.1 |
| Net change in fair value of hedged item and instrument | — | — | — |
| Net change in fair value of hedged item in a fair value hedge | — | — | (6.0) |
| Net change in fair value of hedging instrument in a fair value hedge | — | — | 6.0 |
| Interest received on loans and other receivables | 2.1 | 3.2 | 5.5 |
| Interest received on bank deposits | 1.1 | 0.4 | 2.2 |
| Financial income | 20.7 | 27.6 | 42.5 |
| | 7.2 | 0.3 | 15.1 |

(1) Calculated using the effective interest method in respect of financial liabilities calculated at amortised cost
(2) The gain is primarily on the settlement of the Al Rajhi convertible bond.

## 11 Taxation

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Current taxation | | | |
| – Current tax (charge)/credit | (2.8) | 0.1 | 1.2 |
| Deferred taxation | | | |
| – Current period | 6.2 | 1.1 | (6.4) |
| | 3.4 | 1.2 | (5.2) |
| Reconciliation of tax rate | | | |
| (Loss)/profit before taxation from continuing and discontinued operations | (92.3) | 69.0 | 64.4 |
| Tax at Bermudan corporate rate of 0% | — | — | — |
| Effects of: | | | |
| Tax rates in foreign jurisdictions | 11.9 | (6.2) | (6.0) |
| Non-deductible expenses | (6.5) | (2.5) | (1.0) |
| Adjustment in respect of prior periods | (1.4) | 0.2 | 1.1 |
| Assessed losses utilised | 1.5 | 13.5 | 18.1 |
| Temporary differences | (0.7) | 0.3 | (5.6) |
| Assessed losses and capital allowances not utilised | (7.6) | (5.2) | (5.4) |
| Current tax (charge)/credit | (2.8) | 0.1 | 1.2 |
| Deferred tax movement | 6.2 | 1.1 | (6.4) |
| Total tax credit/(charge) | 3.4 | 1.2 | (5.2) |

During the year ended 30 June 2011, the Group realised a taxation benefit of previously unrecognised tax losses which reduced the current taxation payable by US$0.6 million (2010: US$1.7 million; 2009: US$16,919). Previously the Group did not recognise the tax losses as deferred tax assets. Tax losses not utilised do not have an expiry period in the country in which they arise, unless the entity ceases to continue trading. Tax losses available but not utilised as at 30 June 2011 amount to US$62.2 million (2010: US$50.6 million; 2009: US$8.4 million) and primarily arise in South Africa (US$37.0 million and Tanzania (US$25.2 million); amounts stated include both tax losses and unredeemed capital allowances and are stated at 28%, being the tax rate in South Africa, and 35%, being the tax rate in Tanzania.

## 12 Directors' and employees' remuneration

| | Year ended 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Staff costs (excluding the Non-Executive Directors) during the year were as follows:** | | | |
| Wages and salaries – mining | 30.5 | 53.9 | 75.0 |
| Wages and salaries – exploration | 4.1 | 0.5 | 0.5 |
| Wages and salaries – administration | 2.3 | 3.4 | 4.3 |
| Pension | 0.1 | 0.1 | 0.1 |
| | 37.0 | 57.9 | 79.9 |

In addition, during the year ended 30 June 2011, the Group capitalised US$4.7 million of wages and salaries relating to the rebuild and expansion projects at Williamson. In the year ended 30 June 2010, the Group capitalised US$8.2 million of salaries and wages relating to the feasibility study at Williamson.

The number of employees (excluding the Non-Executive Directors) at the various mining and exploration operations of the Group at the end of the period was 4,609 (2010: 3,701, 2009: 3,519), employed as follows:

| | *Year ended 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *Number* | *Number* | *Number* |
| Mining and exploration | 3,419 | 3,553 | 4,436 |
| Administration | 100 | 148 | 173 |
| | 3,519 | 3,701 | 4,609 |

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

**2009**

| | *Base remuneration US$ million* | *Performance-related bonus US$ million* | *Share-based allocations US$ million* | *2009 Total US$ million* |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| A Pouroulis | 0.2 | — | 0.3 | 0.5 |
| J Dippenaar | 0.3 | 0.1 | 0.5 | 0.9 |
| D Abery | 0.3 | 0.1 | 0.5 | 0.9 |
| J Davidson | 0.3 | 0.1 | 0.5 | 0.9 |
| | 1.1 | 0.3 | 1.8 | 3.2 |

**2010**

| | *Base remuneration US$ million* | *Performance-related bonus US$ million* | *2010 Total US$ million* |
|---|---|---|---|
| **Executive Directors** | | | |
| A Pouroulis | 0.2 | 0.1 | 0.3 |
| J Dippenaar | 0.3 | 0.3 | 0.6 |
| D Abery | 0.3 | 0.3 | 0.6 |
| J Davidson | 0.3 | 0.3 | 0.6 |
| | 1.1 | 1.0 | 2.1 |

**2011**

| | *Base remuneration US$ million* | *Back pay US$ million* | *Performance-related bonus US$ million* | *2011 Total US$ million* |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| A Pouroulis | 0.2 | — | 0.1 | 0.3 |
| J Dippenaar | 0.4 | 0.1 | 0.3 | 0.8 |
| D Abery | 0.4 | 0.1 | 0.3 | 0.8 |
| J Davidson | 0.4 | 0.1 | 0.3 | 0.8 |
| | 1.4 | 0.3 | 1.0 | 2.7 |

The Directors are considered to be key management.

**Non-Executive Directors**

Non-Executive Directors received remuneration of US$0.1 million (2010: US$0.1 million; 2009: US$0.1 million).

The IFRS 2 charge relating to the Executive Directors for the year was US$0.6 million (2010: US$0.7 million; 2009: US$1.8 million). See note 28 in respect of share-based payments.

## 13 Earnings/(loss) per share

| | *Continuing operations 2011 US$* | *Discontinued operations 2011 US$* | *Total 2011 US$* | *Continuing operations 2010 US$* | *Discontinued operations 2010 US$* | *Total 2010 US$* | *Continuing operations 2009 US$* | *Discontinued operations 2009 US$* | *Total 2009 US$* |
|---|---|---|---|---|---|---|---|---|---|
| Profit/(loss) for the year | 53,193,664 | | 53,193,664 | 63,485,409 | — | 63,485,409 | (92,423,981) | 1,557,974 | (90,866,007) |
| Denominator | No. of shares | No. of shares | No. of shares | No. of shares | No. of shares | No. of shares | No. of shares | No. of shares | No. of shares |
| Weighted average number of ordinary shares used in basic EPS as at 1 July | 352,803,021 | | 352,803,021 | 184,005,523 | — | 184,005,523 | 184,005,523 | 184,005,523 | 184,005,523 |
| Effect of shares issued during the period | 61,912,017 | | 61,912,017 | 96,241,934 | — | 96,241,934 | — | — | — |
| As at 30 June | 414,715,038 | | 414,715,038 | 280,247,457 | — | 280,247,457 | 184,005,523 | 184,005,523 | 184,005,523 |
| Dilutive effect of potential ordinary shares | 16,034,806 | | 16,034,806 | 5,717,632 | — | 5,717,632 | — | — | — |
| Weighted average number of ordinary shares in issue used in diluted EPS | 430,749,844 | | 430,749,844 | 285,965,089 | — | 285,965,089 | 184,005,523 | 184,005,523 | 184,005,523 |

| | *Continuing operations 2011 US$ million* | *Discontinued operations 2011 US$ million* | *Total 2011 US$ million* | *Continuing operations 2010 US$ million* | *Discontinued operations 2010 US$ million* | *Total 2010 US$ million* | *Continuing operations 2009 US$ million* | *Discontinued operations 2009 US$ million* | *Total 2009 US$ million* |
|---|---|---|---|---|---|---|---|---|---|
| Basic profit / (loss) per share – cents | 12.83 | | 12.83 | 22.65 | — | 22.65 | (50.23) | 0.86 | (49.38) |
| Diluted profit / (loss) per share – cents | 12.35 | | 12.35 | 22.20 | — | 22.20 | (50.23) | 0.86 | (49.38) |

In the year ended 30 June 2011, the number of potentially dilutive Ordinary Shares, in respect of employee share options and warrants is 16,034,806. These potentially dilutive Ordinary Shares may have a dilutive effect on future earnings per share. There are no share options and warrants that have been excluded from the potentially dilutive ordinary shares of 16,034,806 (30 June 2010: 5,973,185 excluded from potentially dilutive shares).

There have been no significant post balance sheet changes for the number of options and warrants to impact the dilutive number of Ordinary Shares.

In the year ended 30 June 2010, the number of potentially dilutive ordinary shares, in respect of employee share options, warrants and convertible bonds was 5,717,632.

In the year ended 30 June 2009, the diluted loss per share was the same as basic loss per share.

## 14 Property, plant and equipment

| | *Plant and machinery mining costs[3] US$ million* | *Plant and machinery exploration assets US$ million* | *Computers and office equipment exploration assets US$ million* | *Motor vehicles exploration assets US$ million* | *Mineral properties mining assets[2] US$ million* | *Assets under construction mining assets[4] US$ million* | *Assets advanced to project Alto Cuilo US$ million* | *Total Cost US$ million* |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2008 | 64.0 | 1.2 | 1.1 | 0.2 | 34.4 | 3.3 | 5.8 | 110.0 |
| Exchange differences | (1.3) | — | — | — | (0.1) | 1.9 | — | 0.5 |
| Business combination | 86.4 | — | — | — | 9.8 | — | — | 96.2 |
| Feasibility production revenue[1] | — | — | — | — | (9.4) | — | — | (9.4) |
| Feasibility production expenditure[1] | — | — | — | — | 15.6 | — | — | 15.6 |
| Additions | 22.1 | — | 0.3 | — | — | 13.3 | 1.1 | 36.8 |
| Disposals | (0.5) | — | (0.3) | — | — | — | — | (0.8) |
| Transfer to non-current liabilities as set off against JV partner loan | (7.6) | — | — | — | — | — | — | (7.6) |
| Impairment charge | (20.3) | — | — | — | (11.2) | — | (0.8) | (32.3) |
| **Balance at 30 June 2009** | 142.8 | 1.2 | 1.1 | 0.2 | 39.1 | 18.5 | 6.1 | 209.0 |
| Balance at 1 July 2009 | 142.8 | 1.2 | 1.1 | 0.2 | 39.1 | 18.5 | 6.1 | 209.0 |
| Exchange differences | 1.3 | — | — | — | (0.8) | 0.4 | 0.3 | 1.2 |
| Business combination[5] | 95.4 | — | — | — | 71.3 | 6.4 | — | 173.1 |
| Feasibility production revenue[1] | — | — | — | — | (14.4) | — | — | (14.4) |
| Feasibility production expenditure[1] | — | — | — | — | 22.2 | — | — | 22.2 |
| Additions | 19.1 | — | 0.1 | — | — | 6.3 | — | 25.5 |
| Disposals | (0.5) | — | — | — | — | — | (6.4) | (6.9) |
| **Balance at 30 June 2010** | 258.1 | 1.2 | 1.2 | 0.2 | 117.4 | 31.6 | — | 409.7 |
| Balance at 1 July 2010 | 258.1 | 1.2 | 1.2 | 0.2 | 117.4 | 31.6 | — | 409.7 |
| Exchange differences | 28.6 | 0.2 | — | — | 5.1 | 5.4 | — | 39.3 |
| Impairment (reversed/raised) | 3.4 | — | — | — | 8.2 | — | — | 11.6 |
| Additions | 46.1 | — | 0.1 | 0.1 | — | 64.6 | — | 110.9 |
| Disposals | (3.0) | — | — | — | — | — | — | (3.0) |
| **Balance at 30 June 2011** | 333.2 | 1.4 | 1.3 | 0.3 | 130.7 | 101.6 | — | 568.5 |

| | *Plant and machinery mining costs[3]* *US$ million* | *Plant and machinery exploration assets* *US$ million* | *Computers and office equipment exploration assets* *US$ million* | *Motor vehicles exploration assets* *US$ million* | *Mineral properties mining assets[2]* *US$ million* | *Assets under construction mining assets[4]* *US$ million* | *Assets advanced to project Alto Cuilo* *US$ million* | *Total Cost* *US$ million* |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2008 | 9.1 | (0.1) | 0.1 | 0.1 | 7.0 | — | 2.9 | 19.1 |
| Exchange differences | 1.4 | — | — | — | 0.1 | — | — | 1.5 |
| Disposals | (0.1) | — | — | — | — | — | — | (0.1) |
| Provided in the year | 8.0 | — | 0.1 | — | 0.9 | — | 2.7 | 11.7 |
| **Balance at 30 June 2009** | 18.4 | (0.1) | 0.2 | 0.1 | 8.0 | — | 5.6 | 32.2 |
| Balance at 1 July 2009 | 18.4 | (0.1) | 0.2 | 0.1 | 8.0 | — | 5.6 | 32.2 |
| Exchange differences | 0.5 | — | — | — | 0.2 | — | 0.2 | 0.9 |
| Disposals | (0.3) | — | — | — | — | — | (5.8) | (6.1) |
| Provided in the year | 11.0 | — | 0.2 | — | 0.5 | — | — | 11.7 |
| **Balance at 30 June 2010** | 29.6 | (0.1) | 0.4 | 0.1 | 8.7 | — | — | 38.7 |
| Balance at 1 July 2010 | 29.6 | (0.1) | 0.4 | 0.1 | 8.7 | — | — | 38.7 |
| Exchange differences | 5.3 | 0.1 | 0.1 | — | 1.1 | — | — | 6.6 |
| Reversal of impairment (note 9) | 0.8 | — | — | — | 0.8 | — | — | 1.6 |
| Disposals | (2.1) | — | (0.1) | — | — | — | — | (2.2) |
| Provided in the year | 21.8 | 0.1 | 0.2 | — | 0.3 | — | — | 22.4 |
| **Balance at 30 June 2011** | 55.4 | 0.1 | 0.6 | 0.1 | 10.9 | — | — | 67.1 |
| Net book value | | | | | | | | |
| **At 30 June 2009** | **124.4** | **1.3** | **0.8** | **0.1** | **31.1** | **18.5** | **0.5** | **176.7** |
| **At 30 June 2010** | **228.5** | **1.3** | **0.8** | **0.1** | **108.7** | **31.6** | — | **371.0** |
| **At 30 June 2011** | **277.8** | **1.3** | **0.7** | **0.2** | **119.8** | **101.6** | — | **501.4** |

1 Feasibility production expenditure and revenue are in respect of the Williamson feasibility study as disclosed in note 1.24.

2 Mineral properties are in respect of various mines within the Group and the useful life, based on life of mine plans is disclosed in note 1.4.

3 The mining assets are secured against the loan facilities disclosed in note 22 (iv) and note 22 (v).

4 Assets under construction include refurbishments of mining property, plant and equipment at the Cullinan, Kimberley Underground, Koffiefontein and Williamson mines. The only contractual commitments the Group had at 30 June 2011 were in respect of assets under construction of US$11.6 million (30 June 2010: US$0.3 million, 30 June 2009: US$nil). Borrowing costs of US$3.5 million (30 June 2010 and 2009: US$nil) have been capitalised to assets under construction.

5 In FY 2010, the Group capitalised pre-acquisition costs at Kimberley Underground. The expenditure incurred pre-completion was capitalised on the basis that it was common practice under IFRS3 (applicable prior to 1 July 2009) for transaction costs incurred in respect of business combinations to be capitalised where the business combination has not completed by the balance sheet date and by analogy to IAS11 (construction contracts) which permits costs incurred in respect of future activity to be capitialised where it is probable that those costs would be recovered.

There are no contracted capital commitments as at 30 June 2011 (2010 and 2009: US$nil).

## 15 Intangible assets – prospecting licences

| | *Total US$ million* |
|---|---|
| **Cost** | |
| Balance at 1 July 2008 | 51.6 |
| Exchange differences | (0.1) |
| Impairment of Project Luangue | (37.0) |
| **Balance at 30 June 2009** | 14.5 |
| **Balance at 1 July 2009, 30 June 2010 and 30 June 2011** | 14.5 |
| **Amortisation** | |
| Balance at 1 July 2008 | (9.8) |
| Exchange differences | (0.4) |
| Provided in the year | (3.3) |
| **Balance at 30 June 2009** | (13.5) |
| Balance at 1 July 2009 | (13.5) |
| Exchange differences | — |
| Provided in the year | (1.0) |
| **Balance at 30 June 2010** | (14.5) |
| Balance at 1 June 2010 | (14.5) |
| Exchange differences | — |
| Provided in the year | — |
| **Balance at 30 June 2011** | (14.5) |
| Net book value | |
| **At 30 June 2009** | 1.0 |
| **At 30 June 2010** | — |
| **At 30 June 2011** | — |

| *Country* | *Project* | *Development period* | *2009 US$ million* | *2010 US$ million* | *2011 US$ million* |
|---|---|---|---|---|---|
| Prospecting licences: | | | | | |
| Angola[1] | Luangue | Terminated | — | — | — |
| Botswana[(2)] | Kalahari | Early stage | 1.0 | — | — |
| Net book value | | | 1.0 | — | — |

1 Prospecting licences at Project Luangue were fully impaired in 2009 as a result of the Group's decision to withdraw from all exploration projects in Angola, as disclosed in note 9.

2 Prospecting licences in Botswana were fully amortised in FY 2010. The Group continues to conduct exploration activities in Botswana. During the year ended 30 June 2011, exploration expenditure of US$1.4 million (30 June 2010: US$1.8 million) was expensed in respect of exploration activities within Botswana.

## 16 Investments in associates and joint ventures

***Interests in associates***

| | Country | 2009 Ownerships | At 30 June 2010 Ownerships | 2011 Ownerships |
|---|---|---|---|---|
| At year-end, the Group had interests in the following companies: | | | | |
| Namibia Mining House (Pty) Ltd | Namibia | 35.00% | 35.00% | 35.00% |
| Nabera Mining (Pty) Ltd | South Africa | 29.50% | 29.50% | 29.50% |
| Organizações Moyoweno – Comércio Geral Lda | Angola | 40.00% | 40.00% | 40.00% |

**Summary of financial statements of associates**

| | Assets US$ million | Liabilities US$ million | Equity US$ million | Revenues US$ million | (Loss) after tax US$ million |
|---|---|---|---|---|---|
| **At 30 June 2009** | | | | | |
| Namibia Mining House (Pty) Ltd | — | — | — | — | — |
| Nabera Mining (Pty) Ltd | — | (0.9) | 0.9 | — | — |
| Organizações Moyoweno – Comércio Geral Lda | 0.8 | (0.4) | (0.4) | — | (0.1) |
| **At 30 June 2010** | | | | | |
| Namibia Mining House (Pty) Ltd | — | — | — | — | — |
| Nabera Mining (Pty) Ltd | — | (1.1) | 1.0 | — | (0.1) |
| Organizações Moyoweno – Comércio Geral Lda | 0.8 | (0.4) | (0.4) | — | (0.1) |
| **At 30 June 2011** | | | | | |
| Namibia Mining House (Pty) Ltd | — | — | — | — | — |
| Nabera Mining (Pty) Ltd | — | (1.3) | (1.2) | — | (0.1) |
| Organizações Moyoweno – Comércio Geral Lda | 0.8 | (0.4) | (0.4) | — | — |

| | 2009 US$ million | At 30 June 2010 US$ million | 2011 US$ million |
|---|---|---|---|
| If the investments in associates had been included at cost, they would have been included at the following amounts: | | | |
| Cost | 27.1 | — | — |
| Amounts written off | (21.1) | — | — |
| Impairment provision | (6.0) | — | — |
| Net book amount | — | — | — |

The initial investments by the Group in Namibia Mining House (Pty) Ltd, Nabera Mining (Pty) Ltd and Organizações Moyoweno – Comércio Geral Lda ("Moyoweno") have all been impaired in full in prior periods. Moyoweno's financial year end is 31 December, the statutory reporting period for companies based in Angola, and its primary asset is a 13% investment in the Alto Cuilo project in Angola, from which the Group withdrew in 2009. Interim financial information for Moyoweno has been used as at year end for the Group. The Group has no contractual or constructive obligation to fund the net deficit positions of its associates.

**Interest in joint ventures**

| Name of joint venture | At 30 June Effective percentage 2009 | 2010 | 2011 | Nature of business | Country of incorporation | Functional currency |
|---|---|---|---|---|---|---|
| Cullinan Investment Holdings Ltd | 50 | 100 | 100 | Investment in diamond mining operations | British Virgin Islands | US$ |

On 17 November 2009, the Company acquired Al Rajhi's 50% interest in CIHL, which in turn increased Petra's direct ownership in Cullinan to 74%, as disclosed in note 3(b). The Group now has a 100% interest in CIHL, which has a 74% interest in and controls the Cullinan operations; CIHL consolidates the Cullinan operations within its books and reflects a 26% non-controlling interest and therefore the Group now indirectly consolidates the Cullinan mine as a subsidiary with a 26% non-controlling interest. Prior to 17 November 2009, the Group used the gross method of proportional consolidation and presented the information set out below.

The following is the Group's interest in the statement of financial position and income statement of the joint venture as extracted from their financial statements:

| | At 30 June 2009 US$ million | 2010 US$ million | 2011 US$ million |
|---|---|---|---|
| **Balance sheet information** | | | |
| Non-current assets | 93.5 | — | — |
| Current assets | 23.6 | — | — |
| Total assets | 117.1 | — | — |
| Non-current liabilities | 66.8 | — | — |
| Current liabilities | 8.7 | — | — |
| Total liabilities | 75.5 | — | — |
| Total shareholders' equity | 41.6 | — | — |
| Total equity and liabilities | 117.1 | — | — |
| **Income statement information** | | | |
| Revenue | 25.6 | 14.1 | — |
| Expenses | (23.5) | (12.5) | — |
| | 2.1 | 1.6 | — |
| Net financing costs | (3.0) | (4.5) | — |
| | (0.9) | (2.9) | — |
| Taxation | 2.4 | — | — |
| Net (loss)/profit | 1.5 | (2.9) | — |

The Group's interest in the joint venture's approved capital projects and contingent liabilities at year-end amounted to US$nil (2010: US$nil; 2009: US$12.4 million) and US$nil (2010: US$nil; 2009: US$nil).

## 17 Available for sale financial assets

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Balance at 1 July | — | — | 0.8 |
| Acquisition | — | 0.9 | — |
| Fair value adjustment taken to other Reserves | — | (0.1) | (0.4) |
| **Balance at 30 June** | — | 0.8 | 0.4 |

As a result of the disposal of Petra's interest in the Kono Project, the Company received 4,500,000 Stellar ordinary shares at a price of £0.14 per share, equivalent to 4.45% of Stellar's total share capital, which was translated to a total fair value of £0.6 million (US$0.9 million) on initial recognition. At 30 June 2011 the Company adjusted the fair value of its investment in Stellar to the fair market value of the shares of £0.3 million (30 June 2010: £0.5 million). The movement of US$0.4 million (30 June 2010: US$0.1 million) was taken to other reserves. The reduction in value is not considered significant by management and the fair value reached £0.6 million during the year ended 30 June 2011 before reducing to £0.3 million at 30 June 2011.

## 18 Inventories

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Diamonds held for resale | 6.5 | 15.0 | 13.3 |
| Work in progress stockpiles | 4.2 | 9.6 | 14.8 |
| Consumables and stores | 4.5 | 4.8 | 4.9 |
| Livestock | 0.1 | 0.1 | 0.2 |
| | 15.3 | 29.5 | 33.2 |
| Provision for impairment of slow moving consumables and stores | (0.5) | (0.1) | (0.3) |
| | 14.8 | 29.4 | 32.9 |

As at 30 June 2011, diamonds (inventories held for resale) with a value of US$2.6 million (2010: US$ 6.5 million, 2009: US$3.4 million) are carried at fair value less costs to sell (due to fair value less costs to sell being below cost), resulting in a charge to the income statement of US$1.2 million (2010: US$0.3 million).

## 19 Trade and other receivables

| | At 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | US$ million | US$ million | US$ million |
| Current | | | |
| Trade receivables | 3.2 | 2.9 | 20.6 |
| Other receivables[1] | 8.5 | 12.6 | 20.9 |
| Prepayments[2] | 7.2 | 8.0 | 8.3 |
| | 18.9 | 23.5 | 49.8 |
| Non-current | | | |
| Rehabilitation guarantee[3] | 0.1 | 0.2 | 0.2 |
| BEE partners[4] | 19.6 | 32.0 | 50.9 |
| | 19.7 | 32.2 | 51.1 |

1 Included within other receivables are amounts related to funding advanced to joint venture BEE partners on the Koffiefontein JV and Kimberley JV assets of US$5.3 million (2010: US$2.6 million, 2009: US$3.8 million), rehabilitation deposits and other deposits of US$5.5 million (2010: US$5.2 million; 2009: US$2.1 million) and VAT refunds of US$7.2 million (2010: US$4.9 million; 2009: US$2.3 million) receivable. The rehabilitation deposit is available to the Group in the short term or upon successful rehabilitation of the mines.

2 Included within prepayments is US$5.0 million (2010: US$4.6 million; 2009: US$6.0 million) relating to a deposit paid for further investment in the Group's South African projects. The original US$6 million payment, which will be deducted in full from any future acquisition consideration, was made by a Group company with Pounds Sterling as its functional currency, resulting in unrealised exchange rate fluctuations in the US Dollar equivalent for presentational purposes only.

3 The rehabilitation guarantee comprises an insurance risk policy which will be recovered upon the successful rehabilitation at the Sedibeng JV operation.

4 Interest on loans advanced to BEE partners is charged at the prevailing South African prime interest rate plus 2%. The loans are repayable from future cashflows generated from the underlying mining operations.

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

| | At 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | US$ million | US$ million | US$ million |
| Current trade receivables | 3.3 | 2.9 | 20.6 |
| Other receivables (excluding VAT) | 6.2 | 8.9 | 13.7 |
| Non-current trade receivables | 19.6 | 32.2 | 51.1 |
| | 29.1 | 44.0 | 85.4 |

The trade receivables are all due within normal trading terms and there are no trade receivables classified as past due. Trade receivables are due within two days of awarding the rough diamond sales tender to the successful bidder and were significant at 30 June 2011 due to the tenders' proximity to year-end. The trade receivables relating to the year-end tender have all been received post year-end. No other receivables are considered to be past due or impaired.

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

| | At 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | US$ million | US$ million | US$ million |
| Pound Sterling | 4.8 | 1.9 | 0.9 |
| Southern African Rand | 21.4 | 39.1 | 83.2 |
| US Dollars | 2.9 | 3.0 | 1.3 |
| | 29.1 | 44.0 | 85.4 |

## 20 Cash

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Cash and cash equivalents – unrestricted | 6.7 | 24.8 | 96.9 |
| Cash – restricted | 4.4 | 9.7 | 228.0 |
| | 11.1 | 34.5 | 324.9 |

Under the terms of the agreement to purchase the Finsch mine from De Beers (see note 29), the Group deposited funds to the settle the purchase consideration into an escrow account. At 30 June 2011, the amounts held on deposit totalled US$213.2 million.

As security for the Group's rehabilitation obligations at Helam Mining, Star Diamonds Ltd, Sedibeng JV and Kimberley JV, the Company has ceded US$14.8 million (2010: US$9.7 million; 2009: US$4.4 million) in a fixed deposit. The restricted cash will return to the Group's sole control when the above mentioned operations are included in the Group's rehabilitation insurance product, which currently includes the Cullinan and Koffiefontein mines. At 30 June 2011 the Group has a commitment to pay insurance premiums over the next three years of US$23.3 million to fund the insurance product. The rehabilitation guarantees are disclosed in note 24.

A controlled entity, Helam, has a R10.0 million (US$1.5 million) (2010: R10 million (US$1.3 million); 2009: R10 million (US$1.2 million)) overdraft facility with First National Bank, a division of FirstRand Bank. At 30 June 2011 and at 30 June 2010, the overdraft was not utilised. At 30 June 2009, an amount of R8.5 million (US$1.1 million) was drawn down. When utilised, the overdraft is set-off against other cash balances held with First National Bank as it forms part of the Group's operational cash balances. The weighted average interest rate for the overdraft as at 30 June 2011 is 0% (2010: 0%; 2009: 10.47%). For additional facilities available to the Group refer to note 22.

## 21 Issued capital

| | *Number of shares* | *2009 US$ million* | *Number of shares* | *2010 US$ million* | *Number of shares* | *2011 US$ million* |
|---|---|---|---|---|---|---|
| Authorised – ordinary shares of 10p each | 300,000,000 | 60.1 | 400,000,000 | 76.3 | 650,000,000 | 115.2 |
| Issued and fully paid at 1 July | 184,005,523 | 36.7 | 184,005,523 | 33.5 | 352,803,021 | 61.4 |
| Retranslation of allotments prior periods | — | (3.2) | — | — | — | — |
| Restated at 1 July | 184,005,523 | 33.5 | 184,005,523 | 33.5 | 352,803,021 | 61.4 |
| Allotments during the year | — | — | 168,797,498 | 27.9 | 147,070,988 | 23.4 |
| at 30 June | 184,005,523 | 33.5 | 352,803,021 | 61.4 | 499,874,009 | 84.8 |

Allotments during the year ended 30 June 2011 were in respect of 136,698,212 shares issued as part of a capital fundraising exercise, the exercise of 8,292,777 warrants held over Ordinary Shares by Canaccord and RMB, and the exercise of 2,079,999 share options held by employees.

Allotments during the year ended 30 June 2010 were in respect of 121,200,000 shares issued as part of a capital fundraising exercise, the issue of 36,000,000 shares as part consideration for the acquisition of an additional 50% interest in CIHL, the issue of 11,363,636 shares in respect of a US$15 million Al Rajhi loan repayment and the exercise of 233,862 share options held by employees.

There were no allotments in the year ended 30 June 2009.

**Warrants**

| *Holder* | *Expiry* | *Exercise price* | *2009 Number of warrants* | *2010 Number of warrants* | *2011 Number of warrants* |
|---|---|---|---|---|---|
| Canaccord | 17-Dec-11 | 80p | — | 4,092,777 | — |
| RBC Capital Markets | 17-Dec-11 | 80p | — | 1,364,259 | 1,364,259 |
| Al Rajhi | 05-Oct-09 | 130p | 2,000,000 | — | — |
| RMB | 02-Nov-14 | 100p | — | — | 2,100,000 |
| IFC | 02-Nov-12 | 90p | — | — | 2,100,000 |
| IFC | 02-Nov-13 | 95p | — | — | 2,100,000 |
| IFC | 02-Nov-14 | 100p | — | — | 2,100,000 |

**2011**

As part of the debt facilities referred to in note 22 parts (iv) and (v), 12,600,000 warrants over Petra shares were granted to IFC (6,300,000) and RMB (6,300,000), with an exercise price ranging between 90p – 100p per warrant and which vested on 3 November 2010.

During the year warrants over 4,092,777 Ordinary Shares at an exercise price of 80p were exercised by Canaccord. RMB exercised 2,100,000 warrants over ordinary shares at an exercise price of 90p and a further 2,100,000 warrants over ordinary shares at an exercise price of 95 pence.

**2010**

As part of the capital fundraising exercise undertaken by the Company during the year ended 30 June 2010, 4,092,777 and 1,364,259 warrants over ordinary shares, exercisable at 80p per warrant were issued to Canaccord and RBC Capital Markets respectively. The warrants held by Al Rajhi expired on 5 October 2009.

The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

**Employee share options**

| *Holder* | *30 June 2011 Shares* | *Exercise price* | *Expiry* |
|---|---|---|---|
| **Directors** | | | |
| A Pouroulis | 500,000 | 44.0p | 5 September 2013 |
| | 250,000 | 85.0p | 16 June 2015 |
| | 250,000 | 79.5p | 31 May 2016 |
| | 250,000 | 27.5p | 12 March 2019 |
| | 100,000 | 45.5p | 30 September 2019 |
| | 100,000 | 60.5p | 16 March 2020 |
| J Dippenaar | 750,000 | 85.0p | 16 June 2015 |
| | 250,000 | 79.5p | 31 May 2016 |
| | 750,000 | 27.5p | 12 March 2019 |
| | 350,000 | 45.5p | 30 September 2019 |
| | 350,000 | 60.5p | 16 March 2020 |
| D Abery | 500,000 | 44.0p | 5 September 2013 |
| | 250,000 | 85.0p | 16 June 2015 |
| | 250,000 | 79.5p | 31 May 2016 |
| | 750,000 | 27.5p | 12 March 2019 |
| | 350,000 | 45.5p | 30 September 2019 |
| | 350,000 | 60.5p | 16 March 2020 |
| J Davidson | 750,000 | 85.0p | 16 June 2015 |
| | 250,000 | 79.5p | 31 May 2016 |
| | 750,000 | 27.5p | 12 March 2019 |
| | 350,000 | 45.5p | 30 September 2019 |
| | 350,000 | 60.5p | 16 March 2020 |
| Senior Management | 50,000 | 56.75p | 13 September 2014 |
| | 75,000 | 46.5p | 24 September 2014 |
| | 23,750 | 56.5p | 28 January 2015 |
| | 84,300 | 65.75p | 27 November 2015 |
| | 166,388 | 79.5p | 31 May 2016 |
| | 236,812 | 96.0p | 31 July 2016 |
| | 4 470,000 | 27.5p | 12 March 2019 |
| | 2 117,671 | 45.5p | 30 September 2019 |
| | 3 060,002 | 60.5p | 16 March 2020 |
| | 500,000 | 92.8p | 25 November 2020 |
| **Total** | 19,583,923 | | |

The current number of shares reserved for issue under the share option scheme is 19,583,923, the terms and conditions of which are disclosed in note 28.

## 22 Interest bearing loans and borrowings

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Current** | | | |
| Bank loans – secured (i) | — | 0.1 | — |
| Bank loan – secured (ii) | 0.6 | 0.3 | — |
| Bank loan – secured (iii) | 0.5 | — | — |
| Bank loans – secured (iv) | 8.1 | — | — |
| Bank loan – secured (v) | 3.1 | — | — |
| Loan – secured (viii) | 9.3 | — | — |
| Convertible bond – unsecured (ix) | 19.6 | — | — |
| Loan unsecured (x) | 2.6 | — | — |
| Loan unsecured (xi) | 9.8 | — | — |
| Loan unsecured (xii) | 3.8 | — | — |
| Loan unsecured (xiii) | — | 17.0 | — |
| Deferred consideration (xiv) | — | — | 18.7 |
| | 57.4 | 17.4 | 18.7 |
| **Non-current** | | | |
| Bank loans – secured (i) | 0.1 | 0.1 | — |
| Bank loan – secured (ii) | 0.4 | — | — |
| Bank loan – secured (iii) | — | — | — |
| Bank loans – secured (iv) | — | — | — |
| Bank loan – secured (v) | — | — | — |
| Bank loan – secured (vi) | — | — | 36.5 |
| Bank loans – secured (vii) | — | — | 33.1 |
| Loan – unsecured (xiii) | 43.4 | 15.0 | — |
| Deferred consideration (xiv) | — | 32.0 | — |
| Associate loans | 0.4 | — | 1.8 |
| | 44.3 | 47.1 | 71.4 |

### (i) Bank loan – secured

**First National Bank**

During the year ended 30 June 2011, Helam Mining settled its term loan facility (capital and interest) of R0.9 million (US$0.2 million) with First National Bank. The Group's borrowings at 30 June 2010 were R0.9 million (US$0.2 million) with an effective interest of 9.92%.

Helam Mining, Star Diamonds, Messina Diamonds and Directors Mr Dippenaar and Mr Davidson have been released from the general notarial bond over moveable assets, unlimited letters of suretyship and letters of joint suretyship signed for the loan facility in favour of First National Bank.

### (ii) Bank loan – secured

**IDC of South Africa**

On 1 October 2010, the Sedibeng JV settled its loan (capital and interest) of R2.8 million (US$0.4 million) with the IDC of South Africa. The Group's borrowings at 30 June 2010 were R2.2 million (US$0.3 million) with an effective interest rate of 9.92%.

Messina Diamonds has been released from the suretyship as co-principal debtor and the general notarial bond over its moveable assets in favour of the IDC.

### (iii) Bank loan – secured

**Rand Merchant Bank**

On 1 August 2009, a controlled entity, Autumn Star Investment Holdings (Pty) Ltd ("Autumn Star") settled its loan with FirstRand Bank ("FirstRand"). Autumn Star and Messina Investments Ltd have

been released from the suretyship signed for the loan in favour of FirstRand. The Group's borrowings at 30 June 2009 were US$0.5 million with an effective interest rate of 10.47%.

**(iv) Bank loans – secured**

**First National Bank**

The Company's South African subsidiaries have a total loan facility of R70.0 million (US$10.2 million) (2010: R70.0 million (US$9.1 million), 2009: R67.9 million (US$8.6 million)) with First National Bank of which Rnil (US$nil) (2010: Rnil (US$nil), 2009: R63.8 million (US$8.1 million)) was drawn down at 30 June 2011.

In the year ended 30 June 2009 the loan facility was split into a fixed and variable portion of R50.0 million (US$6.3 million) and R17.9 million (US$2.3 million) respectively of which the fixed facility drawn down was R50.0 million (US$6.3 million) and the variable facility was R13.8 million (US$1.8 million). The effective interest rate for the loan facility at 30 June 2009 was 12.68%. The loan facility is subject to annual review.

The above facility is secured by a guarantee issued by the Company, suretyships from Star Diamonds, Helam Mining, Sedibeng JV and BDM and cessions of intergroup loans payable in favour of First National Bank.

In 2009 as a result of the impairment detailed in note 9, the Group was in technical default on a covenant regarding net assets on one of its loans. The bank was fully aware of this issue and no formal waiver was requested or issued. The facility remained unchanged as a result of the breach and repayment was not accelerated.

**(v) Bank loan – secured**

**Board of Executors**

On 17 December 2009, a controlled entity, Premier Rose Management Services (Pty) Ltd, settled its loan facility (capital and interest) of R51.4 million (US$6.7 million) with the Board of Executors Stockbrokers (Pty) Ltd ("BOE"). The Group's attributable exposure to the facility at 30 June 2009 was R24.5 million ($3.1 million) and the effective interest rate was 10.47%. The loan was proportionately consolidated at 30 June 2009 based on the Group's 50% interest in CIHL before being fully consolidated from 17 November 2009 following the acquisition of the remaining 50% interest.

**(vi) Bank loan – secured**

**Rand Merchant Bank**

On 4 November 2010, the Company announced the financial close and completion of a R300 million (US$43.5 million) loan facility with RMB. The loan facility is available for the Company's draw-down for up to 24 months from the agreement date and has a capital repayment holiday period to 14 September 2012. The loan is repayable in eight semi-annual payments commencing after the capital repayment holiday period with the final payment due on 15 March 2016. The loan incurs interest at the South African three month JIBAR rate plus 4.5% and is payable in semi-annual payments from the commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 is 14.0%.

