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The Directors, whose names appear on page 3 of this Document, accept responsibility for the information contained in this Document. To the best of the knowledge and belief of 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 does not omit anything likely to affect the import of such information.

This Document, which is an admission document, constitutes a prospectus and has been drawn up in accordance with the POS Regulations and the AIM Rules. A copy of this Document has been delivered to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of the POS Regulations.

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 upon as having been so authorised. The delivery of this Document or any subscriptions made hereunder shall not, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this Document or that the information in this Document is correct as of any time subsequent to the date of this Document.

Application has been made for the whole of the Ordinary Shares issued and to be issued to be admitted to trading on AIM. It is emphasised that no application is being made for admission of these securities to the Official List or to any other recognised investment exchange. It is expected that Admission will take place and that dealings in the Ordinary Shares will commence on AIM on 26 August 2004.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this Document. The rules of AIM are less demanding than those of the Official List.

RIVER DIAMONDS PLC

(Incorporated in England and Wales with registered number 5059077)

Placing of up to 60,000,000 Ordinary Shares of 0.1p each at 2.5p per Ordinary Share and

ADMISSION TO TRADING ON THE ALTERNATIVE INVESTMENT MARKET

Nominated Adviser and Broker

W H IRELAND LIMITED

Ordinary Share Capital on Admission

(Assuming Full Subscription)

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
Ordinary Shares of 0.1p each	£450,000	450,000,000	£263,940.43	263,940,425

The Placing Shares will, following allotment, rank equally in all respects with the Existing Ordinary Shares of the Company, including the right to receive all dividends or other distributions declared or paid on the Ordinary Shares after the date of this Document.

W H Ireland, which is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange, is the Company's Nominated Adviser and Broker in connection with the Placing and Admission for the purposes of the AIM Rules and is acting exclusively for the Company and will not be responsible to anyone other than the Company for providing the protections afforded to customers of W H Ireland or for advising any other person on the Placing and other arrangements described in this Document. The responsibilities of W H Ireland, as Nominated Adviser and Broker, are owed solely to the London Stock Exchange. W H Ireland has not authorised the contents of any part of this Document for the purposes of Regulation 13(1)(g) of the POS Regulations or otherwise and no liability whatsoever is accepted by W H Ireland for the accuracy of any information or opinions contained in this Document.

This Document does not constitute an offer to sell, or a solicitation to buy Placing Shares or Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this Document is not for distribution in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. Neither the Placing Shares nor the Ordinary Shares have been nor will be registered under the United States Securities Act of 1933 (as amended) nor under the securities legislation of any state of the United States or any province or territory of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold directly or indirectly in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or to any national, citizen or resident of the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan.

The distribution of this Document and the placing of the Placing Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company, by the holders of the Existing Ordinary Shares or by W H Ireland that would permit a public offer of Ordinary Shares or possession or distribution of this Document where action for that purpose is required. Persons into whose possession this Document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Copies of this Document will be available free of charge during normal business hours on weekdays (excluding public holidays) from the date hereof until one month after Admission from the office of W H Ireland, Cannongate House, 62-64 Cannon Street, London EC4N 6AE and from the registered office of the Company.

An investment in River Diamonds plc may not be suitable for all recipients of this Document. Any such investment is speculative and involves a high degree of risk. Prospective investors should carefully consider whether an investment in the Company is suitable for them in light of their circumstances and the financial resources available to them. Attention is drawn, in particular, to the Risk Factors set out in Part II of this Document.

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DIRECTORS AND ADVISERS

Directors and Proposed Director	Ian Colin Orr-Ewing, (<i>Executive Chairman</i>) Richard Edwin Crew, (<i>Operations Director</i>) Anthony David Nettleton Balme, (<i>Non-executive Director</i>) David Anthony Lenigas, (<i>Non-executive Director</i>) Nicholas David Shaw-Hardie, (<i>Non-executive Director</i>) Kiran Caldas Morzaria, (<i>Proposed Finance Director</i>) All of Carmelite, 50 Victoria Embankment, London EC4Y 0LS
Registered Office	Carmelite 50 Victoria Embankment London EC4Y 0LS
Company Secretary	Laytons Secretaries Limited Carmelite 50 Victoria Embankment London EC4Y 0LS
Nominated Adviser and Broker	W H Ireland Limited Cannongate House 62-64 Cannon Street London EC4N 6AE
Solicitors to the Company	Laytons Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0LS
Legal Counsel to the Company in Brazil	Ana & Ana Advocacia Ave Rubens de Mendonca 990 Sala 302 Ed Empire Centro Bairro Araes Cuiaba-MT Brazil
Solicitors to the Placing	Nicholson Graham & Jones 110 Cannon Street London EC4N 6AR
Auditors and Reporting Accountants	MRI Moores Rowland LLP <i>Chartered Accountants and Registered Auditors</i> 3 Sheldon Square London W2 6PS
Independent Geological Consultants and Competent Person	Ddraig Mineral Developments Limited 31 Madoc Street Llandudno Gwynedd North Wales LL30 2TL
Principal Bankers	Lloyds TSB Plc Moorgate Branch 34 Moorgate London EC2R 6PL
Registrars	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

DEFINITIONS

In this Document, where the context permits, the expressions set out below shall bear the following meanings:

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Enlarged Share Capital to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules for companies governing admission to and trading on AIM, published by the London Stock Exchange
“Brazil”	the Federative Republic of Brazil
“BRL”	Brazilian Real, the official currency of Brazil
“Combined Code”	the Principles of Good Governance and Code of Best Practice issued by the London Stock Exchange
“the Company” or “River Diamonds”	River Diamonds plc, a company incorporated in England and Wales on 1 March 2004 with company number 5059077
“Competent Person’s Report”	the report prepared by DMD contained in Part III of this Document
“CREST”	the computerised settlement system used to facilitate the transfer of title to shares in uncertificated form operated by CRESTCo
“CRESTCo”	CRESTCo Limited
“Directors” or “Board”	the directors of the Company including the Proposed Director
“DMD”	Ddraig Mineral Developments Limited, details of which are set out in the Competent Person’s Report in Part III of the Document
“DNPM”	Departamento Nacional de Produção Mineral, being the Brazilian Federal Department of Mineral Production
“Document” or “Prospectus”	this document
“Enlarged Share Capital”	the issued Ordinary Share capital of the Company immediately following Admission, comprising the Existing Ordinary Shares and the Placing Shares
“Environmental Operating Licence”	a licence issued by the FEMA to carry out prospecting operations
“Existing Ordinary Shares”	203,940,425 Ordinary Shares in issue immediately prior to the Placing
“Exploration Licence”	a licence issued by the DNPM to delineate, evaluate and investigate the economic feasibility of a potential deposit
“FEMA”	Fundação Estadual do Meio Ambiente, being the Mato Grosso State Foundation of the Environment

