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Petra Diamonds Ltd
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Immediate release

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Petra Diamonds Limited

Option to increase ownership in Cullinan to 74% and confirmation of Placing

Petra Diamonds Limited ("Petra" or the "Company" or the "Group") is pleased to announce that, on 17 November 2009, Petra and Al Rajhi Holdings W.L.L. ("Al Rajhi") entered into an option agreement whereby Petra can, by 18 December 2009, acquire (at its election) Al Rajhi's 37% interest in the Cullinan mine (the "Option") on the terms set out below. Exercise of the Cullinan Option would take Petra's interest in this iconic diamond mine from 37% to 74%, substantially increasing the Group's attributable revenues and resource base.

The Cullinan mine is one of the world's most celebrated diamond mines as it regularly produces large, high quality gems, and is the only reliable source of very rare and valuable blue diamonds. In addition, it contains the world's second largest inferred diamond resource, with a total of 204.6 million carats.

Petra also notes the recent speculation in the media regarding a potential fundraising. The Company confirms its intention to undertake an equity fundraising ("the Placing"), led by Canaccord Adams Limited and RBC Capital Markets. The Company is undertaking the Placing in order to exercise the Option, strengthen its balance sheet by reducing its debt, implement development programmes at Cullinan and Williamson in order to increase production, and improve liquidity by broadening the shareholder base.

Benefits to Petra of exercising the Option:

- Doubles Petra's ownership of the Cullinan mine from 37% to 74%;
- Doubles Cullinan attributable resources from 75.7 million carats to 151.4 million carats;
- Doubles Cullinan attributable diamond production from approximately 320,000 carats to over 650,000 carats per annum (based on FY 2009 production);
- Increases cashflows to the Company from the Cullinan mine as Cullinan cashflows will no longer be ring-fenced to loan repayment; and
- Improves the Company's balance sheet, as Petra will only exercise the option following a successful Placing and will use part of the Placing proceeds to reduce Cullinan debt.

Details of the Option:

- The Option is exercisable at Petra's election by 18 December 2009;
- On exercise, Petra to issue 36 million fully paid new ordinary Petra shares to Al Rajhi, based on a value per share agreed between Petra and Al Rajhi of 80 pence per share, and (in December 2011) Petra to pay Al Rajhi a deferred option fee of US\$35 million (secured by a pledge of shares over Petra's Cullinan shareholding);
- On exercise, Petra to repay the US\$20 million Al Rajhi convertible loan note (plus accrued interest of US\$475,000) from the Placing proceeds;
- Petra to assume responsibility for the US\$80 million Cullinan loan (plus accrued interest of approximately US\$9.6 million) (currently ring-fenced to cashflows from the Cullinan mine) that is due to Al Rajhi. The loan will continue to carry an interest rate of 8%. US\$30 million of this loan to be settled on exercise of the Option as to US\$15 million cash (from the Placing proceeds) and US\$15 million by the issue of 11,363,636 new shares to Al Rajhi, calculated at an agreed price of 80 pence per share, leaving a balance of US\$50 million;
- The balance of the Cullinan loan (secured by a pledge of shares over Petra's Cullinan shareholding) would be repayable as to US\$35 million December 2010 and US\$15 million December 2011; and
- Al Rajhi will be entitled to appoint a director to the Petra board (whilst Al Rajhi's holding in Petra is greater than 10%) and to participate in future issues of shares pro rata to their holding in Petra at the time.

Johan Dippenaar, Petra's CEO, commented, "The consolidation of the Cullinan acquisition and the simplification of the ownership structure will be highly value accretive to us and our shareholders. We are pleased that Al Rajhi has decided to restructure its direct ownership in the Cullinan mine and, due to its belief in the potential of Petra's other assets, increase its ownership at Group level. Petra remains one of the few growth companies in the diamond industry, which is showing clear signs of a strong and sustainable recovery."

Background

On 16 July 2008, the Petra Diamonds Cullinan Consortium ("PDCC") acquired the Cullinan mine for a total consideration of R1 billion (US\$125 million). Cullinan is the source of many of the world's most famous diamonds and, since assuming control of the mine in July 2008, Petra has recovered a number of extraordinary gems: two important blue diamonds of 26.58 and 39.19 carats, which together sold for US\$18.2 million, and a remarkable 507 carat exceptional white diamond, which is considered to be one of the top 20 high quality rough white diamonds ever found (yet to be sold).

Cullinan contains the world's second largest inferred diamond resource of 204.6 million carats and the Company is planning to capitalise on this major resource by undertaking an expansion programme at the mine to take annual production from around 1 million carats to 2.6 million carats. At an assumed run-of-mine average carat value of US\$95, this would deliver US\$220 million in annual revenues to PDCC (management forecasts).

The members of PDCC are Petra (37% initial interest), Al Rajhi (37% initial interest) and PDCC's Black Economic Empowerment partners ("BEE") (26% interest). The financing package originally put in place by Petra and Al Rajhi was US\$175 million (R1.4 billion), covering the R1 billion acquisition price and a further R400 million for the mine's working capital and initial capital expenditure requirements.

Al Rajhi provided, as part of the financing of the acquisition of the mine, a US\$95 million loan (the "Cullinan Loan") (unsecured but bearing interest at 8%, US\$15 million repaid to date). This loan is ring-fenced to the Cullinan mine with interest and repayment of the Al Rajhi loan being serviced from the mine's cash flows, before any cash flows accrue to Petra.

The terms of the original Petra / Al Rajhi joint venture agreement provided that on repayment of the US\$80 million loan, Petra's interest in Cullinan would increase from 37% to 44% and that two uplift payments totalling US\$100 million would need to be paid to Al Rajhi to increase Petra's effective stake to 60%. The remaining 14% interest in Cullinan (BEE own 26%) would have been subject to negotiation between Petra and Al Rajhi.

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About Petra Diamonds

Petra Diamonds is a leading supplier of rough diamonds. A number of acquisitions have established Petra as one of the world's largest independent diamond groups by resources, with a total resource base of 262 million carats. Petra increased its annual production fivefold in the year to June 2009 to over 1 million carats and the Company's objective is to continue to increase supply and develop its stature as a world-class diamond group.

In South Africa, Petra has interests in five producing mines - Cullinan, Koffiefontein, Helam, Sedibeng and Star - and has also agreed to acquire, from De Beers, the Kimberley Underground mines (this acquisition is expected to complete imminently). In Tanzania, Petra has an interest in the Williamson mine. These mines are noted for the production of valuable diamonds, but in particular the Cullinan mine is famed as the source of the largest rough gem diamond ever found. More recently an internally flawless, fancy vivid blue diamond of 7.03 carats from the Cullinan mine sold for US\$9.4 million in May 2009, the highest price per carat ever paid for any gemstone sold at auction, and a white diamond of over 507 carats was recovered in September 2009.

Petra conducts all its operations according to the highest ethical standards, and will only

work in countries which are members of the Kimberley Process.

The Company is quoted on the AIM market of the London Stock Exchange (AIM: PDL).

www.petradiamonds.com

This information is provided by RNS
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