On 3 November 2010, as a term of the debt facility, RMB was granted 6.3 million warrants over Petra shares. The warrants vest on grant and the warrant expiry dates will be in equal tranches at the end of years two, three and four from the warrant grant date. The warrant exercise prices for each tranche are 90p, 95p and 100p respectively. The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

The portion of facility fees and warrant fair value charges of R17.6 million (US$4.4 million) associated with the facility drawn-down have been debited against the gross draw-down value of R267.1 million (US$39.0 million), in accordance with IAS32 and IAS39 to reflect a net interest bearing liability of R249.5 million (US$36.5 million). The remaining R6.5 million (US$0.9 million) of facility fees and warrant fair value charges associated within the undrawn facility are held in prepayments as the loan facility is expected to be utilised.

The above facility is secured by various encumbrances and pledges, concluded in respect of certain assets belonging to the Group including the Cullinan mining right; moveable and immoveable assets at Cullinan; the shares in CDM, BDM and Williamson Diamonds.

**(vii) Bank loans – secured**

**IFC**

On 4 November 2010, the Company announced the financial close and completion of a US$40.0 million loan facility with the IFC. The loan facility is available for the Company's draw-down for up to 24-months from the agreement date and has a capital repayment holiday period to 14 September 2012. The loan is repayable in eight semi-annual payments commencing after the capital repayment holiday period, with the final payment due on 15 March 2016. The loan incurs interest at the US$ six month LIBOR rate plus 4.5% and is payable in semi-annual payments from commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 is 8.9%.

On 3 November 2010, as a term of the debt facility, the IFC was granted 6.3 million warrants over Petra shares. The warrants vest on grant and the warrant expiry dates will be in equal tranches at the end of years two, three and four from the warrant grant date. The warrant exercise prices for each tranche are 90p, 95p and 100p respectively. The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

The portion of facility fees and warrant fair value charges of US$4.2 million associated with the facility drawn-down have been debited against the gross draw-down value of US$36.5 million, in accordance with IAS32 and IAS39 to reflect a net interest bearing liability of US$33.1 million. The remaining US$0.4 million of facility fees and warrant fair value charges associated within the undrawn facility are held in prepayments as the loan facility is expected to be utilised.

The above facility is secured by various encumbrances and pledges, concluded in respect of certain assets belonging to the Group including the Cullinan mining right; moveable and immoveable assets at Cullinan; the shares in CDM, BDM and Williamson Diamonds.

**(viii) Loan – secured**

**Cheviot Holdings Limited**

On 18 March 2010 the Company settled its loan (capital and interest) of US$9.5 million (30 June 2009: US$9.3 million) with Cheviot Holdings Ltd ("Cheviot"). The Group's borrowings at 30 June 2009 were US$9.3 million with an effective interest rate of 8.59%.

**(ix) Convertible bond – unsecured**

On 18 December 2009 the Company settled the US$20.4 million outstanding balance of its unsecured interest free convertible bond ("the Convertible"). The effective interest rate on the Convertible was 7.48% (30 June 2009: 7.48%). The Warrants over 2,000,000 Petra shares at 130 pence per share issued to the holder of the Convertible expired on 5 October 2009.

| | *30 June 2009 Number* | *30 June 2010 Number* | *30 June 2011 Number* | *30 June 2009 US$ million* | *30 June 2010 US$ million* | *30 June 2011 US$ million* |
|---|---|---|---|---|---|---|
| **Movements in convertible notes and bond** | | | | | | |
| Balance at beginning of year | 7,677,337 | 7,677,337 | — | 18.2 | 19.6 | — |
| Interest accreted for the year | — | — | — | 1.4 | 0.8 | — |
| Repaid during the year | — | (7,677,337) | — | — | (20.4) | — |
| Balance at the end of year | 7,677,337 | — | — | 19.6 | — | — |

**(x) Loan – unsecured**

**Umnotho weSizwe**

On 11 December 2009, a controlled entity, PDSA, settled its loan (capital and interest) of R20.9million (US$2.7 million) with Umnotho weSizwe. The Group's borrowings at 30 June 2009 were R20.4 million (US$2.6 million) with an effective interest rate of 11.02%.

**(xi) Loan – unsecured**

**CIHL**

Prior to the Group acquiring 100% of CIHL on 19 December 2009, the Group had a loan owing to CIHL of US$19.8 million being its portion outstanding in respect of the contributions to the CIHL Joint Venture. The Group's net exposure to the loan was US$9.8 million and the loan bore interest at 8% per annum simple interest non-compounding. Following the acquisition of CIHL, there is no external debt exposure to the Group.

**(xii) Loan – unsecured**

**CDM**

During the year ended 30 June 2010, a controlled entity, PDSA, settled its loan of R59.1 million (US$7.7million) with the CDM. The Group's borrowings at 30 June 2009 were R59.1 million (US$3.8 million) with an effective interest rate of 7.02%. The Group's borrowings at 30 June 2009 arose as CDM, which was proportionately consolidated by the Group based on its 50% joint venture interest, provided a loan to PDSA.

**(xiii) Loan – unsecured**

**Al Rajhi**

On 20 November 2010, the Company settled its loan (capital and interest) of US$32.8 million (30 June 2010: US$32.0 million) with Al Rajhi. The Group's borrowings at 30 June 2010 were US$32.0 million (30 June 2009: $86.6 million), with an effective interest rate of 8% (30 June 2009: 8%).

**(xiv) Deferred Al Rajhi Cullinan consideration**

The deferred consideration of US$35.0 million, which formed part of the consideration paid for the acquisition of the additional 50% interest in CIHL, has been discounted over a period of 24 months using a discount factor of 6%. The discounted deferred consideration balance is being accreted over the period of 24 months to the full settlement value. During the year, a portion (US$15.0 million) of the deferred consideration capital amount was repaid leaving a capital balance of US$20 million to be settled by 31 December 2011. At year-end the discounted deferred consideration balance is US$18.7 million (30 June 2010: US$32.0 million).

There are no significant differences between the fair value and carrying value of loans and borrowings.

## 23 Trade and other payables

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Current** | | | |
| Trade payables | 7.3 | 9.4 | 11.5 |
| Deferred consideration (i) | 2.9 | 2.9 | 2.8 |
| Accruals | 13.5 | 16.9 | 25.1 |
| | 23.7 | 29.2 | 39.4 |
| Taxation payable | 2.8 | 1.1 | — |
| | 26.5 | 30.3 | 39.4 |
| **Non-current** | | | |
| Amounts owing to BEE Partners (ii) | 19.1 | 23.2 | 29.0 |
| | 19.1 | 23.2 | 29.0 |

Current

(i) The Group is liable to pay US$3.2 million (30 June 2010: US$3.2 million; 30 June 2009: US$3.2 million) (US$2.8 million after deducting the deferred consideration discount (30 June 2010: $2.9 million; 30 June 2009: US$2.9 million)) being the balance of the Helam Mining purchase price which is payable from 50% of the cash surplus generated by Helam Mining for the years ending 31 December 2006 and 2007.

Any shortfall in the amount payable in any one year can be carried forward to the next year until such time that the total amount payable of US$2.8 million has been extinguished. At 30 June 2011, no portion of the liability had been repaid and the total liability will be carried forward to June 2012.

Non-current

(ii) The loans bear interest at the prevailing South African prime interest rate. The loans are repayable from future cashflows from the underlying operations only when the loans advanced to BEE Partners (refer to note 19) have been repaid in full to the Group.

The financial liabilities included in trade and other payables (which exclude taxation) are as follows:

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Trade payables | 7.3 | 9.4 | 11.5 |
| Other payables (includes deferred consideration) | 16.5 | 19.8 | 27.9 |
| Non-current trade payables owing to BEE Partners | 19.1 | 23.2 | 29.0 |
| | 42.9 | 52.4 | 68.4 |

The carrying values of financial liabilities classified as other liabilities are denominated in the following currencies:

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Botswana Pula | 0.1 | 0.1 | — |
| Pounds Sterling | 0.2 | 1.0 | 1.8 |
| South African Rand | 37.0 | 41.7 | 54.2 |
| US Dollar | 5.6 | 9.6 | 12.4 |
| | 42.9 | 52.4 | 68.4 |

## 24 Provisions

| | *Post retirement medical fund and income tax US$ million* | *Rehabilitation US$ million* | *Total US$ million* |
|---|---|---|---|
| Balance at 1 July 2008 | — | 12.1 | 12.1 |
| Arising on business combination | 2.0 | 17.9 | 19.9 |
| Increase in provisions | 2.2 | — | 2.2 |
| Revaluation of environmental rehabilitation liability due to change in assumptions adjusted against assets | — | 0.1 | 0.1 |
| Revaluation of environmental rehabilitation liability due to change in assumptions adjusted in income statement | — | (4.6) | (4.6) |
| Unwinding of present value adjustment of rehabilitation provision | — | 1.1 | 1.1 |
| Exchange differences | — | (0.6) | (0.6) |
| Balance at 30 June 2009 | 4.2 | 26.0 | 30.2 |
| Current | 2.2 | — | 2.2 |
| Non-current | 2.0 | 26.0 | 28.0 |
| Balance at 30 June 2009 | 4.2 | 26.0 | 30.2 |
| Balance at 1 July 2009 | 4.2 | 26.0 | 30.2 |
| Arising on business combination | 2.3 | 15.8 | 18.1 |
| Increase in provisions | 0.9 | — | 0.9 |
| Unwinding of present value adjustment of rehabilitation provision | — | 2.6 | 2.6 |
| Exchange differences | 0.1 | 0.3 | 0.4 |
| Balance at 30 June 2010 | 7.5 | 44.7 | 52.2 |
| Balance at 30 June 2010 | | | |
| Current | 2.2 | — | 2.2 |
| Non-current | 5.3 | 44.7 | 50.0 |
| Balance at 30 June 2010 | 7.5 | 44.7 | 52.2 |
| Balance at 1 July 2010 | 7.5 | 44.7 | 52.2 |
| Increase in provisions | 1.4 | 3.9 | 5.3 |
| Unwinding of present value adjustment of rehabilitation provision | — | 3.8 | 3.8 |
| Exchange differences | 0.6 | 3.4 | 4.0 |
| Balance at 30 June 2011 | 9.5 | 55.8 | 65.3 |
| Balance at 30 June 2011 | | | |
| Current | 2.2 | — | 2.2 |
| Non-current | 7.3 | 55.8 | 63.1 |
| Balance at 30 June 2011 | 9.5 | 55.8 | 65.3 |

**Employee entitlements and other provisions**

The provisions relate to provision for an unfunded post retirement medical fund and income tax. The provision for the post retirement medical fund is further disclosed in note 35. The provision for taxation is based on estimates made, where appropriate, from historical information.

In the year ended 30 June 2010 the Group amended the presentation of employee entitlements and performance bonuses which the Group expects to incur within the next 12 months. The Group has presented these amounts as accruals, disclosed in note 23 which is considered a more appropriate presentation for the user of this financial information. As a result, certain current provisions as at 30 June 2009 are now included within accruals. Following the restatement of the 2009 comparatives, a consolidated statement of financial position would ordinarily be required by IAS 1, "Presentation of financial statements", as at the beginning of the earliest comparative period presented. However, given that this restatement has been fully disclosed and has no impact on either the overall consolidated profit for the year ended 30 June 2009 or the consolidated statement of financial position as at 1 July 2008, the Directors do not believe that the inclusion of an additional consolidated statement of financial position as at 30 June 2008 would provide any additional useful information so, accordingly, have not presented it in this financial information.

**Rehabilitation and decommissioning**

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 estimates the present value of the rehabilitation expenditure at each mine as follows:

- Cullinan of US$18.9 million (2010: US$15.5 million; 2009: US$6.9 million) provided over the estimated total life of mine of 53 years;
- Williamson of US$12.9 million (2010: US$12.1 million; 2009: US$11.5 million) provided over the current life of mine plan of 17 years;
- Kimberley Underground of US$14.1 million (2010: US$8.3 million; 2009: US$nil) provided over the current life of mine plan of 11 years;
- Koffiefontein of US$7.8 million (2010: US$6.4 million; 2009: US$5.7 million) provided over the current life of mine plan of 14 years; and
- Helam Mining, Star Diamond Mine and Sedibeng JV of US$2.1 million (2010: US$2.4 million; 2009: US$1.9 million) provided over their current life of mine plan for the Fissure Mines of approximately 17 years.

The majority of the rehabilitation expenditure is expected to be incurred at the end of the life of the respective mine. This is represented by the current life of mine plans for the mines, with the exception of Cullinan which is expected to be rehabilitated after 53 years, of which 16 years are included in the current life of mine plan. The 53 year period assumes mining of the C-Cut.

The significant assumptions and uncertainties are disclosed in note 1.24. Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in notes 19 and 20.

During the year ended 30 June 2009, the Group commissioned an independent review of its rehabilitation liabilities at all of its mines (other than Williamson which was acquired during the year). As a result of the review, US$4.6 million was released to the income statement in accordance with IFRIC 1.

## 25 Deferred taxation

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Balance at beginning of the year | 13.1 | 7.4 | 30.3 |
| Adjustment as a result of business combination | 1.3 | 24.1 | — |
| Income statement (credit)/charge | (6.2) | (1.1) | 6.4 |
| Foreign currency translation difference | (0.8) | (0.1) | 1.0 |
| Balance at the end of year | 7.4 | 30.3 | 37.7 |

**Deferred taxation comprising:**

| | At 30 June 2011 | | |
|---|---|---|---|
| | *Total* | *Recognised* | *Unrecognised* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Deferred tax liability:** | | | |
| – Capital allowances | 88.3 | 88.3 | — |
| – Prepayments and accruals | 0.1 | 0.1 | — |
| – Foreign exchange allowances | 2.7 | 2.7 | — |
| | 91.1 | 91.1 | — |
| **Deferred tax asset:** | | | |
| – Capital allowances | (40.4) | (39.0) | (1.4) |
| – Provisions and accruals | (9.7) | (9.1) | (0.6) |
| – Foreign exchange allowances | (1.6) | (1.3) | (0.3) |
| – Tax losses | (36.8) | (4.0) | (32.8) |
| | (88.5) | (53.4) | (35.1) |
| Net deferred tax liability/(asset) | 2.6 | 37.7 | (35.1) |

| | At 30 June 2010 | | |
|---|---|---|---|
| | *Total* | *Recognised* | *Unrecognised* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Deferred tax liability:** | | | |
| – Capital allowances | 72.0 | 64.3 | 7.7 |
| – Prepayments and accruals | 0.3 | — | 0.3 |
| – Foreign exchange allowances | 1.4 | 0.3 | 1.1 |
| | 73.7 | 64.6 | 9.1 |
| **Deferred tax asset:** | | | |
| – Capital allowances | (37.7) | (27.4) | (10.3) |
| – Provisions and accruals | (7.3) | (6.7) | (0.6) |
| – Foreign exchange allowances | (1.0) | — | (1.0) |
| – Tax losses | (13.0) | (0.2) | (12.8) |
| | (59.0) | (34.3) | (24.7) |
| Net deferred tax liability/(asset) | 14.7 | 30.3 | (15.6) |

| | At 30 June 2009 | | |
|---|---|---|---|
| | *Total US$ million* | *Recognised US$ million* | *Unrecognised US$ million* |
| **Deferred tax liability:** | | | |
| – Capital allowances | 9.6 | 9.6 | — |
| – Prepayments and accruals | — | — | — |
| – Foreign exchange allowances | 0.2 | 0.2 | — |
| | 9.8 | 9.8 | — |
| **Deferred tax asset:** | | | |
| – Capital allowances | (3.4) | — | (3.4) |
| – Provisions and accruals | (0.3) | (0.2) | (0.1) |
| – Foreign exchange allowances | (1.7) | (1.7) | — |
| – Tax losses | (5.0) | (0.5) | (4.5) |
| | (10.4) | (2.4) | (8.0) |
| Net deferred tax liability/(asset) | 0.6 | 7.4 | (8.0) |

**Deferred taxation schedule of movements from 1 July 2010 to 30 June 2011:**

| | *Total US$ million* | *Income statement US$ million* | *Statement of financial position US$ million* |
|---|---|---|---|
| **Deferred tax liability:** | | | |
| – Capital allowances | 24.0 | 24.0 | — |
| – Prepayments and accruals | 0.1 | 0.1 | — |
| – Foreign exchange allowances | 2.4 | 2.4 | — |
| **Deferred tax asset:** | | | |
| – Capital allowances | (11.6) | (11.6) | — |
| – Provisions and accruals | (2.4) | (2.4) | — |
| – Foreign exchange allowances | (2.3) | (2.3) | — |
| – Tax losses | (3.8) | (3.8) | — |
| Net deferred tax liability movement | 6.4 | 6.4 | — |

**Deferred taxation schedule of movements from 1 July 2009 to 30 June 2010:**

| | *Total US$ million* | *Income statement US$ million* | *Statement of financial position US$ million* |
|---|---|---|---|
| **Deferred tax liability:** | | | |
| – Capital allowances | 54.7 | 35.6 | 19.1 |
| – Foreign exchange allowances | 0.1 | 0.1 | — |
| **Deferred tax asset:** | | | |
| – Capital allowances | (27.4) | (24.9) | (2.5) |
| – Provisions and accruals | (6.5) | (6.5) | — |
| – Foreign exchange allowances | 1.2 | 1.1 | 0.1 |
| – Tax losses | 0.9 | 0.9 | — |
| Net deferred tax liability movement | 23.0 | 6.3 | 16.7 |
| Less deferred tax adjustment for CIHL inventory fair value uplift[1] | | (7.4) | |
| Income statement credit | | (1.1) | |

1 The deferred tax adjustment of US$7.4 million is in respect of a deferred tax asset raised by the Group on inventory that has been fair valued at the date of acquiring the additional 50% in CIHL. Subsequent to the acquisition, the inventory was sold and the deferred tax liability released.

Deferred tax assets of US$5.0 million have been recognised in respect of tax losses to be utilised by future taxable profits at Kimberley JV. The Directors believe it is probable these tax assets will be recovered through future taxable income or the reversal of temporary differences. Losses were recorded in FY 2010 as the mine only started production in May 2010; a taxable profit was generated in FY 2011. The utilised losses expiry period is detailed in note 11 and deductible temporary differences have no expiry period.

## 26 Financial instruments

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

The details of the categories of financial instruments of the Group are as follows:

| | *At 30 June* | | |
|---|---|---|---|
| | *2009 US$ million* | *2010 US$ million* | *2011 US$ million* |
| Financial assets: | | | |
| Loans and receivables: | | | |
| – Non-current trade receivables | 19.6 | 32.2 | 51.1 |
| – Trade receivables | 3.3 | 2.9 | 20.6 |
| – Other receivables | 8.5 | 8.9 | 13.7 |
| – Cash and cash equivalents – restricted | 4.4 | 9.7 | 228.0 |
| – Cash and cash equivalents – unrestricted | 6.6 | 24.8 | 96.9 |
| Available for sale financial assets (level 1 valuation) | — | 0.8 | 0.4 |
| Fair value designated hedge: | | | |
| – Derivative financial instruments (level 2 valuation) | — | — | 6.0 |
| | 42.4 | 79.3 | 416.7 |

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Financial liabilities: | | | |
| Held at amortised cost: | | | |
| – Non-current amounts owing to BEE Partners | 19.1 | 23.2 | 29.0 |
| – Loans and borrowings | 101.7 | 64.5 | 90.1 |
| – Trade and other payables (includes deferred consideration) | 13.4 | 30.3 | 39.4 |
| Fair value designated hedge: | | | |
| – Other current liabilities – firm commitment (level 2 valuation) | — | — | 6.0 |
| | 134.2 | 118.0 | 164.5 |

There is no significant difference between the fair value of financial assets and liabilities and the carrying values set out in the table above, noting that non-current receivables bear interest and are therefore not discounted. Available for sale financial assets are valued based on the share price at the reporting date. A loss of US$0.4 million (30 June 2010: US$0.1 million) has been recognised in the Consolidated Statement of Other Comprehensive Income in respect of the reduction of the available for sale financial assets to fair value.

**Fair value measurement hierarchy**

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level of the financial asset or financial liability in the fair value hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels. The only financial instruments held by the Group that were carried at fair value were the available for sale financial asset, forward currency contracts and South African Rand deposits designated as hedging instruments for the Finsch acquisition. The available for sale financial assets were valued using level 1 of the hierarchy using quoted prices. The hedging instrument and hedged item were valued by broker statements using observable market prices.

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

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Financial assets: | | | |
| Botswana Pula | — | 0.1 | 0.1 |
| Pounds Sterling | 4.8 | 6.5 | 290.6 |
| South African Rand | 30.2 | 54.1 | 120.5 |
| US Dollar | 7.4 | 18.6 | 5.5 |
| | 42.4 | 79.3 | 416.7 |
| Financial liabilities: | | | |
| Botswana Pula | 0.1 | 0.1 | — |
| Pounds Sterling | 0.2 | 1.0 | 59.7 |
| South African Rand | 43.7 | 42.2 | 92.3 |
| US Dollar | 90.2 | 74.7 | 12.5 |
| | 134.2 | 118.0 | 164.5 |

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

- credit risk;
- foreign exchange risk;
- liquidity risk;
- interest rate risk; and
- other market price risk.

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

**Principal financial instruments**

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

- trade and other receivables (current and non-current);
- cash at bank;
- trade and other payables (current and non-current);
- loans and borrowings;
- hedging instruments; and
- firm commitments.

**Credit risk**

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

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the Consolidated Statement of Financial Position. The financial assets are carried at amortised cost, with no indication of impairment. The Group considers the credit quality of loans and receivables that are neither past due nor impaired to be good.

Credit risk associated with loans to BEE partners is mitigated by a contractual obligation for the loans to be repaid from future cashflows prior to any payments being paid to the BEE partners from future cashflows generated by the operations.

Group cash balances are deposited with reputable banking institutions within the countries in which it operates. Excess cash is held in overnight call accounts and term deposits ranging from seven to 30 days. Refer to note 20 for restricted cash secured in respect of rehabilitation obligations and the purchase of the Finsch mine. At year end the Group had undrawn borrowing facilities of US$18.5 million (30 June 2010: US$10.4 million).

**Foreign currency risk**

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

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

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

The purchase price of Finsch was fixed in South African Rands and as such created a foreign currency risk for the Group. The Group entered into forward exchange contracts and held South African Rands in escrow accounts to mitigate the foreign currency risk on the Finsch purchase price.

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

**30 June 2011**

| | *Year-end US$ rate* | *Year-end amount US$ million* | *US$ strengthens 10% US$ million* | *US$ weakens 10% US$ million* |
|---|---|---|---|---|
| Financial assets: | | | | |
| Botswana Pula | 0.1523 | 0.1 | 0.1 | 0.1 |
| Pounds Sterling | 0.6243 | 290.6 | 261.5 | 319.7 |
| South African Rand | 0.1463 | 120.5 | 108.4 | 132.5 |
| US Dollar | 1.0000 | 5.5 | 5.5 | 5.5 |
| | | 416.7 | 375.5 | 457.8 |
| Financial liabilities: | | | | |
| Pounds Sterling | 0.6243 | 59.7 | 53.7 | 65.6 |
| South African Rand | 0.1463 | 92.3 | 83.0 | 101.5 |
| US Dollar | 1.0000 | 12.5 | 12.5 | 12.5 |
| | | 164.5 | 149.2 | 179.6 |

**30 June 2010**

| | *Year-end US$ rate* | *Year-end amount US$ million* | *US$ strengthens 5% US$ million* | *US$ weakens 5% US$ million* |
|---|---|---|---|---|
| Financial assets: | | | | |
| Botswana Pula | 0.1390 | 0.1 | 0.1 | 0.1 |
| Pounds Sterling | 0.6637 | 6.5 | 6.1 | 6.8 |
| South African Rand | 0.1307 | 58.9 | 55.9 | 61.8 |
| US Dollar | 1.0000 | 18.6 | 18.6 | 18.6 |
| | | 84.1 | 80.7 | 87.3 |
| | | 84.1 | 80.7 | 87.3 |
| Financial liabilities: | | | | |
| Botswana Pula | 0.1390 | 0.1 | 0.1 | 0.1 |
| Pounds Sterling | 0.6637 | 1.0 | 1.0 | 1.1 |
| South African Rand | 0.1307 | 42.2 | 40.1 | 44.3 |
| US Dollar | 1.0000 | 74.7 | 74.7 | 74.7 |
| | | 118.0 | 115.9 | 120.2 |

**30 June 2009**

| | *Year-end US$ rate* | *Year-end amount US$ million* | *US$ strengthens 5% US$ million* | *US$ weakens 5% US$ million* |
|---|---|---|---|---|
| Financial assets: | | | | |
| Pounds Sterling | 0.6053 | 4.8 | 4.5 | 5.0 |
| South African Rand | 0.1268 | 30.2 | 28.7 | 31.7 |
| US Dollar | 1.0000 | 7.4 | 7.4 | 7.4 |
| | | 42.4 | 40.6 | 44.1 |
| Financial liabilities: | | | | |
| Botswana Pula | 0.1491 | 0.1 | 0.1 | 0.1 |
| Pounds Sterling | 0.6053 | 0.2 | 0.2 | 0.2 |
| South African Rand | 0.1268 | 43.7 | 41.5 | 45.9 |
| US Dollar | 1.0000 | 90.2 | 90.2 | 90.2 |
| | | 134.2 | 132.0 | 136.4 |

The Directors consider a 10% currency movement to be the maximum likely cumulative change over the next 12 months. In the years ended 30 June 2010 and 30 June 2009 the Directors considered a 5% currency movement to be the maximum likely change.

**Derivatives**

| | | *At 30 June* | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Derivative financial assets** | | | |
| Derivatives designated as hedging instruments | | | |
| Forward foreign exchange contracts – fair value hedges | — | — | 6.0 |
| Total derivatives designated as hedging instruments | — | — | 6.0 |
| Total derivative financial assets | — | — | 6.0 |
| Less non-current portion | — | — | — |
| Current portion | — | — | 6.0 |

The fair value of the derivative financial assets is split between current and non-current depending on the remaining maturity of the forward exchange contract and its contractual cashflows. The fair value of the Group's foreign exchange contracts is based on broker quotes.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Consolidated Statement of Financial Position.

The derivative financial assets have a maturity profile of less than three months.

The Group took out forward foreign exchange contracts and held deposits in South African Rands to manage the foreign exchange risk associated with the unrecognised firm commitment to purchase the Finsch mine for R1.425 billion (refer note 29) after the year-end. The Group entered into short term forward currency contracts to hedge the foreign currency risk.

The material principal amount of the forward contracts designated as fair value hedging instruments was US$86.4 million. The hedging instruments were effective at inception and at year-end. The fair value of the hedging instruments is recognised as an asset in the Consolidated Statement of Financial Position and an equal liability ("other current liabilities – firm commitment") has been recognised reflecting the cumulative foreign exchange movement attributable to the unrecognised firm commitment. The movements (US$6.0 million gain and US$6.0 million loss) are recognised in financial income.

**Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations and when necessary will seek to raise funds through the issue of shares.

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

Cashflow is monitored on a regular basis. Projections reflected in the Group working capital model indicate that the Group will have sufficient liquid resources to meet its obligations under all reasonable expected circumstances. The maturity analysis of the actual cash payment due in respect of loans and borrowings is set out in the table below. The maturity analysis of trade and other payables are in accordance with those terms and conditions agreed between the Group and its suppliers. For trade and other payables payment terms are 30 days, provided all terms and conditions have been complied with. Exceptions to agreed terms are set out in note 23, as reflected under non-current.

**Maturity analysis**

The below maturity analysis reflects cash and cash equivalents and loans and borrowings based on actual carrying values rather than actual cashflows.

**30 June 2011**

| | *Notes* | *Effective interest rate* | *Total US$ million* | *6 months or less US$ million* | *6-12 months US$ million* | *1-2 years US$ million* | *2-5 years US$ million* |
|---|---|---|---|---|---|---|---|
| **Cash** | | | | | | | |
| Cash and cash equivalents – unrestricted | 20 | 0.1% – 5.8% | 96.9 | 96.9 | — | — | — |
| Cash – restricted | 20 | 0.1% – 5.8% | 228.0 | 228.0 | — | — | — |
| Total cash | | | 324.9 | 324.9 | | | |
| **Loans and borrowings** | | | | | | | |
| Bank loan – secured | 22(vi) | 14.0% | 36.5 | — | — | 9.8 | 26.7 |
| Bank loan – secured | 22(vii) | 8.9% | 33.1 | — | — | 9.1 | 24.0 |
| Deferred consideration | 22(xiv) | 6.0% | 18.7 | 18.7 | — | — | — |
| Associate loans | | 9.5% | 1.8 | — | — | — | 1.8 |
| | | | 90.1 | 18.7 | — | 18.9 | 52.5 |
| Cashflow of loans and borrowings | | | 97.4 | 20.0 | 3.8 | 18.9 | 58.5 |

**30 June 2010**

| | *Notes* | *Effective interest rate* | *Total US$ million* | *6 months or less US$ million* | *6-12 months US$ million* | *1-2 years US$ million* | *2-5 years US$ million* |
|---|---|---|---|---|---|---|---|
| **Cash** | | | | | | | |
| Cash and cash equivalents – unrestricted | 20 | 0.1% – 5.8% | 24.8 | 24.8 | — | — | — |
| Cash – restricted | 20 | 0.1% – 5.8% | 9.7 | 9.7 | — | — | — |
| Total cash | | | 34.5 | 34.5 | — | — | — |
| **Loans and borrowings** | | | | | | | |
| Bank loan – secured | 22(i) | 9.92% | 0.1 | — | 0.1 | — | — |
| Bank loan – secured | 22(ii) | 9.92% | 0.3 | 0.3 | — | — | — |
| Loan – unsecured | 22(xiii) | 8% | 32.0 | 17 | — | 15.0 | — |
| Deferred consideration – unsecured | 22(xiv) | 6% | 32.0 | — | — | 32.0 | — |
| | | | 64.4 | 17.3 | 0.1 | 47.0 | — |
| Cashflow of loans and borrowings | | | 70.2 | 18.7 | 0.1 | 51.4 | — |

**30 June 2009**

| | Notes | Effective interest rate | Total US$ million | 6 months or less US$ million | 6-12 months US$ million | 1-2 years US$ million | 2-5 years US$ million |
|---|---|---|---|---|---|---|---|
| **Cash** | | | | | | | |
| Cash and cash equivalents – unrestricted | 20 | 7.01% | 6.7 | 6.7 | — | — | — |
| Cash – restricted | 20 | 7.01% | 4.4 | 4.4 | — | — | — |
| Total cash | | | 11.1 | 11.1 | — | — | — |
| **Loans and borrowings** | | | | | | | |
| Bank loan – secured | 22(i) | 10.47% | 0.2 | — | 0.1 | 0.1 | — |
| Bank loan – secured | 22(ii) | 10.47% | 1.0 | 0.3 | 0.3 | 0.4 | — |
| Bank loan – secured | 22(iii) | 11.75% | 0.5 | 0.5 | — | — | — |
| Bank loan – secured | 22(iv) | 11.02% | 8.1 | 4.0 | 4.1 | — | — |
| Bank loan – secured | 22(v) | 10.47% | 3.1 | 1.6 | 1.5 | — | — |
| Loan – secured | 22(viii) | 8.59% | 9.3 | 4.7 | 4.6 | — | — |
| Convertible note – unsecured | 22(ix) | 7.48% | 19.6 | 19.6 | — | — | — |
| Loan – unsecured | 22(x) | 11.57% | 2.6 | 2.6 | — | — | — |
| Loan – unsecured | 22(xi) | 8.00% | 9.8 | — | — | — | 9.8 |
| Loan – unsecured | 22(xii) | 7.02% | 3.8 | 1.9 | 1.9 | — | — |
| Joint venture partner loans | 22(xiii) | 8.00% | 43.3 | — | — | — | 43.3 |
| Associate loans | | 10.47% | 0.4 | — | — | — | 0.4 |
| | | | 101.7 | 35.2 | 12.5 | 0.5 | 53.5 |
| Cashflow of loans and borrowings | | | 82.1 | 15.6 | 12.5 | 0.5 | 53.5 |

**Interest rate risk**

The Group has borrowings that incur interest at floating rates and no interest rate swaps are used. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary. An analysis of the sensitivity to interest rate changes is presented below. The Directors consider 100 basis points to be the maximum likely change in interest rates over the next 12 months.

The effect of an interest rate increase/(decrease) on the Group's interest charge in the year is as follows:

**30 June 2011**

| | Notes | Year-end interest rate | Year-end interest bearing liability US$ million | Interest rate increases 1% US$ million | Interest rate (decreases) 1% US$ million |
|---|---|---|---|---|---|
| Bank loan – secured | 22(vi) | 14.0% | 36.5 | 0.3 | (0.3) |
| Bank loan – secured | 22(vii) | 8.9% | 33.1 | 0.3 | (0.3) |
| Deferred consideration loan – unsecured | 22(xiv) | 6% | 18.7 | — | — |
| Associate loans | | 9.5% | 1.8 | 0.1 | (0.1) |
| | | | 90.1 | 0.7 | (0.7) |

**30 June 2010**

| | Notes | Year-end interest rate | Year-end interest bearing liability US$ million | Interest rate increases 1% US$ million | Interest rate (decreases) 1% US$ million |
|---|---|---|---|---|---|
| Bank loan – secured | 22(i) | 9.92% | 0.2 | — | — |
| Bank loan – secured | 22(ii) | 9.92% | 0.3 | — | — |
| Loan – unsecured | 22(xiii) | 8% | 32.0 | — | — |
| Deferred consideration loan – unsecured | 22(xiv) | 6% | 32.0 | — | — |
| | | | 64.5 | — | — |

**30 June 2009**

| | Notes | Year-end interest rate | Year-end interest bearing liability US$ million | Interest rate increases 1% US$ million | Interest rate (decreases) 1% US$ million |
|---|---|---|---|---|---|
| Bank loan – secured | 22(i) | 10.47% | 0.2 | — | — |
| Bank loan – secured | 22(ii) | 10.47% | 1.0 | — | — |
| Bank loan – secured | 22(iii) | 11.75% | 0.5 | — | — |
| Bank loan – secured | 22(iv) | 11.02% | 8.1 | 0.1 | — |
| Bank loan – secured | 22(v) | 10.47% | 3.1 | 0.1 | — |
| Loan – secured | 22(viii) | 8.59% | 9.3 | 0.2 | (0.2) |
| Convertible note – unsecured | 22(vix) | 7.48% | 19.6 | — | — |
| Bank loan – secured | 22(x) | 11.57% | 2.6 | — | — |
| Bank loan – secured | 22(xi) | 8.00% | 9.8 | — | — |
| Bank loan – secured | 22(xii) | 7.02% | 3.8 | — | — |
| Associate loans | | 8.00% | 43.3 | — | — |
| | | 10.47% | 0.4 | — | — |
| | | | 101.7 | 0.4 | (0.2) |

The loans disclosed in note 22 parts (vi) and (vii) are a fixed interest rate loan or a discounted deferred consideration and therefore are not exposed to fluctuations in interest rates.

Each interest bearing financial liability is restated to show the cashflows arising based on the respective country specific prime lending rates as disclosed in note 22.

**Other market price risk**

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

**Capital disclosures**

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

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

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as total debt (excluding provisions and deferred tax liabilities)

less restricted and unrestricted cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent Company.

The debt to equity ratios at 30 June 2009, 30 June 2010 and 30 June 2011 are as follows:

| | *At 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Total debt | 136.5 | 118.0 | 164.5 |
| Cash and cash equivalents | (11.1) | (34.5) | (324.9) |
| Net debt / (funds) | 125.4 | 83.5 | (160.4) |
| Total equity attributable to equity holders of the parent Company | 47.8 | 257.3 | 667.0 |
| Net (funds) / debt to equity ratio | 2.63:1 | 0.32:1 | (0.24):1 |

The Group manages its capital structure by the issue of ordinary shares, raising debt finance where appropriate, and managing Group cash and cash equivalents.

## 27 Contingent liabilities

Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set below, as well as details of contingent liabilities, which although considered remote, the Directors consider should be disclosed. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

**Environmental**

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

## 28 Share-based payments

**Employee share options**

The Company has an established share option programme that entitles the Remuneration Committee, at its discretion, to grant share options to Directors and Senior Management. The terms and conditions of the share options granted during the years ended 30 June 2009, 30 June 2010 and 30 June 2011 are disclosed below. The share-based payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

The fair value of share options granted during the years ended 30 June 2009, 2010 and 2011 and assumptions are as follows:

| | *At 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| Fair value at measurement date | 5p – 9p | 20.8p – 35.7p | 31.0p – 51.2p |
| Exercise price | 27.5p | 45.5p – 60.5p | 92.8p |
| Share price at grant date | 27.5p | 64p – 66p | 97.0p |
| Expected volatility | 46% | 68% – 71% | 79.2% |
| Vesting period | 1 – 3 years | 1 – 3 years | 1 – 3 years |
| Option life | 10 years | 10 years | 10 years |
| Expected dividends | — | — | — |
| Risk-free interest rate (based on national government bonds) | 2.47% | 0.98% – 2.48% | 0.98% – 2.48% |

The expected volatility is based on historical volatility of the Group's share price, adjusted for any extreme changes in the share price during the historical period. During the year ended 30 June 2011, 2,079,999 (2010: 233,862, 2009: nil) options held by employees were exercised and the Company expensed US$1.9 million (2010: US$1.7 million, 2009: US$2.3 million) related to the fair value of employee share options. During the year ended 30 June 2011, 130,000 (2010: 492,805, 2009: nil) options with a weighted average option price of 43.4p lapsed, 504,079 (2010: 16,666, 2009: 6,610,000) share options with a weighted option price of 42.4p (30 June 2010: 9.0p) were cancelled immediately before vesting and 500,000 (2010: 8,186,000, 2009: 8,365,000) share options were granted at an option price of 92.8p.