“Financial Services and Markets Act” or “FSMA”	the Financial Services and Markets Act 2000
“FSA”	the Financial Services Authority Limited, the single statutory regulator under the FSMA
“Full Subscription”	subscription for the maximum number of Placing Shares pursuant to the Placing
“Group”	the Company and its subsidiaries
“Kimberley Process Certification Scheme”	an international initiative to regulate the global trade in rough diamonds through national certification schemes
“Listing Rules”	the rules for listing issued by the UK Listing Authority
“London Stock Exchange”	London Stock Exchange Plc
“Mining Licence”	a licence issued by the DNPM permitting the commercial development and utilisation of mineral deposits
“OFEX”	the facility managed by JP Jenkins Limited to allow trading between members of the London Stock Exchange in the shares of unquoted companies
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 0.1p each in the capital of the Company
“Placing”	the placing by W H Ireland on behalf of the Company of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the agreement dated 29 July 2004 between the Company, the Directors and W H Ireland, details of which are set out in Part V of this Document
“Placing Letter”	the letter from W H Ireland on behalf of the Company to be signed by each investor wishing to subscribe for Placing Shares pursuant to the Placing and setting out the terms on which they will agree to subscribe
“Placing Price”	2.5p per Ordinary Share
“Placing Shares”	up to 60,000,000 (and not less than 40,000,000) Ordinary Shares
“POS Regulations”	the Public Offers of Securities Regulations 1995, (Statutory Instrument 1995 No. 1537), (as amended)
“Proposed Director”	Kiran Caldas Morzaria, who it is proposed will be appointed finance director of the Company conditional on Admission
“Prospecting Licence”	a licence issued by the DNPM (in addition to an Exploration Licence) in order to carry out prospecting activities, including bulk sampling and processing
“River Diamonds UK”	River Diamonds UK Limited, a company incorporated in England and Wales on 8 April 2000 with company number 4048755 and the wholly owned subsidiary of the Company
“SCML”	Sao Carlos Mineração Limitada, a company incorporated under the laws of Brazil and wholly-owned, under the laws of England and Wales, by River Diamonds UK

“Shareholders”	holders of Ordinary Shares
“Subsisting Warrants”	warrants to subscribe on the terms of the Subsisting Warrant Instrument
“Subsisting Warrant Instrument”	the warrant instrument adopted by the Company on 8 June 2004, details of which are set out on page 84 of this Document, for the purposes of granting the Subsisting Warrants
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA
“Warrants”	the Subsisting Warrants and the W H Ireland Warrants
“W H Ireland”	W H Ireland Limited
“W H Ireland Warrant Instrument”	the warrant instrument adopted by the Company on 29 July 2004, details of which are set out in Part V of this Document
“W H Ireland Warrants”	warrants to be granted to W H Ireland to subscribe for Ordinary Shares on the terms of the W H Ireland Warrant Instrument
“£” or “Pound”	UK pounds sterling
“US\$”	United States dollars

Note:

Technical terms used throughout this Document have the same meaning as given in the Competent Person’s Report

EXPECTED TIMETABLE

Admission effective and commencement of dealings	26 August 2004
Placing Shares credited to CREST accounts	26 August 2004
Despatch of definitive share certificates (if applicable)	by 9 September 2004

PLACING STATISTICS

*Assuming Full Subscription

Placing Price	2.5 pence
Number of new Ordinary Shares being placed on behalf the Company pursuant to the Placing*	60,000,000
Number of Ordinary Shares in issue immediately following the Placing*	263,940,425
Percentage of Enlarged Share Capital attributable to the Placing*	22.73 per cent.
Market capitalisation of the Company at the Placing Price on Admission*	£6.60 million
Estimated net proceeds of the Placing receivable by the Company*	£1.10 million

In addition to the Ordinary Shares above the Company has agreed to issue the Subsisting Warrants and conditional upon Admission will issue the W H Ireland Warrants, details of which are set out in Part V of this Document.

PART I

INFORMATION ON THE GROUP

Introduction

The Company was incorporated on 1 March 2004 for the purpose of becoming the holding company of River Diamonds UK which, together with SCML, has been involved in the exploration and development of diamond interests in Brazil since November 2000.

Background

Information on the Group

River Diamonds, through SCML, holds Exploration Licences over an area of some 57,000 hectares of ground north-west of Cuiaba in Mato Grosso, Brazil. On a 330 hectare section of one of the Exploration Licence areas, DMD, whose report is set out in Part III of this Document, has estimated there to be 5 million cubic metres of diamondiferous gravel. A Prospecting Licence, together with an Environmental Operating Licence, has been obtained in respect of such gravels. Extraction and processing facilities have been established on site and bulk sampling has commenced.

The diamond market

The rough diamond market has proved to be robust in recent months and the Directors believe that diamond sector analysts, in general, view the medium to long term outlook favourably.

In 2003 world demand for rough diamonds (US\$9.5 billion) exceeded supply (US\$8.2 billion), with the excess demand being satisfied from producers' existing stockpiles. Rough diamond prices rose during 2003 and analysts expect producers' stockpiles to decline, with the bulk of the current stockpiles being predicted to be largely exhausted by the end of 2004. Analysts expect the lack of any expected substantial additions to world rough diamond production in the medium term, together with an anticipated increase in demand, to influence rough diamond prices over the next decade.

Kimberley Process Certification Scheme

Under the Kimberley Process Certification Scheme, the global trade in rough diamonds is regulated through national certification schemes. The Kimberley Process Certification Scheme is an international initiative aimed at breaking the link between trade in legitimate diamonds and conflict diamonds. Conflict diamonds are rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments.

The Group obtained the necessary licence for exportation of rough diamonds pursuant to the Kimberley Process Certification Scheme on 16 April 2004.

Brazil

Following three centuries under the rule of Portugal, Brazil became an independent nation in 1822. With a population of some 182 million, it is the largest and most populous country in South America. Brazil has overcome more than half a century of military intervention in the governance of the country to pursue industrial and agricultural growth and development of the interior. Exploiting vast natural resources and a large labour pool, Brazil is today South America's leading economic power and a regional leader.