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

| *Employees entitled* | *Grant date* | *Number* | *Vesting period* | *Remaining life of options (years)* |
|---|---|---|---|---|
| Options granted to Directors | 5 September 2003 | 1,000,000 | 1/3 per annum from grant date | 2 |
| | 16 June 2005 | 2,000,000 | Subject to performance of share price | 4 |
| | 31 May 2006 | 1,000,000 | 1/3 per annum from grant date | 5 |
| | 12 March 2009 | 2,500,000 | 1/3 per annum from grant date | 8 |
| | 30 September 2009 | 1,150,000 | 1/3 per annum from grant date | 9 |
| | 17 March 2010 | 1,150,000 | 1/3 per annum from grant date | 9 |

| *Employees entitled* | *Grant date* | *Number* | *Vesting period* | *Remaining life of options (years)* |
|---|---|---|---|---|
| Options granted to Senior Management | 13 September 2004 | 50,000 | 1/3 per annum from grant date | 3 |
| | 24 September 2004 | 75,000 | 25% from grant date for two years, then 50% in third year | 3 |
| | 28 January 2005 | 23,750 | 25% from grant date for two years, then 50% in third year | 4 |
| | 27 November 2005 | 84,300 | 1/3 per annum from grant date | 4 |
| | 31 May 2006 | 166,388 | 1/3 per annum from grant date | 5 |
| | 31 July 2006 | 236,812 | 1/3 per annum from grant date | 7 |
| | 12 March 2009 | 4 470 000 | 1/3 per annum from grant date | 8 |
| | 30 September 2009 | 2 117 671 | 1/3 per annum from grant date | 9 |
| | 17 March 2010 | 3 060 002 | 1/3 per annum from grant date | 9 |
| | 25 November 2010 | 500,000 | 1/3 per annum from grant date | 10 |

| | *Weighted average exercise price 2009* | *Number 2009* | *Weighted average exercise price 2010* | *Number 2010* | *Weighted average exercise price 2011* | *Number 2011* |
|---|---|---|---|---|---|---|
| Outstanding at beginning of the year | 74.70p | 12,600,334 | 45.46p | 14,355,334 | 48.60p | 21,798,001 |
| Cancelled during the year | 102.86p | (6,610,000) | 15.92p | (16,666) | 42.39p | (504,079) |
| Lapsed during the year | 0.00p | — | 62.76p | (492,805) | 43.42p | (130,000) |
| Exercised during the year | 0.00p | — | 49.07p | (233,862) | 51.05p | (2,079,999) |
| Granted during the year | 27.50p | 8,365,000 | 53.08p | 8,186,000 | 92.80p | 500,000 |
| Outstanding at the end of the year | 45.46p | 14,355,334 | 48.60p | 21,798,001 | 47.88p | 19,583,923 |
| Exercisable at the end of the year | 44.78p | 5,052,102 | 37.73p | 7,581,656 | 51.38p | 11,770,578 |

The weighted average market price of the shares in respect of options exercised during the year ended 30 June 2011 was 156.87p (2010: 45.72p; 2009: nil options exercised). The options outstanding at 30 June 2011 have an exercise price in the range of 27.5p to 96p (2010: 27.5p to 96p; 2009: 44p to

96p) and a weighted average remaining contractual life of seven years (2010: eight years, 2009: eight years).

Employees received cash payments of US$0.8 million during the year in respect of options cancelled. The payments equate to the fair value at the date of cancellation and the Group recognised a charge to equity in accordance with IFRS 2 together with the acceleration of the remaining unamortised fair value in respect of the options of US$0.1 million in the income statement.

**Warrants**

As part of the debt facilities referred to in note 22 parts (vi) and (vii), 12,600,000 warrants over Petra shares were granted to IFC (6,300,000) and RMB (6,300,000). The fair value of the 12,600,000 warrants has been calculated using the Black-Scholes model and debited against pre-payments until such time as the loan is drawn-down. The warrants were fair valued at US$7.9 million. When the loan is drawn-down, the fair value is debited against the interest bearing non-current borrowings and the effective interest rate and associated accretion charges adjusted accordingly (refer note 22 parts (vi) and (vii)).

The Company issued additional warrants during the year ended 30 June 2010 as part of a capital raising exercise in December 2009. The fair value of the warrants has been calculated using the Black-Scholes model and is debited against the share premium account, being a directly attributable cost of the capital raising exercise. Canaccord and RBC Capital Markets were issued 4,092,777 and 1,364,259 warrants over Ordinary Shares, exercisable at 80p per warrant.

The fair value of the 5,457,037 warrants in issue, as at 30 June 2010, was debited against the share premium account, being a directly attributable cost of the December 2009 capital raising exercise.

| | *2010* | *2011* |
|---|---|---|
| Fair value at measurement date | 18.5p | 36.2p – 41.7p |
| Exercise price | 80p | 90p, 95p and 100p |
| Share price at date of grant | 72.2p | 102.0p |
| Expected volatility | 71% | 43% – 63% |
| Warrant life | 2 years | 2 – 4 years |
| Expected dividends | — | — |
| Risk-free interest rate (based on national government bonds) | 1.73% | 0.65% – 1.16% |

The fair value of the warrants in issue as at 30 June 2009 was incorporated into the calculation of the equity component of the convertible bond set out in note 22(ix), therefore no separate valuation assumptions are provided here.

The expected volatility is based on historical volatility of the Group's share price, adjusted for any extreme changes in the share price during the historical period. During the year ended 30 June 2011, nil warrants (2010: 2,000,000; 2009: nil) lapsed, 8,292,777 (30 June 2010: nil; 30 June 2009: nil) were exercised with option prices in the range of 80p to 95p and nil (2010: US$1.6 million; 2009: US$nil) were off-set against share premium, related to the fair value of warrants issued during the year ended 30 June 2010.

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

| | *Weighted average exercise price 2009* | *Number 2009* | *Weighted average exercise price 2010* | *Number 2010* | *Weighted average exercise price 2011* | *Number 2011* |
|---|---|---|---|---|---|---|
| Outstanding at beginning of the year | 130p | 2,000,000 | 130p | 2,000,000 | 80.00 | 5,457,036 |
| Lapsed during the year | — | — | 130p | (2,000,000) | — | — |
| Exercised during the year | — | — | — | — | 86.33 | (8,292,777) |
| Granted during the year | — | — | 80p | 5,457,036 | 95.00 | 12,600,000 |
| Outstanding at the end of the year | 130p | 2,000,000 | 80p | 5,457,036 | 93.98 | 9,764,259 |
| Exercisable at the end of the year | 130p | 2,000,000 | 80p | 5,457,036 | 93.98 | 9,764,259 |

The warrants outstanding at 30 June 2011 have an exercise price in the range of 90p – 100p (30 June 2010: 80p; 30 June 2009: 130p) and a weighted average remaining contractual life of three years (30 June 2010: two years; 30 June 2009: one year).

## 29 Post-balance sheet events

### Acquisition of Finsch

On 21 January 2011, the Company announced that it, together with its BEE partners, had entered into an agreement to acquire the Finsch mine in South Africa as a going concern (assets and assumed liabilities) from De Beers for R1.425 billion with the Company's wholly owned subsidiary Afropean Diamonds, acquiring a 74% interest and the BEE partners a 26% interest. On 14 September 2011, the Company announced the completion of the Finsch acquisition, which represented the date the Group acquired control of the mine. As part of the transaction, the Company funded its BEE partners' share of the R1.425 billion consideration through loans to the BEE partners. The final cash consideration paid in US$ terms was US$192 million reflecting the benefit of an effective hedging strategy to hedge the foreign exchange risk on the firm commitment to acquire Finsch.

Effect of the acquisition

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

| *Finsch net assets at acquisition date:* | *Book values US$ million* | *Provisional fair value adjustments US$ million* | *Provisional fair values US$ million* |
|---|---|---|---|
| Mining property, plant & equipment | 234.6 | (2.5) | 232.1 |
| Land | 0.7 | — | 0.7 |
| Inventory consumables and stores | 4.1 | (1.0) | 3.1 |
| Trade and other receivables | 1.6 | (1.6) | — |
| Environmental liabilities | (16.2) | — | (16.2) |
| Long term payables | (17.1) | 0.1 | (17.0) |
| Employee related payables | (5.1) | — | (5.1) |
| Trade and other payables | (5.6) | — | (5.6) |
| Net assets acquired | 197.0 | (5.0) | 192.0 |
| Non-controlling interest (26%) | | | (49.9) |
| Fair value of net assets attributable to the parent company | | | 142.1 |
| Satisfied as follows: | | | |
| Total cash consideration paid by the Company and BEE consortium | | | 192.0 |

The Company has only recently taken control of the mine and as a result the fair values presented are provisional and subject to revision in accordance with IFRS.

### New RMB facility

On 29 November 2011, the Company and Afropean Diamonds entered into the Revolving Credit Facility and the Working Capital Facility with RMB of approximately US$48 million (ZAR400 million). Further details are provided in paragraph 7 of Part VI of this document.

## 30 Related parties

### Subsidiaries, associates and joint ventures

Details of subsidiaries, associates and joint ventures are disclosed in note 32 and note 16 respectively.

### Directors

Details relating to Directors' emoluments in the Company are disclosed in note 12. Directors' and Senior Management's shareholdings are disclosed in paragraph 8.2 in Part X of this document.

There are no material loans to Directors or Senior Management that have not been disclosed in the notes.

During the year ended 30 June 2011, a subsidiary of the Company paid US$5.6 million (R39.2 million) (30 June 2010: US$1.2 million (R8.9 million)) to Zeren for the purchase of specialised plant

and equipment. Johan Dippenaar, Jim Davidson and David Abery are all Directors and are also directors and shareholders of Zeren.

Within the balance sheet as at 30 June 2011 is an amount of US$5.0 million (2010: US$4.6 million) which was paid by the Company to Sirius Resource Fund 1 Limited ("Sirius") as part of a transaction whereby the Company will acquire from Sirius an increased interest in the Group's South African operations. Adonis Pouroulis is an investment consultant to Sirius and during the year ended 30 June 2011 he was appointed a director of Sirius (subsequent to the payment referred to above).

Umnotho weSizwe, one of Petra's BEE partners, holds a 36% interest in the Cullinan mine BEE holding company, Thembinkosi. The Group has a non-current receivable due from Thembinkosi of US$31.0 million and a non-current payable due to Thembinkosi of US$29.0 million. These sums arise due to the funding that the Group has provided to Umnotho weSizwe to finance its interests in the Cullinan mine.

David Abery is a director of Umnotho weSizwe. Adonis Pouroulis and David Abery are beneficiaries of a trust that is a shareholder in Umnotho weSizwe.

**Shareholders**

Transactions with non-controlling interests are detailed in notes 22 (ix), 22 (xi), 22 (xiii) and 22 (xiv).

**Nabera Mining (Pty) Ltd**

The Company is a 29.5% shareholder in Nabera Mining (Pty) Ltd ("Nabera"), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2011, Petra did not incur any expenses on behalf of Nabera (2010: Rnil (US$nil), 2009 Rnil (US$nil)). Prior period expenses were incurred in relation to the recovery of the management fee and other amounts due to Nabera from Alexkor Limited and the South African government. The total expenses incurred on Nabera's behalf of US$0.3 million will be reimbursed to the Company on receipt of the management fee and other amounts due.

## 31 Significant non-cash transactions

| | *At 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Operating activities** | | | |
| Share based payments | 2.3 | 0.9 | 1.9 |
| Foreign exchange gain | (13.4) | (5.1) | (18.9) |
| Reversal of impairment | — | — | (11.7) |
| Impairment | 75.2 | — | 5.2 |
| Revaluation of rehabilitation liability | (4.6) | — | — |
| Recycling of foreign exchange differences on exploration projects | — | (12.3) | — |
| Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL | — | 26.4 | — |
| Fair value uplift on acquisition of additional 50% of Cullinan | — | (31.0) | — |
| Increase/(decrease) in provisions | 8.8 | (2.1) | 1.4 |
| Shares issued to repay non-current liabilities | — | (15.0) | — |
| Depreciation of property plant and equipment | 11.7 | 11.9 | 22.4 |
| Amortisation of intangible assets | 3.3 | 1.0 | — |
| (Profit)/loss on sale of property plant and equipment | 0.2 | (3.7) | 0.3 |
| Finance income | (3.2) | (7.8) | (7.7) |
| Finance expense | 9.2 | 12.6 | 11.5 |
| | 89.5 | (24.2) | 4.4 |
| **Investing activities** | | | |
| Non-cash capital expenditure (capitalisation of borrowing costs and other) | — | — | 5.7 |
| Non-cash interest from BEE Partners | — | 3.2 | 5.5 |
| | — | 3.2 | 11.2 |

**Financing activities**

On 16 December 2009, the Company acquired Al Rajhi's 50% interest in CIHL, which in turn increased Petra's ownership in the Cullinan mine to 74%. On acquisition of Al Rajhi's 50% interest in CIHL, the Group took on 100% of the Al Rajhi loan which resulted in an increase of US$44.8 million being recorded in loans and borrowings. As part settlement of the loan, 11,363,636 shares were issued to settle US$15 million loan repayment and the exercise of 233,862 share options held by employees.

## 32 Subsidiaries and associates

At 30 June 2011, the Group held 20% or more of the allotted share capital of the following:

| | *Country of incorporation* | *Class of share capital held* | *Percentage held 2011* | *Percentage held 2010* | *Percentage held 2009* | *Nature of business* |
|---|---|---|---|---|---|---|
| Afropean Diamonds (Pty) Ltd | South Africa | Ordinary | 74% | 100% | 100% | Mining and exploration |
| Autumn Star Investments (Pty) Ltd[1] | South Africa | Ordinary | 40% | 40% | 40% | Mining and exploration |
| Basama Diamonds Ltd | Seychelles | Ordinary | — | — | 51% | Mining and exploration |
| Blue Diamond Mines (Pty) Ltd | South Africa | Ordinary | 100% | 100% | 100% | Mining and exploration |
| BPL Diamonds Ltd | British Virgin Islands | Ordinary | — | 100% | 100% | Mining and exploration |
| Crown Resources (Pty) Ltd | South Africa | Ordinary | 100% | 100% | 100% | Mining and exploration |
| Cullinan Diamond Mine (Pty) Ltd[2] | South Africa | Ordinary | 74% | 74% | 37% | Mining and exploration |
| Cullinan Investment Holdings Limited[2] | British Virgin Islands | Ordinary | 100% | 100% | 50% | Mining and exploration |
| Dancarl Diamonds (Pty) Ltd[1] | South Africa | Ordinary | 40% | 40% | 40% | Mining and exploration |
| Dimeng Diamond Holdings (Pty) Ltd | South Africa | Ordinary | — | 59% | 59% | Mining and exploration |
| Ealing Management Services (Pty) Ltd | South Africa | Ordinary | 100% | — | — | Services provision |
| Engiminas Consultoria e Enginharia Lda | Angola | Ordinary | — | 100% | 100% | Mining and exploration |
| Frannor Investments and Finance Ltd | British Virgin Islands | Ordinary | — | 100% | 100% | Mining and exploration |
| Frannor Investments and Financing (Pty) Ltd | South Africa | Ordinary | — | 100% | 100% | Mining and exploration |
| Helam Mining (Pty) Ltd | South Africa | Ordinary | 74% | 100% | 100% | Mining and exploration |
| Kalahari Diamonds Ltd | United Kingdom | Ordinary | 100% | 100% | 100% | Investment holding |
| Kimberley Underground Mines JV[1] | Unincorporated JV | Ordinary | 74% | 74% | 74% | Mining and exploration |
| Koffiefontein Mine JV | South Africa | Ordinary | 70% | 70% | 70% | Mining and exploration |
| Majestic Resource (Pty) Ltd | Australia | Ordinary | — | — | 100% | Investment Holding |
| Messina Diamond Mine (Pty) Ltd | South Africa | Ordinary | — | 100% | 100% | Mining and exploration |
| Messina Diamonds (Pty) Ltd | South Africa | Ordinary | 100% | 100% | 100% | Mining and exploration |
| Messina Investments Ltd | South Africa | Ordinary | 100% | 100% | 100% | Investment holding |
| Nabera Mining (Pty) Ltd | South Africa | Ordinary | — | 29.5% | 29.5% | Mining and exploration |
| Organizacoes Moyoweno – Coercio Geral Lda | Angola | Ordinary | — | 40% | 40% | Mining and exploration |
| Pagvlei Mining (Pty) Ltd | South Africa | Ordinary | — | 100% | 100% | Mining and exploration |
| Petra Diamonds Southern Africa (Pty) Ltd | South Africa | Ordinary | 100% | 100% | 100% | Services provision |
| Petra Diamonds Alto Cuilo Ltd | British Virgin Islands | Ordinary | — | 100% | 100% | Investment Holding |
| Petra Diamonds Angola Holdings Ltd | British Virgin Islands | Ordinary | — | 100% | 100% | Mining and exploration |
| 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 Corproation Angola (Pty) Ltd | Bermuda | Ordinary | — | — | 70% | Exploration |
| Premier Rose Management Services (Pty) Ltd[1] | South Africa | Ordinary | 100% | 100% | 50% | Services provision |
| Sedibeng Diamond Mine JV[3] | Unincorporated JV | Ordinary | 57.5% | 57.5% | 57.5% | Mining and exploration |
| Sekaka Diamonds (Pty) Ltd | Botswana | Ordinary | 100% | 100% | 100% | Exploration |
| Star Diamonds (Pty) Ltd | South Africa | Ordinary | 74% | 100% | 100% | Mining and exploration |
| Willcroft Company Ltd | Bermuda | Ordinary | 100% | 100% | 100% | Investment holding |
| Williamson Diamonds Ltd | Tanzania | Ordinary | 75% | 75% | 75% | Mining and exploration |

1 Although the Company owns 40% of Autumn Star Investments (Pty) Ltd and Dancarl Diamonds (Pty) Ltd, the Company has consolidated its investments on the basis of control and management of daily and strategic operational activities.

2 CIHL, CDM and Premier Rose are all subsidiary companies, as a result of the additional 50% acquisition of CIHL from Al Rajhi in FY 2010 (refer note 3(b)).

3 The Company owns an effective 57.5% of Sedibeng JV, through its investment in Messina Diamonds and an effective 17% of Sedibeng JV through its investment in Autumn Star Investments (Pty) Ltd.

4 The Company owns an effective 74% of Koffiefontein Mine JV through its investment in Re-Teng Diamonds (Pty) Ltd (refer note 3(a)).

## 33 Discontinued operation

**30 June 2009:**

**CDIH**

On 22 September 2008, the Group disposed of the entire ordinary share capital of CDIH together with associated assets for a total cash consideration of R47.0 million (US$5.9 million). On initial reclassification of the operation as held for sale in the results for the year ended 30 June 2008, the Group did not recognise any impairment losses. The results of the discontinued operation included in the income statement and the cashflows from discontinued operations included in the statement of cashflows in the prior years are set out below.

| | *As at 22 September 2008 US$ million* | *30 June 2008 US$ million* |
|---|---|---|
| a) Net assets : | | |
| Property, plant and equipment | 0.1 | 0.1 |
| Intangible assets | 3.1 | 3.1 |
| Other financial assets | — | 0.4 |
| Non-current assets classified as held for sale | 3.2 | 3.6 |
| Trade and other receivables | — | 1.0 |
| Inventories | 0.2 | 2.5 |
| Cash | 0.1 | 0.1 |
| Net loans from group companies | — | (5.9) |
| Trade and other payables | (0.2) | (0.1) |
| Net assets disposed | 3.3 | 1.2 |
| b) Result of discontinued operation: | | |
| Revenue | 0.9 | 0.8 |
| Cost of sales | (0.9) | (0.9) |
| Gross (loss) | — | (0.1) |
| Expenses other than finance costs | (1.0) | (1.1) |
| Profit on sale of assets | 2.5 | — |
| Finance income | — | — |
| Finance costs | — | (0.1) |
| Profit/(loss) for the year before tax expense | 1.5 | (1.3) |
| Tax expense | — | — |
| Profit/(loss) for the year | 1.5 | (1.3) |
| Attributable to: | | |
| – Equity holders of the parent | 1.5 | (1.3) |
| – Minority interest | — | — |
| | 1.5 | (1.3) |
| Basic profit/(loss) per share (US cents) | 0.86 | (0.76) |
| Dilutive profit/(loss) per share (US cents) | 0.86 | (0.76) |
| c) Post-tax profit/(loss) on disposal of discontinued operation at: | | |
| Consideration received on disposal | 1.5 | — |
| Less: transaction costs | (0.6) | — |
| Less: net assets disposed | (3.3) | — |
| Less: foreign currency translation recycled on disposal | 1.7 | — |
| Pre-tax profit on disposal of discontinued operation | (0.7) | — |
| Deferred taxation recycled | 0.7 | — |
| Post-tax profit on disposal of discontinued operation | — | — |
| d) The cashflow statement includes the following amounts relating to discontinued operations at: | | |
| Operating activities | (0.4) | (5.0) |
| Investing activities | — | — |
| Financing activities | 2.5 | 4.6 |
| Net cash generated from/(utilised in) discontinued operations | 2.1 | (0.4) |

## 34 Pension scheme

The Company operates a defined benefit scheme and defined contribution scheme. The defined benefit scheme was acquired as part of the acquisition of CDM and is closed to new members. All new employees are required to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group's assets.

### Defined benefit scheme

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions.

The pension charge or income for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The most important assumptions made in connection with the charge or income were that the return on the funds will be 9.01% (2010: 11.39%; 2009: 9.16%), based on the average yield of South African government long dated bonds plus 6.47% (30 June 2010: 2%; 30 June 2009: 0%), and that salaries will be increased at 7.30% (2010: 7.20%; 2009: 7.21%), based on current South African consumer price index plus 1%. The market value of the assets of the defined benefit scheme at 30 June 2011 is R132.8 million (US$19.4 million) (30 June: R140.1 million (US$18.3 million); 30 June 2009: R142.1 million (US$18.0 million)) and the actuarial valuation of the assets on an ongoing basis represented 116.1% (2010: 128.7%; 2009: 134%) of the benefit of R120.6 million (US$17.6 million) (30 June 2010: R108.8 million (US$14.2 million); 30 June 2009: R105.5 million (US$13.4 million)) that had accrued to members allowing for expected future increases in earnings. The pension surplus is R12.2 million (US$1.8 million) (30 June 2010: R31.3 million (US$4.1 million); 30 June 2009: R36.5 million (US$4.6 million)). The pension fund values are converted using the year-end foreign exchange rate of US$/R6.83 (2010: US$/R7.65; 2009 US$/R7.88).

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Defined benefit obligations** | | | |
| Present value of funded obligations | (13.4) | (14.2) | (17.6) |
| Fair value of plan assets | 18 | 18.3 | 19.4 |
| Unrecognised net gain – paragraph 58 limit | (4.6) | (4.1) | (1.8) |
| Recognised surplus for defined benefit obligations | — | — | — |
| **Movements in present value of the defined benefit obligations recognised in the statement of financial position** | | | |
| Net surplus for the defined benefit obligation as at 1 July | — | — | — |
| Net expense recognised in the income statement | (0.3) | (0.4) | (0.4) |
| Contributions by employer | 0.3 | 0.4 | 0.4 |
| Unrecognised surplus due to IAS 19 Paragraph 58 limit | — | — | — |
| Net surplus for defined benefit obligations at 30 June | — | — | — |

Refer to note 1.17 for details of the limit applied to recognition of pension surplus asset.

| | | | |
|---|---|---|---|
| **Income/(expense) recognised in the income statement** | | | |
| Current service cost | 0.4 | (0.4) | (0.5) |
| Finance expense | 1.2 | (1.2) | (1.4) |
| Expected return on assets | (1.8) | 2.0 | 2.2 |
| Unrecognised net gain | — | 0.3 | 4.6 |
| Recognition in terms of IAS 19 paragraph 58A | 0.5 | (1.1) | (5.3) |
| | 0.3 | (0.4) | (0.4) |
| **Change in the fair value of the defined benefit assets** | | | |
| Net surplus for the defined benefit obligation as at 1 July | — | 18.0 | 18.3 |
| Foreign exchange movement on opening balances | — | 0.6 | 2.0 |
| Arising on acquisition of subsidiary | 14.8 | — | — |
| Expected return on assets | 1.8 | 2.0 | 1.8 |
| Benefits paid to members | (0.5) | (2.0) | (2.4) |
| Contributions | 0.5 | 0.5 | 0.6 |
| Net transfers in | 1.1 | — | — |
| Actuarial (losses)/gains | 0.3 | (0.8) | (0.9) |
| At 30 June | 18.0 | 18.3 | 19.4 |
| **Change in the present value of the defined benefit obligations** | | | |
| At 1 July | — | (13.4) | (14.2) |
| Foreign exchange movement on opening balance | — | (0.4) | (1.5) |
| Arising on acquisition of subsidiary | (11.9) | — | — |
| Benefits paid to members | 0.5 | 2.0 | 2.4 |
| Current service cost | (0.4) | (0.4) | (0.5) |
| Finance cost | (1.2) | (1.2) | (1.4) |
| Contributions by members | (0.1) | (0.2) | (0.2) |
| Actuarial losses | (0.3) | (0.6) | (2.2) |
| At 30 June | (13.4) | (14.2) | (17.6) |

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Actuarial gains and losses** | | | |
| Actuarial (losses)/gains on plan assets | 0.3 | (0.8) | (0.9) |
| Actuarial losses on plan liabilities | (0.3) | (0.6) | (2.2) |
| **Analysis of plan assets** | | | |
| Cash | 18.40% | 10.00% | 100.00% |
| Equity | 44.90% | 75.00% | — |
| Bonds | 27.30% | 15.00% | — |
| Property | — | — | — |
| Other – offshore | 9.40% | — | — |
| | 100% | 100% | 100% |
| **Principal actuarial assumptions** | | | |
| | *% per annum* | *% per annum* | *% per annum* |
| Discount rate at 30 June | 9.16% | 9.39% | 9.01% |
| Expected return on plan assets at 30 June | 9.16% | 11.39% | 9.01% |
| Future salary increases | 7.21% | 7.20% | 7.30% |
| Inflation | 6.21% | 6.20% | 6.30% |
| Future pension increases | 7.21% | 4.65% | 4.74% |
| **Determination of estimated pension expense for the year ended 30 June 2012** | *US$ million* | *US$ million* | *US$ million* |
| Member Contributions | 0.1 | 0.2 | 0.2 |
| Company Contributions | 0.3 | 0.4 | 0.4 |
| Risk Premiums | — | — | — |
| Benefit Payments | (0.5) | (2.2) | (2.6) |
| **Cumulative actuarial gains/(losses)** | | | |
| Funded status | 4.6 | 4.1 | 1.8 |
| Net change on assets | 0.3 | (0.8) | 1.1 |
| Net change on liabilities | (0.3) | (0.6) | (3.4) |
| | — | (1.4) | (2.3) |
| **Defined benefit obligation trends** | | | |
| Plan assets | 18.0 | 18.3 | 19.4 |
| Plan liabilities | (13.4) | (14.2) | (17.6) |
| Surplus/(deficit) | 4.6 | 4.1 | 1.8 |

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in the fund.

The average life expectancy in years of a pensioner retiring at the age of 65 on 30 June 2011 date is as follows:

| | At 30 June | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| Male | 18.01 | 18.01 | 18.01 |
| Female | 22.52 | 22.52 | 22.52 |

Further to the acquisition of the defined benefit fund, the Group has no experience adjustments.

## 35 Post retirement medical fund

The Company operates a post-employment health care liability scheme. The post-employment health care liability scheme was acquired as part of the acquisition of CDM and is closed to new members. All new employees will be responsible for funding their own post-employment health care liability costs.

The benefit liability for the post-employment health care liability scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The Group obtained a valuation using a third party actuary at 30 June 2010 and management has updated that valuation report for 30 June 2011. This is considered sufficient to achieve a materially accurate valuation. The Group's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. The most important assumptions made in connection with the charge or income were that the health care cost of inflation will be 6.75% (30 June 2010: 6.75%), based on the average yield of South African Government long dated bonds of 9.25% (30 June 2010: 9.25%), and that salaries will be increased at 5.75% (30 June 2010: 5.75%). The actuarial accrued liability funded status of the post-employment health care liability scheme at 30 June 2011 is R45.5 million (US$6.7 million) (30 June 2010: R40.7 million (US$5.2 million)). The post-employment health care liability values are converted using the year-end foreign exchange rate of US$/R6.83 (30 June 2010: US$/R7.65).

| | *At 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| **Post retirement medical fund** | | | |
| Present value of post-retirement medical care obligations | 2.0 | 5.3 | 6.7 |
| Unfunded status at 30 June | 2.0 | 5.3 | 6.7 |
| **Movements in present value of the post retirement medical fund obligations recognised in the statement of financial position** | | | |
| Net liability for the post retirement medical fund obligation as at 1 July | — | 2.0 | 5.3 |
| Arising on acquisition of subsidiary | 1.7 | 2.5 | — |
| Net expense recognised in the income statement | 0.3 | 0.7 | 0.8 |
| Net discount rate change | — | 0.1 | — |
| Changes in % continuing at post employment | — | (1.3) | — |
| Membership changes | — | 0.3 | — |
| Health care inflation | — | 0.9 | — |
| Other | — | 0.1 | 0.6 |
| Net liability for post-retirement medical care obligations at 30 June | 2.0 | 5.3 | 6.7 |
| **Expense recognised in the income statement** | | | |
| Current service cost | 0.1 | 0.3 | 0.2 |
| Finance expense | 0.2 | 0.4 | 0.6 |
| | 0.3 | 0.7 | 0.8 |
| The expense is recognised in the following line items in the income statement | | | |
| Mining and processing costs | 0.1 | 0.3 | 0.2 |
| Finance expense | 0.2 | 0.4 | 0.6 |
| | 0.3 | 0.7 | 0.8 |

| **Reconciliation of fair value of scheme liabilities** | *At 30 June* | | |
|---|---|---|---|
| | *2009* | *2010* | *2011* |
| | *US$ million* | *US$ million* | *US$ million* |
| At 1 July | — | 2.0 | 5.3 |
| Arising on acquisition of subsidiary | 1.7 | 2.5 | — |
| Net expense recognised in the income statement | 0.3 | 0.7 | 0.8 |
| Net discount rate change | — | 0.1 | — |
| Changes in % continuing at post employment | — | (1.3) | — |
| Membership changes | — | 0.3 | — |
| Health care inflation | — | 0.9 | — |
| Other | — | 0.1 | 0.6 |
| Liabilities at fair market value as at 30 June | 2.0 | 5.3 | 6.7 |

| | *% per annum 2009* | *% per Annum 2010* | *% per annum 2011* |
|---|---|---|---|
| **Principal actuarial assumptions** | | | |
| Discount rate at 30 June | 9.25% | 9.25% | 9.25% |
| Health care cost inflation | 6.75% | 6.75% | 6.75% |
| Future salary increases | 5.75% | 5.75% | 5.75% |
| Net replacement ratio | 60.00% | 60.00% | 60.00% |
| Net discount rate | 2.34% | 2.34% | 2.34% |
| Normal retirement age (years) | 60 | 60 | 60 |
| Fully accrued age (years) | 60 | 60 | 60 |
| **Determination of estimated post retirement medical fund expense for the year ended 30 June 2011** | *US$ million* | *US$ million* | *US$ million* |
| Current service cost | — | 0.2 | 0.2 |
| Finance expense | — | 0.5 | 0.6 |
| Benefit payments | — | (0.1) | (0.1) |
| **Cumulative actuarial gains/(losses)** | | | |
| Unfunded status | — | — | — |
| Net change on liabilities | 0.6 | 0.7 | 1.3 |
| | 0.6 | 0.7 | 1.3 |
| **Actuarial accrued liability** | | | |
| Funded status | 2.0 | 5.2 | 6.7 |

**Sensitivity analysis**

**Health care inflation rate**

The effect of a 1% increase or decrease in the health care inflation rate on the post-retirement medical fund accrued liability is as follows:

| | *30 June 2011 US$ million* | *1% increase US$ million* | *1% decrease US$ million* |
|---|---|---|---|
| Accrued liability | 6.7 | 7.9 | 4.5 |
| % difference | — | 19.7% | (31.8%) |

| | *30 June 2010 US$ million* | *1% increase US$ million* | *1% decrease US$ million* |
|---|---|---|---|
| Accrued liability | 5.3 | 6.4 | 4.4 |
| % difference | — | 19.9% | (15.8%) |

**Average retirement age**

The table below shows the impact of a one year change in the expected average retirement age.

| | *30 June 2011 US$ million* | *Retirement 1 year earlier US$ million* | *Retirement 1 year later US$ million* |
|---|---|---|---|
| Accrued liability | 6.7 | 6.9 | 6.2 |
| % difference | — | 4.5% | (6.0%) |

| | *30 June 2010 US$ million* | *Retirement 1 year earlier US$ million* | *Retirement 1 year later US$ million* |
|---|---|---|---|
| Accrued liability | 5.3 | 5.6 | 5.0 |
| % difference | — | 5.9% | (5.5%) |

# PART VIII

# HISTORICAL FINANCIAL INFORMATION ON FINSCH

## SECTION A – ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION ON FINSCH FOR THE TWO YEARS ENDED 31 DECEMBER 2010

BDO LLP
55 Baker Street
London
W1U 7EU

15 December 2011

The Directors
Petra Diamonds Limited
Elizabeth House
9 Castle Street,
St Helier
Jersey
JE4 2QP

RBC Europe Limited
Riverbank House
2 Swan Lane
London
EC4R 3BF

Dear Sirs

**Finsch Diamond Mine ("Finsch")**

**Introduction**

We report on the financial information set out in Section B of Part VIII. This financial information has been prepared for inclusion in the prospectus dated 15 December 2011 of Petra Diamonds Limited (the "Prospectus") on the basis of the accounting policies set out in note 1 to the financial information. This report is required by item 20.1 of annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

**Responsibilities**

The Directors of Petra Diamonds Limited (the "Company") are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex I of the PD Regulation consenting to its inclusion in the Prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of Finsch as at 31 December 2009 and 2010, and of its results, cashflows and changes in invested capital for the years then ended in accordance with the basis of preparation set out in note 1 to the financial information.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

BDO LLP

Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## SECTION B – HISTORICAL FINANCIAL INFORMATION ON FINSCH FOR THE TWO YEARS ENDED 31 DECEMBER 2010

**Income statement and statement of comprehensive income**

| | *Notes* | *2009* *R '000* | *2010* *R '000* |
|---|---|---|---|
| **Revenue** | 2 | 999,479 | 1,080,450 |
| Mining and processing costs | 3 | (1,071,393) | (1,028,024) |
| Other direct income | 4 | 4,151 | 25,704 |
| Impairment charges | | — | (11,301) |
| **Total costs** | | (1,067,242) | (1,013,621) |
| Financial income | 5 | 4,219 | — |
| Financial expense | 5 | (30,039) | (29,042) |
| Net financing expense | | (25,820) | (29,042) |
| **(Loss)/profit before taxation** | | (93,583) | 37,787 |
| Tax expense | 6 | — | — |
| **Net (loss)/profit for the year** | | (93,583) | 37,787 |
| Total comprehensive (loss)/profit for the year | | (93,583) | 37,787 |

**Statement of financial position**

| | Notes | 2009 R '000 | 2010 R '000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 2,123,517 | 1,736,320 |
| Intangible assets | 10 | 8,121 | 6,767 |
| Other non-current assets | 11 | 9,893 | 9,763 |
| Total non-current assets | | 2,141,531 | 1,752,850 |
| **Current assets** | | | |
| Inventories | 12 | 218,311 | 210,510 |
| Trade and other receivables | 13 | 10,545 | 13,128 |
| Cash and cash equivalents | | 90 | 9 |
| Total current assets | | 228,946 | 223,647 |
| **Total assets** | | 2,370,477 | 1,976,497 |
| **DE BEERS INVESTED CAPITAL AND LIABILITIES** | | | |
| **De Beers invested capital** | | 2,079,027 | 1,660,805 |
| **Non-current liabilities** | | | |
| Provisions | 14 | 205,597 | 204,605 |
| Total non-current liabilities | | 205,597 | 204,605 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 85,853 | 111,087 |
| Total current liabilities | | 85,853 | 111,087 |
| **Total liabilities** | | 291,450 | 315,692 |
| **Total De Beers invested capital and liabilities** | | 2,370,477 | 1,976,497 |

**Statement of changes in De Beers invested capital**

| | *De Beers invested capital R '000* |
|---|---|
| **BALANCE AT 31 DECEMBER 2009** | 1,660,805 |
| Total comprehensive profit for the year | 37,787 |
| Movement in the De Beers funding balance | 380,435 |
| **BALANCE AT 31 DECEMBER 2010** | 2,079,027 |

**Statement of cashflows**

| | Notes | 2009 R '000 | 2010 R '000 |
|---|---|---|---|
| **Cashflows from operating activities** | | | |
| Receipts from customers | | 1,015,881 | 1,077,867 |
| Payments to suppliers and employees | | (656,736) | (579,139) |
| Cash generated from operations | 16 | 359,145 | 498,728 |
| Income taxes paid | | — | — |
| Net cash generated by operating activities | | 359,145 | 498,728 |
| **Cashflows from investing activities** | | | |
| Payments for property, plant and equipment | | (92,638) | (47,351) |
| Proceeds from disposal of property, plant and equipment | | 8,234 | 21,979 |
| Net cash used in investing activities | | (84,404) | (25,372) |
| **Cashflows from financing activities** | | | |
| (Decrease)/increase in other non-current assets | | (154) | 130 |
| Changes in De Beers funding balance | | (259,709) | (456,010) |
| Cash applied against provision | | (14,800) | (17,557) |
| Net cash used in financing activities | | (274,663) | (473,437) |
| Net increase/(decrease) in cash and cash equivalents | | 78 | (81) |
| Cash and cash equivalents at the beginning of the year | | 12 | 90 |
| Cash and cash equivalents at the end of the year | | 90 | 9 |

**Notes to the financial information**

**1 Accounting polices**

The financial information on Finsch incorporates the principal accounting policies set out below.

***1.1 Basis of preparation***

The financial information covers the year ended 31 December 2010 and has been prepared in accordance with the requirements of the PD Regulation, and in accordance with this basis of preparation. The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) except as described below.

IFRS as adopted by the EU does not provide for the accounting treatment set out below under the heading 'Carve out of Finsch from De Beers Consolidated Mines Limited', and accordingly in preparing the financial information, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements of historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in a material departure from IFRSs as adopted by the EU.

The accounting statement set out below under the heading 'Carve out of Finsch from De Beers Consolidated Mines Limited' represents the only departure from IFRS as adopted by the EU. In other respects IFRS as adopted by the EU has been applied.

***Carve out of Finsch from De Beers Consolidated Mines Limited***

Prior to acquisition, Finsch was run as one of a number of divisions of De Beers. This financial information has been prepared from the individual financial return of Finsch which was prepared for De Beers consolidation purposes for the year ended 31 December 2010.

As a member of De Beers, Finsch has relied on other parts of De Beers to provide certain services. Finsch has been charged costs, recorded in the income statement, by other parts of De Beers for some of these services. It is possible that the terms of the relevant transactions would have been different if Finsch had not been connected with De Beers.

The tax charges in this financial information reflect the fact that Finsch mine does not account for its own taxes and are therefore not representative of the tax charges that would have been reported had Finsch been a separate corporate entity, nor are they representative of the tax charges that may arise in the future.

Net financing expense recorded in the income statement has been affected by the financing arrangements within De Beers and is not representative of the net financing expense that may arise in future. Inter-divisional financing within De Beers was interest free.

Inter-divisional financing with other parts of De Beers has been reflected in the balance sheet within De Beers invested capital and in the cashflow statement as changes in De Beers funding balance.