Diamonds were first discovered in Brazil in the early 1700's and between then and 1875, when hard rock deposits were discovered at Kimberley, South Africa, Brazil was the world's major source of diamonds. In 2002 some 500,000 carats were produced in Brazil, ranking the country twelfth in terms of production. All diamond production in Brazil is currently alluvial.

Climatic conditions

Located on the southern perimeter of the Amazon basin, the areas over which the Group holds Exploration Licences are subject to heavy rainfall during the wet season, which runs from October to March each year.

Heavy rainfall can cause disruption to transport and in extreme cases may cause bridges required for the transportation of gravel to the processing facilities to be washed away. The Directors are therefore aware that monthly production might be adversely affected by such conditions but are hopeful that, if there is a delay in gravel processing, any shortfalls can be made up by increasing further the processing intensity at other times.

Licences and Properties

The Group's operations are conducted under the requirements of Brazilian mining legislation under which exploration, prospecting and mining production activities to be carried out by private entities require licences issued by the federal government. A summary of the relevant Brazilian mining legislation is set out in Appendix 1 of the Competent Person's Report in Part III of this Document.

The Group has secured Exploration Licences on the following concessions in the state of Mato Grosso covering a total area of some 57,000 hectares.

<i>Location</i>	<i>DNPM Licence Numbers</i>
Melgueira	866156/2001
Cachoeira de Pau	866151/2001
Alto Paraguai/Diamantino	866157/2001
Alto Paraguai/Diamantino	866154/2001
Alto Paraguai/Diamantino	866142/2001
Alto Paraguai/Diamantino	866155/2001

In respect of its activities at Melgueira, the Group also holds a Prospecting Licence and an Environmental Operating Licence to enable it to carry out the extraction and processing of diamondiferous gravel for bulk sampling. Such further licences and permissions will also be required to carry out bulk sampling and processing in respect of the other areas for which it holds Exploration Licences.

In addition, in order to develop and utilise commercially mineral deposits on its concessions the Group will need to obtain Mining Licences from the DNPM. These are granted by the DNPM when it is satisfied that the extraction and processing of the mineral deposits in the concession area is technically and economically viable. Once the Mining Licence has been granted, the concession remains in force until the depletion of the deposits. The Group will be in a position to apply for a Mining Licence when an exploration report using the results of bulk sampling demonstrates the viability of mining in respect of that area.

The Projects

Melgueira

The most advanced project in the Group's portfolio is its Melgueira prospecting operation. During 2003, bulk samples were excavated from the Group's licence area at Melgueira and processed through equipment that had been established on site. In early 2004, the Group commissioned an overhaul of its processing plant, which has increased the processing capacity to up to 1,000 metric tons of gravel per day. The Group is currently bulk-sampling several palaeo-channel targets in the Melgueira licence area.

Within the licence area the Group has linked and analysed drilling data from a Brazilian government sponsored survey completed in 1989 together with the exploration results from the Group's activities. This analysis has led to a greater understanding of the palaeo-channels and could potentially highlight those areas where the largest concentration of diamonds has accumulated. The mapping and delineation of palaeo-channels has been successful in South Africa and a greater understanding of palaeo-channels evident in Brazil should help to identify the potential higher grade sections of the diamondiferous gravels.

Cachoeira de Pau

The Group currently holds an Exploration Licence for an area of some 1,000 hectares at Cachoeira de Pau. The area was initially explored by De Beers in the mid 1990's, who intended to initiate a large bulk-sampling

programme at the site. Intervention by local garimpeiros prevented this and De Beers halted its operations. The Brazilian government has since taken action to remove the garimpeiros permanently.

The Group is currently negotiating with local landowners to explore more of the licence area at Cachoeira de Pau, further north on the Arinos River. Subject to the successful outcome of these negotiations the Group intends to implement a sampling programme at Cachoeira de Pau in the medium term under the terms of its Exploration Licence.

Subject to the results of such programme, the Group intends to obtain a Prospecting Licence at this locality.

Alto Paraguai/Diamantino

The Group also holds Exploration Licences to explore in Alto Paraguai and Diamantino, which surround the development at Melgueira. The Group is at a preliminary stage of exploration in respect of these Licences.

Resources

As noted in the Competent Person's Report contained in Part III of this Document, DMD have classified the Group's 5 million cubic metres of diamondiferous gravel at Melgueira as an Inferred Resource given that a parcel of sufficient size (generally recognised in the diamond industry to be 2,000 carats) has not yet been recovered under controlled conditions so as to allow a definitive value to be assigned to the stones. The Directors believe from recoveries made to date that, if sustained, an average grade of 3 carats per hundred tonnes (cpht) with an average current price of US\$250 per carat might be expected to be recovered. Prospecting to date has indicated a diamond content of from 3.0 to 11.0 cpht though certain stones (expected by the Directors to be above the average value for the licence area as a whole) have yielded a value of some US\$1,000 per carat.

The assembly and definitive valuation of an appropriate parcel is a high priority for the Group on completion of the Placing and Admission.

In addition to diamonds, gold is also currently recovered in the heavy mineral concentrate resulting from present prospecting activities and from the ongoing trial mining exercise. The extent of the gold resource base has not been established but, given the low costs of extraction, the Directors consider it may be of future benefit to the Group.

Group Operations

Personnel

Operations in Brazil, which are under the full time supervision of the Group's Operations Director Richard Crew, are conducted with the help of expatriate consultants together with local operating employees. The Group also has the benefit of two locally based administrative staff and the use of an office in Cuiaba.

Plant

The recovery plant installed at Melgueira consists of a conventional South African pan plant. Processing involves the receipt of the gravel, which is screened through a grizzly and scrubber. The 32mm to 2mm fraction is then treated in a 16ft pan that produces a concentrate. The concentrate is screened and the diamonds and gold recovered by hand sorting.

Security

Because of the security implications of recovering and transporting uncut diamonds the Group has implemented the following procedures:

- At all times during the final hand sorting of diamonds from the processed gravels, one senior management representative is present along with the mine manager and independent security personnel. Each keep individual records of carats recovered and sign off on the daily production;
- Daily production is sealed in secure containers and transferred to a safety deposit box;

- Once a sufficient quantity of carats has been collected, they are taken to the DNPM, weighed and confirmed against the production records; and
- The production is sealed by the DNPM ready for export under the provisions of the Group's Kimberley Process Certification Scheme Licence.

Realisation of diamonds

Hitherto diamonds recovered from operations have been sold to local dealers in Brazil. Since the Group received the appropriate licence to export pursuant to the Kimberley Process Certification Scheme, it is now permitted to sell its production worldwide. It is the view of the Board that better prices can be achieved by selling the production outside Brazil and arrangements are being put in place to ensure that all future production is marketed overseas.