Finsch has not in the past formed a separate legal entity, and therefore it is not meaningful to show an analysis of equity for Finsch. The net assets of Finsch are represented by the capital invested in the business by De Beers. This is shown as "De Beers invested capital".

***Going concern***

The Directors have reviewed Finsch's current cash resources, funding requirements and ongoing trading of the operations. As a result of the review, the going concern basis has been adopted in preparing the financial information and the Directors have no reason to believe that Finsch will not be a going concern in the foreseeable future based on forecasts and available cash resources.

***Currency reporting***

The functional currency of Finsch is US Dollars. Finsch financial information is presented in South African Rand.

### *1.2 New standards and interpretations applied*

The IASB has issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 January 2010 which have been adopted by Finsch for the first time this year:

| | | *Effective period commencing on or after* | *Impact on Company* |
|---|---|---|---|
| IAS 1 | Amendment – Presentation of financial statements: a revised presentation | 1 January 2009 | Yes |
| IAS 23 | Amendment – Borrowing costs | 1 January 2009 | No |
| IAS 27 | Amendment – Consolidated and separate financial statements | 1 July 2009 | Yes |
| IAS 32 and IAS 1 | Amendments – Puttable financial instruments and obligations arising on Liquidation | 1 January 2009 | No |
| IAS 39 | Amendment – Financial Instruments: Recognition and measurement of eligible hedged items | 1 July 2009 | No |
| IFRS 1 | First-time adoption of International accounting standards | 1 July 2009 | No |
| IFRS 1 & IAS 27 | Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate | 1 January 2009 | No |
| IFRS 2 | Amendment – Share-based payment: vesting conditions and cancellations | 1 January 2009 | No |
| IFRS 3 | Revised – Business combinations | 1 July 2009 | Yes |
| IFRS 7 | Amendment – Improving Disclosures about Financial Instruments | 1 January 2009 | Yes |
| IFRS 8 | Operating Segments | 1 January 2009 | Yes |
| General | Improvements to IFRSs (2009) | 1 January 2009 | No |
| IFRIC 9 & IAS 39 | Amendment – Embedded derivatives | 30 June 2009 | No |
| IFRIC 15 | Agreements for the Construction of Real Estate | 1 January 2009 | No |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 | No |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | 1 July 2009 | No |
| IFRIC 18 | Transfer of Assets from Customers | 1 July 2009 | No |

IAS 1 Presentation of Financial Statements (revised) includes the requirement to present a Statement of changes in equity as a primary statement and introduces the possibility of either a single Statement of Comprehensive Income (combining the Income Statement and a Statement of Comprehensive Income) or to retain the Income Statement with a supplementary Statement of Comprehensive Income. In view of the fact that Finsch has no comprehensive income other than its profit/loss for the year, these statements have been combined. As noted earlier, the statement of changes in equity has been replaced by a statement of changes in De Beers invested capital. As this revision is concerned with presentation only it does not have any impact on the results or net assets of Finsch.

IFRS 8, Operating Segments requires operating segments to be identified on the basis of internal reports about components of Finsch that are regularly reviewed by the Chief Operating Decision Maker (CODM). By contrast IAS 14, "Segmental Reporting" required business and geographical segments to be identified on a risks and rewards approach. The business segmental reporting bases used by Finsch in previous years are those which are reported to the CODM, so the changes to the segmental reporting for 2010 are in respect of the additional disclosure only. Comparatives have been restated.

Amendment to IFRS 2, "Share-based payments: vesting conditions and cancellations", results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan. Management has concluded that so far there has been no impact on the results of Finsch as a result of this amendment.

Finsch has complied with the requirement to adopt IFRS 3 (revised) for accounting periods commencing after 1 January 2010. The basic approach of the existing IFRS 3 to apply acquisition accounting in all cases and identify an acquirer is retained in this revised version.

However, in some respects the revised standard has resulted in very significant changes. The main changes that have affected Finsch in the period are summarised below:

- Where a controlling interest in another entity is acquired, and the acquirer previously held a non-controlling interest in that entity (whether as an investment, associate or joint venture), the previously held investment is re-measured to fair value on the date on which the controlling interest is acquired, with any gain or loss being recorded in the income statement. The fair value of that previously held interest is then treated as being part of the fair value of the total consideration paid for the (controlling) interest in the new subsidiary.
- The revised standard includes a requirement to write off all acquisition costs to profit or loss instead of including them in the cost of investment.
- The revised standard does not require the restatement of previous business combinations.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7); the application of this Amendment has resulted in changes to the disclosures provided in respect of financial instruments, primarily in note 26 to the financial information, including an analysis of financial asset and financial liability that is measured at fair value in the statement of financial position, into a three level fair value measurement hierarchy. The Amendment does not change the recognition or measurement of transactions and balances in the financial information.

As a result of the amendments to IAS 27, Finsch now recognises non-controlling interests in respect of subsidiaries which have net liabilities. The standard is applied prospectively with the non-controlling interest in gains and losses recognised as they occur. Previously, non-controlling interests could not be recorded for subsidiaries with net liabilities unless a binding obligation to reimburse the losses existed and the non-controlling interest had the capability to do so.

***New standards and interpretations not yet effective***

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for Finsch's accounting periods beginning after 1 January 2010 or later periods and which Finsch has decided not to adopt early. These are:

| | | *Effective period commencing on or after* |
|---|---|---|
| IAS 19 (IFRIC 14) | Amendment – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2011 |
| IAS24 | Revised – Related Party Disclosures | 1 January 2011 |
| IAS 32 | Amendment – Classification of Rights Issues | 1 February 2010 |
| IFRS 1 | Amendment – first-time adopters of IFRS | 1 July 2010 |
| IFRS 1 | Additional exemptions for first-time adopters | 1 January 2010 |
| IFRS 2 | Amendment – Company cash-settled share-based payment transactions | 1 January 2010 |
| IFRS 9 | Financial Instruments | 1 January 2013 (not yet endorsed by the EU) |
| General Improvements to IFRS (2009) | | 1 January 2010 |
| General Improvements to IFRS (2010) | | 1 January 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 April 2010 (not yet endorsed by the EU) |

Finsch is currently assessing the impact of these standards on the financial information.

### *1.3 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:

| | |
|---|---|
| Earth moving equipment | Depreciation calculated based on remaining machine hours |
| Mining and treatment infrastructure | Depreciation calculated based on remaining life of mine |
| General infrastructure | 20% straight-line basis |
| Furniture and equipment | 20% straight-line basis |
| Computer equipment | 33% straight-line basis |
| Measuring, Control & Communications | 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.

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

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

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

### *1.4 Leases*

***Finance leases***

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

Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period and the capital repayment, which reduces the liability to the lessor.

***Operating leases***

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases.

Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

### *1.5 Exploration and evaluation costs*

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

### *1.6 Impairment*

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

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

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

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

### *1.7 Financial instruments*

***Financial assets***

Finsch classifies its financial assets into one of the following categories and Finsch's accounting policy for each category is as follows:

***Fair value through profit or loss***

This category comprises only in-the-money derivatives that were not designated for hedge accounting at inception. They are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement in the finance income or finance expense line. Finsch does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

***Loans and receivables***

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

***Available-for-sale***

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally of Finsch's strategic investment in the entities not qualifying as subsidiaries, associates or jointly controlled entities. The assets are carried at fair value with changes in fair value recognised directly in the statement of other comprehensive income and accumulated in invested capital. 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 invested capital and recognised in the income statement. Fair values of quoted investments are based on current market prices. Finsch only holds quoted investments. Available for sale financial assets are fair valued at each reported date and reviewed as set out above.

***Financial liabilities***

Finsch 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), Finsch's accounting policy for each category is as follows:

***Fair value through profit or loss***

This category comprises only out-of-the-money derivatives that were not designated for hedge accounting at inception (see financial assets for "in-the-money" derivatives). The liabilities are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement in the finance income or finance expense line.

***Other liabilities***

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

***Interest-bearing borrowings***

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

***Hedging instruments***

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date that relevant derivative contracts are entered into, Finsch may designate the derivative for hedge accounting. During the year Finsch has only entered into hedges of forecast transactions cashflow hedges. Where a hedge instrument is designated for hedge accounting at inception, Finsch formally assesses, at inception and on an on-going basis, whether the derivatives are highly effective in offsetting changes in the fair value or cashflows of the hedged item. Changes in the fair value of a derivative that is effective in offsetting changes in the cashflow of the hedged item, and that is designated and qualifies as a cashflow hedge, are recognised directly in invested capital. Changes in the fair value of derivatives that do not qualify for hedge accounting or were not designated for hedge accounting at inception are recognised in the income statement. Amounts recognised in invested capital are transferred to the income statement in the period during which the

hedged forecast impacts net profit or loss. Any ineffective element of a cashflow hedge, which has been designated for hedge accounting, is taken to the income statement. Finsch had no hedging instruments as at 31 December 2010.

***Impairment of financial assets***

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that Finsch will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable. For trade receivables, which are reported net such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

***Fair value hierarchy***

Financial assets and liabilities measured at fair value are classified according to their fair value hierarchy as disclosed in note 26.

### *1.8 Revenue*

Revenue comprises net invoiced diamond sales to customers excluding VAT. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of future economic benefits is probable.

Revenue from test production on projects pending confirmation of commercial viability is credited to revenue and an equal amount charged to cost of sales and credited to mineral properties so as to record zero margin.

### *1.9 Finance and other income*

Finance and other income comprises income from interest and other non-operating income. Interest is recognised on a time apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to Finsch.

### *1.10 Tax*

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *1.11 Provisions*

Provisions are recognised when Finsch 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 Finsch's operations, is charged against income as incurred.

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

### *1.12 Foreign currency*

***Foreign currency transactions***

Transactions in foreign currencies are recorded at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to, or charged against, income.

### *1.13 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 Finsch has a present obligation to pay as a result of employees' services provided to the reporting date. The provisions have been calculated based on current wage and salary rates.

### *1.14 Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments, and net of bank overdrafts, all of which are available for use by Finsch unless otherwise stated. Restricted cash represents amounts held by banks as a guarantee in respect of environmental rehabilitation obligations in respect of Finsch's South African mines.

### *1.15 Employee pension schemes*

***Defined contribution scheme***

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

***Defined benefit scheme***

The defined benefit liability or asset recognised in the financial information represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any net asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and any reduction in future contributions that Finsch is entitled to in terms of section 15E of the Pension Funds Act in South Africa.

Actuarial gains and losses are recognised to the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in other comprehensive income over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The actuarial calculation is performed by a qualified actuary using the projected unit credit method.

### *1.16 Post retirement medical fund*

Finsch operates a post retirement medical fund, which is unfunded and therefore recognised as a liability on the statement of financial position within provisions. The liability is based on an actuarial valuation performed at each year-end reporting date.

### *1.17 Inventories*

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

### *1.18 Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. No such costs were incurred within Finsch during the year. Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

### *1.19 Critical assumptions and judgements*

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

***Judgements:***

**Exploration and evaluation costs**

Judgement is applied by management in determining whether exploration and evaluation expenditure should be capitalised or expensed. Management exercise judgement based on the results of economic evaluations, pre-feasibility or feasibility studies as set out in note 1. The carrying value of intangible assets (excluding non-current assets classified as held for sale), which includes capitalised exploration and evaluation expenditure, at the reporting date is ZAR 6.8 million.

**Life of mine and ore Reserves**

There are numerous risks inherent in estimating ore Reserves and the associated life of a mine. Therefore management must make a number of assumptions in making those estimates, including assumptions as to exchange rates, rough diamond and other commodity prices, recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, commodity prices, recovery and production rates may change the economic viability of ore Reserves and may ultimately result in the restatement of the ore Reserves and potential impairment to the carrying value of the mining assets.

**Impairment reviews**

While conducting an impairment review of its assets, Finsch exercises judgement in making assumptions about future rough diamond prices, ore Reserves, rehabilitation costs, feasibility studies, future development and production costs. Changes in estimates used can result in significant changes to the income statement. The policy in respect of impairment reviews is set out in note 1.6 and details of impairment reviews carried out during the year are set out in note 9.

**Assumptions and estimates:**

**Provision for rehabilitation**

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. The carrying value of rehabilitation provisions at the reporting date is ZAR104 million.

## 2. Revenue

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Natural diamond sales | | |
| – third parties | 60,823 | 111,115 |
| – fellow subsidiaries | 938,656 | 969,335 |
| | 999,479 | 1,080,450 |

Fellow subsidiary sales were sold to the Diamond Trading Company. Third party sales were sold to the State Diamond Trading Company.

## 3. Mining and processing costs

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Raw materials and consumables | | |
| – third parties | 232,089 | 277,586 |
| – related parties | 22,893 | 27,217 |
| Changes in inventory of finished goods | 200,126 | 4,998 |
| Depreciation of mining assets | 342,854 | 393,918 |
| Employee expenses | 234,491 | 273,495 |
| Other operating costs | 38,940 | 50,810 |
| | 1,071,393 | 1,028,024 |

## 4. Other direct income

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| (Loss)/profit on disposals of fixed assets | (171) | 18,076 |
| Other operating income – water and electricity recoveries | 4,322 | 7,628 |
| | 4,151 | 25,704 |

## 5. Net financing expense

| | *2009* *R '000* | *2010* *R '000* |
|---|---|---|
| Financial income: | | |
| – Foreign exchange gains | 4,219 | — |
| Financial expense: | | |
| – Foreign exchange losses | — | (627) |
| – Unwinding of discount (see note 14): | | |
| – Environmental liability | (19,845) | (15,956) |
| – Post-retirement liability | (10,124) | (12,373) |
| – Other | (70) | (86) |
| | (25,820) | (29,042) |

## 6. Taxation

Finsch Mine does not account for current and deferred taxes as it is a division of De Beers, which is the legal entity registered for tax purposes.

## 7. Auditors' remuneration

| | *2009* *R '000* | *2010* *R '000* |
|---|---|---|
| Audit fees | — | — |
| Other services | 46 | 28 |
| Total | 46 | 28 |

Audit fees were paid by De Beers and not by Finsch. The fees shown here were for other non audit related expenses.

## 8. Directors' and employees' remuneration

| | *2009* *R '000* | *2010* *R '000* |
|---|---|---|
| Staff costs | 230,368 | 269,249 |
| Other payroll related costs | 4,122 | 4,246 |
| | 234,490 | 273,495 |

Average number of employees during the year were 746 (2009: 883) for temporary and permanent staff. Head Office's (De Beers) remuneration is not allocated to Finsch Mine.

## 9. Property, plant and equipment

A register of land and buildings owned by Finsch (other than those acquired or used for mining and ancillary purposes) is kept at Finsch's head office.

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Carrying amounts of: | | |
| Computers | 2,758 | 3,386 |
| Earthmoving equipment | 113,030 | 104,165 |
| Furniture and equipment | 5,981 | 4,806 |
| General infrastructure | 63,677 | 60,574 |
| Measuring, control and communications | 30,848 | 25,796 |
| Mining and treatment infrastructure | 1,854,414 | 1,511,349 |
| Vehicles | 15,422 | 12,009 |
| Assets under construction | 37,387 | 14,235 |
| | 2,123,517 | 1,736,320 |

The following depreciation rates were used for the different PPE categories

| *Asset category* | *Depreciation rates used* |
|---|---|
| Computers | 33% |
| Earthmoving Equipment | Depreciation calculated based on reaming machine hours |
| Furniture & Equipment | 20% |
| General Infrastructure | 20% |
| Measuring, Control & Communications | 20% |
| Mining & Treatment infrastructure | Depreciation calculated based on remaining life of mine |
| Vehicles | 20% |

## 9. Property, plant and equipment

| | R '000 Computers | R '000 Earthmoving equipment | R '000 Furniture and equipment | R '000 General infrastructure | R '000 Measuring, control and communication | R '000 Mining and treatment infrastructure | R '000 Vehicles | R '000 Assets under construction | R '000 Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance at 1 January 2009 | 2,361 | 136,803 | 16,154 | 79,750 | 85,978 | 2,922,900 | 29,380 | 154,923 | 3,428,249 |
| Additions | — | 16,432 | — | — | — | 9,104 | 30 | 67,072 | 92,638 |
| Disposals | — | — | (1,911) | — | — | (8,234) | (729) | — | (10,879) |
| Decommisioned | — | — | — | — | — | (31,005) | — | — | (31,005) |
| Commissioned | 3,385 | 39,969 | 1,629 | 189 | 513 | 136,753 | 2,170 | (184,608) | — |
| Balance at 31 December 2009 | 5,746 | 193,204 | 15,872 | 79,939 | 86,491 | 3,029,518 | 30,851 | 37,387 | 3,479,008 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| Balance at 1 January 2009 | (1,073) | (61,256) | (9,027) | (12,853) | (46,874) | (871,086) | (12,939) | — | (1,015,108) |
| Depreciation expense | (1,915) | (18,918) | (2,749) | (3,409) | (8,769) | (304,018) | (3,074) | — | (342,852) |
| Disposals | — | — | 1,885 | — | — | — | 584 | — | 2,469 |
| Balance as at 31 December 2009 | (2,988) | (80,174) | (9,891) | (16,262) | (55,643) | (1,175,104) | (15,429) | — | (1,355,491) |

| | R '000 Computers | R '000 Earthmoving equipment | R '000 Furniture and equipment | R '000 General infrastructure | R '000 Measuring, control end communication | R '000 Mining and treatment infrastructure | R '000 Vehicles | R '000 Assets under construction | R '000 Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance at 1 January 2010 | 5,746 | 193,204 | 15,872 | 79,939 | 86,491 | 3,029,518 | 30,851 | 37,387 | 3,479,008 |
| Additions | — | — | — | — | — | — | — | 47,351 | 47,351 |
| Disposals | (857) | (22,109) | (3,926) | — | (5,855) | (104) | (883) | — | (33,734) |
| Decommisioned | — | — | — | — | — | (25,436) | — | — | (25,436) |
| Commissioned | 3,387 | 27,228 | 1,566 | 357 | 3,315 | 34,417 | 233 | (70,503) | — |
| Balance at 31 December 2010 | 8,276 | 198,323 | 13,512 | 80,296 | 83,951 | 3,038,405 | 30,201 | 14,235 | 3,467,179 |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| Balance at 1 January 2010 | (2,988) | (80,174) | (9,892) | (16,262) | (55,643) | (1,175,104) | (15,429) | — | (1,355,491) |
| Depreciation expense | (2,759) | (21,026) | (2,741) | (3,460) | (8,367) | (352,028) | (3,537) | — | (393,918) |
| Disposals | 857 | 18,343 | 3,926 | — | 5,855 | 76 | 774 | — | 29,831 |
| Impairment losses recognised in profit or loss | — | (11,301) | — | — | — | — | — | — | (11,301) |
| Balance as at 31 December 2010 | (4,890) | (94,158) | (8,706) | (19,722) | (58,155) | (1,527,056) | (18,192) | — | (1,730,879) |

## 10. Intangible assets

| | 2009<br>R '000 | 2010<br>R '000 |
|---|---|---|
| **Cost** | | |
| Other | 19,069 | 19,069 |
| Total cost | 19,069 | 19,069 |
| **Accumulated amortisation** | | |
| Other | (10,948) | (12,302) |
| Total accumulated amortisaton | (10,948) | (12,302) |
| **Net book value** | | |
| Other | 8,121 | 6,767 |
| **Total net book value** | 8,121 | 6,767 |
| **Reconciliation of intangible assets** | | |
| **Balance at 31 December 2008** | | 9,745 |
| Amortisation | | (1,624) |
| Balance at 31 December 2009 | | 8,121 |
| Amortisation | | (1,354) |
| **Balance at 31 December 2010** | | 6,767 |

## 11. Other non-current assets

| | 2009<br>R '000 | 2010<br>R '000 |
|---|---|---|
| Environmental rehabilitation insurance fund asset | 9,893 | 9,738 |
| Other debtor | — | 25 |
| | 9,893 | 9,763 |

Finsch has an obligation as required per legislation to rehabilitate the environment that it has mined when operations cease. Due to this obligation, the DMR requires Finsch to provide a guarantee sufficient enough to cover the expected future costs at a certain value. The guarantee constitutes a security for all present and future indebtedness of Finsch arising out of the indemnity until all of Finsch's obligations have been paid in full, and Finsch has been released of all its obligations to the DMR in terms of the guarantees. The environmental rehabilitation fund is insured by Guardrisk and Centric and is managed by Marsh Vikela (Pty) Ltd.

## 12. Inventories

| | 2009<br>R '000 | 2010<br>R '000 |
|---|---|---|
| Diamond stock held for resale | 185,393 | 180,395 |
| Consumables and stores | 32,918 | 30,115 |
| Total | 218,311 | 210,510 |

## 13. Trade and other receivables

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Trade receivables | 1,133 | 1,311 |
| Loans to staff | 267 | 38 |
| Sundry debtors | 504 | 693 |
| Prepaid insurance | 3,537 | 3,381 |
| Amounts due from SARS (VAT) | 5,362 | 7,730 |
| Allowance for doubtful debts | (258) | (25) |
| | 10,545 | 13,128 |

The average credit period on sales of goods is 45 to 60 days. No interest is charged on trade receivables. Dunning notices are sent after 60 days which state that Debtors will be handed over to the client's attorneys.

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Age of trade and sundry receivables that are past due but not impaired | | |
| 60-90 days | 207 | 79 |
| 90-120 days | (40) | 35 |
| | 167 | 114 |

## 14. Provisions

| | *2009* *R '000* | *2010* *R '000* |
|---|---|---|
| Post-retirement medical aid benefits (note 17) | 96,264 | 96,303 |
| Environmental liabilities for rehabilitation and decommissioning of mining areas | 108,397 | 104,294 |
| Other provisions | 936 | 4,008 |
| | 205,597 | 204,605 |

| | *Medical aid benefit* *R '000* | *Environ-mental liability* *R '000* | *Other provisions* *R '000* | *Total* *R '000* |
|---|---|---|---|---|
| **Reconciliation of provisions for liabilities and charges** | | | | |
| **Balance as at 1 January 2009** | 96,553 | 134,815 | 19,468 | 250,836 |
| Allocated to the income statement: | | | | |
| Change in estimate taken to decommissioning asset | — | (31,005) | — | (31,005) |
| Change in estimate taken to cost of sales | — | (15,258) | (18,602) | (33,860) |
| Unwinding of discount | 10,124 | 19,845 | 70 | 30,039 |
| Service costs | 2,444 | — | — | 2,444 |
| Realised actuarial (gain) / loss | 1,943 | — | — | 1,943 |
| Cash applied against provision | (14,800) | — | — | (14,800) |
| **Balance as at 31 December 2009** | 96,264 | 108,397 | 936 | 205,597 |
| Allocated to the income statement: | | | | |
| Change in estimate taken to decommissioning asset | — | (25,426) | — | (25,426) |
| Change in estimate taken to cost of sales | — | 5,367 | 2,985 | 8,353 |
| Unwinding of discount | 12,373 | 15,956 | 86 | 28,415 |
| Service costs | 2,405 | — | — | 2,405 |
| Realised actuarial (gain) / loss | 2,819 | — | — | 2,819 |
| Cash applied against provision | (17,557) | — | — | (17,557) |
| **Balance as at 31 December 2010** | 96,303 | 104,294 | 4,007 | 204,605 |

The post retirement medical aid provision comprises the actuarially valued obligation in respect of committed post retirement medical aid benefits to past and current employees, details of which are provided in note 17.

The environmental rehabilitation and decommissioning provision comprises the present value of management's best estimate of the liability arising on the planned closure of mining operations. The provision has been calculated in terms of the MPRDA in South Africa and guidelines issued by the DMR.

## 15. Trade and other payables

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Trade payables | 53,501 | 52,647 |
| Other payables | 4,735 | 3,613 |
| Provision for leave | 21,113 | 21,499 |
| Provision for bonus | — | 24,984 |
| Accrual for working cost | 6,504 | 8,344 |
| | 85,853 | 111,087 |

## 16. Cashflow statements

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| Cash generated from operations | 359,145 | 498,728 |
| Profit/(loss) before tax | (93,583) | 37,787 |
| Adjustments for: | | |
| Depreciation | 342,852 | 393,917 |
| Impairments | — | 11,301 |
| Amortisation of intangible asset | 1,624 | 1,354 |
| Profit on disposal of property, plant and equipment | 171 | (18,076) |
| Non-cash changes in accounting estimates (provisions) | (30,964) | 13,963 |
| Non-cash unwinding of discount | 30,039 | 28,415 |
| Operating profit before working capital changes | 250,139 | 468,661 |
| Net decrease in working capital | 109,006 | 30,067 |
| Decrease in inventories | 201,192 | 7,802 |
| Decrease/(increase) in trade and other receivables | 16,402 | (2,582) |
| (Increase)/decrease in trade and other payables | (108,589) | 24,849 |

## 17. Retirement benefits

*Defined contribution fund*

Retirement benefits are provided for qualifying employees through a defined contribution fund. This fund is administered independently under the control of trustees, and are governed by the Pension Funds Act of 1956.

*Defined benefit fund*

Retirement benefits are provided for certain qualifying employees through the defined benefit funds which are governed by the Pension Funds Act of 1956. These funds are actuarially valued every 3 years using the projected unit method. The last valuation was undertaken in 2007.

| | *2009* | *2010* |
|---|---|---|
| | *R '000* | *R '000* |
| | *Medical* | *Medical* |
| The amount recognised in the balance sheet arising from Finsch's obligation in respect of post-retirement benefits is as follows: | | |
| Present value of benefit obligation | 145,182 | 165,723 |
| ***Deduct:*** | | |
| Fair value of plan assets | | |
| Present value of unfunded obligations | 145,182 | 165,723 |
| Balance sheet restriction | (48,918) | (69,420) |
| Net liability as per note 14 | 96,264 | 96,303 |

| | *Medical* | *Medical* |
|---|---|---|
| | *2009* | *2010* |
| Movements in the present value of the defined obligation in the current period are as follows: | | |
| Balance at beginning of the year | 128,077 | 145,182 |
| Interest cost | 10,124 | 12,373 |
| Current service costs | 2,444 | 2,404 |
| Settlements | (14,800) | (17,557) |
| Actuarial loss (gain) | 19,336 | 23,321 |
| Balance at end of the year | 145,182 | 165,723 |

The main assumptions used in calculating the obligation are:

| | *Percentage* | |
|---|---|---|
| | *2009* | *2010* |
| Discount rates | 9.3 | 8.5 |
| Expected rate of salary increases | 7.1 | 7.3 |
| Expected rate of medical cost increases | 7.6 | 6.9 |

## 18. Financial instruments

Finsch's financial instruments consist primarily of cash deposits with banks, debtors and creditors.

### 18.1 Financial instruments comprise:

| | | |
|---|---|---|
| Loans and receivables | | |
| Debtors excluding derivatives | 10,545 | 13,128 |
| Cash | 90 | 9 |
| **Financial liabilities held at amortised cost** | | |
| Creditors excluding derivative balances | 85,853 | 111,087 |

## 19. Risk exposures

### 19.1 Liquidity risk

The primary sources of guaranteed liquidity is the loan received from De Beers. This loan does not bear interest and has no repayment terms.

**Maturity analysis of financial liabilities 2010**

| | *<1 year* | *<2 years* | *≤3 years* | *>3 years* | *Amounts per balance sheet* | *Amount of available facilities* |
|---|---|---|---|---|---|---|
| Creditors | 111,087 | — | — | — | 111,087 | — |
| lntra company loan | 874,559 | — | — | — | 874,559 | — |
| Total | 985,646 | — | — | — | 985,646 | — |

**Maturity analysis of financial liabilities 2009**

| | *<1 year* | *<2 years* | *≤3 years* | *>3 years* | *Amounts per balance sheet* | *Amount of available facility* |
|---|---|---|---|---|---|---|
| Creditors | 85,853 | — | — | — | 85,853 | — |
| lntra company loan | 1,281,192 | — | — | — | 1,281,192 | — |
| Total | 1,367,045 | — | — | — | 1,367,045 | — |

### 19.2 Credit Risk

Finsch's debtors are aged as follows:

| | *1 month* | *2 month* | *3 month* | *>4 month* | *Total Debtors* |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Value | 190 | -1 | 212 | 43 | 444 |

### 19.3 Market risk

Finsch is not exposed to market risk as it has no derivatives, long and medium term loans and no short term bank overdrafts.

## 20. Related party transactions

Finsch, in the ordinary course of business, enters into various transactions with fellow subsidiaries and other related parties. These transactions are under terms that are no less favorable than those arranged with third parties.

Information that is considered material is provided as follows;

| | |
|---|---|
| – Sales | Note 2 |
| – Mining and processing costs | Note 3 |
| – Other direct income | Note 4 |
| – Net financing expense | Note 5 |

## 21. Going concern

This financial information has been prepared on the basis of Finsch maintaining its status as a going concern for the foreseeable future. The application of the going concern assumption is considered appropriate.

## 22. Post-balance sheet event

On 21 January 2011, it was announced that De Beers had entered into an agreement to sell Finsch to Petra for R1.425 billion. The sale completed on 14 September 2011. De Beers retained diamond inventory, the environmental rehabilitation fund and that part of the post-retirement provision that related to retired employees.

# PART IX

# UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

## PRO FORMA FINANCIAL INFORMATION – OVERVIEW

Section A of this Part IX is an unaudited *pro forma* income statement for the year ended 30 June 2011, that has been prepared to illustrate the effect of the acquisition of Finsch on the consolidated income statement of the Company, as if the acquisition of Finsch had occurred on 1 July 2010.

Section B of this Part IX is an unaudited *pro forma* statement of net assets as at 30 June 2011 that has been prepared to illustrate the effect of the acquisition of Finsch on the consolidated net assets of the Company, as if the acquisition of Finsch had occurred on 30 June 2011.

Section C of this Part IX sets out the opinion from the Reporting Accountant on the unaudited *pro forma* financial information contained in sections A and B.

## SECTION A – UNAUDITED PRO FORMA INCOME STATEMENT OF THE GROUP

The following unaudited *pro forma* income statement of the Group is based on the consolidated income statement of the Group for the year ended 30 June 2011, set out in the audited consolidated financial information of the Company for the year then ended, and has been prepared to illustrate the effect on the consolidated income statement of the Group as if the acquisition of Finsch was completed on 1 July 2010.

The *pro forma* income statement has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Group's actual financial position or results.

The *pro forma* income statement has been prepared under International Financial Reporting Standards as adopted by the EU and on the basis set out in the notes set out below. The *pro forma* income statement is stated on the basis of the accounting policies adopted in the last consolidated financial statements of the Company.

| | The Group Year ended 30 June 2011 (note 1) US$ million | Adjustments: Finsch Year ended 31 December 2010 (note 2) US$ million | Adjustments: Acquisition of Finsch (note 3) US$ million | Pro forma income statement of the Group US$ million |
|---|---|---|---|---|
| **Revenue** | 220.6 | 147.8 | — | 368.4 |
| Gain on bargain purchase | — | — | 29.9 | 29.9 |
| **Total income** | 220.6 | 147.8 | 29.9 | 398.3 |
| Mining and processing costs | (169.7) | (140.7) | — | (310.4) |
| Other direct income | 2.7 | 3.5 | — | 6.2 |
| Exploration expenditure | (1.4) | — | — | (1.4) |
| Corporate expenditure | (9.4) | — | — | (9.4) |
| Impairment charges | (5.2) | (1.5) | — | (6.7) |
| Impairment reversal | 11.7 | — | — | 11.7 |
| **Total costs** | (171.3) | (138.7) | — | (310.0) |
| Financial income | 42.5 | — | — | 42.5 |
| Financial expense | (27.4) | (4.0) | — | (31.4) |
| Net financing income | 15.1 | (4.0) | — | 11.1 |
| **Profit before tax** | 64.4 | 5.1 | 29.9 | 99.4 |
| Income tax credit | (5.2) | — | — | (5.2) |
| **Profit for the year** | 59.2 | 5.1 | 29.9 | 94.2 |
| Profit for the year attributable to: | | | | |
| Equity holders of the parent company | 53.2 | 3.8 | 22.1 | 79.1 |
| Non-controlling interest | 6.0 | 1.3 | 7.8 | 15.1 |
| | 59.2 | 5.1 | 29.9 | 94.2 |

Notes:

1. The income statement of the Group for the year ended 30 June 2011 has been extracted without material adjustment from the financial information on the Group for the year ended 30 June 2011 set out in Section B of Part VII of this document.
   Adjustments:
2. The income statement of Finsch has been extracted without material adjustment from the financial information on Finsch for the year ended 31 December 2010 set out in Section B of Part VIII of this document and translated at the average ZAR:USD exchange rate in 2010 of 7.308.
3. The gain on bargain purchase arising in respect of the acquisition of Finsch is calculated as follows:

| | US$ million |
|---|---|
| Book value of Finsch net assets as at 31 December 2010 | 250.6 |
| Book value of Finsch net assets not acquired by the Group as at 31 December 2010 (as disclosed in footnote 3 to the *pro forma* net assets statement) | (28.7) |
| Book value of Finsch net assets acquired by the Group as at 31 December 2010 | 221.9 |
| Consideration paid in cash (as disclosed in note 29 of Part VII of the document) | (192.0) |
| Gain on bargain purchase | 29.9 |

   The gain on bargain purchase arises as the net assets that would have been acquired if the acquisition of Finsch was completed on 30 June 2011 of $221.9 million are greater than the consideration paid of $192 million. However, by the date the transaction was actually completed on 14 September 2011, the net assets acquired had fallen to approximately $197 million (see note 29 to Part VII), principally due to the change in the Rand:US Dollar exchange rate from ZAR6.628:US$1 at 31 December 2010 to ZAR 7.3626:US$1 at 14 September 2011. The net assets of Finsch as at 14 September 2011 will be subject to a fair value restatement at the Group's next reporting date and the actual gain on bargain purchase or intangible asset included in the Group's next published financial statements may therefore be materially different from that included in the *pro forma* financial information.
4. No account has been taken of the effect on the *pro forma* income statement of any intangible assets that may have been recognised following the acquisition of Finsch, had the acquisition occurred on 1 July 2010, or of any other fair value adjustments which may arise on the acquisition of Finsch.
5. The expenses of Admission, payable by the Company, and estimated to amount to approximately £1.6 million as disclosed in paragraph 19.4 of Part X of this document, have not been reflected in the *pro forma* income statement of the Group.
6. No account has been taken of the financial performance of the Group since 30 June 2011, the financial performance of Finsch since 31 December 2010, nor of any other event save as disclosed above.

## SECTION B – UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The following unaudited *pro forma* statement of net assets of the Group is based on the consolidated net assets of the Group as at 30 June 2011, set out in the audited consolidated financial information of the Company for the year then ended, and has been prepared to illustrate the effect on the net assets of the Group as if the acquisition of Finsch was completed on 30 June 2011.

The *pro forma* statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Group's actual financial position or results.

The *pro forma* statement of net assets has been prepared under International Financial Reporting Standards as adopted by the EU and on the basis set out in the notes set out below. The *pro forma* statement of net assets is stated on the basis of the accounting policies adopted in the last consolidated financial statements of the Company.

| | | *Adjustments* | | |
|---|---|---|---|---|
| | *The Group as at 30 June 2011 (note 1) US$ million* | *Finsch as at 31 December 2010 (note 2) US$ million* | *Acquisition of Finsch (note 3, 4) US$ million* | *Pro forma net assets of the Group US$ million* |
| **Non-current assets** | | | | |
| Property, plant and equipment | 501.4 | 262.0 | — | 763.4 |
| Intangible assets | — | 1.0 | — | 1.0 |
| Available for sale financial assets | 0.4 | — | — | 0.4 |
| Loans and other receivables | 51.1 | — | — | 51.1 |
| Other non-current assets | — | 1.5 | (1.5) | — |
| | 552.9 | 264.5 | (1.5) | 815.9 |
| **Current assets** | | | | |
| Inventories | 32.9 | 31.8 | (27.2) | 37.5 |
| Trade and other receivables | 49.8 | 2.0 | — | 51.8 |
| Derivative financial asset | 6.0 | — | — | 6.0 |
| Cash and cash equivalents – unrestricted | 96.9 | — | — | 96.9 |
| Cash – restricted | 228.0 | — | (192.0) | 36.0 |
| | 413.6 | 33.8 | (219.2) | 228.2 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 71.4 | — | — | 71.4 |
| Trade and other payables | 29.0 | — | — | 29.0 |
| Provisions | 63.1 | 30.9 | — | 94.0 |
| Deferred tax liabilities | 37.7 | — | — | 37.7 |
| | 201.2 | 30.9 | — | 232.1 |
| **Current liabilities** | | | | |
| Loans and borrowings | 18.7 | — | — | 18.7 |
| Other current liabilities – firm commitment | 6.0 | — | — | 6.0 |
| Trade and other payables | 39.4 | 16.8 | — | 56.2 |
| Current tax payable | — | — | — | — |
| Provisions | 2.2 | — | — | 2.2 |
| | 66.3 | 16.8 | — | 83.1 |
| **Net assets** | 699.0 | 250.6 | (220.7) | 728.9 |

Notes:

1. The net assets of the Group at 30 June 2011 have been extracted without material adjustment from the financial information on the Group for the year ended 30 June 2011 set out in Section B of Part VII of this document.

Adjustments:

2. The consolidated net assets of Finsch have been extracted without material adjustment from the financial information on Finsch for the year ended 31 December 2010 set out in Section B of Part VIII of this document and translated at the closing ZAR:USD exchange rate at 31 December 2010 of 6.628.
3. Adjustments have been made to reflect certain assets and liabilities of Finsch which were not acquired by the Group. These comprise the following:

| | *Balance at 31 December 2010 US$ million* |
|---|---|
| Environmental rehabilitation fund | 1.5 |
| Diamond stock held for resale | 27.2 |
| Post-retirement benefits of retired employees | —* |

* It has not been possible to identify as at 31 December 2010 that portion of the post-retirement benefits provision attributable to retired employees and which has not been assumed by Petra. For purposes of the *pro forma* financial information the entire post-retirement benefits provision has been attributed to active employees and therefore no adjustment has been made in this respect.

The environmental rehabilitation fund has been extracted from Finsch's balance sheet at 31 December 2010 where it is shown as "Other non-current assets". The balance was R.9.8 million and has been converted to US$1.5 million at the rate of exchange prevailing at 31 December 2010.

As shown in note 12 to the financial information on Finsch, diamond stock held for resale at 31 December 2010 was R.180.4 million. This has been converted to US$27.2 million using the exchange rate prevailing at 31 December 2010.

4. The consideration for Finsch is $192 million as disclosed in note 29 of Part VII. This has been recognised within Cash and cash equivalents – restricted.
5. The expenses of Admission, payable by the Company, and estimated to amount to approximately £1.6 million as disclosed in paragraph 19.4 of Part X of this document, have not been reflected in the *pro forma* statement of net assets of the Group.
6. No account has been taken of the financial performance of the Group since 30 June 2011, the financial performance of Finsch since 31 December 2010, nor of any other event save as disclosed above.

BDO LLP
55 Baker Street
London
W1U 7EU

The Directors
Petra Diamonds Limited
Elizabeth House
9 Castle Street
St Helier
Jersey JE4 2QP

15 December 2011

RBC Europe Limited
Riverbank House
2 Swan Lane
London
EC4R 3BF

Dear Sirs

**Petra Diamonds Limited (the "Company")**

**Pro forma financial information**

We report on the unaudited *pro forma* income statement and net assets statement (together, the "Pro Forma Financial Information") set out in sections A and B of Part IX of the prospectus dated 15 December 2011 (the "Prospectus") which has been prepared on the basis described, for illustrative purposes only, to provide information about how the acquisition of the Finsch mine might have affected the financial information presented on the basis of accounting policies adopted by the Company in preparing the financial statements for the year ended 30 June 2011.

This report is required by item 20.2 of Annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

**Responsibilities**

It is the responsibility of the Directors to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I of the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I of the PD Regulation consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of

making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully

BDO LLP

Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# PART X

# ADDITIONAL INFORMATION

## 1. Responsibility

The Directors, whose names appear in Part V of this document, and the Company accept responsibility for all of the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

## 2. Incorporation, Registered Office and Domicile

2.1 The Company was incorporated and registered in Bermuda under the Companies Act 1981 of Bermuda (as amended) on 25 March 1997 as a private company limited by shares with the name Petra Diamonds Limited, and with the company registration number EC23123. The Company is domiciled in Jersey, Channel Islands.

2.2 The principal activities of the Company and of the Group are as described in Part I of this document.

2.3 The principal piece of legislation under which the Company operates is the Companies Act 1981 of Bermuda (as amended), which governs the Company's corporate affairs.

2.4 The registered office of the Company is 2 Clarendon House, Church Street, Hamilton, HM11, Bermuda. The principal place of business of the Company is Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP (telephone number +44 1534 700 111).

2.5 The Company has no administrative, management or supervisory bodies other than the Board, the Executive Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee, the members of which are all Directors. The Company also has a HSSE Committee the members of which are certain of the Directors and Senior Managers.

## 3. The Company and its Subsidiaries

The Company is the ultimate holding company of the Group and immediately following Admission it will have the following direct and indirect subsidiaries and joint venture ("JV") interests:

| | *Country of incorporation* | *Class of share capital held* | *Percentage ownership voting rights* | *Nature of business* |
|---|---|---|---|---|
| Afropean Diamonds (Pty) Ltd | South Africa | Ordinary | 74% | Mining and exploration |
| Autumn Star Investments Holdings (Pty) Ltd[1] | South Africa | Ordinary | 40% | Mining and exploration |
| Blue Diamond Mines (Pty) Ltd | South Africa | Ordinary | 100% | Mining and exploration |
| Crown Resources (Pty) Ltd | South Africa | Ordinary | 100% | Mining and exploration |
| Crown Diamonds (Pty) Ltd | Australia | Ordinary | 100% | Investment holding |
| Cullinan Diamond Mine (Pty) Ltd | South Africa | Ordinary | 74% | Mining and exploration |
| Cullinan Investment Holdings Limited | British Virgin Islands | Ordinary | 100% | Mining and exploration |
| Dancarl Diamonds (Pty) Ltd[1] | South Africa | Ordinary | 40% | Mining and exploration |
| Ealing Management Services (Pty) Ltd | South Africa | Ordinary | 100% | Services provision |
| Helam Mining (Pty) Ltd | South Africa | Ordinary | 74% | Mining and exploration |
| Johannesburg Diamond Trading Corporation (Pty) Ltd | South Africa | Ordinary | 100% | Dormant |
| Kalahari Diamonds Ltd | United Kingdom | Ordinary | 100% | Investment holding |

| | *Country of incorporation* | *Class of share capital held* | *Percentage ownership voting rights* | *Nature of business* |
|---|---|---|---|---|
| Kimberley Underground Mines JV | Unincorporated JV | Ordinary | 74% | Mining and exploration |
| Koffiefontein Mine JV | South Africa | Ordinary | 70%[2] | Mining and exploration |
| Messina Diamonds (Pty) Ltd | South Africa | Ordinary | 100% | Mining and exploration |
| Messina Investments Ltd | South Africa | Ordinary | 100% | Investment holding |
| Messina Investments (Pty) Ltd | South Africa | Ordinary | 100% | Investment holding |
| Nabera Mining (Pty) Ltd | South Africa | Ordinary | 29.5% | Investment holding |
| Petra Diamonds Angola Holdings Ltd | British Virgin Islands | Ordinary | 100% | Investment holding |
| Petra Diamonds Southern Africa (Pty) Ltd | South Africa | Ordinary | 100% | Services provision |
| Premier Rose Management Services (Pty) Ltd[1] | South Africa | Ordinary | 100% | Services provision |
| Premier (Transvaal) Diamond Mining Company (Pty) Limited | South Africa | Ordinary | 74% | Mining and exploration |
| Sedibeng Diamond Mine JV[3] | Unincorporated JV | Ordinary | 74.5% | Mining and exploration |
| Sekaka Diamonds (Pty) Ltd | Botswana | Ordinary | 100% | Exploration |
| Star Diamond Mine (Pty) Ltd | South Africa | Ordinary | 74% | Mining and exploration |
| Willcroft Company Ltd | Bermuda | Ordinary | 100% | Investment holding |
| Williamson Diamonds Ltd | Tanzania | Ordinary | 75% | Mining and exploration |

1 Although the Company only owns 40% of Autumn Star and Dancarl Diamonds, the Company has consolidated these investments on the basis of control and management of daily and strategic operational activities.

2 Petra has a further 4% interest in the Koffiefontein JV via its 13.33% shareholding in Re Teng, taking its total interest in the Koffiefontein JV to 74%.

3 The Company owns an effective 57.5% of the Sedibeng JV, through its investment in Messina Diamonds and an effective 17% of the Sedibeng JV through its investment in Autumn Star.

## 4. Share Capital

4.1 The Ordinary Shares are currently admitted to trading on AIM. Upon Admission, the admission of the Ordinary Shares to trading on AIM will be cancelled.

4.2 As at 13 December 2011 (being the last practicable date prior to publication of this document), the authorised share capital of the Company is £65,000,000, divided into 650,000,000 Ordinary Shares and the issued share capital in the Company is 501,351,601 Ordinary Shares all of which are fully paid. During the period of the historical financial information, there have been the following changes in the issued and authorised share capital of the Company:

(a) On 4 December 2009 the Company issued and allotted 80,000,000 Ordinary Shares pursuant to a placing at a price of 60 pence per Ordinary Share.

(b) On 17 December 2009 the Company issued and allotted 41,200,000 Ordinary Shares pursuant to a placing at a price of 60 pence per Ordinary Share.

(c) On 17 December 2009 the Company issued and allotted 47,363,636 Ordinary Shares to Al Rajhi as consideration pursuant to the Al Rajhi Option Agreement.

(d) On 19 March 2010 the Company issued and allotted 28,333 Ordinary Shares following an exercise of options at an exercise price of 27.50 pence pursuant to the 2005 Share Option Plan.

(e) On 6 May 2010 the Company issued and allotted 205,529 Ordinary Shares following an exercise of options at various exercise prices of 46.50 pence, 56.50 pence, 65.75 pence, 79.50 pence and 27.50 pence pursuant to the 2005 Share Option Plan.

(f) On 22 October 2010 the Company issued and allotted 250,000 Ordinary Shares following the exercise of warrants by Canaccord Genuity pursuant to the 2009 Warrant Instrument at an exercise price of 80 pence per share.

(g) On 5 November 2010 the Company issued and allotted 750,000 Ordinary Shares following the exercise of warrants by Canaccord Genuity pursuant to the 2009 Warrant Instrument at an exercise price of 80 pence per share.

(h) On 8 December 2010 the Company issued and allotted 243,333 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence and 44 pence pursuant to the 2005 Share Option Plan.

(i) On 8 December 2010, the Company issued and allotted 592,777 Ordinary Shares following the exercise of warrants by Canaccord Genuity pursuant to the 2009 Warrant Instrument at an exercise price of 80 pence per share.

(j) On 10 December 2010 the Company issued and allotted 228,333 Ordinary Shares following the exercise of options at various exercise prices of 65.75 pence, 79.5 pence, 96 pence, 27.5 pence and 45.5 pence pursuant to the 2005 Share Option Plan.

(k) On 26 January 2011 the Company issued and allotted 136,698,212 Ordinary Shares pursuant to a placing at a price of 150 pence per share.

(l) On 31 January 2011 the Company issued and allotted 2,500,000 Ordinary Shares following an exercise of warrants by Canaccord Genuity pursuant to the 2009 Warrant Instrument at an exercise price of 80 pence per share.

(m) On 3 February 2011 the Company issued and allotted 2,100,000 Ordinary Shares following an exercise of warrants by Rand Merchant Bank pursuant to the 2010 Warrant Instrument at an exercise price of 90 pence per share.

(n) On 23 February 2011 the Company issued and allotted 700,000 Ordinary Shares following the exercise of options at various exercise prices of 65.7 pence, 27.5 pence, 45.5 pence, 56.5 pence, 46.5 pence, 79.5 pence and 96 pence pursuant to the 2005 Share Option Plan.

(o) On 15 March 2011 the Company issued and allotted 100,000 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence, 45.5 pence and 60.5 pence pursuant to the 2005 Share Option Plan.

(p) On 16 March 2011 the Company issued and allotted 80,000 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence and 45.5 pence pursuant to the 2005 Share Option Plan.

(q) On 22 March 2011 the Company issued and allotted 100,000 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence and 60.5 pence pursuant to the 2005 Share Option Plan.

(r) On 7 April 2011 the Company issued and allotted 50,000 Ordinary Shares following the exercise of options at an exercise price of 27.5 pence pursuant to the 2005 Share Option Plan.

(s) On 12 April 2011 the Company issued and allotted 30,000 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence, 45.5 pence and 60.5 pence pursuant to the 2005 Share Option Plan.

(t) On 14 April 2011 the Company issued and allotted 135,000 Ordinary Shares following the exercise of options at various exercise prices of 60.5 pence, 27.5 pence and 45.5 pence pursuant to the 2005 Share Option Plan.

(u) On 20 April 2011 the Company issued and allotted 250,000 Ordinary Shares following the exercise of options at various exercise prices of 79.5 pence, 27.5 pence and 45.5 pence employee pursuant to the 2005 Share Option Plan.

(v) On 21 April 2011 the Company issued and allotted 21,667 Ordinary Shares following the exercise of options at various exercise prices of 27.5 pence and 60.5 pence pursuant to the 2005 Share Option Plan.

(w) On 4 May 2011 the Company issued and allotted 43,333 Ordinary Shares following an exercise of option at an exercise price of 27.5 pence pursuant to the 2005 Share Option Plan.

(x) On 4 May 2011 the Company issued and allotted 125,000 Ordinary Shares following an exercise of warrants by Rand Merchant Bank pursuant to the 2010 Warrant Instrument at an exercise price of 95 pence per share.

(y) On 6 May 2011 the Company issued and allotted 83,333 Ordinary Shares following the exercise of options at various exercise prices of 45.5 pence and 60.5 pence pursuant to the 2005 Share Option Plan.

(z) On 6 June the Company issued and allotted 1,975,000 Ordinary Shares pursuant to the exercise of warrants by Rand Merchant Bank pursuant to the 2010 Warrant Instrument at an exercise price of 95 pence per share.

(aa) On 24 June 2011 the Company issued and allotted 15,000 Ordinary Shares following an exercise of options at various exercise prices of 60.5 pence and 27.5 pence pursuant to the 2005 Share Option Plan.

(bb) On 26 October 2011 the Company issued and allotted 113,333 Ordinary Shares following an exercise of options at various exercise prices of 27.50 pence, 45.50 pence and 60.50 pence pursuant to the 2005 Share Option Plan.

(cc) On 12 December 2011 the Company issued and allotted 1,364,259 Ordinary Shares following the exercise of warrants by RBC pursuant to the 2009 Warrant Instrument at an exercise price of 80 pence per share.

4.3 The Ordinary Shares have no redemption or conversion provisions.

4.4 The Ordinary Shares have been created under the 1981 Act. The Ordinary Shares were issued in British Pounds Sterling and have a par value of 10 pence.

4.5 The Company has no issued Ordinary Shares that are not fully paid up.

4.6 Save as disclosed in paragraph 7 of this Part X, the Company has not issued any convertible securities, exchangeable securities or securities with warrants.

4.7 No shares in the capital of the Company are held by or on behalf of the Company or the Group.

4.8 There are no shares in the Company not representing capital.

4.9 Application has been made for all of the Share Capital to be admitted to trading on the London Stock Exchange's Main Market for listed securities and the Company's ISIN number for the Ordinary Shares is BMG702781094 and the trading symbol for the Ordinary Shares will remain PDL.

4.10 There have been no public takeover bids by third parties in respect of the Share Capital within the last financial year or in the current financial year as at 13 December 2011 (being the latest practicable date before the publication of this document).

4.11 Save as disclosed in paragraph 10.13(e) of this Part X, there are no acquisition rights or obligations over the authorised but unissued share capital of the Company or any undertakings to increase the issued share capital of the Company.

4.12 Save as disclosed in paragraph 7 of this Part X, no share or loan capital of the Company or any member of the Group is under option or has been agreed, conditionally or unconditionally, to be put under option.

4.13 Save as disclosed in paragraph 10.13(e) of this Part X, no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue of any share capital. No person has any preferential or subscription rights over any of the issued share capital in the Company.

4.14 The Ordinary Shares are in registered form and, subject to the provisions of the Regulations, the Directors may permit the holding of Ordinary Shares of any class in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where Ordinary Shares are held in certificated form, share certificates will be sent to registered members by first class post. Where Ordinary Shares are held in CREST, the relevant CREST stock account of the registered members will be credited. The Registrar has responsibility for maintaining the Company's register of members.

4.15 The Ordinary Shares are issued pursuant to the consent to issue and register shares in Jersey granted by the Jersey Financial Services Commission ("the Commission") pursuant to Article 3 of the Control of Borrowing (Jersey) Order 1958, as amended. The Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law.

**5. City Code**

5.1 As the Company is incorporated in Bermuda, it is subject to Bermuda law. The City Code will not apply to the Company and Bermuda law does not contain any provisions similar to those applicable in the UK which are designed to regulate the way in which takeovers are conducted. However, the Company's Bye-Laws incorporate the material City Code protections appropriate for a company to whom the City Code does not apply and which is seeking admission of its shares to the premium segment of the Official List and to trading on the Main Market. The relevant provisions of the Bye-Laws are summarised in paragraph 6 of this Part X.

5.2 The following provisions of the Bermuda Act apply in relation to the acquisition of 90% or 95% of the shares of a Bermuda company:

(a) broadly, section 102 of the 1981 Act provides that where a scheme or contract involving the transfer of shares to another company is approved by the holders of 90% in value of the shares which are the subject of the offer, the offeror can compulsorily acquire the shares of dissentient shareholders. Shares owned by the offeror or its subsidiary or their nominees at the date of the offer do not, however, count towards the 90%. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10% of the shares in the subject company at the date of the offer the offeror must offer the same terms to all holders of the same class and the holders who accept the offer, besides holding not less than 90% in value of the shares, must also represent not less than 75% in number of the holders of those shares although these additional restrictions should not apply if the offer is made by a subsidiary of a parent (where the subsidiary does not own more than 10% of the shares of the subject company) even where the parent owns more than 10% of the shares of the subject company, provided that the subsidiary and the parent are not nominees;

The 90% must be obtained within four months after the making of the offer and, once obtained, the compulsory acquisition may be commenced within two months of the acquisition of 90%. Dissentient shareholders do not have express appraisal rights but are entitled to seek relief (within one month of the compulsory acquisition notice) from the Supreme Court of Bermuda which has power to make such orders as it thinks fit; and

(b) under section 103 of the 1981 Act, a holder of 95% of the shares of a Bermuda company can, on giving notice to the minority shareholders, force them to sell their interest to the 95% shareholders provided that the terms offered are the same for all of the holders of the shares whose acquisition is involved. Dissentient shareholders have a right to apply to the Supreme Court within one month of the compulsory acquisition notice to have the value of their shares appraised by the Supreme Court. If one dissentient shareholder applies to the Supreme Court and is successful in obtaining a higher valuation that valuation must be paid to all shareholders being squeezed out.

5.3 The following provisions of the 1981 Act apply in relation to acquisition of the shares of a Bermuda company by way of a scheme of arrangement or an amalgamation:

(a) section 99 of the 1981 Act deals with court approved schemes of arrangement. Schemes may be transfer schemes or cancellation schemes. In either case, dissentient shareholders do not have express statutory appraisal rights but the Supreme Court will only sanction a scheme if it is fair. Shares owned by the offeror can be voted to approve the scheme but the Supreme Court will be concerned to see that the shareholders approving the scheme are fairly representative of the general body of shareholders. Any scheme must be approved by a majority in number representing three quarters in value of the shareholders present and voting either in person or by proxy at the requisite special general meeting. If there are dissentient shareholders who hold more than 10% of the shares, the Supreme Court might be persuaded not to exercise its discretion to sanction the scheme on the ground that the scheme constitutes a takeover within section 102 of the 1981 Act and requires a 90% acceptance.

(b) under sections 104 to 109 of the 1981 Act, two or more companies may amalgamate and continue as one company. Whilst the separate corporate existence of each of the amalgamating companies ceases, all the amalgamating companies continue their existence as constituent parts of the amalgamated company (no one amalgamating company can be said to be the sole survivor although the amalgamated company is the only resulting entity). In practical terms, the effect of an amalgamation is that the assets and liabilities of the amalgamating companies become the assets and liabilities of the amalgamated company.

The statutory threshold for approval of an amalgamation is 75% of shareholders voting at the special general meeting at which a quorum of at least two persons holding or representing by proxy more than one third of the issued shares are present. Under Bermuda law this statutory threshold may be altered by providing otherwise in the bye-laws of the amalgamating company. Bye-Laws of a Bermuda company may be amended by a simple majority of shareholders present and voting at the requisite meeting or by such greater majority as is prescribed in the Bye-Laws.

Dissentient Shareholders may apply to the Supreme Court within one month of the notice convening the special general meeting to approve the amalgamation to have the Supreme Court appraise the fair value of their shares.

**6. Bye-Laws**

6.1 The Bye-Laws of the Company contain, *inter alia*, provisions in relation to the following:

6.2 Objects

The memorandum of association of the Company provides that the Company's principal objects include the carrying on of a business of a holding and investment company. The objects of the Company are set out in full in clause 6 of its Memorandum of Association, which is available for inspection as set out in paragraph 20 of this Part X.

6.3 Directors

*Number of Directors*

The number of Directors shall not be less than four and not more than twelve.

*Power of Directors to appoint Directors*

The Directors shall have power at any time to appoint any person as a director to fill a vacancy on the Board occurring as a result of the death, disability, removal, disqualification or resignation of any Director or to fill any deemed vacancy arising as a result of the number of Directors on the Board being less than the maximum number of Directors that may be appointed to the Board from time to time.

Any person so appointed shall hold his office up to the date of the next annual general meeting but shall be eligible for re-election at such meeting.

*Power of Company to appoint Directors*

The Company may appoint a person who is willing to act to be a director by resolution at a general meeting to fill a vacancy on the Board occurring as a result of the death, disability, removal, disqualification or resignation of any Director or to fill any deemed vacancy arising as a result of the number of Directors on the Board being less than the maximum number of Directors that may be appointed to the Board from time to time.

No proposal shall be made at any general meeting for the appointment of two or more persons as Directors by a single resolution unless such resolution has first been agreed unanimously by the meeting.

*Share qualification*

A Director shall not be required to hold any shares in the Company.

*Annual election and removal of Directors*

At each annual general meeting of the Company all of the Directors shall retire. Such retiring Directors are eligible for re-election.

*Removal of Directors*

The Company may by resolution at any special general meeting remove any Director before the expiry of his period of office. Notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director not less than 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

A Director may be removed (with or without cause) by notice in writing by all of his co-Directors, provided such notice is delivered to the Secretary and such Director.

Removal of a director shall not prejudice any claim which such Director may have for damages for breach of any agreement between him and the Company.

*Directors' fees*

The Directors shall be paid out of the funds of the Company by way of remuneration for their services as Directors such fees as the Board may from time to time determine provided that the aggregate of all such fees so paid to the Directors (being the Non-Executive Directors, not the Executive Directors' remuneration) (excluding any other amounts payable under the Bye-Laws) shall not exceed £750,000 per annum or such greater amount as the Company may from time to time determine in a general meeting.

The remuneration of any Director appointed to hold an executive office in accordance with the Bye-Laws may be paid such remuneration by way of salary, commission or otherwise as the Directors may determine in addition to or in lieu of any fee payable to him for his services as Director pursuant to the Bye-Laws.

*Directors' Pensions and other benefits*

The Directors may grant pensions or other benefits to any executive Directors or ex-Directors and persons connected with them.

*Extra Directors' expenses*

The Directors shall be entitled to be repaid all reasonable expenses as he may properly incur in the performance of his duties including attending meetings of the Directors or any committee of the Directors or general meetings or otherwise in relation to the business of the Company.

6.4 Proceedings of the Board

*Borrowing powers*

The Board may exercise all powers of the Company to borrow money and to mortgage or charge or otherwise grant a security interest in its undertaking, property and assets (present or future) and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for debt, liability or obligation of the Company or any third party, provided that, unless otherwise sanctioned by a resolution of the members, the Directors shall restrict the borrowings of the Company to ensure that the aggregate principal amount for the time being outstanding of all borrowings of the Group (exclusive of intra-Group borrowings) shall not at any time exceed a sum equal to twice the "adjusted total capital and reserves" (as such term is defined in the Bye-Laws).

*Meetings of Directors*

The Directors may meet together as a Board for the transaction of business, adjourn and otherwise regulate its meetings as it sees fit.

*Notices of the Board Meeting*

A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Board. Notice of the meeting shall be deemed to be given to a Director if it is given to him personally or by word of mouth, in writing by post or by electronic means.

*Quorum*

The quorum for a board meeting shall be fixed by the Board and unless determined at any other number shall be two Directors.

*Chairman*

Unless otherwise agreed by a majority of the Directors at the relevant meeting, the chairman, if there is one, shall act as chairman at all meetings of the Board at which such person is present. In their absence a chairman shall be appointed or elected by the Directors present at the meeting.

*Voting*

Questions arising at any meeting of the Board shall be decided by a majority of votes and in case of any equality of votes, the chairman shall have a second or casting vote.

*Disclosure of interests*

Any Director who is, either directly or indirectly, concerned or interested in a contract or arrangement entered into by or on behalf of the Company, should disclose the nature of his concern or interest to the Board as soon as reasonably practicable.

Any Director who is, either directly or indirectly, concerned or interested in a proposed contract to be entered into by or on behalf of the Company, should disclose the nature of his concern or interest in advance of, or during a meeting of the Board and must be made before the Company enters into the transaction or arrangement.

Such an interested Director is not entitled to vote at the board meeting at which the contract is considered and will not count towards the quorum. A Director who is interested in an actual or proposed transaction or arrangement with the Company shall be entitled to vote on and be counted in the quorum in relation to any resolution where (i) the Company by resolution disapplies the provision in the Bye-Laws which would otherwise prevent a Director from being counted as participating in the quorum or voting on such resolution, (ii) the Director's interests cannot reasonably be regarded as likely to give rise to a conflict of interest, or (iii) the Directors conflict of interest arises from a permitted matter under Bye-Law 53.14(j). The following are permitted matters:

(a) any transaction or arrangement in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;

(b) the giving of any guarantee, security or indemnity in respect of:

  (i) money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or

  (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(c) indemnification (including loans made in connection with it) by the Company in relation to the performance of his duties on behalf of the Company or of any of its subsidiary undertakings;

(d) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as a holder of any such securities or as an underwriter or sub-underwriter;

(e) any transaction or arrangement concerning any other company in which he does not hold, directly or indirectly as shareholder, or through his direct or indirect holdings of Financial Instruments (as such term is defined in the Bye-laws) voting rights representing 1% or more of any class of shares in the capital of that company;

(f) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and

(g) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

*Indemnity*

To the extent permitted by the 1981 Act the Bye-Laws permit the Company to indemnify any Director or other officer of the Company, against any liability which is incurred by him generally in or about the performance of his duties.

6.5 Rights attaching to shares

*Income*

The Board may, subject to the Bye-Laws and in accordance with the 1981 Act, declare a dividend to be paid to members, in proportion to the number of shares held by them and any such dividend, may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets.

*Pre-emption rights*

The Bye-Laws contain provisions giving pre-emption rights to holders of "Relevant Shares" (meaning the shares in the Company other than (i) those shares giving rights to participate only up to a specified amount of dividend and capital in a distribution; and (ii) shares acquired or to be allotted pursuant to any Employee Share Scheme (as defined in the Bye-Laws)) or "Relevant Employee Shares" (as defined in the Bye-Laws), entitling them to be offered "Equity Securities" meaning Relevant Shares and the right to subscribe for or convert securities into Relevant Shares, excluding shares or any rights to subscribe for or convert any security into shares as part of any offering of shares or any rights to subscribe for or convert any security into shares as part of any issue or offering of shares culminating in an Admission (including any shares so allotted or rights granted, whether before or after Admission, in accordance with any over-allotment or stabilisation arrangements entered into by the Company in connection therewith), in proportion to their existing shareholdings.

These pre-emption provisions do not apply to allotments of Equity Securities which are paid otherwise than in cash and they do not apply to the allotment of securities which would be held under any Employee Share Scheme (as defined in the Existing Bye-Laws). Any Equity Securities which the Company has offered to a holder of Relevant Shares may be allotted to him, or to anyone in whose favour he has renounced his right to their allotment, without contravening these provisions. Any offer made under these provisions must state a period of not less than 14 days during which it may be accepted and this offer shall not be withdrawn before the end of such period.

*Disapplication of pre-emption rights*

The pre-emption rights summarised above may be disapplied in whole or modified as the Directors determine, provided the Directors are given power by resolution of a special majority of not less than three-fourths of the Shareholders as (being entitled to do so) vote in person or by proxy at a general meeting of the Company, which shall not be proposed unless recommended by the Directors and a notice is circulated to Shareholders with a Directors' statement setting out reasons for making such recommendation, the amount to be paid to the Company in respect of such allotment, and the Directors' justification of such amount.

*Voting*

Shareholders have the right to receive notice of and attend and vote at general meetings of the Company. Each Shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every Ordinary Share held by them.

Every question submitted to a general meeting shall be decided in the first instance by a show of hands unless the poll is demanded. A poll may be demanded by (i) the chairman of the meeting, or (ii) at least three members present in person or represented by a proxy, or (iii) any member or members present in person or represented by proxy and holding between them not less than one-tenth of the total voting rights of all the members having the right to vote at such meeting, or (iv) any member or members present in person or represented by proxy holding shares in the Company conferring the right to vote at such meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total paid up on all such shares conferring such right.

The demand for a poll may be withdrawn at any time with the chairman's consent before the conclusion of the meeting of the meeting or taking up of the poll, whichever is the earlier.

A poll demanded on any question of electing a chairman or adjournment of the meeting shall be taken straightaway. A poll demanded on any other question (not being a question relating to the election of a chairman or adjournment of the meeting) shall be taken at such time and in such manner during the meeting as the chairman may direct and the result of the poll shall be deemed to be the decision of the meeting on the resolution on which the poll was taken.

Where a poll is to be taken, the chairman may (and if so directed by the meeting) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

*Variation of rights*

If at any time the capital of the Company is divided into different classes of shares, the rights attached to any class of shares in issue may be varied with the consent in writing of the holders or not less than three-fourths of the issued capital of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of shares of that class.

*Allotments*

Subject to the provisions of the 1981 Act, the Bye-Laws and to any resolution of the members to the contrary, and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, the Board shall have the power to issue any unissued shares on such terms and conditions as it may determine, provided that the Company may not issue any shares, or grant options or warrants over shares in a manner that the Board determines in its sole discretion may result in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any direct or indirect holder of shares or affiliates.

*Division of assets on a winding-up*

If the Company shall be wound up the liquidator may, with the sanction of a resolution of the members, divide amongst the members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in the trustees upon such trusts for the benefit of the members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

*Transfer of registered shares*

An instrument of transfer of registered shares shall be signed by or on behalf of the transferor and transferee, save that in the case of a fully paid up share, the Board may accept the instrument signed by or on behalf of the transferor alone.

The Board may refuse to recognise any instrument of transfer unless it is accompanied by the certificate in respect of the shares to which it relates and by such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

*Transfer of uncertificated shares*

The Board may issue shares in uncertificated form and permit such shares to be transferred by means of a relevant system and may revoke any such permission at any time.

*Right to refuse to registration*

The Board may in its absolute discretion and without assigning any reason therefor refuse to register the transfer of a share on which the Company has a lien or which is not fully paid up but, in the case of a class of shares which has been admitted to official listing by the UKLA, not so as to prevent dealings in those shares from taking place on an open and proper basis. The Board shall have the right to refuse to register a transfer unless all applicable consents, authorisations and permissions of any governmental body or agency in Bermuda have been obtained. If the Board refuses to register a transfer of any share the Secretary shall, within three months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

6.6 Changes in share capital

*Increase, consolidation, sub-division, cancellation and reduction*

The Company may if authorised by resolution of the Board and if authorised by a resolution of the members, increase, divide, consolidate, subdivide, change the currency denomination of, diminish or otherwise alter or reduce its share capital in any manner permitted by the 1981 Act.

*Purchase of own shares*

The Company may purchase its own shares for cancellation or to acquire them as Treasury Shares (as defined in the Bye-Laws) in accordance with the 1981 Act on such terms as the Board shall think fit. The Board may exercise all the powers of the Company to purchase or acquire all or any part of its own shares in accordance with the 1981 Act, provided, however, that such purchase may not be made if the Board determines in its sole discretion that it may result in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any direct or indirect holder of shares or its affiliates.

6.7 Annual and special general meetings

*Annual general meetings*

Annual general meetings shall be held in each year at such time and place as the Board shall appoint.

*Special general meetings*

The Directors may proceed to convene a special general meeting whenever they think such a meeting is necessary. A special general meeting may also be convened on the requisition of the members holding not less than one tenth of the paid up share capital of the Company.

*Notice of general meetings*

An annual general meeting of the Company may be called by giving not less than 21 clear days' notice in writing.

A special general meeting of the Company may be called by giving not less than 14 clear days' notice in writing.

A general meeting may be called after giving a shorter notice than that specified above if consent is accorded thereto:

(a) in the case of an annual general meeting by all the members entitled to vote; and

(b) in the case of any other meeting, by a majority in number of the members of the Company holding not less than 95% in nominal value of the shares giving a right to vote at the meeting.

*Quorum at general meetings*

No business of the Company shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. The quorum shall be at least two members present in person.

*If quorum is not present*

If within half an hour from the time appointed for the meeting a quorum is not present, then, in the case of a meeting convened on a requisition, the meeting shall be deemed cancelled and, in any other case, the meeting shall stand adjourned to the same day one week later, at the same time and place or to such other day, time or place as the Secretary may determine. Unless the meeting is adjourned to a specific date, place and time announced at the meeting being adjourned, fresh notice of the date, place and time for the resumption of the adjourned meeting shall be given to each member entitled to attend and vote at such meeting.

*Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote in his place. The appointment of proxy instrument must be received by the Company at its registered office or such other place or in such other manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting.

*Voting*

All resolutions shall be carried by a simple majority of votes cast except where a special resolution is required by the Bye-Laws or the 1981 Act.

*Chairman of general meeting*

Unless otherwise agreed by a majority of those attending and entitled to vote at the general meeting, the Chairman, if there be one, shall act as chairman at all general meetings at which he is present. In his absence a chairman shall be appointed by the Board.

*Notification to the Company of interests in shares*

Certain technical amendments are included in the Bye-Laws to deal with the Company's obligations, upon Admission, to comply with the DTR's notification provisions. There is no equivalent under Bermuda law to Chapter 5 of the DTR but Chapter 5 of the DTR will apply to the Company and to shareholders upon Admission. The Bye-Laws contain provisions which seek to apply certain provisions (as described in the paragraph below) of Chapter 5 of the DTR which would not otherwise apply to the Company (not being a public company within the meaning of section 4(2) of the 2006 Act or a company which is otherwise incorporated in, and whose principal place of business is in, the UK).

Shareholders will be required under the Bye-Laws (Bye-Law 81.B) to notify the Company whenever they hold, either as a Shareholder or through a direct or indirect holding of financial instruments, a percentage of voting rights representing 3% or more of the total voting rights of any class of share of the Company, and of any addition to or reduction of such voting rights by 1% or more of the total voting rights of any class of share of the Company. Any notification required to be made under Bye-Law 81.B shall be effected not later than two trading days, the first of which shall be the day after the date on which the relevant Shareholder learns or should have learned of, or is informed about the relevant notifiable event. If any Shareholder fails to comply with these requirements, the Board may, by notice to the holder of the shares in respect of the shares in relation to which the default has occurred (the "default shares", which expression includes any further shares issued in respect of any default shares), suspend their rights as to voting, and (where the default shares represent at least 0.25% (in nominal value calculated exclusive of any Treasury Shares) of the issued shares of the same class as the default shares) dividends for so long as the default continues.

Notifications in relation to shares admitted to trading on the London Stock Exchange's Main Market for listed securities, must be made using the form TR1 available in electronic format at the FSA's website at www.fsa.gov.uk or on such other form as prescribed by relevant legislation, but in any event such form must specify the share capital of the Company to which it relates and must also:

(a) state the number of shares comprised in that share capital in which the person making the notification knows he (or any other relevant person) had interests immediately after the time when the obligation arose; or

(b) in a case where the person making the notification (or any other relevant person) no longer has a notifiable interest in shares comprised in that share capital, state that he (or that other person) no longer has that interest.

6.8 Takeover provisions

Bye-Law 82 adopts certain of the provisions of the City Code, including provisions dealing with compulsory takeover offers and shareholder treatment along the lines of the General Principles (including, "Equal Treatment") and the rules governing substantial acquisitions of shares, which are to be administered by the Board. Bye-Law 82 is to have effect only during such times as the City Code does not apply to the Company.

Pursuant to Bye-Law 82, a person must not: (i) acting by himself or with persons determined by the Board to be acting in concert, seek to acquire shares in the Company which carry 30% or more of the voting rights attributable to the shares in the Company; or (ii) acting by himself or with persons determined by the Board to be acting in concert, hold 30% but not more than 50% of the voting rights, and seek to acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights, except as a result of a "permitted acquisition" (meaning an acquisition either consented to by the Board, or

made in compliance with Rule 9 of the City Code, or arising from the repayment of a stock borrowing arrangement); or (iii) effect or purport to effect an acquisition which would breach or not comply with the rules governing substantial acquisitions of shares and Rules 4, 5, 6 or 8 of the City Code (as amended from time to time), if the Company were subject to the City Code. Where the Board has reason to believe that any of such circumstances has taken place, it may take all or any of certain measures: (i) require the person(s) appearing to be interested in the shares of the Company to provide such information as the Board considers appropriate; (ii) have regard to such public filings as may be necessary to determine any of the matters under Bye-Law 82; (iii) make any determination under Bye-Law 82 as it thinks fit, either after calling for submissions by the relevant person(s) or without calling for any; (iv) determine that the voting rights attached to such shares in breach of the Bye-Laws, (the "Excess Shares"), are from a particular time incapable of being exercised for a definite or indefinite period; (v) determine that some or all of the Excess Shares are to be sold; (vi) determine that some or all of the Excess Shares will not carry any right to any dividends or other distributions from a particular time for a definite or indefinite period; and (vii) taking such actions as it thinks fit for the purposes of Bye-Law 82, including prescribing rules not inconsistent with Bye-Law 82, setting deadlines for the provision of information, drawing adverse inferences where information requested is not provided, making determination or interim determinations, executing documents on behalf of a shareholder, converting any Excess Shares held in uncertificated form into certificated form and vice-versa, paying costs and expenses out of proceeds of sale, and changing any decision or determination or rule previously made.

The Board has the full authority to determine the application of Bye-Law 82, including the deemed application of the whole or any part of the City Code, and such authority shall include all the discretion that the Panel on Takeovers and Mergers would exercise if the whole or part of the City Code applied. Any resolution or determination made by the Board, any Director or the chairman of any meeting acting in good faith is final and conclusive and is not open to challenge as to its validity or as to any other ground. The Board is not required to give any reason for any decision or determination it makes.

## 7. Options and Warrants

### 2010 Warrants

7.1 On 28 September 2010, the Company executed the 2010 Warrant Instrument (details of which are summarised in paragraph 7.2 of this Part X below) pursuant to which the Company created in aggregate, up to 12,600,000 2010 Warrants, of which 6,300,000 2010 Warrants were granted to each of IFC and RMB. Each 2010 Warrant entitles the 2010 Warrant holder to subscribe for one Ordinary Share at the prices and subscription periods set out in paragraph 7.2 below. RMB has subsequently exercised 4,200,000 of its 2010 Warrants.

7.2 The principal terms of the 2010 Warrant Instrument are as follows:

(a) each 2010 Warrant holder is entitled to subscribe for:

(i) 2,100,000 Ordinary Shares at a price of 90 pence per Ordinary Share during the period commencing on 3 November 2010 ("the Financial Close") and ending on the second anniversary of the Financial Close;

(ii) 2,100,000 Ordinary Shares at a price of 95 pence per Ordinary Share during the period commencing on the Financial Close and ending on the third anniversary of the Financial Close;

(iii) 2,100,000 Ordinary Shares at a price of 100 pence per Ordinary Share during the period commencing on the Financial Close and ending on the fourth anniversary of the Financial Close; and

(iv) 1,000,000 Ordinary Shares at a price of 100 pence per Ordinary Share during the period commencing on the Financial Close and ending on the fourth anniversary of the Financial Close, should there, at any time prior to the expiry of the fourth anniversary of the Financial Close be any recourse by IDC pursuant to the loan agreements and associated documents entered into between the Company and IDC dated on or around 17 June 2010. The IDC agreements were terminated on 26 October 2010;

(b) the 2010 Warrants will not be admitted to trading on AIM or any other exchange;

(c) Ordinary Shares issued on exercise of the 2010 Warrants will rank for all dividends or other distributions declared after the date of allotment of such Ordinary Shares but not before such date and otherwise *pari passu* in all respects with the Ordinary Shares in issue on the date of such exercise;

(d) the 2010 Warrant Instrument contains provisions for appropriate adjustment of the number of Ordinary Shares issued on exercise of the 2010 Warrants and the subscription price upon any allotment of fully paid Ordinary Shares by way of capitalisation of profits or reserves or upon any sub-division or consolidation of the Ordinary Shares;

(e) the rights and privileges of the holders of 2010 Warrants may be altered with the consent in writing of the Company and with either the consent in writing of those holders of the relevant 2010 Warrants entitled to subscribe for not less than 75% of the Ordinary Shares which are subject to outstanding relevant 2010 Warrants or with the sanction of an extraordinary resolution of the relevant 2010 Warrantholders. The necessary quorum for a meeting of 2010 Warrantholders is two such holders (present in person or by proxy);

(f) the 2010 Warrants are freely transferable and may be transferred by instrument of transfer; and

(g) full exercise of the subscription rights under the 2010 Warrants will result in the issue of 12,600,000 Ordinary Shares, of which 4,200,000 have been issued to RMB (as set out in paragraph 4.2 of this Part X).