Group Strategy and Future Prospects

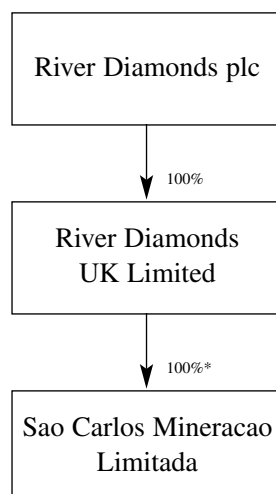
The volume of alluvial material processed is a key element in alluvial diamond operations. The costs of extracting, transporting and processing diamondiferous gravels mean that yields only become meaningful if sufficient gravel is processed by appropriate plant and machinery. The Group has, whilst pursuing its prospecting activities, established and tested the logistical and processing infrastructure to accommodate substantial quantities of gravel. The machinery on site at Melgueira is capable of processing up to 1,000 tonnes per day and, with the benefit of additional plant due to be purchased and to become operational during 2004, the processing rate should be able to be increased to up to 2,700 tonnes per day. The Group also intends, subject to satisfactory evaluation of the gold content recovered at the Melgueira locality, to install appropriate plant to recover gold more efficiently.

The Group intends shortly to implement a broader bulk sampling programme to allow it to test the various gravel types with a view to recovering at least 2,000 carats of diamonds for valuation purposes. The Directors believe that, if successful, such a programme would allow the Group's resources to be upgraded to the Indicated Resource category with some portions being in the Probable Reserve category and enable application to be made for a Mining Licence.

The Directors anticipate that success in the trial mining and test programme would also form the basis for a subsequent funding exercise that would allow for the possibility of a much larger commercial project. The current resource estimate of 5 million cubic metres of diamondiferous gravel is estimated by the Directors to take at least 10 years to process. In addition, if justified following the completion of a sampling programme, and having obtained relevant licences and permissions, the Group intends to install a plant similar to that at Melgueira at Cachoeira de Pau.

Group Structure

The Group structure can be illustrated as follows:



*Title to the capital of SCML is at present held on behalf of River Diamonds UK by Ian Colin Orr-Ewing (49 per cent.), Richard Edwin Crew (49 per cent.) and Magda Siqueira Jardim Fleming, a Brazilian national engaged by River Diamonds UK (2 per cent.), each acting as a nominee of River Diamonds UK under declarations of trust. Accordingly, under English law the beneficial owner of SCML is River Diamonds UK. However, under Brazilian law, such beneficial ownership is not recognised. As more fully described in paragraph 2.5 of Part V of this Document, Ian Colin Orr-Ewing, Richard Edwin Crew and Magda Siqueira Jardim Fleming have set in train the process for the transfer of the legal (as well the beneficial) ownership of SCML to River Diamonds UK, and such transfer is expected by the Directors to be completed in the near future.

Board of Directors

Colin Orr-Ewing, *Executive Chairman, age 62*

Colin has been involved in the natural resources sector for 35 years. His experience covers both the oil and mining industries and he has been a director of UK and Canadian oil companies and Irish and Canadian mining companies. Currently Colin also advises a fund management company on its natural resource portfolios.

Richard Crew, *Chief Operating Officer, age 40*

Richard has worked in mining projects for 17 years, including three years in Brazil. Prior to that Richard had managed the Yetwene diamond mine in Angola, working in that operation with David Lenigas. Richard is fluent in Portuguese.

Kiran Morzaria, *Proposed Finance Director, age 30*

Kiran holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School. He has five years of mining and engineering experience, in particular having worked as an exploration and project manager in South Africa for Firestone Diamonds Plc. Kiran is fluent in Portuguese.

David Lenigas, *Non-executive Director, age 42*

David holds a Bachelor of Applied Science (Mining Engineering) and has 23 years of international resource industry experience covering the gold, coal, diamond and base metal sectors. David was formerly the managing director of Emperor Gold Mines in Fiji and has served as managing director and chief executive of numerous other resource companies. Currently he is the mining manager for Cambrian Mining Plc, overseeing the development of its mining projects around the world. He is also president of Deepgreen West Virginia Inc, a coal producer in the USA, and an executive director of Asia Energy Plc.

Anthony Balme, *Non-executive Director, age 55*

Anthony is an active participant in a number of overseas resource ventures, both public and private. He is chairman of Carter Capital, a private mining finance house, and of AMC, a diversified private company engaged in the cashmere industry, insurance underwriting and consumer finance. He is a director of Forum Developments, a developer of coal bed methane gas in British Columbia and of Adroit Resources, a diamond explorer in Ontario. Anthony has previously worked in the accountancy profession, the securities business and as a commodity broker in London.

Nick Shaw-Hardie, *Non-executive Director, age 48*

Nick is an independent accountant based in Wiltshire, who has acted as director for a number of local companies.

Reasons for the Placing and for Admission

The Group intends to use the net proceeds of the Placing first to purchase further processing equipment in order to increase the rate at which prospecting operations are being carried out and, second, to enable the

Group to extend its bulk sampling programme to allow it to test the various gravel types with a view to recovering at least 2,000 carats of diamonds for valuation purposes. If following the evaluation of the gold content at the Melgueira locality it is justified, the Group will also install a gold recovery plant to recover gold more efficiently. Limited funding may also be applied to exploration of the areas surrounding its two developments at Melgueira and Cachoeira de Pau.

A successful outcome to the exploration and prospecting programmes outlined above would form the basis for a subsequent funding exercise that the Directors anticipate would result in a much larger commercial project.

The Directors consider that Admission will:

- enhance the Group's status;
- assist the Group in raising additional capital should this be required to fund further exploration, trial mining or testing or commercial production in the future;
- enable the Group better to recruit and retain key personnel; and
- provide more liquidity for investors.

Admission to AIM and Dealings in Ordinary Shares

Application has been made for the Ordinary Shares to be admitted to trading on AIM. Dealings in the Ordinary Shares are expected to commence on 26 August 2004. No application has been or will be made for the Warrants or for the options to be admitted to trading on AIM.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Company has applied for the Existing Ordinary Shares, which have been traded on OFEX and are admitted to CREST, and the Placing Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in all Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholders so wish.

CREST is a voluntary system and Shareholders who wish to receive and retain share certificates may do so.

Details of the Placing

Assuming Full Subscription the Placing Shares will represent approximately 22.73 per cent. of the Enlarged Share Capital. At the Placing Price, the Company will be valued at approximately £6.60 million (assuming Full Subscription). Net proceeds of the Placing receivable by the Company (assuming Full Subscription) will (after the expenses of the Placing) amount to approximately £1.10 million.

W H Ireland has entered into the Placing Agreement pursuant to which it has agreed to use reasonable endeavours to procure subscribers for the Placing Shares. The Placing has not been underwritten by W H Ireland and will not proceed unless subscribers for not less than 40,000,000 shares have been procured. Further details of the Placing Agreement are set out on page 89 of this Document.

The Placing Shares, following allotment, will rank equally in all respects with the Existing Ordinary Shares including in respect of any dividends and distributions paid or made in respect of the Ordinary Shares.

It is expected that definitive documents of title to the Placing Shares will be delivered by Capita Registrars Plc, the Company's registrars, to those Shareholders who so request by first class post, not later than 14 days after the date of Admission. Placing Shares issued to any Shareholder who does not request a definitive certificate will be registered within the CREST system.

Use of Proceeds

The net proceeds of the Placing receivable by the Company are expected to amount to approximately £1.10 million (assuming Full Subscription) and are intended to be used, first to purchase further processing equipment in order to increase the rate at which prospecting operations are being carried out and, second, to enable the Group to extend its bulk sampling programme to allow it to test the various gravel types with a view to recovering at least 2,000 carats of diamonds for valuation purposes. If justified following the evaluation of the gold content from within the Melgueira licence area, a gold recovery circuit will be installed on the existing and planned pan plants to recover any gold content more efficiently. Further, £12,500 of the proceeds will be used to redeem the 50,000 redeemable preference shares in the Company subscribed by Colin Orr-Ewing to provide the Company's original minimum capital requirements under section 146 of the Act. Limited funding may also be applied to exploration of the areas surrounding its two developments at Melgueira and Cachoeira de Pau.

Lock-ins and Orderly Market Arrangements

At Admission the Directors and persons connected with them will own 17,688,700 Ordinary Shares representing 6.70 per cent. of the Enlarged Share Capital (assuming Full Subscription) and in addition will hold warrants over 12,900,000 Ordinary Shares representing 4.89 per cent. of the Enlarged Share Capital (assuming Full Subscription). The Directors have undertaken to the Company and to W H Ireland that they will not sell or dispose of, except in certain circumstances, any of their respective interests in Ordinary Shares at any time before the first anniversary of Admission and for the 12 months immediately following will effect a sale only through the brokers for the time being of the Company and will only do so following consultation with the broker in relation to any such disposal and further that any such disposal will be made in such a manner as such broker may reasonably require with a view to maintaining an orderly market in the Ordinary Shares.

In addition to the Directors, all Shareholders with interests in 10 per cent. or greater of the Enlarged Share Capital have undertaken to the Company and to W H Ireland that they will not sell or dispose of, except in certain circumstances, any of their respective interests in Ordinary Shares at any time before the first anniversary of Admission and for the 12 months immediately following will effect a sale only through the brokers for the time being of the Company and will only do so following consultation with the broker in relation to any such disposal and further that any such disposal will be made in such a manner as such broker may reasonably require with a view to maintaining an orderly market in the Ordinary Shares.

Dividend Policy

The Directors do not envisage declaring a dividend in the short to medium term. However, if or when sufficient distributable reserves are available the Directors intend to pursue a progressive dividend policy.

Corporate Governance

The Directors intend that the Company will comply with the main provisions of the Combined Code in so far as they are practicable for a company of its size. The Company has appointed 3 non-executive directors with relevant experience to complement the executive directors and to provide an independent view to the Board.

An Audit Committee, comprising the non-executive Directors, has been established by the Company to operate from Admission. The Audit Committee will be chaired by Anthony Balme and will meet at least twice each year. The Audit Committee will be responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with the Group's auditors and reviewing their reports on the accounts and the Group's internal controls.

The Company has in addition established a Remuneration Committee, comprising the non-executive Directors, to operate from Admission. The Remuneration Committee will be chaired by Anthony Balme. The Remuneration Committee will be responsible for reviewing the performance of the executive Directors, setting their remuneration, determining the payment of bonuses, considering the grant of options under any

share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant.

The Board has also considered the guidance issued by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal requirements of the Combined Code. The Board intends regularly to review key business as well as financial risks facing the Group in the operation of its business.

The Company will operate a share dealing code for Directors on the basis set out in the Listing Rules.

Share Options

To motivate the Directors and other Group Personnel, the Board intends in due course to adopt an appropriate option scheme or schemes to authorise the Company to issue options. Any options issued pursuant to such a scheme will not exceed 10 per cent. of the total share capital in issue from time to time without the Board having first obtained the consent of the Shareholders.

Employees

As at the date of this Document, the Group has 18 employees and consultants including 2 executive Directors.

Warrants

The Company has agreed to issue up to 7,918,213 warrants, to be equivalent to 3 per cent. of the Enlarged Share Capital, to W H Ireland. The warrants are exercisable at the Placing Price pursuant to and on the terms of the W H Ireland Warrant Instrument.

In addition the Company has outstanding as at the date of this Document 76,469,239 Subsisting Warrants, as more fully described in Part V of this Document.

Taxation

Information regarding taxation is set out in Part V of this Document. These details are intended only as a general guide to the current tax position under UK taxation law. If an investor is in any doubt as to his or her tax position he or she should consult his or her own independent financial adviser immediately.

PART II

RISK FACTORS

AN INVESTMENT IN THE COMPANY IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK.

In addition to the other relevant information in this Document, the Directors consider the following risk factors to be of particular relevance to the Group's activities and to any investment in the Company. It should be noted that this list is not exhaustive and that other risk factors may apply. Any one or more of these risks could have a material adverse effect on the value of the Company and should be taken into account in assessing the Group.

The Group

River Diamonds is a recently formed company with a limited operating history upon which prospective investors may base an evaluation of its likely performance.