The following Warrants have been granted and remain unexercised as at 13 December 2011 (being the last practicable date prior to publication of this document):

| *Name* | *Warrant Type* | *No. of Ordinary Shares under Warrant* | *Warrant Price* | *Exercise Date* | *Expiry Date* | *% of Share Capital* |
|---|---|---|---|---|---|---|
| IFC | 2010 Warrants | 2,100,000 | 90p | 3 November 2010 | 2 November 2012 | 0.42 |
| IFC | 2010 Warrants | 2,100,000 | 95p | 3 November 2010 | 2 November 2013 | 0.42 |
| IFC | 2010 Warrants | 2,100,000 | 100p | 3 November 2010 | 2 November 2014 | 0.42 |
| RMB | 2010 Warrants | 2,100,000 | 100p | 3 November 2010 | 2 November 2014 | 0.42 |

7.3 1997 Share Option Plan

The 1997 Share Option Scheme was adopted by the Company on 27 March 1997 and ceased 10 years after adoption so that no further options may be granted under its rules.

The remaining outstanding 1997 Options are set out in the table at the end of this sub-paragraph and the following is a summary of the remaining relevant provisions:

(a) all outstanding 1997 Options may be exercised at any time prior to lapse. There are no further performance conditions to be satisfied;

(b) the 1997 Options lapse 10 years from the original date of grant, 12 months following the death of the option holder, 6 months following cessation of employment on retirement, injury, disability, the employing company leaving the Group, the transfer or sale of an undertaking or any other reason not involving misconduct or impropriety. Options also lapse after specified periods following a change of control, scheme of arrangement or winding up or in the event of an attempted transfer, assignment or charge of an option;

(c) shares issued on exercise of the 1997 Options will rank *pari passu* with Ordinary Shares from the date of exercise;

(d) on a relevant event ("Relevant Event") being a variation in the share capital of the Company, sub-division, consolidation, capitalisation of profits or Reserves, the number or nominal amount of Ordinary Shares comprised in options may be adjusted by a committee of Non-Executive Directors with the written concurrence of the auditors of the Company that in their opinion the adjustments are fair and reasonable;

(e) the 1997 Options are not pensionable;

(f) alterations to the 1997 Share Option Scheme may be made by the Board with the proper sanction of the Company in general meeting if altering the definition of Relevant Event, adjustment of options, the restrictions on exercise of options or the rights attaching to the acquisition of shares, the rights of the option holder on the winding up on the Company, the transferability of options or the power of alteration; and

(g) the 1997 Options are not transferable.

As at 13 December 2011 (being the last practicable date prior to the publication of this document), the following 1997 Options are currently outstanding:

| *No. of Ordinary Shares under 1997 Option Plan* | *Grant Date* | *Expiry Date* | *Exercise Price* | *% of Share Capital* |
|---|---|---|---|---|
| 1,000,000 | 5 September 2003 | 5 September 2013 | 44p | 0.20 |
| 50,000 | 13 September 2004 | 13 September 2014 | 56.75p | 0.01 |
| 75,000 | 24 September 2004 | 24 September 2014 | 46.5p | 0.02 |
| 23,750 | 28 January 2005 | 28 January 2015 | 56.5p | 0.005 |

7.4 2005 Share Option Plan

The Company adopted the 2005 Share Option Plan on 8 March 2005, which was amended on 11 March 2009 and 18 June 2009, under which options may be granted to any Director, officer or employee of the Company. Under the rules of the 2005 Share Option Plan the following provisions apply:

***Grant***

(a) the Board or the Remuneration Committee ("the Committee") may select and grant options to any number of persons ("Eligible Employees") who are at the intended date of grant a director, officer or employee of the Group or of any company which the Company controls and has a shareholding interest in excess of 20%;

(b) the exercise of an option may be subject to the satisfaction of performance conditions specified by the Committee at the date of grant of the option, which shall be in respect of events, profits or other performance criteria for a period which begins no earlier than the date of grant and ends after the date of grant during an exercise period and the Committee also has a discretion to set vesting conditions;

(c) if the Committee reasonably considers events have affected the viability of such performance conditions and that they no longer represent a fair measure of performance, the Board may waive or vary them so long as the variation does not result in more onerous performance conditions;

(d) it is a condition of a grant of an option that each option holder indemnifies the Company and any member of the Group (if permitted by law) against any income tax and/or national insurance contribution charges or any similar employment or withholding tax or costs arising in the territory of residence and/or employment of the option holder, resulting from the grant, exercise, disposal or release of an option;

***Exercise***

(g) each option shall be exercisable only by the option holder to whom it is granted (or his personal representative) and may not be transferred, assigned or charged and the option shall lapse on any purported transfer assignment or charge by the option holder;

(h) in relation to any options granted after 11 March 2009, the Committee may notify an option holder that instead of being allotted shares on exercise of his option, he shall be entitled to receive a sum ("the Alternative Payment") equal to the cash equivalent of the market value of shares under the option so exercised ("the Alternative Payment") less any amount due to be paid by the option holder;

(i) if an option holder, continuing in an office or employment with the Group is transferred to work in another country, and this causes a tax liability or other tax disadvantage or he becomes subject to restrictions on his ability to exercise the option or deal in the shares acquired, the Committee may at its discretion permit the option holder to exercise the option if it has vested;

(j) if an option holder dies, then an unvested option may be exercised within 12 months after death but within the exercise period;

(k) if an option holder ceases to be an Eligible Employee by reason of ill health, injury, disability, redundancy or retirement an option may be exercised within 6 months of cessation;

(l) if an option holder ceases to be an Eligible Employee for any other reason an unvested option may only be exercised with the discretion of the Committee;

(m) if an offer is made which may result in a change of control of the Company the Committee is entitled to notify the option holders and allow them to exercise their options within 30 days of such notification;

(n) on a change of control of the Company, or if the Board enters into negotiations whereby an unconditional agreement is to be entered into for the sale of the whole of the business or assets of the Company, or there is a scheme of arrangement options may be exercised within specified periods of time then any option not so exercised will lapse at the expiry of such periods;

(o) in the event that the Company is wound up, any option which has not lapsed prior to the resolution for winding up (notwithstanding that they have not vested) shall be exercisable in whole or in part until the commencement of winding up;

***Amendments***

(p) in the event of a capitalisation, or rights issue or sub-division or consolidation or reduction or otherwise the Committee (with confirmation from the auditors that it is just and reasonable) may make appropriate adjustments to the number of shares under option and the price at which shares may be acquired on exercise;

(q) the Board may amend the rules but shareholder approval is needed for alterations to the advantage of participants relating to eligibility, limits, the basis for determining option holders' rights and adjustments on a variation of share capital (except for minor amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for the option holders or Group member. Alterations which would materially increase the liability of an option holder or which may materially decrease the value of his subsisting rights attached to any option require the option holder's consent;

***Miscellaneous***

(r) participation by an option holder shall not form part of his entitlement to remuneration or benefits pursuant to his contract of employment and rights granted to an option holder under the grant of an option shall not afford him any rights or additional rights to compensation or damages in consequence of the loss, termination of his office or employment with the Company;

(s) shares issued on exercise of the 2005 Options will rank *pari passu* with Ordinary Shares from that date of exercise;

(t) options are not pensionable; and

(u) the Company may provide money to trustees of any trust or any other person to enable them or him to acquire shares to be held for the purposes of the 2005 Share Option Plan.

As at 13 December 2011 (being the last practicable date prior to the publication of this document), the following 2005 Options are currently outstanding:

| *No. of Ordinary Shares under 2005 Option Plan* | *Grant Date* | *Expiry Date* | *Exercise Price* | *% of Share Capital* |
|---|---|---|---|---|
| 2,000,000 | 16 June 2005 | 16 June 2015 | 85p | 0.40 |
| 84,300 | 27 November 2005 | 27 November 2015 | 65.75p | 0.02 |
| 1,166,388 | 31 May 2006 | 31 May 2016 | 79.5p | 0.23 |
| 236,812 | 31 July 2006 | 31 July 2016 | 96p | 0.05 |
| 6,870,000 | 12 March 2009 | 12 March 2019 | 27.5p | 1.37 |
| 3,201,007 | 30 September 2009 | 30 September 2019 | 45.5p | 0.64 |
| 4,110,002 | 17 March 2010 | 16 March 2020 | 60.5p | 0.82 |
| 500,000 | 25 November 2010 | 25 November 2020 | 92.8p | 0.10 |

7.5 Longer Term Share Plan

The Company adopted the 2011 Longer Term Share Plan ("the LTSP") on 13 December 2011. The LTSP was implemented to support the next phase of the Company's development by enabling performance share awards to be granted to the Group's Executive Directors and management personnel.

The Remuneration Committee of the Board has made recommendations to the Board for awards over a total of 1,200,000 Ordinary Shares to the Executive Directors, the details of which are set out at the end of this section. The Board intends to grant awards under the LTSP when it is in a position to do so (subject to the Company's share dealing code and other legal or regulatory restrictions). All awards made under the LTSP will be subject to the achievement of performance targets which are aligned with the interests of shareholders so that the awards will vest in full if after four years the Company delivers against appropriate targets. Subject to performance targets, accelerated vesting of up to 50% of the award may occur after three years.

The Remuneration Committee of the Board does not intend to recommend the grant of further awards to the Executive Directors under the LTSP.

***Eligibility***

(a) Any employee (including an Executive Director) of the Company and its Subsidiaries will be eligible to participate in the LTSP.

***Form of awards***

(b) Awards under the LTSP may be in the form of:

- a conditional right to acquire Ordinary Shares at no cost to the participant ("Conditional Award");
- an option to acquire Ordinary Shares at no cost to the participant ("Nil-Cost Option"); or
- a right to receive a cash amount which relates to the value of a certain number of Ordinary Shares ("Cash Award").

References in this summary to Ordinary Shares include Ordinary Shares to which a Cash Award relates, where appropriate.

***Performance targets***

(c) Awards under the LTSP are subject to the satisfaction of performance targets which will determine the proportion (if any) of the award which will vest at the end of a performance period of at least three years.

(d) The performance target may be varied if one or more events occur which cause the Remuneration Committee to consider that a varied performance target would be more appropriate.

***Individual limits***

(e) Awards will not be granted to a participant under the LTSP over more than 400,000 shares in respect of any financial year.

***Grant of awards***

(f) Awards may only be granted within the six week period following the adoption of the plan by the Board, the announcement of the Company's results for any period, any day on which a restriction on the grant of awards is lifted, or on any day on which the Board determines that exceptional circumstances exist, subject always to the Company's share dealing code and other legal or regulatory restrictions.

***Terms of award***

(g) Awards may be granted over newly issued Ordinary Shares, treasury shares or Ordinary Shares purchased in the market. Awards are not transferable (other than on death). No payment will be required for the grant of an award. Awards will not form part of pensionable earnings.

***Overall limits***

(h) In any ten year period, the number of Ordinary Shares which may be issued under the plan and under any other employees' share plan adopted by the Company may not exceed 10% of the issued ordinary share capital of the Company from time to time.

(i) Treasury shares will be treated as newly issued for the purpose of this limit until such time as guidelines published by institutional investor representative bodies determine otherwise. Lapsed awards do not count towards the limits.

***Reduction for malus***

(j) The Board may, in its absolute discretion, determine at any time prior to the issue or transfer of Ordinary Shares following the vesting of a Conditional Award or the exercise of a Nil-Cost Option to reduce, cancel or impose further conditions on an award in circumstances where such action is considered appropriate and reasonable. Such circumstances include, but are not limited to:

- a serious downturn in the financial performance of any member of the Group or a relevant business unit;
- a serious misstatement of the Company's audited results;
- a serious failure of risk management by any member of the Group or a relevant business unit; or
- serious reputational damage to any member of the Group or a relevant business unit.

***Vesting and exercise***

(k) Awards will normally vest at the end of any performance period (or on such later date as the Board determines) to the extent that any performance target has been satisfied. Options will then normally be exercisable until the tenth anniversary of the grant date.

(l) For the first awards granted after Admission, subject to performance, up to 50% of the award may vest three years after the date of grant with the remaining portion of the award potentially vesting four years after the date of grant.

(m) At any time before or after the point at which an award (which is not a Cash Award) has vested, or an option has been exercised, but the underlying Ordinary Shares have yet to be issued or transferred to the participant, the Board may decide to pay a participant a cash amount equal to the value of the Ordinary Shares he would otherwise have received.

***Cessation of employment***

(n) If a participant dies, an unvested award will, unless the Board determines otherwise, vest as soon as practicable after the participant's death to the extent that the Board determines, and normally taking into account the satisfaction of any performance targets at that time. Where death occurs within three years of the grant date, the Board may also take into account the time elapsed when determining the level of any vesting.

(o) If a participant ceases office or employment with a member of the Group by reason of ill-health, injury, disability, retirement, transfer of the entity that employs him out of the Group or for any other reason at the Board's discretion (except for gross misconduct), a participant's unvested award will usually continue until the normal vesting date unless the Board determines that the award will vest when the participant leaves the Group.

(p) The Board will decide the extent to which unvested awards vest in these circumstances. Unless the Board determines otherwise the extent to which an unvested award vests will take account of the extent to which any performance target is satisfied at the end of any performance period or, as appropriate, at the point at which the participant leaves the Group. Where cessation occurs within three years of the grant date, the Board may also take into account the time elapsed when determining the level of any vesting. Where awards vest in these circumstances, options will normally be exercisable for six months after vesting before lapsing.

(q) If a participant ceases employment in any other circumstances, unless the Board determines otherwise, an award shall lapse when the participant ceases employment.

***Corporate events***

(r) In the event of a change of control of the Company, awards will normally vest in full (and be exercisable for a limited period before lapsing) unless the Board determines that any vesting is inappropriate taking into account the performance over the period and such other factors the Board deems relevant. Alternatively, the Board may permit or require awards to be exchanged for equivalent awards which relate to shares in the acquiring company.

(s) If other corporate events occur such as a demerger, delisting, special dividend or other event which, in the opinion of the Board may affect the current or future value of Ordinary Shares, the Board may determine whether awards will vest conditional on the event occurring. Vesting will be subject to the satisfaction of the performance target and such other factors the Board deems relevant.

***Adjustments***

(t) In the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other similar event, which may, in the Board's opinion, affect the current or future value of Ordinary Shares, the number of Ordinary Shares subject to an award and/or any performance target attached to awards, may be adjusted.

***Amendment and termination***

(u) The Board may amend the LTSP at any time, provided that prior approval of the Company in general meeting will be required for amendments to the advantage of participants relating to eligibility, limits, the basis for determining a participant's entitlement to, and the terms of, the Ordinary Shares or cash comprised in an award and the impact of any variation of capital.

(v) However, any minor amendment to benefit administration, take into account legislative changes or obtain or maintain favourable tax treatment, exchange control or regulatory treatment may be made by the Board without shareholder approval.

(w) The plan will terminate on the tenth anniversary of its adoption but the rights of existing participants will not be affected by any termination. In the event of termination, no further awards will be made under the LTSP.

The Remuneration Committee of the Board has recommended the following awards under the LTSP for the Executive Directors but no awards have been made by the Board, due to regulatory restrictions, as noted above.

| *Name* | *Number of Ordinary Shares to be subject to the Award* |
|---|---|
| Johan Dippenaar | 400,000 |
| David Abery | 400,000 |
| Jim Davidson | 400,000 |

**8. Administrative, Management and Supervisory Bodies and Senior Managers**

8.1 Directors and Senior Managers

(a) The Directors and Senior Managers, their functions within the Group and brief biographies are set out in Part V of this document.

(b) The business address of each of the Directors and each of the Senior Managers is Elizabeth House, 9 Castle Street, St. Helier, Jersey JE4 2QP.

(c) In addition to their directorships in the Group, the Directors and Senior Managers are or have been directors or partners of the following companies and partnerships at any time in the period of five years immediately preceding the date of this document:

| *Name* | *Current directorships/partnerships* | *Past directorships/partnerships* |
|---|---|---|
| Adonis Pouroulis | African Vanadium Limited<br>Alufer Limited<br>Alufer Mining Limited<br>Centrale Oil & Gas Limited<br>Chariot Oil & Gas Limited<br>CoMiCo (BVI) Limited<br>Dilsun Investments (Pty) Limited<br>Enigma Oil & Gas Exploration (Pty) Limited<br>Leanna Investments (Pty) Limited<br>Lemprop Investments (Pty) Limited<br>Lukad Investments (Pty) Limited<br>Pella Resources Limited<br>Rainbow International Resources Limited<br>Rainbow Rare Earths Limited<br>Red Earth Resources Limited<br>Sirius Investment Management (GP) Limited<br>Sirius Investment Management LP<br>Toro Gold Gabon Limited<br>Toro Gold Limited<br>South Sudan Oil Company Limited<br>South Sudan Mining Company Limited | Oakpeak Limited<br>Namquest Oil & Gas Limited<br>Xenmar (Pty) Limited |
| Johan Dippenaar | Silverpoint Mining Services (Pty) Limited<br>Zeren (Pty) Limited | |
| David Abery | Pezula Private Residence Club (Pty) Limited<br>Silverpoint Mining Services (Pty) Limited<br>Umnotho weSizwe Group (Pty) Limited<br>Zeren (Pty) Limited | Kalahari Diamond Resources Plc |
| Jim Davidson | Silverpoint Mining Services (Pty) Limited<br>Zeren (Pty) Limited | |
| Dr Patrick Bartlett | — | Rockwell Diamonds Inc. |
| Gordon Hamilton | Beazley plc<br>Beazley Furlonge Limited<br>Barloworld Holdings Plc<br>Barloworld Limited<br>Chelsea Square Garden Limited<br>Fairbairn Private Bank Limited<br>Fairbairn Private Bank (IOM) Limited<br>Fairbairn Trust Company Limited<br>Fairbairn Trust Limited<br>Nedgroup Investments (IOM) Limited<br>Northamber plc | Action on Addiction<br>Action on Addiction Trading Limited<br>Aibel Group Limited<br>Beazley Group Limited |
| Dr. Omar Kamal | — | Al Salam Leasing Two Limited<br>ASB Biodiesel 1<br>ASB China 1 Limited<br>ASB Chatswood Pty Limited<br>ASB Dee Why Pty Limited<br>ASBB Pacific Properties Pty Limited<br>ASBB Pacific Real Estate Holding W.L.L.<br>Tanjung Penang Villas SdnBhd<br>ASB Biodiesel (Hong Kong) Limited<br>Manara Developments Company BSC<br>NS Holding Co. W.L.L. |
| Jacques Breytenbach | Scribarex Investment (Pty) Ltd<br>Assidous Mineral Holdings (Pty) Ltd | — |
| Teon Swanepoel | Scribarex Investment (Pty) Ltd | — |

(d) On 30 September 2005, David Abery was appointed a director of a company called Kalahari Diamond Resources Plc. On 18 August 2006, members of Kalahari Diamond Resources Plc appointed a liquidator to wind up the Company; this was a planned liquidation as part of the restructuring of the Kalahari Diamonds group following its acquisition by Petra in 2005. On 15 February 2008 Kalahari Diamond Resources Plc was dissolved.

(e) Save as set out above, none of the Directors or Senior Managers have:

  (i) been a director or member of any administrative, management or supervisory body of any companies or partner in any partnerships at any time in the period of five years immediately preceding the date of this document;

  (ii) had any convictions in relation to fraudulent offences in the five years preceding the date of this document;

  (iii) been declared bankrupt or entered into an individual voluntary arrangement with their creditors. None of the Directors or Senior Managers have owned an asset over which a receiver has been appointed;

  (iv) been a director or senior manager of a company, or been placed in receiverships, compulsory liquidations, creditors' voluntary liquidations or administration or which entered company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors in the five years preceding the date of this document;

  (v) been the subject of any official public incriminations and/or sanctions by any statutory or regulatory authority (including designated professional bodies); or

  (vi) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company within the five years preceding the date of this document.

(f) There are no potential or actual conflicts of interest between any duties owed to the Company by the Directors or Senior Managers and their private interests and/or other duties, save for their interest as holders of securities in the Company.

(g) None of the Directors or Senior Managers, save as disclosed in paragraph 8.1(j) below, was selected to be a Director or Senior Manager or a proposed director or senior manager of the Company pursuant to any arrangement or understanding with any major customer, supplier or other person having business connections with the Company or any of its subsidiaries.

(h) No restrictions have been agreed by any Director or Senior Manager on the disposal within a certain period of time of his or her holding in the Company's securities or the Group's securities.

(i) There are no family relationships between the Directors or Senior Managers.

(j) Dr Omar Kamal was appointed as a Non-Executive Director of the Company, pursuant to the Al Rajhi Option Agreement, further details of which are set out in paragraph 10.13(b) of this Part X.

8.2 Directors' and Senior Managers' Interests

(a) As at the date of this document and as expected to be immediately following Admission, the interests (all of which are beneficial unless otherwise stated) of the Directors and Senior Managers and persons connected with them in the Share Capital (within the meaning of sections 252 to 255 of the 2006 Act) which are known by the Directors or could with reasonable due diligence be ascertained by them, are as follows:

*Prior to and following Admission*

| *Name of Director/ Senior Manager* | *No. of Ordinary Shares* | *% of the Share Capital* | *No. of Options* | *% of the Share Capital* |
|---|---|---|---|---|
| Adonis Pouroulis | 9,564,650[1] | 1.91 | 1,450,000 | 0.29 |
| Johan Dippenaar | 640,000 | 0.13 | 2,450,000 | 0.49 |
| David Abery | 1,979,649[2] | 0.39 | 2,450,000 | 0.49 |
| Jim Davidson | 640,000 | 0.13 | 2,450,000 | 0.49 |
| Dr Patrick Bartlett | Nil | Nil | Nil | Nil |
| Gordon Hamilton | Nil | Nil | Nil | Nil |
| Dr Omar Kamal | Nil | Nil | Nil | Nil |
| Jacobus Visser | 20,652 | 0.004 | 670,000 | 0.134 |
| Jacques Breytenbach | 16,924 | 0.003 | 383,334 | 0.076 |
| Teon Swanepoel | 19,644 | 0.004 | 480,000 | 0.096 |

1 7,735,000 Ordinary Shares are held by a trust, of which Adonis Pouroulis is a beneficiary.

2 5,037,421 Ordinary Shares are held by a trust, of which Adonis Pouroulis, David Abery and the estate of Mr Segall are beneficiaries.

(b) The interests of the Directors and Senior Managers together represent approximately 2.571% of the Share Capital of the Company as at 13 December 2011 and immediately following Admission.

(c) As at the date of this document, neither the Directors or Senior Managers nor any member of a Director's or Senior Manager's family (which, in relation to this paragraph means a spouse, any child where such is under the age of 18 years, any trust in which such individuals are trustees or beneficiaries and any company over which they have control of more than 20% of its voting or equity rights in general meeting, but excluding any employee share or pension scheme where such individuals are beneficiaries rather than trustees) held any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of Ordinary Shares, including a contract for differences or a fixed odds bet.

(d) Save as set out in paragraph 15 of Part X of this document, no Director or Senior Manager has, or had since incorporation, a material interest in any significant contract with the Group.

(e) There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors or Senior Managers, nor are there any outstanding loans or guarantees provided by the Directors or Senior Managers to or for the benefit of the Company.

(f) Save as set out in paragraph 15 of this Part X, no Director or Senior Manager has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current financial year.

8.3 Remuneration and Benefits

(a) The Executive Directors have each entered into employment agreements with the Company, conditional upon, Admission, details of which are as follows:

(i) On 28 November 2011 Johan Dippenaar entered into an updated service agreement with the Company under the terms of which he agreed to act as Chief Executive Officer of the Company for a remuneration package of £241,500 per annum (which means basic salary, (out of which he may elect to subscribe to any health/medical aid benefits, and any company pension provident scheme) but excluding any group life/ critical illness disability cover, other Group benefits and any cash payments in lieu of

benefits as may be made available by the Company in addition from time to time). The appointment is terminable by 12 months' written notice on either side. The service agreement contains non-compete, non-solicitation and non-dealing with customers/clients and non-solicitation of directors and key employees restrictions following termination.

(ii) On 28 November 2011, David Abery entered into an updated service agreement with the Company under the terms of which he agreed to act as Finance Director of the Company for a remuneration package of £241,500 per annum (which means basic salary, (out of which he may elect to subscribe to any health/medical aid benefits, and any company pension provident scheme) but excluding any group life/critical illness disability cover, other Group benefits and any cash payments in lieu of benefits as may be made available to the Executive by the Company from time to time). The appointment is terminable by 12 months' written notice on either side. The service agreement contains non-compete, non-solicitation and non-dealing with customers/clients and non-solicitation of directors and key employees restrictions following termination.

(iii) On 28 November 2011, James Davidson entered into an updated service agreement with the Company under the terms of which he agreed to act as Technical Director of the Company for a remuneration package of £241,500 per annum (which means basic salary, (out of which he may elect to subscribe to any health/medical aid benefits, and any company pension provident scheme) but excluding any group life/critical illness disability cover, other Group benefits and any cash payments in lieu of benefits as may be made available by the Company in addition from time to time). The appointment is terminable by 12 months' written notice on either side. The service agreement contains non-compete, non-solicitation and non-dealing with customers/clients and non-solicitation of directors and key employees restrictions following termination.

(b) The Non-Executive Directors have each entered into letters of appointment with the Company, details of which are as follows:

(i) On 28 November 2011, Adonis Pouroulis entered into a letter of appointment with the Company effective from 28 November 2011 under the terms of which he agreed to act as Non-Executive Chairman of the Company for a fee of £140,000 per annum and to receive any group life/critical illness disability cover which may be available to Mr. Pouroulis from time to time. The appointment is for an initial term of three years which is terminable by one month's written notice on either side at any time and the appointment letter contains a confidentiality provision.

(ii) On 28 November 2011, Dr Patrick Bartlett entered into a letter of appointment with the Company effective from 28 November 2011 under the terms of which he agreed to act as a Non-Executive Director of the Company for a fee of £50,000 per annum. The appointment is for an initial term of three years which is terminable by one month's written notice on either side at any time and the appointment letter contains a confidentiality provision.

(iii) On 28 November 2011, Alexander Gordon Kelso Hamilton entered into a letter of appointment with the Company effective from 28 November 2011 under the terms of which he agreed to act as a Non-Executive Director of the Company for a fee of £50,000 per annum plus an additional fee of £10,000 per annum for each committee he chairs. The appointment is for an initial term of three years which is terminable by one month's written notice on either side at any time and the appointment letter contains a confidentiality provision.

(iv) On 28 November 2011, Dr Omar Kamal entered into an updated letter of appointment with the Company, which took effect from 28 November 2011. Under the terms of the letter of appointment Dr. Omar Kamal, acts as a Non-Executive Director of the Company for a fee of £40,000 per annum. The appointment is terminable on Dr. Omar Kamal ceasing to have a right to be appointed a Director under the Al Rajhi Option Agreement (as summarised in paragraph 10.13(b) of this Part X below). The appointment letter contains a confidentiality provision.

(c) Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Group providing for benefits upon termination of employment.

(d) No sums have been set aside or accrued by the Company and Group to its subsidiaries to provide pension, retirement and similar benefits for the Directors or Senior Managers.

(e) During the last full financial period ending 30 June 2011, the remuneration paid (including contingent or deferred consideration) and benefits in kind granted to each of the Directors and Senior Managers by the Group for their services, in all capabilities, to the Group, were as follows:

| | *Base remuneration* £ | *Non-cash benefits*[1] £ | *Performance related bonus* £ | *2011 Total* £ |
|---|---|---|---|---|
| *Executive Directors* | | | | |
| A Pouroulis[2] | 120,000 | 2,129 | 90,000 | 212,129 |
| J Dippenaar | 230,000 | 4,800 | 170,000 | 404,800 |
| D Abery | 230,000 | 4,800 | 170,000 | 404,800 |
| J Davidson | 230,000 | 3,792 | 170,000 | 403,612 |
| *Non-Executive Director* | | | | |
| O Kamal | 35,000 | — | — | 35,000 |
| *Senior Managers* | | | | |
| J Visser | 162,657 | 3,192 | 112,208 | 278,057 |
| Jacques Breytenbach | 147,127 | 3,072 | 112,208 | 262,408 |
| Teon Swanepoel | 147,846 | 2,820 | 112,208 | 262,874 |

Notes:

1 Non-cash benefits comprise contributions made by the Company to the Group life assurance and critical illness scheme

2 Adonis Pouroulis was Executive Chairman for FY 2011 and became Non-Executive Chairman with effect from 28 November 2011

## 9. Significant Shareholders

9.1 As at the date of this document and as expected to be immediately following Admission, and save as set out below, the Company is not aware of any person (other than the Directors and Senior Managers) who, directly or indirectly, has or would have, an interest immediately following Admission, representing 3 % or more of the Share Capital or voting rights (being the level notifiable under the securities law of the Company's national law):

| *Prior to and following Admission* *Shareholder* | *Number of Ordinary Shares* | *% of the Share Capital* |
|---|---|---|
| Al Rajhi Holdings W.L.L. | 66,525,600 | 13.3% |
| Saad Investments Company Limited / Awal Bank | 60,844,185 | 12.1% |
| JP Morgan Asset Management U.K. Limited | 43,231,516 | 8.6% |
| Capital Group International, Inc | 36,691,116 | 7.3% |
| Scottish Widows Investment Partnership | 32,216,384 | 6.4% |
| T. Rowe Price | 24,906,635 | 5.0% |
| BlackRock Investment (UK) Limited | 20,994,369 | 4.2% |
| M&G Investments | 18,086,225 | 3.6% |
| Kames Capital | 16,439,120 | 3.3% |
| Ignis Investment Services Limited | 14,915,549 | 3.0% |

9.2 None of the holders of Ordinary Shares listed in paragraph 9.1 above has in respect of his holding of Ordinary Shares voting rights different from the other holders of Ordinary Shares.

9.3 As at 13 December 2011 (being the latest practicable date prior to the publication of this document), the Company is not aware of any persons who directly or indirectly, owns or controls the Company.

9.4 The Company is not aware of any arrangements the operation of which may at a date subsequent to this document result in a change in control of the Company.

## 10. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, which (i) are or may be material and have been entered into by the Group within the two years immediately preceding the date of this document; or (ii) have been entered into by the Group at any time before the date of this document where those contracts contain provisions under which the Group has an obligation or entitlement which is or may be material to the Group as at the date of this document.

10.1 Sponsor Agreement

Under this agreement dated 15 December 2011 and between the Company, RBC Capital Markets and the Directors, the appointment of RBC Capital Markets to act as sponsor to the Company in connection with the application for Admission is confirmed. The Company has given RBC Capital Markets certain customary warranties and undertakings regarding, amongst other things, the accuracy of information contained in this Prospectus and concerning the Group and its business. RBC Capital Markets may terminate this agreement in certain circumstances at any time before Admission becomes effective. The Company has also indemnified RBC Capital Markets against certain losses in connection with Admission.

10.2 2009 Placing Agreement

An agreement ("the 2009 Placing Agreement") dated 3 December 2009 between the Company (1), Canaccord Genuity (2), and RBC (3) pursuant to which Canaccord Genuity and RBC agreed to use their reasonable endeavours to procure subscribers for 121,200,000 new Ordinary Shares to be issued by the Company at a price of 60 pence per Ordinary Share ("2009 Placing Shares"). The 2009 Placing Shares were issued and allotted in two tranches on 4 December 2009 and 17 December 2009 (as set out in paragraphs 4.2(a) and 4.2(b) above).

The 2009 Placing Agreement contains certain warranties and indemnities from the Company in favour of Canaccord Genuity and RBC. The warranties are enforceable on or before three months after the publication of the Group's audited accounts for the year ending 31 June 2011, save in relation to fraud or wilful non-disclosure.

10.3 2011 Placing Agreement

An agreement ("the 2011 Placing Agreement") dated 21 January 2011 between the Company (1), Canaccord Genuity (2), and RBC (3) pursuant to which Canaccord Genuity and RBC agreed to use their reasonable endeavours to procure subscribers for 136,698,212 new Ordinary Shares to be issued by the Company at a price of 150 pence per an Ordinary Share ("2011 Placing Shares"). The 2011 Placing Shares were issued and allotted on 26 January 2011 (as summarised in paragraph 4.2(k) above).

The 2011 Placing Agreement contains certain warranties and indemnities from the Company in favour of Canaccord Genuity and RBC. The warranties are enforceable on or before three months after the publication of the Group's audited accounts for the year ending 30 June 2012, save in relation to fraud or wilful non-disclosure.

10.4 2009 Warrant Instrument

On 18 December 2009, the Company executed the 2009 Warrant Instrument pursuant to which the Company created in aggregate, 5,457,036 2009 Warrants, of which 4,092,777 and 1,364,259 were granted to Canaccord Genuity and RBC, respectively. Canaccord Genuity and RBC have subsequently exercised their full allotment of 5,457,036 2009 Warrants. Each 2009 Warrant entitled the 2009 Warrantholder to subscribe for one Ordinary Share at 80 pence at any time during the period commencing on 18 December 2009 ("2009 Admission") and ending 24 months from 2009 Admission.

10.5 2010 Warrant Instrument

The 2010 Warrant Instrument pursuant to which the Company has constituted the 2010 Warrants. Further details of the terms of the 2010 Warrant Instrument are set out in paragraphs 7.1 and 7.2 of this Part X.

10.6 US$ Loan and Guarantee Agreement

A loan agreement dated 28 September 2010 between the Company (1), Willcroft (2), each of the subsidiaries of the Company ("Guarantors") (3), IFC (4), Lexshell 825 (5) and RMB (6) ("US$ Loan and Guarantee Agreement"), pursuant to which IFC agreed to provide a loan facility to the Company and Willcroft ("the Co-Borrowers") for a sum of US$40,000,000, (the "Loan") to

fund, *inter alia*, the Williamson capital expansion programme. The Guarantors and Lexshell 825 have guaranteed all payments under the US$ Loan and Guarantee Agreement and provided an indemnity in favour of IFC.

(a) Amount of the Loan

The outstanding principal is US$36,500,000 ("Outstanding Principal").

(b) Interest rates and fees

Interest is payable on the Outstanding Principal at a rate of 4.5% per annum above LIBOR (as determined on the determination date). The interest is payable on 15 March and 15 September in arrears. The US$ Loan and Guarantee Agreement also provides for the payment of a commitment fee of 1.25% per annum on any part of the Loan that has not been disbursed or cancelled for the first year from 3 November 2010 and thereafter a fee of either 1.25% or 1.75% applies for the following year. The fees are payable semi-annually, starting on 15 March 2011. A front end fee of 2% of the maximum facility amount has been paid and additional administrative fees of US$20,000 is payable annually on 28 September of each year.

(c) Repayment

The Co-Borrowers shall repay capital, subject to any event of default, in the following amounts: (i) 12.5% of the capital outstanding every 15 March and 15 September (starting on 15 September 2012); and (ii) all outstanding capital on 15 March 2016.

(d) Prepayment

The Co-Borrowers are entitled to prepay the whole or multiples of US$10,000,000, of the Loan on giving not less than 10 Business Days' notice to IFC, together with all accrued interest and costs on the portion of capital, and simultaneously with a prepayment under the US$ Loan and Guarantee Agreement. Any prepayment prior to 3 November 2013 is subject to a prepayment penalty equal to 2% of the amount prepaid.

(e) Security

In terms of the US$ Loan and Guarantee Agreement certain encumbrances and pledges were concluded on 28 September 2010 in respect of certain assets belonging to the Group including a cession of the CIHL shareholding and claims in CDM, the cession by CDM of all its debtor balances, the cession of the Company's shares and claims in CIHL as a second ranking mortgage to the Al Rajhi Share Mortgage, the cession of the Company's shares and claims in BDM, the cession of the Company's shares and claims in Willcroft, the cession by Willcroft of its shares and claims in Williamson Diamonds, a mortgage bond over the CDM mining right as well as mortgage and notarial bonds over moveable and immoveable assets at Cullinan.

(f) Distributions

In terms of the US$ Loan and Guarantee Agreement, the Co-Borrowers and Guarantors are prohibited from making any distributions (including the payment of a dividend) to entities, other than the Co-Borrowers or Guarantors, if such distribution would result in certain distribution covenants (as defined in the US$ Loan and Guarantee Agreement) being breached or if an event of default or potential event of default (as defined) have occurred, unless the Company has appropriately certified to each of the aforegoing matters and IFC have not disputed same.

10.7 ZAR Loan and Guarantee Agreement

A loan agreement dated 28 September 2010 between CDM (1), PDSA (2), each of the subsidiaries of the Company ("Guarantors") (3), Lexshell 825 (4) and RMB (5) ("ZAR Loan and Guarantee Agreement"), pursuant to which RMB agreed to provide a loan facility to CDM and PDSA ("the Co-Borrowers") for a sum of ZAR300,000,000, (the "Loan") to fund, *inter alia*, the Cullinan capital expansion programme. The Guarantors and Lexshell 825 have guaranteed all payments under the ZAR Loan and Guarantee Agreement and provided an indemnity in favour of RMB.

(a) Amount of the Loan

The outstanding principal is ZAR267,100,000 ("**Outstanding Principal**").

(b) Interest rates and fees

Interest is payable on the Outstanding Principal at a rate of 4.5% per annum above JIBAR (as determined on the determination date). The interest is payable on 15 March and 15 September in arrears. The ZAR Loan and Guarantee Agreement also provides for the payment of a commitment fee of 1.25% per annum on any part of the Loan that has not been disbursed or cancelled for the first year from 3 November 2010 and thereafter a fee of either 1.25% or 1.75% applies for the following year. The fees are payable semi-annually, starting on 15 March 2011. A front end fee of 2% of the maximum facility amount has been paid and additional administration fees of ZAR150,000 annually on 28 September of each year.

(c) Repayment

The Co-Borrowers shall repay capital, subject to any event of default, in the following amounts: (i) 12.5% of the capital outstanding every 15 March and 15 September (starting on 15 September 2012); and (ii) all outstanding capital on 15 March 2016.