Title to the capital of SCML is at present held on behalf of River Diamonds UK by Ian Colin Orr-Ewing (49 per cent.), Richard Edwin Crew (49 per cent.) and Magda Siqueira Jardim Fleming, a Brazilian national engaged by River Diamonds UK (2 per cent.), each acting as a nominee of River Diamonds UK under declarations of trust. Accordingly, under English law the beneficial owner of SCML is River Diamonds UK. However, under Brazilian law, such beneficial ownership is not recognised. As more fully described in paragraph 2.5 of Part V of this Document, Ian Colin Orr-Ewing, Richard Edwin Crew and Magda Siqueira Jardim Fleming have set in train the process for the transfer of the legal (as well the beneficial) ownership of SCML to River Diamonds UK. Pending such transfer becoming effective, Ian Colin Orr-Ewing, Richard Edwin Crew and Magda Siqueira Jardim Fleming are bound by the terms of the declarations of trust under which any and all rights of legal ownership of the shares in SCML are foregone in favour of River Diamonds UK. In addition, Messrs Orr-Ewing and Crew have signed indemnities in favour of River Diamonds UK in respect of any failure by them to transfer the capital of SCML to River Diamonds UK.

Exploration and development

The exploration for and development of mineral deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties, which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and grades of minerals disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any mineralisation discovered will result in an increase in the Group's resource base.

General exploration, mining and processing risks

Exploratory operations generally involve a high degree of risk. The Group's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimise risk will be taken, operations are subject to hazards, which may result in environmental pollution and consequent liability which could have a material adverse impact on the business, operations and financial performance of the Group.

As is common with all exploratory operations, there is uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control.

The exploration and mining activities of the Group are subject to various laws governing prospecting, development, production taxes, labour standards and occupational health, mine safety and other matters. Although the Group's exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Group.

Climatic concerns

The Group's operations are performed in regions where the climate is tropical; temperatures commonly range between 15° Centigrade and 40° Centigrade with an annual average temperature of 24° Centigrade. Precipitation ranges from 1,000mm to 1,750mm per annum. The dry season is typically from April to September with a wet season of October to March. The wettest period is from December to February.

Heavy rainfall can cause disruption to transport and in extreme cases can cause bridges required for transportation to be washed away. Accordingly production forecasts may be adversely affected by such conditions.

Resource estimates

As with other natural resources companies, the Group's resource estimates are uncertain and potentially subject to future revisions and refinements. There can be no guarantee that any future production will be commensurate with the resource estimates presented in this Document.

Operational considerations

The Group's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.

The locations of all of the Group's current exploration activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration activity levels might fluctuate.

Unscheduled interruptions in the Group's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services or the availability of appropriately registered personnel could have a serious impact on the financial performance of those operations.

Project development risks

There can be no assurance that the Group will be able to manage effectively the expansion of its operations or that the Group's current personnel, systems, procedures and controls will be adequate to support the Group's operations. Any failure of management to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations.

There is no certainty that all or, indeed, any of the elements of the Group's current strategy will develop as anticipated and that the Group will be profitable.

Transportation of diamonds

As with other diamond producing companies there is always a security risk in the transportation of diamonds. Although the Group has implemented security measures appropriate for a company of its size, the

diamonds may be stolen at any stage of the transportation and there can be no assurance that the Group will be able to prevent this occurring.

The Group's Licences

Some or all of the mining licences issued in respect of the Project may be subject to conditions which, if not satisfied, may lead to the revocation of such licences. In the event of revocation, the value of the Group's investments in such projects may decline, which may lead to a fall in the value of any investment in the Ordinary Shares. The Group does not at present hold any Mining Licences and it may not be possible to satisfy DNPM that commercial production is technically and economically viable to enable such licences to be granted.

Environmental issues

The Group's exploration and extraction activities are subject to various laws and regulations relating to the protection of the environment. Whilst the Group intends to continue to operate in accordance with such laws and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing the protection of the environment, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Group.

Labour

Certain of the Group's operations are carried out under potentially hazardous conditions. Whilst the Group intends to operate in accordance with relevant health and safety regulations and requirements, the Group remains susceptible to the possibility that liabilities might arise as a result of accidents or other workforce-related misfortunes, some of which may be beyond the Group's control.

Economic and political risk

The proposed operations of the Group will be in a foreign jurisdiction where there may be a number of associated risks over which it will have no control. These may include economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, as well as government control over the domestic pricing of diamonds.

Volatility of price of diamonds

The market price of diamonds is volatile and is affected by numerous factors which are beyond the Group's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in diamond market prices could render less economic, or uneconomic, some or all of the exploration and/ or extraction activities to be undertaken by the Group.

Litigation

Legal proceedings may arise from time to time in the course of the Group's business. There have been a number of cases where the rights and privileges of mining and exploration companies have been the subject of litigation. The Directors cannot preclude that such litigation may be brought against the Group in future from time to time or that it may be subject to any other form of litigation.

Currency risk

The expenditures made by the Group are subject to exchange rate fluctuations and any potential income may become subject to exchange control or similar restrictions. The Group's operations are currently conducted in BRLs, US\$ and Pounds.

Additional requirements for capital

Additional financing may be required if the Group is to achieve its longer term objective of becoming a substantial commercial operation and, if commercially viable, to commence additional mining. No assurances can be given that the Group will be able to raise the additional finance that it may require for its anticipated future operations. Diamond prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Group or at all. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of its properties and licences, incur financial penalties and reduce or terminate its operations.

Uninsured risks

The Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Group may incur a liability to third parties (in excess of any insurance cover) arising from negative environmental impact or other damage or injury.

Market perception

Market perception of small mining and exploration companies may change, potentially affecting the value of investors' holdings and the ability of the Group to raise further funds by the issue of further Ordinary Shares or otherwise.

AIM and liquidity of the Ordinary Shares

AIM is not the Official List. The Ordinary Shares will not be listed on the Official List. Notwithstanding that Admission becomes effective and dealings commence in the Ordinary Shares, this should not be taken as implying that there will be a liquid market for the Ordinary Shares. An investment in the Ordinary Shares may thus be difficult to realise.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up. Investors may, on disposing of Ordinary Shares, realise less than their original investment or may lose their entire investment. The Ordinary Shares may, therefore, not be suitable as a short-term investment. In addition, the market price of the Ordinary Shares may not reflect the underlying value of the Group's net assets. The price at which the Ordinary Shares will be traded and the price at which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its proposed operations, and some which may affect the business sectors in which the Group operates. Such factors could also include the performance of the Group's operations, large purchases or sales of the Ordinary Shares, liquidity or the absence of liquidity in the Ordinary Shares, legislative or regulatory changes relating to the business of the Group and general economic conditions.

Possible volatility of the price of the Ordinary Shares

Following Admission the market price of the Ordinary Shares could be subject to significant fluctuations due to various factors and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, the price of diamonds, developments in the Group's business or its competitors, or to changes in market sentiment towards the Ordinary Shares. The Group's operating results and prospects from time to time may be below the expectations of market analysts and

investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of the Ordinary Shares.

Taxation framework

This document has been prepared in accordance with current UK tax legislation, practice and concession and interpretation thereof. Such legislation and practice may change and the current interpretation may therefore no longer apply.

Forward looking statements

Certain statements within this Document, including those in the part of this Document under the heading "Information on the Group", constitute forward looking statements. Such forward looking statements involve risks and other factors which may cause the actual results, achievements or performance of the Group to be materially different from any future results, achievements or performance expressed or implied by such forward looking statements. Such risks and other factors include, but are not limited to, general economic and business conditions, changes in government regulation, currency fluctuations, the Group's ability to develop its existing or new resources, competition, changes in development plans and the other risks described in this Part II. There can be no assurance that the results and events contemplated by the forward looking statements contained in this Document will, in fact, occur. These forward looking statements are correct only as at the date of this Document. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstance or unanticipated events occurring after the date of this Document except as required by law or by regulatory authority.

General

The risks noted above do not necessarily comprise all those potentially faced by the Group and are not intended to be presented in any assumed order of priority.

Although the Directors will seek to minimise the impact of the Risk Factors, investment in the Company should only be made by investors able to sustain a total loss of their investment. Investors are strongly recommended to consult an investment adviser authorised under the Financial Services and Markets Act 2000 who specialises in investments of this nature before making any decision to invest.

PART III

COMPETENT PERSON'S REPORT

DDRAIG MINERAL DEVELOPMENTS LIMITED

31 Madoc Street, Llandudno, Conwy, North Wales,
U.K., LL30 2TL

Tel: (44)-(0)-1492-874888

Fax: (44)-(0)-1492-870547

E-mail Address: ddraigminerals@aol.com

The Directors
River Diamonds plc
9 Chelsea Wharf
Lots Road
London SW10 0QJ
United Kingdom

The Directors
WH Ireland Limited
Cannongate House
62-64 Cannon Street
London EC4N 6AE
United Kingdom

29 July 2004

Dear Sirs,

1. EXECUTIVE SUMMARY

1.1 General

Ddraig Mineral Developments Limited (DMD) has been retained by River Diamonds plc (the "Company" or River Diamonds) to prepare a Competent Person's Report on River Diamonds's mineral assets in Brazil, South America. A general location map is shown in Figure 1 and more detailed information is given in Figure 2.

Through Sao Carlos Mineracao Ltda, a company incorporated under the laws of Brazil and, under the laws of England and Wales, a wholly-owned subsidiary of River Diamonds UK, the Company has 57,000 ha of Exploration Licences over diamondiferous alluvial gravel deposits in the Diamantino and Alto Paraguai region of the south western Mato Grosso State of Brazil.

DMD is a specialist company that offers independent technical advice for the financing of mineral projects. The principals of DMD are accepted authors of Competent Person's Reports for various International Stock Exchanges.

This report is based on site visits to the project area in November 2002 and March 2004 and, discussions with senior River Diamonds's personnel and the company's technical consultants. All River Diamonds's available geological and operating data were reviewed in conjunction with DMD's own information and various literature and internet sources of relevant material. DMD has been shown the title documents, permits and contracts relating to River Diamonds's properties and all the necessary licences and associated permits appear to be in place. In addition legal due diligence has been conducted on the River Diamonds's holdings by an independent firm of UK lawyers.

Diamond exploration and subsequent development are the core business of River Diamonds and it is their prime objective to produce diamonds from their prospecting mining operation and to pursue an aggressive policy of growth through exploration, further acquisition and subsequent development. In addition, gold will be produced as a by-product of the diamond prospecting activities and it will contribute to the future revenue.



Ddraig Mineral Developments Limited

Registered in England and Wales No. 3109193 Registered Office: 31 Madoc Street, Llandudno, Conwy, LL30 2TL, UK

Directors: Mr. D.A.S. Hopkins and Mr. D. Jordan

SÃO CARLOS MINERATION LIMITED
MELGUEIRA PROJECT

Localization in Brazil Map

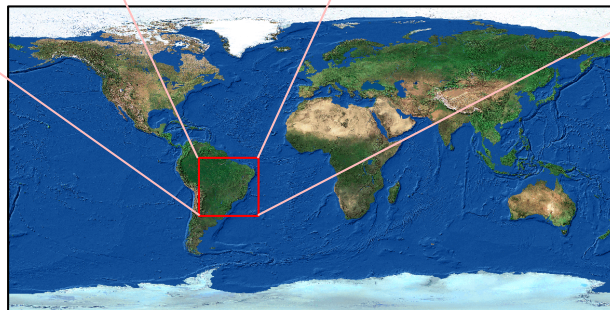


Figure 1

SÃO CARLOS MINERATION LIMITED

MELGUEIRA PROJECT

Localization in Mato Grosso Map



1.2 Background

1.2.1 Description and Location

River Diamonds operates in Brazil under a local company, Sao Carlos Mineracao Ltda. This company holds concessions in the Diamantino and Alto Paraguai areas that were first identified as an alluvial diamond field in 1728.

1.2.2 Legal Status

River Diamonds formed a 100 per cent owned subsidiary company on the **13th of May 2002** named **São Carlos Mineração Ltda**, registration number **51200822561**, which is registered with the Junta commercial in the state capital Mato Grosso, Cuiaba. The Federal registration number is CNPJ/MF **05044949/0001-07**. The company is also registered and is legalised as a state company “State Inscription” Number **13.209377-4**.

The registered company address is:

Av Historiador Rubens de Mendonça,
Ed Empire Center, No 990, Sala 405.
Centro
Cuiabá – MT
CEP: 78008-000

The company is registered with the Central Bank of Brazil for International financial transactions. The registration number is **31119**. The Exportation of finances licence number is RDE **IA036623**.

Under the incorporation details of Sao Carlos Mineração Ltda the company is allowed to:-

- (i) Obtain an Operating Permit and mining concession for all minerals, gems and precious stones, in accordance with the applicable laws in force, through the National Territory.
- (ii) Extract, mine and prospect for gems and precious stones in mines and mineral deposits.
- (iii) Process, utilise and industrialise minerals classified as gems or precious stones.
- (iv) Purchase and sell nonmetallic gems, precious stones and minerals.
- (v) Export nonmetallic gems, precious stones and minerals.
- (vi) Import equipment and raw materials for mining, processing or industrialisation of nonmetallic gems, precious stones or minerals.
- (vii) Acquire or rent of property, installations, equipment and raw materials need to achieve the purpose of the company.
- (viii) Participate in the share capital of other companies, foreign or domestic, as a quotaholder or stockholder, with powers of management or administration of said companies.
- (ix) Provide Geo-Processing and Topographical Services.