(d) Prepayment

The Co-Borrowers are entitled to prepay the whole or multiples of ZAR10,000,000 of the Loan on giving not less than 10 Business Days' notice to RMB, together with all accrued interest and costs on the portion of capital, and simultaneously with a prepayment under the ZAR Loan and Guarantee Agreement. Any prepayment prior to 3 November 2013 is subject to a prepayment penalty equal to 2% of the amount prepaid.

(e) Security

In terms of the ZAR Loan and Guarantee Agreement certain encumbrances and pledges were concluded on 28 September 2010 in respect of certain assets belonging to the Group including a cession of the CIHL shareholding and claims in CDM, the cession by CDM of all its debtor balances, the cession of the Company's shares and claims in CIHL as a second ranking mortgage to the Al Rajhi Share Mortgage, the cession of the Company's shares and claims in BDM, the cession of the Company's shares and claims in Willcroft, the cession by Willcroft of its shares and claims in Williamson Diamonds, a mortgage bond over the CDM mining right as well as mortgage and notarial bonds over moveable and immoveable assets at Cullinan.

(f) Distributions

In terms of the ZAR Loan and Guarantee Agreement, the Co-Borrowers and Guarantors are prohibited from making any distributions (including the payment of a dividend) to entities, other than the Co-Borrowers or Guarantors, if such distribution would result in certain distribution covenants (as defined in the ZAR Loan and Guarantee Agreement) being breached or if an event of default or potential event of default (as defined) have occurred, unless the Company has appropriately certified to each of the aforegoing matters and RMB have not disputed same.

10.8 FirstRand Facility

A facility letter dated 3 November 2010 between FirstRand Bank (acting through its FNB Corporate Banking and/or RMB division) (1), CDM (2), PDSA (3) and certain other subsidiaries of the Company (4) ("FirstRand Facility"), pursuant to which FirstRand Bank and/or Rand Merchant Bank agreed to provide the credit and banking facilities described below to PDSA and CDM ("the co-borrowers") and to certain other members of the Group ("FirstRand Companies") and any other entity that has otherwise been accepted and approved by FirstRand Bank in writing on a joint and several basis subject to the terms and conditions set forth in the facility letter. The co-borrowers, the FirstRand Companies and the Company, Willcroft, CIHL and Premier Transvaal have guaranteed all payments under the FirstRand Facility and, together with Lexshell 825, have provided an indemnity in favour of FirstRand Bank.

| *The Facility* | *Type* | *Amount* | *Term* |
|---|---|---|---|
| Direct | General banking facility | R70,000,000 | Facility subject to annual review. |
| Long-term contingent | Rehabilitation guarantees | R37,000,000 | Facility subject to annual review. Individual guarantees may not exceed 60 months. |
| Long-term contingent | DME guarantees (fully cash-backed) | R63,0000,000 | Facility subject to annual review. Individual guarantees may not exceed 60 months. |
| Short-term Pre-settlement | Forex hedging | R30,000,000 (Margined) | Facility subject to annual review. Individual contracts may not exceed 12 months. |
| Short-term Pre-settlement | Interest rate hedging for ZAR term loan | R13,000,000 | Facility subject to annual review. Contract may not exceed 36 months. |
| Settlement | Electronic funds transfers | R100,000,000 | Demand facility subject to annual review. |

Interest rate and fees

Interest is payable on any utilisation of the facilities at a rate equal to 2.5% plus such base rate as FirstRand Bank may determine. The FirstRand Facility also provides for a commitment fee of 1.10% (excluding VAT) per annum on any portion of the facility not being utilised. Other fees can be applied as agreed between the parties.

Repayment

Save in respect of the short-term pre-settlement facility which is repayable on demand by FirstRand, the co-borrowers shall repay the facility on the earlier of FirstRand Bank demanding repayment and any specific date agreed between the parties.

Security

The co-borrowers and the FirstRand Companies have provided a cession of all rights, title and interest in and to any and all accounts with FirstRand Bank.

10.9 Revolving Credit Facility

A revolving credit facility agreement ("Revolving Credit Facility") dated 29 November 2011 between Afropean Diamonds (1), Ealing Management Services (Pty) Ltd (2), the Company (3) and FirstRand Bank (4) pursuant to which FirstRand Bank agreed to make available a revolving credit facility to Afropean Diamonds for a sum of ZAR200,000,000 (with a further ZAR100,000,000 made available on Admission), to fund Afropean Diamonds' working capital requirements and other general corporate purposes. The Company has guaranteed all obligations under the Revolving Credit Facility.

(a) Amount of the Loan

Afropean Diamonds has not drawn down on the Revolving Credit Facility.

(b) Interest rates and fees

In terms of the Revolving Credit Facility, interest is payable at a rate of 2.5% above JIBAR per annum.

(c) Repayment

Afropean Diamonds shall repay the capital, subject to any event of default, 24 months from 30 November 2011.

(d) Prepayment

Afropean Diamonds is entitled to prepay the whole, or not less than ZAR15,000,0000, of the Loan on giving not less than five days written notice to FirstRand Bank.

(e) Security

In terms of the Revolving Credit Facility, Afropean Diamonds has agreed to provide security for the facility by registering bonds over the Finsch mining right and surface rights in favour of a security special purpose vehicle (wholly owned by FirstRand Bank), various notarial bonds over the moveable assets of Afropean Diamonds, a cession of insurance contracts and operating account held by Afropean Diamonds and claims against third parties by Afropean Diamonds. The Company provided security in favour of FirstRand Bank, in connection with the Revolving Credit Facility and the Working Credit Facility, on 29 November 2011, by way of a cession of the Company's shareholding in Afropean Diamonds.

(f) Distributions

In terms of the Revolving Credit Facility, Afropean Diamonds is prohibited from making any distribution (including the payment of a dividend), with the exception of an initial permitted distribution of up to ZAR300,000,000, without the prior written consent of FirstRand Bank.

10.10 Working Credit Facility

A working credit facility agreement ("Working Credit Facility") dated 29 November 2011 between Afropean Diamonds (1), and FirstRand Bank (2) pursuant to which FirstRand Bank agreed to make available a working credit facility to Afropean Diamonds for a sum of ZAR100,000,000, to fund Afropean Diamonds' working capital requirements.

(a) Amount of the Loan

Afropean Diamonds has not drawn down on the Working Credit Facility.

(b) Interest rates and fees

In terms of the Working Credit Facility, interest is payable at a rate of 2.4% above JIBAR per annum.

(c) Repayment

Afropean Diamonds shall repay the capital, subject to any event of default, 12 months from 30 November 2011.

(e) Security

In terms of the Working Credit Facility, Afropean Diamonds has agreed to provide security for the facility by registering bonds over the Finsch mining right and surface rights in favour of a security special purpose vehicle (wholly owned by FirstRand Bank), various notarial bonds over the moveable assets of Afropean Diamonds, a cession of insurance contracts and operating account held by Afropean Diamonds and claims against third parties by Afropean Diamonds.

10.11 Cullinan Intra Group Loan Agreements

The following intra group loan agreements have been entered into:

(a) A loan agreement dated 17 September 2009 between CIHL (1) and Premier Rose (2) pursuant to which CIHL agreed to provide a loan to Premier Rose of ZAR871,569,637. The loan is in connection with the acquisition of the Cullinan mine by CDM and to provide working capital and capital expenditure for the operation of Cullinan. The loan is repayable on 30 December 2011. The loan is secured by the pledge of Premier Rose's rights under the loan agreements with CDM, Thembinkosi and PDET dated 23 September 2011 (as summarised in paragraphs (b), (d) and (f) below) and interest accrues daily at the prevailing South African Prime Rate.

(b) A loan agreement dated 17 September 2009 between Premier Rose (1) and CDM (2) pursuant to which Premier Rose agreed to provide a loan to CDM of ZAR740,000,000. The loan is in connection with the acquisition of the Cullinan mine by CDM and to provide working capital and capital expenditure for the operation of the Cullinan mine. The loan is repayable on 30 December 2011. Interest accrues daily at the prevailing South African Prime Rate.

(c) A loan agreement ("PDET Loan Agreement") dated 23 September 2009 between PDET (1) and CDM (2) pursuant to which PDET agreed to provide a loan to CDM of ZAR120,000,000. The loan is in connection with the acquisition of the Cullinan mine by CDM. The loan is repayable on 30 December 2011. Interest accrues daily at the prevailing South African Prime Rate.

(d) A loan agreement dated 23 September 2009 between Premier Rose (1) and PDET (2) pursuant to which Premier Rose agreed to provide a loan to PDET of ZAR120,000,000. The loan is in connection with the acquisition of the Cullinan mine by CDM. The loan is repayable on 30 December 2011. The Loan is secured by the pledge agreement between Premier Rose, CDM and PDET dated 23 September 2009 in terms of which PDET pledges its 12% shareholding in CDM and its rights under the PDET Loan Agreement. Interest accrues daily at the prevailing South African Prime Rate. Interest accrues daily at the prevailing South African Prime Rate.

(e) A loan agreement dated 23 September 2009 between Thembinkosi (1) and CDM (2) pursuant to which Thembinkosi agreed to provide a loan to CDM of ZAR140,000,000. The loan is in connection with the acquisition of the Cullinan mine by CDM. The loan is repayable on 30 December 2011. Interest accrues daily at the prevailing South African Prime Rate.

(f) A loan agreement dated 23 September 2009 between Premier Rose (1) and Thembinkosi (2) pursuant to which Premier Rose agreed to provide a loan to Thembinkosi of ZAR140,000,000. The loan is in connection with the acquisition of the Cullinan mine by CDM. The loan is repayable on 30 December 2011. The loan is secured by a pledge agreement between Premier Rose and Thembinkosi dated 23 September 2009 in terms of which Thembinkosi pledges its 14% shareholding in CDM and its rights under the loan agreement between Thembinkosi and CDM. Interest accrues daily at the prevailing South African Prime Rate.

(g) An inter-creditor agreement dated 23 September 2009 between Premier Rose (1), PDET (2), CIHL (3), Thembinkosi (4) and CDM (5).

10.12 Finsch Intra Group Agreements

The following intra group loan agreements have been entered into:

(a) A loan agreement dated 28 November 2011 between the Company (1) and EMS (2) pursuant to which the Company agreed to provide a loan to EMS of ZAR1,068,750,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds. The loan is repayable if EMS has liquidity in excess of the short and medium term cash needs of Afropean Diamonds. The loan is secured by the cession of EMS' rights under the loan agreements with Afropean Diamonds, Senakha Diamonds and PDET dated 28 November 2011. Interest accrues daily at a rate of 2% above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(b) A loan agreement dated 28 November 2011 between EMS (1) and Afropean Diamonds (2) pursuant to which EMS agreed to provide a loan to Afropean Diamonds of ZAR1,054,500,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds and to provide working capital and the Capex for the operation of Finsch. The loan is repayable if Afropean Diamonds has liquidity in excess of its short and medium term cash needs. Interest accrues daily at a rate of 2% above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(c) A loan agreement dated 28 November 2011 between EMS (1) and PDET (2) pursuant to which EMS agreed to provide a loan to PDET of ZAR71,250,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds. The loan is repayable on the repayment of the PDET-Afropean Loan Agreement. The loan is secured by a pledge between PDET and EMS dated 28 November 2011 in terms of which PDET

pledges its 5% shareholding in Afropean Diamonds. Interest accrues daily at 2% per annum above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(d) A loan agreement dated 28 November 2011 between EMS (1) and Senakha Diamonds (2) pursuant to which EMS agreed to provide a loan to Senakha Diamonds of ZAR299,255,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds. The loan is repayable on the repayment of the Senakha Finsch Loan Agreement. The loan is secured by a pledge between Senakha Diamonds and EMS dated 28 November 2011 in terms of which Senakha Diamonds pledges its 21% shareholding in Afropean Diamonds. Interest accrues daily at 2% per annum above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(e) A loan agreement ("PDET-Afropean Loan Agreement") dated 28 November 2011 between PDET (1) and Afropean Diamonds (2) pursuant to which PDET agreed to provide a loan to Afropean Diamonds of ZAR71,250,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds. The loan is repayable if Afropean Diamonds has liquidity in excess of short and medium term cash needs. Interest accrues daily at 2% per annum above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(f) A loan agreement ("Senakha Finsch Loan Agreement") dated 28 November 2011 between Senakha Diamonds (1) and Afropean Diamonds (2) pursuant to which Senakha Diamonds agreed to provide a loan to Afropean Diamonds of ZAR299,255,000. The loan is in connection with the acquisition of the Finsch mine by Afropean Diamonds. The loan is repayable if Afropean Diamonds has liquidity in excess of short and medium term cash needs. Interest accrues daily at 2% per annum above the prevailing South African Prime Rate and is payable on the repayment of the capital.

(g) An inter-creditor agreement dated 28 November 2011 between the Company (1), EMS (2), PDET (3), Senakha Diamonds (4) and Afropean Diamonds (5).

10.13 Al Rajhi Agreements

(a) A loan agreement dated 4 February 2008 (as amended, novated and restated on 17 December 2009 and 18 March 2010) between the Company (1) and Al Rajhi (2) ("Al Rajhi Loan Agreement") pursuant to which Al Rajhi agreed to provide a loan to the Company of US$95,000,000. The Al Rajhi Loan Agreement is secured by the Share Mortgage (defined in paragraph 10.13(c) below). The Company has given restrictive financial covenants in favour of Al Rajhi, which will terminate on the full payment of the Option Consideration (defined below). The loan has been fully repaid.

(b) An option agreement dated 17 November 2009 between the Company (1) and Al Rajhi (2) ("Al Rajhi Option Agreement"), pursuant to which, in consideration of £1, Al Rajhi granted the Company an option ("the Option") to acquire 500 shares in the capital of CIHL ("CIHL Shares") at an exercise price of US$35,000,000 payable in cash on or before 31 December 2011 ("Option Consideration") and the allotment by the Company of 35 million Ordinary Shares ("Consideration Shares") on the exercise of the Option. The Option was exercised by the Company on 17 December 2009 and the Consideration Shares were allotted to Al Rajhi on 17 December 2009. $20,000,000 of the Option Consideration remains outstanding and is secured by the Share Charge and the Promissory Note (as summarised below).

Pursuant to the Al Rajhi Option Agreement, Al Rajhi has the right to appoint one director to the Board, subject to the Company's written consent, for as long as Al Rajhi holds not less than 10% of the issued share capital of the Company. The Company appointed Dr Omar Kamal as a Non-Executive Director on 10 February 2010. The Al Rajhi Option Agreement also grants Al Rajhi pre-emption rights on any further issue of shares for cash, up to the percentage of the issued share capital of the Company held by Al Rajhi at the time of the proposed issue, and Al Rajhi has the right to convert any outstanding loan balance and interest to shares in the Company at the issue price.

(c) A share mortgage deed ("Share Mortgage") dated 17 December 2009 between the Company (1) and Al Rajhi (2) pursuant to which, as security for the Al Rajhi Loan Agreement, the Promissory Note (details of which are summarised in paragraph 10.13(d) of

this Part X) and the Share Mortgage, the Company charges with full title guarantee all the shares owned by the Company in CIHL and all corresponding distribution rights. The Company has given customary undertakings and representations in favour of Al Rajhi.

(d) A promissory note ("Promissory Note") dated 17 December 2009 between the Company (1) and Al Rajhi (2) pursuant to which the Company promised to pay Al Rajhi the Option Consideration on or before 31 December 2011. The Promissory Note is interest free until 31 December 2011, when interest shall accrue at a rate of 10% per annum. The Promissory Note is repayable by the Company at its option, in whole or in part. The Promissory Note is secured by the Share Mortgage.

(e) A letter of undertaking dated 17 December 2009 between the Company (1) and Al Rajhi (2) pursuant to which the Company undertook to Al Rajhi to, *inter alia*, (i) not issue any further shares for cash without first offering to Al Rajhi the opportunity to subscribe for sufficient shares to maintain the percentage shareholding, either by paying cash or by converting some or all of the amount they are owed by the Company into shares; (ii) not to pay a dividend; (iii) on a sale of any high value diamonds that results in the Company having excess capital ("Excess Capital"), the Company shall use its reasonable endeavours to prepay, in whole or in part, the Option Consideration due on 31 December 2011; and (iv) if prior to 31 December 2011, the Company issues shares, for non-cash consideration, Al Rajhi shall have a right to convert part of the amounts owing to it into Ordinary Shares at the same price per Ordinary Share as the value of the non-cash consideration. The undertakings will terminate on the full payment of the Option Consideration.

(f) An agreement dated 19 October 2010 between the Company and Al Rajhi pursuant to which Al Rajhi agreed, conditional on the receipt of US$30.7 million, for the purposes of the Al Rajhi Loan Agreement, to: (i) consent to the Company and various Group Companies entering into the US$ Loan and Guarantee Agreement and the other financing and security documents with IFC and FirstRand; (ii) release the Company from all obligations and liabilities under the Al Rajhi Loan Agreement, save for the financial covenants, which shall survive until the payment of the Option Consideration; and (iii) to consent to the Company entering into the securities provided pursuant to US$ Loan and Guarantee Agreement and ZAR Loan and Guarantee Agreement (details of which are summarised in paragraphs 10.6 and 10.7 of this Part X).

10.14 Acquisition Agreements

(a) A sale agreement dated 22 November 2007 between De Beers (1), the Company (2), CDM (3) and others (4). Pursuant to this agreement CDM acquired the assets and liabilities associated with the Cullinan mine as a going concern from De Beers for a consideration of R1 billion (plus VAT). The acquisition of the mine was completed on 15 July 2008.

Associated with this agreement, and in order to achieve compliance with the Broad Based Socio Economic Empowerment Charter of South African Mining Industry ("the Charter"), a shareholders agreement was entered into dated 1 February 2008 between PDET (1), CIHL (2), Thembinkosi (3) and CDM (4) which governs the parties' relationship as shareholders of CDM.

(b) A sale agreement ("Crown Resources Sale Agreement") dated 14 September 2007 between De Beers (1) and Crown Resources (2). Pursuant to this agreement Crown Resources acquired the assets and liabilities associated with Kimberley Underground from De Beers for a consideration of R78,500,000, (plus VAT), satisfied by the Company assuming De Beer's rehabilitation obligations with regards to Kimberley Underground of R63,500,000 and the payment of R15,000,000 in cash. The acquisition of this operation was completed on 18 May 2010.

Associated with the Crown Resources Sale Agreement, and in order to achieve compliance with the Charter, a joint venture agreement was entered into dated 1 October 2007 between Crown Resources (1) and Sedibeng Mining (2) pursuant to which the percentage participation of Crown Resources and Sedibeng Mining in the Kimberley JV is 74% and 26%, respectively.

(c) A sale agreement ("Finsch Acquisition Agreement") dated 21 January 2011 between De Beers (1), the Company (2), Afropean Diamonds (3) and others (4). Pursuant to this agreement Afropean Diamonds acquired the assets (excluding the diamond inventory) and

liabilities associated with Finsch as a going concern from De Beers for a consideration of R1,425 billion (plus VAT). The acquisition of the mine was completed on 14 September 2011.

De Beers granted limited warranties in favour of Afropean Diamonds, and Afropean Diamonds can only make a claim within 18 months of 14 September 2011 and such claim must amount to more than R42 million. Afropean Diamonds indemnified De Beers and other related parties for all assumed liabilities and certain related losses, after closing. The Company guaranteed Afropean Diamonds' obligations pursuant to the Finsch Acquisition Agreement.

Associated with this agreement, and in order to achieve compliance with the Charter, a shareholders agreement was entered into dated 3 February 2011 between the Company (1), PDET (2), Senakha Diamonds (3) and Afropean Diamonds (4), which governs the parties' relationship as shareholders of Afropean Diamonds.

(d) A sale agreement dated 3 December 2010 between African Renaissance Holdings Limited (1), BDM (2), Sedibeng Mining (3), PDET (4) and Re Teng (5) pursuant to which BDM, Sedibeng Mining and PDET acquired a 30% shareholding in Re Teng, to be allocated between the parties as they saw fit, for a total consideration of R13,500,000.

A sale agreement dated 3 December 2010 between the Mbokodo Trust (1), BDM (2), Sedibeng Mining (3) and PDET (4) pursuant to which BDM, Sedibeng Mining and PDET acquired a 6.67% shareholding in Re Teng, to be allocated between the parties as they saw fit, for a total consideration of R3,001,500.

A sale agreement dated 3 December 2010 between Re Teng Minerals (Pty) Ltd (1), BDM (2), Sedibeng Mining (3) and PDET (4) pursuant to which BDM, Sedibeng Mining and PDET acquired a 43.33% shareholding in Re Teng, to be allocated between the parties as they saw fit, for a total consideration of R19,498,500.

Pursuant to the agreements the parties agreed that the shares of Re Teng (the empowerment partner in respect of the Koffiefontein mine) would be held as follows: Sedibeng Mining holds a 50% shareholding; BDM holds a 13.33% shareholding; PDET holds a 16.67% shareholding; and Thari Resources holds the remaining 20%.

(e) On 8 October 2009 Sedibeng Mining subscribed for 175,676 ordinary shares in the share capital of Star Diamonds (representing 26% of the issued share capital) for nil consideration, subject to written agreement to the contrary.

(f) On 2 November 2010 Crown Diamonds and Sedibeng Mining entered into a verbal agreement pursuant to which Crown Diamonds transferred 122 ordinary shares in the share capital of Helam Mining (representing 26% of the issued share capital) to Sedibeng Mining, for nil consideration, subject to written agreement to the contrary.

10.15 Williamson Diamonds Shareholders' Agreement

A shareholders agreement dated 7 October 2011 between Willcroft (1), the Government of Tanzania (2) and Williamson Diamonds (3), replacing the historical shareholders' agreement dated 1994 and setting out the relationship between Willcroft and the Government of Tanzania as shareholders in Williamson Diamonds as well as the basis upon which historical, ongoing and future shareholder and other loans and funding are to be procured and dealt with (including in relation to the Williamson mine capital expansion programme).

10.16 Sedibeng Joint Venture Agreement

A joint venture agreement dated 7 June 2005 between Dancarl Diamonds (1) and Messina Diamonds (2) pursuant to which the percentage participation of the parties in Sedibeng JV is 42.5% and 57.5%, respectively.

10.17 Koffiefontein Joint Venture Agreement

A joint venture agreement dated 11 October 2006 between BDM (1) and Re Teng (2) pursuant to which the percentage participation of the parties in Koffiefontein JV is 70% and 30%, respectively.

10.18 Framework Agreement

A framework agreement dated 29 November 2002 (as amended, novated and released on July 2003, 25 November 2004 and 29 September 2005) between Sekaka Diamonds (1), BHP World (2) and the Company (3) ("Kalahari Framework Agreement") pursuant to which BHP World and Sekaka Diamonds each agreed to certain restrictions on their acquisition and disposal of mineral rights in Botswana. In conjunction with the Kalahari Framework Agreement, Sekaka Diamonds entered into a development agreement with BHP Inc and Kalahari Diamonds (as guarantor for Sekaka Diamond's obligations) (the "Falcon Agreement"). The Falcon Agreement terminated on 31 December 2007 and as a consequence many of the obligations of the Kalahari Framework Agreement ended.

An option for BHP World to acquire rights in respect of certain mineral rights held or obtained by Sekaka Diamonds (or any member of the Kalahari Diamonds group) survives termination of the Falcon Agreement. This obligation only applies to those mineral rights originally transferred under the Kalahari acquisition agreement (together with any renewals and form of substitute or successor title of those mineral rights), and a limited amount of subsequently acquired mineral rights (over which Kalahari Diamonds has directed BHP Inc. to deploy the Falcon System under the Falcon Agreement before its termination). The option entitles BHP World to either a 51% or 60% interest in a joint venture depending on the manner in which the relevant mineral rights were acquired (or BHP World is entitled to a 2% royalty where it does not elect to exercise the option). In order to obtain the interest, BHP World must pay a purchase price equal to at least four times expenditures to date on the relevant property.

The Framework Agreement also restricts Sekaka Diamonds (or any member of the Kalahari Diamonds group) from abandoning/relinquishing or transferring all or part of their rights in those mineral rights originally transferred pursuant to the Kalahari acquisition agreement or any other mineral rights obtained or acquired from the relevant Ministry in Botswana or a third party (together with any renewals and any form of substitute or successor title of those mineral rights) without first offering such right to BHP World.

Neither party may assign to any person (other than an affiliate having given notice) any rights or obligations under the Framework Agreement without the prior written consent of the other parties (except the Company as the guarantor is not permitted to assign its obligations to any person including an affiliate). BHP World may nominate any member of the BHP Biliton Group to assume any of the rights of BHP World under the Kalahari Framework Agreement.

10.19 Depositary Interests

A depositary agreement (as amended by a deed of amendment between the parties on 28 November 2011) ("Depositary Agreement") dated 22 March 2005 between the Company and Capita IRG Trustees Limited under which the Company has appointed Capita IRG Trustees Limited to issue the Depositary Interests on the terms of the Deed Poll and to provide certain other services in connection with the Depositary Interests. The Depositary Agreement may be terminated by either party on 45 days' notice.

10.20 Deed Poll

A trust deed poll ("Deed Poll") dated 23 March 2005 entered into by Capita IRG Trustees Limited which constitutes the Depositary Interests and sets out the terms to which they are subject. The Depositary will hold (itself or through the custodian (the "Custodian")), as bare trustee, the Ordinary Shares issued by the Company and all rights attributable to the Ordinary Shares for the time being held by the Depositary or Custodian pertaining to the Depositary Interests for the benefit of the holders of the Depositary Interests.

The Depositary and any Custodian shall pass on to Depositary Interest holders, and so far as reasonably able exercise on their behalf, all rights and entitlements received by the Depositary or the Custodian in respect of the Ordinary Shares. Rights and entitlements to cash distributions, to information, to make choices, elections and to call for, attend and vote at general meetings shall, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the Deed Poll.

The Depositary may terminate the Deed Poll by giving not less than 30 days' prior written notice to the holders of the Depositary Interests.

10.21 Guardrisk Insurance Policy

An insurance policy ("Insurance Policy") dated 15 September 2011 between Guardrisk Insurance Company Limited ("Guardrisk") (1), the Company (2), Afropean Diamond (3), BDM (4), Koffiefontein JV (5), Kimberley JV (6), CIHL (7), CDM (8), Helam Mining (9), Messina Investments (Pty) Ltd (10), Star Diamonds (11), Messina Diamonds (12), Crown Resources (13), Autumn Star Investment Holdings (Pty) Ltd (14) and Dancarl Diamonds (15), pursuant to which Guardrisk undertakes to issue rehabilitation guarantees to the DMR in respect of certain of the Company's mining operations in South Africa. The Insurance Policy provides for the following premium payments: (i) ZAR 32,061,998, payable in September 2012; and (ii) ZAR 64,576,128, payable in September 2013.

## 11. Legal and arbitration proceedings

There have been no governmental, legal or arbitration proceedings (and no such proceedings are pending or threatened of which the Company is aware) during the 12 months prior to the date of this document, which may have, or have had in the recent past, significant effects on the Company and/or Group's financial position or profitability.

## 12. Taxation

### United Kingdom taxation

The following statements are intended only as a general guide to the UK tax position under current legislation and published by the HM Revenue & Customs' practice at the date of this document, both of which are subject to change at any time, possibly with retrospective effect. It only deals with the position of certain types of Shareholder who are resident or ordinarily resident in the United Kingdom for UK tax purposes and who are the beneficial owners of Ordinary Shares. It does not deal with others (such as dealers in securities, insurance companies, collective investment schemes and persons who acquired Ordinary Shares by virtue of an office or employment) whose tax position might in some cases be different. The information given is by way of general summary only and does not constitute legal or tax advice to any person. Shareholders who are in doubt about their tax position, or who are taxable in a jurisdiction other than the UK, should obtain detailed tax advice.

Any change in the Group's tax status or changes in tax legislation or tax treaties negotiated by those countries in which the Group operates, or in taxation legislation or taxation practice in the United Kingdom or any other tax jurisdiction affecting Shareholders could affect the value of investments held by the Group or affect the Company's ability to pay dividends or alter the post tax returns to Shareholders. Prospective purchasers of Ordinary Shares who are in doubt as to their tax position or who are or may be resident or otherwise subject to tax in a jurisdiction other than the United Kingdom should consult their own tax advisers on the potential tax consequences of purchasing, holding, converting or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.

### The affairs of the Company

The statements in the following sub-paragraphs of this Part X are based on the assumption that the Company is not, and will not become, resident in the United Kingdom for tax purposes.

The Directors intend to continue to conduct the affairs of the Company so that it does not become resident in the United Kingdom for taxation purposes. Accordingly, and provided that the Company does not carry on a trade in the United Kingdom (whether or not through a permanent establishment situated therein), the Company will not be expected to be subject to United Kingdom income tax or corporation tax other than on United Kingdom source income in subsidiary companies.

### Dividends

A UK resident individual Shareholder who owns less than 10% of the Share Capital will be entitled to a non-refundable tax credit in respect of any dividend paid by the Company on that Shareholder's Ordinary Shares equal to one-ninth of the amount of the dividend received by the Shareholder. The tax credit therefore equals 10% of the aggregate amount of the dividend and the associated tax credit. Liability to UK income tax is calculated on the sum of the dividend and the associated tax credit. The tax credit will be available to offset such a Shareholder's liability to income tax on the dividend.

Individual Shareholders whose income is within the starting rate for savings or basic rate tax bands are subject to income tax at the rate of 10% on dividends received by them in respect of their Ordinary Shares, so that such Shareholders who are eligible for the tax credit will have no further liability to income tax in respect of such dividends. The higher rate of income tax is 32.5% in respect of dividend income (rather than the main rate of 40%), so that a Shareholder who is eligible for that tax credit and whose income is subject to higher rate income tax in respect of a dividend received from the Company will, after allowing for the 10% tax credit, be liable to pay further income tax equal to 25% of the dividend actually received in respect of that Shareholder's Ordinary Shares, before the addition of the tax credit. Individual Shareholders eligible for the tax credit who are subject to the additional rate of income tax (being 42.5% in respect of dividend income) in respect of a dividend received from the Company will, after allowing for the 10% tax credit, be liable to pay further income tax equal to approximately 36% of the dividend actually received in respect of that Shareholder's Ordinary Shares, before the addition of the tax credit. Any dividends received from the Company by an Individual Shareholder will be treated, along with certain other investment income, as the top slice of that individual's total income which is chargeable to UK income tax.

A Shareholder who is not liable to income tax on the dividend (or any part of it) is not liable to claim payment of the tax credit (or part of it) in cash from HM Revenue & Customs.

The tax treatment of individual Shareholders who are not domiciled in the UK may differ from that described above, in that such Shareholders might qualify for remittance basis of tax in respect of dividends paid by the Company. It is recommended that such individuals take advice as to the tax consequences of investing in the Company.

UK resident corporate Shareholders will be subject to UK corporation tax in respect of any dividend received from the Company, unless the dividend falls within an exempt class and certain conditions are met. Whether an exempt class applies and the other conditions are met will depend on the circumstances of the Shareholder. In particular, UK corporate Shareholders which are not medium or large companies should note that a different tax regime may apply to dividends paid to them.

**Capital Gains Tax**

Shareholders who are resident or ordinarily resident for tax purposes in the UK may, depending on their individual circumstances, be liable to UK taxation in respect of any chargeable gain (or entitled to relief for any allowable loss) which is realised on disposal of their Ordinary Shares.

In the case of such a Shareholder who is an individual, an annual allowance (for the tax year 2011/2012 this is £10,600) is available to set against the gain. If after all allowable deductions, such an individual Shareholder's taxable income for the tax year exceeds the basic rate income tax limit, any chargeable gain realised on a disposal of Ordinary shares by such an individual Shareholder will be taxed at 28%. Chargeable gains realised on such a disposal by other individual Shareholders who are resident for tax purposes in the UK will be taxed at 18%, 28% or a combination of these rates, depending on that individual's circumstances.

An individual who ceases to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of Ordinary Shares during that period of temporary non-residence may, depending on that Shareholder's individual circumstances, be liable to UK capital gains tax on any chargeable gain realised on such a disposal on that Shareholder's return to the UK.

A disposal of Ordinary Shares by a corporate Shareholder which is resident for tax purposes in the UK may give rise to a chargeable gain or allowable loss for the purposes of corporation tax. Such a Shareholder may be entitled to an indexation allowance (depending on the period of ownership) which, in general terms, increases the capital gains base cost of an asset in line with the rise in retail prices index. This allowance can reduce a chargeable gain realised by such a Shareholder, but cannot increase an allowable loss.

A Shareholder who is an individual not resident or ordinarily resident for tax purposes in the UK will not normally be liable to UK taxation in respect of any chargeable gain realised on a disposal of that Shareholder's Ordinary Shares unless that Shareholder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the Ordinary Shares in question are, or have been used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency.

A non-resident corporate Shareholder is not normally liable for UK corporation tax on chargeable gains in respect of disposal of that Shareholder's Ordinary Shares, unless the non-resident Shareholder company carries on a trade in the UK through a permanent establishment in the UK and the Ordinary Shares in question are, or have been used, held or acquired for the purposes of such trade or for the purposes of such permanent establishment.

**Other United Kingdom tax considerations**

United Kingdom resident companies, together with connected or associated persons, having an interest in the Company, such that 25% or more of the Company's profits for an accounting period could be apportioned to them, may be liable to United Kingdom corporation tax in respect of their share of the Company's undistributed profits, if any, in accordance with the provisions of Chapter IV of Part XVII of the Income and Corporation Taxes Act 1988 relating to controlled foreign companies. These provisions only apply if the Company is controlled by United Kingdom residents. Shareholders should be aware that the controlled foreign company's regime is the subject of an ongoing consultation on reform by the UK Government. Although the scope of any reform cannot be accurately predicted, it is anticipated that full changes to the regime will be introduced by Finance Bill 2012.

Individuals who are ordinarily resident in the United Kingdom should note that Chapter 2 of Part 13 of the Income Tax Act 2007, which contains provisions for preventing avoidance of income tax by transactions resulting in the transfer of income to persons (including companies) abroad, may render them liable to taxation in respect of any undistributed profits of the Company.

The attention of United Kingdom Shareholders resident or ordinarily resident and, if an individual, domiciled in the United Kingdom, is drawn to the provisions of Section 13 of the Taxation of Chargeable Gains Act 1992 under which, in certain circumstances, a portion of capital gains made by the Company can be attributed to a Shareholder who holds, alone or together with associated persons, more than 10% of the Ordinary Shares.

**Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

Assuming that any document effecting a transfer of Ordinary Shares, or containing an agreement to transfer an equitable interest in Ordinary Shares is neither (i) executed in the UK, nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK stamp duty should be payable on such document.

Even if a document effecting a transfer of Ordinary Shares, or containing an agreement to transfer an equitable interest in Ordinary Shares is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK stamp duty on such document unless the document is required for any purposes in the UK. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.

Provided that Ordinary Shares are not registered in any register of the Company kept in the UK, any agreement to transfer Ordinary Shares should not be subject to UK SDRT.

Where Depositary Interests in respect of Ordinary Shares are traded within CREST, there should be no charge to SDRT due to the provisions of the Stamp Duty Reserve Tax (UK Depositary Interests in Foreign Securities) Regulations 1999, provided that Ordinary Shares are not registered in any register of the Company kept in the UK and that the central management and control of the Company is not exercised in the UK.

**Inheritance Tax**

Business Property Relief

Unquoted Ordinary Shares (which include shares traded on AIM for these purposes) representing minority interests in trading companies such as the Company potentially qualify for 100% business property relief which gives up to 100% relief from Inheritance Tax for UK domiciled individuals. Therefore, where an investor makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax should be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the investor held the

shares for two years before the date of transfer or death. When the shares are listed on the Main Market of the London Stock Exchange this exemption will no longer apply and the shares will be chargeable assets for Inheritance tax for UK domiciled individuals.

**Bermudan Taxation**

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or by the Shareholders in respect of the Company. The Company has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 28 March 2016, be applicable to the Company or to any of the Company's operations or to the Company's shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by the Company in respect of real property owned or leased by the Company in Bermuda.

**13. Property, Plant and Equipment**

Details of the Group's material existing tangible fixed assets and any major encumbrances thereon, (other than its mines, licences and contract terms, which are set out in Part II of this document) are set out in note 14 to the financial statements for the years ended 30 June 2009, 30 June 2010 and 30 June 2011 in Part VII of this document.

**14. Working Capital**

In the opinion of the Company, taking into account the Group's existing debt facilities, the working capital available to the Group is sufficient for its present requirements, being for at least the next 12 months from the date of this document.

**15. Related Party Transactions**

15.1 Save as disclosed in paragraphs 15.2, 15.3 and 15.4 below, there are no related party transactions that were entered into by the Group during the periods ended 30 June 2009, 30 June 2010 and 30 June 2011 or during the period from 1 July 2011 to 13 December 2011 (being the latest practicable date prior to the publication of this document).

15.2 During FY 2011 a subsidiary of the Company paid US$5.6 million (R39.2 million) (30 June 2010: US$1.2 million (R8.9 million)) to Zeren for the purchase of specialised plant and equipment. The equipment is supplied to a subsidiary of the Company at Zeren's cost and, given its specialised nature, on an exclusive basis. During the period from 1 July 2011 to 13 December 2011 (being the last practicable date prior to publication of this document), a subsidiary of the Company paid US$0.8 million (R5.6 million) to Zeren for a similar purpose. Johan Dippenaar, Jim Davidson and David Abery are all Directors and are also directors and shareholders of Zeren.

15.3 Within the balance sheet as at 30 June 2011 is an amount of US$5 million (2010: US$4.6 million) which was paid by the Company to Sirius Resource Fund 1 Limited ("Sirius") in connection with an intended increase of the Company's effective interest in Sedibeng Mining, the Group's main BEE Partner. During the period from 1 July 2011 to 13 December 2011 (being the last practicable date prior to the publication of this document) a further amount of US$5 million was paid by the Company to Sirius for the same purpose. Adonis Pouroulis was previously an investment consultant to Sirius Investment Management LP ("SIM") which provide investment advisory services to Sirius. During the year to June 2011 he was appointed a director of SIM.

15.4 Umnotho weSizwe, one of Petra's BEE Partners, holds a 36% interest in the Cullinan mine BEE holding company, Thembinkosi. The Group has a non-current receivable due from Thembinkosi of US$31.0 million and a non-current payable due to Thembinkosi of US$29.0 million. These sums arise due to the funding that the Group has provided to Umnotho weSizwe to finance its interests in the Cullinan mine. David Abery is a director of Umnotho weSizwe. Adonis Pouroulis and David Abery are beneficiaries of a trust that is a shareholder in Umnotho weSizwe.

## 16. No Significant Change

16.1 Save for (i) the acquisition of Finsch on 14 September 2011 (details of which are set out in note 29 in Section B of Part VII of this document), (ii) the significant downward adjustment to rough diamond prices experienced by the industry and by Petra, which has resulted in Petra's gross revenues, from July 2011 to 13 December 2011 (being the last practicable date prior the publication of this document), being ca. US$23.0 million lower than the Group's expectations (based on the Directors' assumptions for rough diamond prices in FY 2012) (details of which are set out in Part I of this document – 'Current Trading and Future Prospects') and (iii) the significant weakening of the South African Rand against the US Dollar, which has seen, for the period from 1 July to 13 December 2011 (being the latest practicable date prior to the publication of this document), the Rand averaged R7.5141 against the US Dollar, compared to management's business plan of R6.75 (which will reduce the Group's reported US Dollar operating costs and capital expenditure) (details of which are set out in Part I of this document – 'Current Trading and Future Prospects'), there has been no significant change in the financial or trading position of the Group since 30 June 2011, being the date to which its last audited accounts were prepared.

## 17. CREST

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by certain non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through the CREST system, a depositary or custodian can hold the relevant securities and issue dematerialised Depositary Interests representing the underlying securities which are held on trust for the holders of the Depositary Interests.

On Admission, CREST members will continue to be able to hold and transfer interests in the Ordinary Shares within CREST, pursuant to the existing depositary interest arrangements established by the Company which is incorporated in Bermuda.

The Ordinary Shares will not themselves be admitted to CREST, instead Capita IRG Trustees Limited, acting as depositary, will issue Depositary Interests in respect of the underlying Ordinary Shares. The Depositary Interests are independent securities constituted under English law which are held and transferred through the CREST system. Depositary Interests will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on the London Stock Exchange. The Depositary Interests were created and issued pursuant to the Deed Poll which governs the relationship between Capita IRG Trustees Limited, as depositary, and the holders of the Depositary Interests. Further details of these arrangements are set out in paragraphs 10.19 and 10.20 of this Part X of this document.

## 18. Consents

18.1 BDO LLP, who are a member firm of the Institute of Chartered Accountants in England and Wales, whose registered office address is set out on page 22 of this document, has given and not withdrawn its written consent to the inclusion in this Prospectus of its reports in Section A of Part VII, Section A of Part VIII and Section C of Part IX of this document in the form and context in which they appear and has authorised the contents of its reports for the purpose of paragraph 5.5.3R(2)(f) of the Prospectus Rules.

18.2 RBC Europe Limited, whose registered office address is set out on page 22 of this document, has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

18.3 Within this document, all information from a third party is sourced where it appears, and the Company confirms that this information has been accurately reproduced and, insofar as the Company is aware and is able to ascertain from information published by that party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## 19. General

19.1 Save as disclosed in paragraph 16.1 of Part X of this document, the Directors are not aware of any exceptional factors which have influenced the Group's recent activities.

19.2 Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences, or particular contracts which are or may be of fundamental importance to the Group's business.

19.3 Application has been made for the Share Capital to be admitted to the Official List of the UK Listing Authority. It is expected that Admission will take place on 21 December 2011.

19.4 The expenses of, and incidental to, Admission payable by the Company, including the London Stock Exchange fee, professional fees and the costs of preparation, printing and distribution of this document, are estimated to amount to approximately £1.6 million.

19.5 The accounting reference date is 30 June.

**20. Documents on display**

20.1 Copies of the following documents may be inspected, during normal business hours on working days, at the offices of Memery Crystal LLP and the registered office of the Company during the life of this document:

(a) the Memorandum of Association and the Bye-Laws;

(b) the reports from BDO LLP which are set out in Section A of Part VII, Section A of Part VIII and Section C of Part IX;

(c) the audited accounts for the Group for the financial years ended 30 June 2010 and 30 June 2011;

(d) the consent letters referred to in paragraph 18 "Consents" above; and

(e) this document.

Dated: 15 December 2011

# PART XI

# DEFINITIONS

| | |
|---|---|
| "1981 Act" | the Companies Act 1981 (Bermuda), as amended |
| "1997 Options" | options granted under the 1997 Share Option Scheme to acquire Ordinary Shares |
| "1997 Share Option Scheme" | the Company share option scheme adopted on 27 March 1997 |
| "2005 Options" | options granted under the 2005 Share Option Plan to acquire Ordinary Shares |
| "2005 Share Option Plan" | the Company Share Option Plan approved by Shareholders on 8 March 2005 |
| "2006 Act" | the UK Companies Act 2006, as amended |
| "2009 Warrants" | the 5,457,036 warrants constituted under the 2009 Warrant Instrument |
| "2009 Warrantholders" | holders of 2009 Warrants |
| "2009 Warrant Instrument" | the instruments dated 18 December 2009 executed by the Company and constituting the 2009 Warrants, details of which are set out in paragraph 10.4 of Part X of this document |
| "2010 Warrants" | the 14,600,000 warrants constituted under the 2010 Warrant Instrument |
| "2010 Warrantholders" | holders of 2010 Warrants |
| "2010 Warrant Instrument" | the instruments dated 28 September 2010 executed by the Company and constituting the 2010 Warrants, details of which are set out in paragraphs 7.1 and 7.2 of Part X of this document |
| "AIDS" | Acquired Immune Deficiency Syndrome |
| "Admission" | Admission to Listing and Admission to Trading becoming effective in accordance with, respectively, the Listing Rules and Admission and Disclosure Standards (as applicable) |
| "Admission and Disclosure Standards" | the Admission and Disclosure Standards as published by the London Stock Exchange as revised from time to time |
| "Admission to Listing" | admission of the Ordinary Shares to the Official List |
| "Admission to Trading" | admission of the Ordinary Shares to trading on the London Stock Exchange's main market for listed securities |
| "Afropean Diamonds" | Afropean Diamonds (Pty) Limited |
| "AIM" | the market of that name operated by the London Stock Exchange |
| "Al Rajhi Convertible Loan Note" | the convertible loan agreement dated 18 September 2006 (as amended on 17 September 2009) between the Company and Al Rajhi |
| "Al Rajhi" | Al Rajhi Holdings W.L.L. |
| "Al Rajhi Loan Agreement" | the loan agreement dated 4 February 2008 (as amended, novated and restated on 17 December 2009 and 18 March 2010) between the Company and Al Rajhi, details of which are set out in paragraph 10.13(a) of Part X of this document |
| "Al Rajhi Option Agreement" | the option agreement dated 17 November 2009 between the Company and Al Rajhi, details of which are set out in paragraphs 10.13(b) of Part X of this document |
| "Alrosa" | OJSC Alrosa |
| "ANC" | African National Congress |
| "BDM" | Blue Diamond Mines (Pty) Limited |
| "BEE" | black economic empowerment |

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|---|---|
| "BHP Billiton" | BHP Billiton PLC |
| "BHP Inc." | BHP Minerals International Exploration, Inc. |
| "BHP World" | BHP Billiton World Exploration, Inc. |
| "Board of Directors" or "Board" | the board of directors of the Company whose names appear in Part V "Management and Corporate Governance", or the Board of Directors from time to time of the Company, as the context requires |
| "Bokone" | Bokone Properties (Pty) Limited |
| "Botswana" | the Republic of Botswana |
| "Bultfontein" | the Bultfontein kimberlite pipe, part of the Kimberley Underground operations in Kimberley, RSA |
| "Business day" | a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are open for the business in the City of London |
| "Bye-laws" | the bye-laws of the Company |
| "Canaccord Genuity" | Canaccord Genuity Limited |
| "Capex" | capital expenditure |
| "CDM" | Cullinan Diamond Mine (Pty) Limited which operates the Cullinan mine in which the Company owns an interest of 74% |
| "Certificated" or "in certificated form" | in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is not CREST) |
| "CIHL Group" | CIHL and CDM |
| "CIHL" | Cullinan Investment Holdings Limited |
| "City Code" | the UK City Code on Takeovers and Mergers |
| "Company" or "Petra" | Petra Diamonds Limited, a company incorporated and registered in Bermuda with registered number EC23123 |
| "Corporate Governance Code" | the UK Corporate Governance Code published by the Financial Reporting Council in May 2010 |
| "CREST" or "CREST System" | the electronic paperless transfer and settlement system which facilitates the transfer of title to shares in uncertificated form operated by Euroclear UK & Ireland Limited |
| "Crown Diamonds" | Crown Diamonds (Pty) Limited (formerly named Crown Diamonds N.L.) |
| "Crown Resources" | Crown Resources (Pty) Limited |
| "Cullinan" | the Cullinan diamond mine in Gauteng Province, RSA |
| "Cullinan BEE Partners" | being Thembinkosi and the PDET |
| "Dancarl" | the Dancarl mine is part of the Sedibeng operation |
| "Dancarl Diamonds" | Dancarl Diamonds (Pty) Limited |
| "De Beers" | De Beers Société Anonyme and De Beers Consolidated Mines Limited, as the context requires |
| "Debswana" | Debswana Diamond Corporation |
| "Deed Poll" | a deed poll executed by the Depositary on 23 March 2005 |

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| "Depositary Agreement" | the depositary agreement dated 22 March 2005 between the Company and Capita IRG Trustees Limited (acting as depositary) (as amended by a deed of amendment between the parties on 28 November 2011), details of which are set out in paragraph 10.19 of Part X of this document |
| "Depositary Interests" | the dematerialised depositary interests in respect of the Ordinary Shares issued or to be issued by Capita IRG Trustees Limited (acting as depositary) |
| "Directors" | the Executive and Non-Executive Directors, and 'Director' is to be construed accordingly |
| "Disclosure and Transparency Rules" or "DTR" | the disclosure rules and transparency rules of the UK Listing Authority made in accordance with section 73A of FSMA |
| "DMR" | the Department of Mineral Resources of South Africa |
| "Dutoitspan" | the Dutoitspan kimberlite pipe, part of the Kimberley Underground operations in Kimberley, RSA |
| "Ebenhaezer" | the satellite kimberlite pipe at Koffiefontein |
| "EMS" | Ealing Management Services (Pty) Ltd |
| "EU" | European Union |
| "Executive Directors" | the Executive Directors of the Company, being Johan Dippenaar, David Abery and Jim Davidson |
| "Facility Agreements" | the US$ Loan and Guarantee Agreement, the ZAR Loan and Guarantee Agreement and the FirstRand Facility |
| "Finsch" | the Finsch diamond mine in Northern Cape Province, RSA |
| "FirstRand Bank" | FirstRand Bank Limited |
| "FirstRand Facility" | the facility letter dated 3 November 2010 between, *inter alia*, the Company and FirstRand Bank, details of which are set out in paragraph 10.8 of Part X of this document |
| "Fissures" or "Fissure Mines" | Helam, Sedibeng and Star |
| "FSA" | Financial Services Authority acting in its capacity as a competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of Admission to the Official List otherwise than in accordance with Part VI FSMA |
| "FSMA" | the Financial Services and Markets Act 2000 (as amended) |
| "FY" | financial year (1 July to 30 June) |
| "Group" | the Company and its subsidiaries and subsidiary undertakings |
| "H1", or "H2" | first half, or second half, of the financial year |
| "HDSA" | historically disadvantaged South Africans |
| "Helam Mining" | Helam Mining (Pty) Limited |
| "Helam" | the Helam diamond mine in North West Province, RSA |
| "HIV" | Human Immunodeficiency Virus |
| "HNWI" | high net worth individuals |
| "HSSE" | health, safety, social and environmental |
| "IAS" | International Accounting Standards |
| "IDC" | Industrial Development Corporation of South Africa Limited |
| "IFC" | International Finance Corporation |
| "IFRS" | International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted by the EU |
| "Independent Non-Executive Directors" | the independent Non-Executive Directors of the Company, being Dr Patrick Bartlett and Gordon Hamilton |

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| "IFC/RMB Debt Facilities" | the US$ Loan and Guarantee Agreement and the ZAR Loan and Guarantee Agreement |
| "Joint Shaft" | the shaft which services the Bultfontein and Dutoitspan mines, as part of the Kimberley Underground operation |
| "Kalahari Diamonds" | Kalahari Diamonds Limited |
| "KDR" | Kalahari Diamonds Resources Limited |
| "Kimberley JV" | Kimberley Underground Mines Unincorporated JV |
| "Kimberley Process Certification Scheme" | a joint governments, industry and civil society initiative to stem the flow of conflict diamonds (rough diamonds used by rebel movements to finance wars against legitimate governments) |
| "Kimberley Underground" | the Kimberley Underground mines, being Bultfontein, Dutoitspan and Wesselton, in Kimberley, RSA |
| "Koffiefontein" | the Koffenfontien underground front cave diamond mine in the Free State province of South Africa |
| "Koffiefontein JV" | Koffiefontein Mine Unincorporated JV |
| "Kono Project" | the Kono kimberlite fissure project in Kono, Sierra Leone |
| "Lexshell 825" | Lexshell 825 Investments (Pty) Limited |
| "Listing Rules" | the listing rules made by the UK Listing Authority under section 73A of FSMA as amended from time to time |
| "London Stock Exchange" or "LSE" | London Stock Exchange plc, a company incorporated in England and Wales with registered number 02075721 |
| "LTSP" | the long-term share plan, as set out in paragraph 7.5 of Part X of this document |
| "Main Market" | the London Stock Exchange's main market for listed securities |
| "Memorandum of Association" | the memorandum of association of the Company |
| "Messina" | the Messina mine is part of the Sedibeng operation |
| "Messina Diamonds" | Messina Diamonds (Pty) Limited |
| "Mining Charter" | the Mining Charter published under the MPRDA |
| "Model Code" | the Model Code on directors' dealings in securities set out in Listing Rule 9 Annex IR |
| "MPRDA" | the Mineral and Petroleum Resources Development Act 28 of 2002 (South Africa) |
| "Mwadui" | the kimberlite upon which the Williamson mine is based |
| "Non-Executive Directors" | the Non-Executive Directors of the Company, being Adonis Pouroulis, Dr Patrick Bartlett, Gordon Hamilton, and Dr Omar Kamal, |
| "Official List" | the official list maintained by the UK Listing Authority |
| "Opex" | Operating expenditure |
| "Option Consideration" | as defined in paragraph 10.13(b) of Part X of this document |
| "Ordinary Shares" | ordinary shares of 10p each in the capital of the Company |
| "PDET" | Petra Diamonds Employee Share Trust |
| "PDSA" | Petra Diamonds Southern Africa (Pty) Ltd |
| "Petra's BEE Partners" | PDET, Sedibeng Mining, Umnotho weSizewe, Namoise Mining (Pty) Limited, Bokone, Lexshell 844, Thari Resources |
| "Premier Rose" | Premier Rose Management Services (Pty) Ltd |
| "Premier Transvaal" | Premier (Transvaal) Diamond Mining Company (Pty) Ltd |
| "Premium Listing" | a premium listing under Chapter 6 of the Listing Rules |

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| "Prohibited Territories" | the United States, Canada, Australia, Japan, the Republic of South Africa and their respective territories and possessions and any other jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure for the Company if information or documents concerning the Admission were to be sent or made available to shareholders in that jurisdiction |
| "Prospectus Directive" | the European Securities Prospectus Directive (No. 2003/71/EC) and any relevant implementing measure in each Member State of the European Economic Area that has implemented the Prospectus Directive |
| "Prospectus Rules" | the Prospectus Rules of the UK Listing Authority made in accordance with section 73A(4) of FSMA as amended from time to time |
| "Rand Merchant Bank" or "RMB" | Rand Merchant Bank, a division of FirstRand Bank Limited |
| "RBC Capital Markets" or "RBC" | the trading name of RBC Europe Limited |
| "Registrar" | the registrar of the Company, Capita IRG (Offshore) Limited |
| "Regulations" | the Uncertificated Securities Regulations 2001 (SI 2001 No 3755) as amended from time to time |
| "Re Teng" | Re Teng Diamonds (Pty) Limited, the holding company that represents the BEE partners' (excluding PDET) combined interests in the Koffiefontein JV |
| "Revolving Credit Facility" | the revolving credit facility dated 29 November 2011 between Afropean Diamonds, the Company and FirstRand Bank, details of which are set out in paragraph 10.9 of Part X of this document |
| "Rio Tinto" | Rio Tinto Plc |
| "RSA" or "South Africa" | the Republic of South Africa |
| "SAMREC Code" | the South African Code for Reporting of Mineral Resources and Mineral Reserves, as published by the South African Mineral Committee under the auspices of the South African Institute of Mining and Metallurgy |
| "Secretary" | the secretary of the Company from time to time |
| "Sedibeng" | the Sedibeng mining operation is an amalgamation of two mines (Messina and Dancarl) in the Northern Cape Province, RSA |
| "Sedibeng JV" | Sedibeng Diamond Mine JV |
| "Sedibeng Mining" | Sedibeng Mining (Pty) Limited |
| "Sekaka Diamonds" | Sekaka Diamonds (Pty) Limited |
| "Senakha Diamonds" | Senakha Diamonds Investments (Pty) Ltd (previously named Lexshell 846 Investments (Pty) Limited), the holding company that represents the BEE partners' (excluding PDET) combined interests in Afropean Diamonds |
| "Senior Management" or "Senior Managers" | the senior managers of the Company, being Jacques Breytenbach, Teon Swanepoel and Jacobus Visser (whose brief biographical details are set out in Part V of this document) |
| "Share Capital" | the 501,351,601 Ordinary Shares in issue at 13 December 2011 (being the latest practicable date prior to the publication of this document) |
| "Shareholders" | holders of Ordinary Shares |

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| "STAMICO" | State Mining Corporation, the parastatal mining company in Tanzania |
| "Star" | the Star diamond mine in the Free State Province, RSA |
| "Star Diamonds" | Star Diamonds (Pty) Limited |
| "Stellar" | Stellar Diamonds Limited |
| "Subsidiary", "Subsidiary undertaking" and "Undertaking" | have the meanings respectively ascribed to them by section 1159 of the 2006 Act |
| "Tanzania" | the United Republic of Tanzania |
| "Thari Resources" | Thari Resources (Pty) Limited |
| "Thembinkosi" | Thembinkosi Investments (Pty) Limited, the holding company that represents the BEE partners' (excluding PDET) combined interests in CDM |
| "UK" or "United Kingdom" | the United Kingdom of Great Britain and Northern Ireland |
| "UK Listing Authority" or "UKLA" | the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA |
| "Umnotho weSizwe" | Umnotho weSizwe Group (Pty) Limited |
| "US$ Loan and Guarantee Agreement" | the US$ loan and guarantee agreement dated 28 September 2010 between, *inter alia*, the Company and IFC, details of which are set out in paragraph 10.6 of Part X of this document |
| "US" and "United States" | the United States of America, it's territories and possessions and any state of the United States of America, and the District of Columbia |
| "Uncertificated" or "uncertificated form" | in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, CREST) and title to which may be transferred by using CREST |
| "VAT" | value added tax |
| "Wesselton" | the Wesselton kimberlite pipe, part of the Kimberley Underground operations in Kimberley, RSA |
| "Willcroft" | Willcroft Company Limited |
| "Williamson" | the Williamson diamond mine in Mwadui, Shinyanga Province, Tanzania |
| "Williamson Diamonds" | Williamson Diamonds Limited |
| "Working Credit Facility" | the working credit facility dated 29 November 2011 between Afropean Diamonds, the Company and FirstRand Bank, details of which are set out in paragraph 10.10 of Part X of this document |
| "ZAR Loan and Guarantee Agreement" | the ZAR loan and guarantee agreement dated 28 September 2010 between, *inter alia*, the Company and IFC, details of which are set out in paragraph 10.7 of Part X of this document |
| "Zeren" | Zeren (Pty) Limited |

**Notes:**
All amounts contained within this document referred to by the symbol "£" and "p" are in Pounds and pence sterling respectively. The symbols "US$" or "$" refer to United States Dollars. "ZAR" and "R" refers to South African Rand.

# PART XII

## GLOSSARY

| | |
|---|---|
| % | per cent. |
| ° | degree |
| °C | degrees celsius |
| "aeromagnetic" | refers to a geophysical magnetic survey carried out above the ground commonly using a helicopter or a fixed wing aircraft |
| "AGG" | airborne gravity gradiometer |
| "alluvial" | deposits of diamonds which have been removed from the primary source by natural erosive action over millions of years, and eventually deposited in a new environment such as a river bed, an ocean floor or a shoreline |
| "alluvial gravel" | gravel beds deposited by the action of rivers |
| "anomalous" or "anomaly" | a departure from the expected norm; in mineral prospecting this term is generally applied to either geochemical or geophysical values higher or lower than the norm |
| "archaean" | a geologic eon before the Paleoproterozoic Era of the Proterozoic Eon, before 2,500 million years ago |
| "argillaceous" | describes minerals containing substantial amounts of clay-like components |
| "autogenous mill" | so called due to the self-grinding of the ore; a rotating drum throws larger rocks of ore in a cascading motion which causes impact breakage of larger rocks and compressive grinding of finer particles |
| "automation" | the use of control systems and information technologies to reduce the need for human work in the production |
| "banded iron formation" | distinctive units of sedimentary rock that are almost always of Precambrian age; a typical banded iron formation consists of repeated, thin layers of iron oxides, either magnetite (Fe3O4) or hematite (Fe2O3), alternating with bands of iron-poor shale and chert |
| "base metals" | the more common and chemically active non-precious metals e.g. lead, copper, zinc, nickel |
| "bedrock" | the solid rock underlying surficial material |
| "BEE" | black economic empowerment |
| "bouma" | crater facies turbidite deposits; a facies type specific to Williamson |
| "breccia" | a rock composed of large angular fragments typically greater than 2mm, cemented together by a fine-grained matrix |
| "bulk sample" | a large sample for the purpose of estimating the grade of a diamond deposit and to produce a large enough quantity of diamonds to enable an evaluation of diamond quality |
| "Bushveld Complex" | the largest known layered igneous complex on Earth, located in South Africa and host to approximately 80% of the world's resources of platinum group metals |
| "BVK" | brecciated volcaniclastic Kimberlite – resedimented volcaniclastic kimberlite with 40% to 75% granite clasts, specific to Williamson |
| "ca." | approximately |
| "calcretised" | partially replaced by calcite due to groundwater evaporation in arid and semi-arid regions |
| "carat" or "ct" | a measure of weight used for diamonds, equivalent to 0.2 grams |
| "carbonaceous" | a substance rich in carbon |

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| "C-Cut" | the 'Centenary Cut', a major resource of 133 million carats located beneath the B Block of the Cullinan orebody |
| "chambering" | a combination of shrinkage stoping and sub-level caving |
| "clast" | fragment of pre-existing rock produced by the process of weathering and errosion |
| "cm" | Centimetre |
| "concentrate" | a form of substance which has had the majority of its base component removed |
| "confluence" | the point where two streams flow together, merging into a single stream |
| "cpht" | carats per hundred tonnes |
| "crater" | a more or less circular depression formed by volcanic eruption |
| "craton" | a part of the Earth's crust which has been relatively stable for a very long period |
| "Cretaceous" | a geologic period from ca. 145.5 to 65.5 million years ago, the Cretaceous follows the Jurassic period and is followed by the Paleogene period of the Cenozoic era |
| "cross section" | a diagram or drawing that shows features transected by a vertical plane drawn at right angles to the longer axis of a geologic feature |
| "ctpa" | carats per annum |
| "cut-off grade" | the lowest grade of mineralised material considered economic to extract; used in the calculation of the ore Reserves in a given deposit |
| "deflation sampling" | soil sampling in arid and desert environments, selectively taking only areas of the topmost layer where heavy mineral grains undergo residual concentration |
| "Dense Media Separation" or "DMS" | a gravity separation process using a solid/liquid suspension |
| "diabase" | a mafic, holocrystalline, subvolcanic rock equivalent to volcanic basalt or plutonic gabbro |
| "diamond drilling" | method of obtaining a core of sub-surface rock by rotary drilling with a diamond impregnated bit |
| "diamondiferous" | containing diamonds |
| "Diamond Reserves" | the economically mineable material derived from a Measured and/or Indicated Diamond Resource |
| "Diamond Resource" | a concentration or occurrence of material of economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable and realistic prospects for eventual economic extraction |
| "diatreme" | a volcanic vent piercing the strata as a result of an explosive eruption |
| "diopside" | a monoclinic pyroxene mineral (MgCaSi2O6) |
| "dolomite" | a carbonate mineral composed of calcium magnesium carbonate CaMg(CO3)2 |
| "drawbells" | an inverted cone shaped area blasted above a drawpoint to facilitate the movement of caved ore to the drawpoint |
| "drawpoint" | openings on the sides of the drift going up into a block cave |
| "drill hole" | method of sampling rock that has not been exposed |
| "dyke" | a tabular, vertical igneous intrusion |

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| "eluvial" | a mass of sand, silt, etc: a product of the erosion of rocks that has remained in its place of origin; derived by in-situ weathering only, or in-situ weathering with gravitational movement |
| "en echelon" | closely-spaced, parallel or subparallel, overlapping or step-like minor structural features in rock (faults, tension fractures), which lie oblique to the overall structural trend |
| "Eps" | earnings per share |
| "erosion" | the wearing away of the land surface by the mechanical action of transported debris |
| "estimation" | the quantitative judgement of a variable |
| "exploration" | prospecting, sampling, mapping, diamond drilling and other work involved in the search for mineralisation |
| "extraction" | refers to the practice of locating, acquiring and selling natural resources |
| "extrusive" | refers to a body of igneous rock that has solidified on surface after being erupted through a vent; the term is synonymous with volcanic |
| "facies" | the sum total of features of a rock, which characterise the formational environment of that rock |
| "fault" | a fracture in rocks along which rocks on one side have been moved relative to the rocks on the other side |
| "feasibility study" | a definitive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed; the study is used to define the economic viability of a project and to support the search for project financing |
| "fissure" | a colloquial term for a kimberlite dyke |
| "float material" | material of lower density than the cut-point density of a DMS |
| "g" | gramme |
| "g/t" | gramme per metric tonne |
| "$g/t^3$" | grammes per cubic tonne |
| "Ga" | one billion years |
| "gangue" | rock or mineral matter of no value occurring with the metallic ore in a vein or deposit |
| "garnet" | a silicate mineral; the magnesium-rich variety, pyrope, is commonly found in kimberlites |
| "GB" | granite breccia |
| "GDP" | gross domestic product |
| "geochemical prospecting" | the prospecting of an area in which chemical properties of the rocks in the area are quantatively measured by analysing samples of soil or rock taken from the area |
| "geophysical" | prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc) of rocks and define anomalies for further testing |
| "geophysical prospecting" | the prospecting of an area in which physical properties (e.g. resistivity, gravity, conductivity, magnetic properties) unique to the rocks in the area are quantatively measured by one or more geophysical methods |

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| "geophysics" | mineral exploration techniques which measure the changes in various physical properties of the Earth's crust – and which may be ground-based or airborne; measures electrical, magnetic, gravity or other properties<br><br>Gravity – a technique which measures variations in the local gravity field<br><br>Magnetic – an airborne or ground-based technique which measures variations in the Earth's magnetic field<br><br>Electromagnetic – any of a large number of geophysical techniques which measure the electrical properties of the Earth and are very applicable to mineral exploration |
| "gneiss" | a rock formed by high-grade regional metamorphic processes from pre-existing formations that were originally either igneous or sedimentary rocks; usually medium- to coarse-foliated and largely recrystallised |
| "grade" | the content of diamonds, measured in carats, within a volume or mass of rock |
| "granite" | a medium to coarse-grained felsic intrusive rock that contains 10-50% quartz |
| "gravel" | loosely compacted coarse sediment |
| "grizzly" | iron bars (over an ore pass or a hopper) spaced to control the size of broken rock going into the orepass, or crushing plant |
| "Group I kimberlite" | Group I kimberlites contain ilmenite as an accessory mineral and have an approximate age of 80 million years. Koffiefontein and Cullinan are examples of Group I kimberlites |
| "Group II kimberlite" | otherwise known as orangeites or micaceous kimberlites, Group II kimberlites do not contain ilmenite as an accessory mineral. The absence of ilmenite indicates that a Group II kimberlite has different sources of magma and perhaps intrusion history to Group I and it is thought to have been formed by contamination of kimberlitic magma during its passage through the Earth's crust. Group II kimberlites have an approximate age of 120 million years old. The Fissure Mines and Finsch are examples of Group II kimberlites |
| "ha" or "hectare" | hectare, equal to 10,000 square metres |
| "hardrock" | with reference to the deposition of diamonds, these deposits include kimberlite pipes, dykes, blows and fissures as well as lamproites |
| "HK" | Hypabbysal Kimberlite |
| "HMA" | heavy mineral analysis |
| "hypabyssal rock" | an igneous rock that originates at medium to shallow depths within the crust and contains intermediate grain size and often porphyritic texture |
| "ilmenite" | weakly magnetic titanium-iron oxide mineral; (FeTiO3) |
| "igneous rocks" | rocks formed by the solidification from a molten or partially molten state |
| "Indicated Diamond Resource" | that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a reasonable level of confidence. It is based on exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade |

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| | continuity but are spaced closely enough for continuity to be assumed and sufficient diamonds have been recovered to allow a confident estimate of average diamond value (SAMREC Code) |
| "indicator minerals" | minerals that can help locate the presence and establish the diamond-bearing potential of kimberlite; these minerals do not weather easily and are preserved in soils and gravels |
| "Inferred Diamond Resource" | that part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability (SAMREC Code) |
| "in situ" | in its original place; most often used to refer to the location of the mineral resources |
| "interbedded" | when beds (layers or rock) of a particular lithology lie between or alternate with beds of a different lithology |
| "intrusive" | refers to a body of igneous rock that has solidified within a package of pre-existing rocks |
| "Kaapvaal Craton" | an area of ancient, thickened continental crust that covers approximately 1.2 million $km^2$ in southern Africa and is joined to the Zimbabwe Craton to the north by the Limpopo Belt; with an age of 3.6 to 2.5 Ga it is some of the oldest crust preserved on the planet, and is host to numerous diamondiferous kimberlites |
| "Karoo" | geological period, approximately 300 Ma to 80 Ma ago |
| "kimberlite" | a brecciated ultrabasic igneous rock containing phlogopite mica, bronzite pyroxene and ilmenite; kimberlites may or may not contain diamonds |
| "KIM" or "Kimberlite Indicator Minerals" | kimberlite indicator minerals – diamonds, garnets, and several other minerals, the presence of which are used to identify kimberlitic rocks |
| "kl" | kilolitre, equal to a thousand litres |
| "km" | kilometre, equal to a thousand metres |
| "km2" or "sq km" | square kilometres |
| "ktpa" | thousand tonnes per annum |
| "kv" | kilovolts, equal to a thousand volts |
| "lava" | molten rock expelled by a volcano during an eruption and the resulting rock after solidification and cooling |
| "LHDs" | load haul dump trucks |
| "LOM" | life of mine |
| "m" | metre |
| "$m^2$" | a square metre |
| "$m^3$" | a cubic metre |
| "$m^3/s$" | cubic metre per second |
| "mm" | millimetre |
| "Ma" | one million years |
| "macrocrystic" | containing large crystals |

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| "magnetite" | a ferrimagnetic mineral (Fe3O4); one of several iron oxides and a member of the spinel group |
| "mamsl" | metres above mean sea level |
| "massive" | a rock texture that has no layering or regular structure |
| "MBS" | mini bulk sampling; the collection and processing of typically one to several hundred tonnes of kimberlite as part of the initial steps on the road to establishing a grade of a given deposit |
| "Mctpa" | million carats per annum |
| "Mcts" | million carats |
| "Measured Diamond Resource" | that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a high level of confidence. It is based on detailed and reliable exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity and sufficient diamonds have been recovered to allow a confident estimate of average diamond value. |
| "meta-sediments" | metamorphosed sediments |
| "Metric Carat" or "CM" | 0.2 grams |
| "milling plant" | crushing plant; milling implies finer grinding |
| "mineable" | that portion of a resource for which extraction is technically and economically feasible |
| "mineral" | a naturally occurring solid chemical substance formed through biogeochemical processes, having characteristic chemical composition, highly ordered atomic structure, and specific physical properties |
| "mineralisation" | the presence of a target mineral in a mass of host rock |
| "mini bulk-sample" | a large sample, commonly in the order of 50 tonnes to 100 tonnes, for the purpose of determining the exploration potential of a diamond prospect |
| "monticellite" | a mineral, silicate of magnesium and calcium, $CaMgSiO_4$, belonging to the olivine group and often occurring in contact metermorphosised limestones |
| "MPa" | megapascals; a measure of force per unit area used to express rock strength |
| "Mt" | million tonnes |
| "Mtpa" | million tonnes per annum |
| "mudstone" | sedimentary rock comprised predominantly of very fine grained particles of less than four microns |
| "MVA" | a million volt amps |
| "Mw" | megawatts |
| "NAV" | Net asset value |
| "norite" | a mafic intrusive igneous rock composed largely of the calcium-rich plagioclase labradorite and hypersthene with olivine |
| "NPV" | Net present value |
| "opencast" or "open pit" | mining in which ore that occurs close to the Earth's surface is extracted from a pit or quarry |
| "optical sort plant" | a plant designed to capture diamonds that don't fluoresce well under X-ray (i.e. Type II diamonds) |

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| "orebody" | a continuous well-defined mass of material of sufficient ore content to make extraction feasible |
| "OSP" | optical sort processing |
| "pa" | per annum |
| "panel cave" | a larger version of a block cave, where mining moves progressively across the footprint of the cave |
| "parcel" | a collection of diamonds of various sizes made available for sale as a single package |
| "percussion drilling" | a method of drilling, using the hammering action of a drill bit, to provide chip samples of the sub-surface rocks |
| "PK" | Pyroclastic Kimberlite |
| "Pliocene" | the second youngest sub-division of the Tertiary Period |
| "Precambrian" | all geological time and its corresponding rocks prior to 570 Ma ago |
| "primary deposit" | with reference to the deposition of diamonds, these deposits include kimberlite pipes, dykes, blows and fissures as well as lamproites; contrasted with alluvial |
| "primary gravel" | potentially diamondiferous alluvial gravels derived from primary deposits |
| "Probable Reserves" | the economically mineable material derived from a measured and/or indicated diamond resource. It is estimated with a lower level of confidence than a proved reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified |
| "Proved Reserves" | the economically mineable material derived from a measured diamond resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified |
| "pyroclastic" | clastic rocks composed solely or primarily of volcanic materials |
| "quartz" | mineral species composed of crystalline silica |
| "rehabilitation" | the process of restoring mined land to a condition approximating to a greater or lesser degree its original state |
| "Remote Sensing" | the acquisition of information about an object or phenomenon without making physical contact with the object |
| "Reserves" | see 'Probable Reserves' and 'Proven Reserves' |
| "Resources" | see 'Measured Resource', 'Indicated Resource' and 'Inferred Resource' |
| "reverse circulation" | a method of percussion drilling or diamond drilling where the drilling fluid is returned to the start of the whole inside the drill rods |

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| "rim loading section" | additional loading points situated on the undercut level of a block cave, usually at the geological contact between the orebody and the country rock |
| "ROM" | run-of-mine |
| "RVK" | resedimented volcaniclastic kimberlite |
| "sample" | a small amount of material pertaining to a mineral deposit, which is used to estimate the grade of the deposit and other geological parameters |
| "sampling" | taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content) |
| "sandstone" | sedimentary rock comprised predominantly of fine grained particles of between 2 mm and 0.6 mm |
| "sedimentary rock" | rocks formed by deposition of particles carried by air, water or ice, formed by participation of minerals from water |
| "shaft" | an underground vertical or inclined excavation, generally used for access, ventilation and ore transport |
| "shale" | a fine-grained, clastic sedimentary rock composed of mud that is a mix of flakes of clay minerals and tiny fragments (silt-sized particles) of other minerals, especially quartz and calcite |
| "sill" | a sheet like body of igneous rock that is conformable to the strata that it has intruded |
| "siltstone" | sedimentary rock comprised predominantly of fine grained particles of between 0.06 mm and 4 microns |
| "sink" | high density material in which diamonds are concentrated |
| "slimes" | the fine fraction of tailings discharged from a processing plant without being treated; in the case of diamonds, usually that fraction which is less than 1mm in size |
| "slimes dam" | a storage facility for all fine waste products from the processing plant |
| "slurry" | a thick suspension of solids in a liquid |
| "slusher" | a scraper winch (a bucket connected to a block and tackle system used to move broken rock on the footwall of an excavation) |
| "slusher drift block cave" | a block cave where drawpoints are not loaded individually, but are allowed to empty into a drift that is cleaned by a slusher (or a scraper winch) |
| "stockpile" | a store of unprocessed ore |
| "strata" | a layer of rock or soil with internally consistent characteristics that distinguish it from other layers, usually sedimentary in origin |
| "stress" | the average amount of force exerted per unit area |
| "strike" | the strike line of a bed, fault, or other planar feature is a line representing the intersection of that feature with a horizontal plane |
| "subsidence" | the motion of a surface as it shifts downward relative to a datum |
| "t" | metric tonne |
| "tailings" | material left over after processing ore |
| "tailings dump" | dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted |
| "TD" | tailings deposit |
| "Tertiary Period" | a time period of Earth's geological history from 65 Ma to 2 Ma ago |
| "tillite" | unsorted glacial sediment |

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| "tonnage" | quantities where the tonne is an appropriate unit of measure; typically used to measure Reserves of target commodity bearing material or quantities of ore and waste material mined, transported or milled |
| "TFK" | Transitional Facies Kimberlite |
| "TK" | Tuffistic Kimberlite |
| "TKB" | Tuffistic Kimberlite Breccia; a kimberlite type that typically occurs in the diatreme part of a kimberlite pipe (now generally referred to as 'pyroclastic kimberlite') |
| "TMR" | tailings mineral resource |
| "tpa" | tonnes per annum |
| "tpd" | tonnes per day |
| "tph" | tonnes per hour |
| "tpm" | tonnes per month |
| "Transvaal Supergroup" | a sequence of sedimentary rocks in Southern Africa deposited between 2.65 and 2.05 Ga |
| "tuff" | particles of ash, which have been consolidated after eruption |
| "turbidite deposit" | geological formations from a form of underwater avalanche that are responsible for distributing vast amounts of clastic sediment into the deep ocean |
| "Type II diamonds" | Type II diamonds are defined by containing no detectable nitrogen and are often colourless or brown |
| "vent" | an opening in the Earth's surface through which igneous rocks are extruded |
| "Ventersdorp Supergroup" | late Archaean-early Proterozoic low-grade metamorphosed supracrustal succession of volcano-sedimentary lithologies |
| "volcaniclastic" | describes a sedimentary rock composed of fragments of volcanic rocks |
| "wall rock" | the country rock, or surrounding rock of an orebody |
| "weathering" | in-situ chemical and mechanical processes that decompose rocks |
| "X-ray" | a form of electromagnetic radiation |
| "yield / recovered grade" | the actual grade of ore realised after the mining and treatment process |

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