The company has secured the Exploration Licences on the following concessions in the state of Mato Grosso, Brazil.

Areas Secured	DNPM Licence Numbers
Melgueira*	866156/2001
Cachoeira de Pau*	866151/2001
Alto Paraguai/Diamantino	866157/2001
Alto Paraguai/Diamantino	866154/2001
Alto Paraguai/Diamantino	866142/2001
Alto Paraguai/Diamantino	866155/2001

*These two areas are River Diamonds’s main areas of activity and will be referred to as the Melgueira and Cachoeira de Pau projects.

In addition, the Group has secured a Prospecting Licence for Melgueira (866156/2001) and the relevant environmental licence from FEMA (622/2003). This allows for the Group to carry out further exploration including the bulk-sampling, processing of gravels and recovery of diamonds.

The licences total some 57,000 Hectares and they are illustrated in Figure 3.

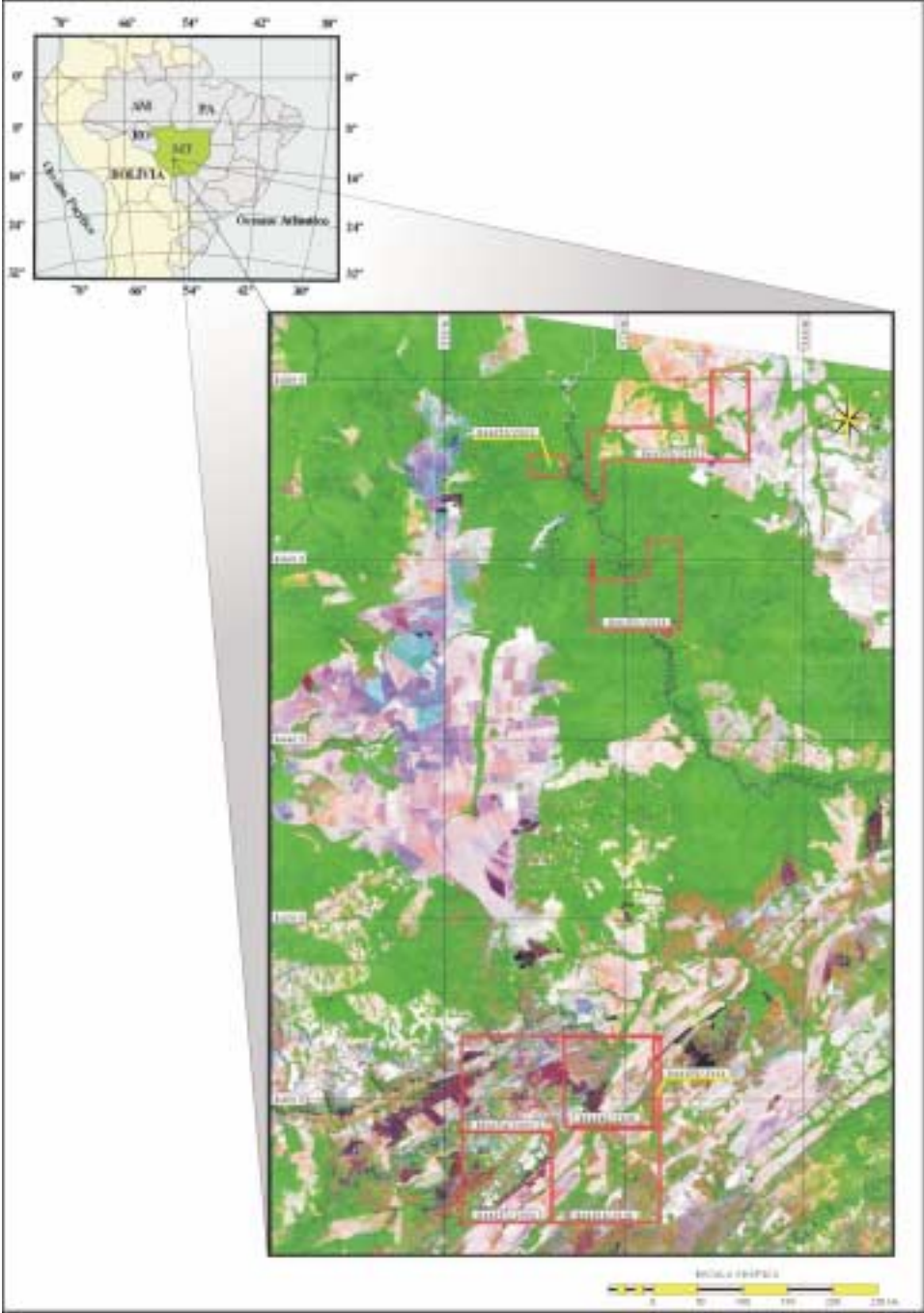


Figure 3. Location of Claim Blocks in the Diamantino Area

1.3 Conclusions and Recommendations

River Diamonds, through Sao Carlos Mineracao Ltda, has 57,000 ha of Exploration Licences over diamondiferous alluvial gravel deposits in the Diamantino and Alto Paraguai region of south western Mato Grosso State. River Diamonds has concentrated on a 10,000 ha property known as Melgueira, which is covered by a fully permitted Prospecting Licence.

On the Melgueira property an exploration programme by the Mato Grosso State exploration Company, METAMAT, in the period 1982 to 1992 delineated by drilling a five million cubic metre diamondiferous gravel resource.

DMD in November 2002 and March 2004 visited River Diamonds's alluvial diamond operations in Brazil to assess the status and potential of the deposits. DMD has visited the Melgueira and adjacent alluvial diamond workings in the Diamantino and Alto Paraguai valley and has had discussions with local merchants and garimpeiros.

DMD's impression is that the Mato Grosso diamond fields of Diamantino and Alto Paraguai are similar to the South African inland alluvial diamond deposits. An interpretation of the METAMAT drilling at Melgueira indicates that four palaeochannel systems are present. These consist of a Lower East and West and an Upper East and West system with the Upper superimposed on the Lower. The various derived gravels are predominantly ephemeral flood deposits.

A consistent stratigraphic assemblage is recognised in which the primary gravels are found in a sedimentary package some 20 metres thick comprised of a basal bi-modal channel fill sequence that may vary in thickness from 1 to about 10 m. The channel fill is overlain by a variable sand bar development that can range from 0 to 10 metres. An outwash sheet gravel follows this succession. Three main gravel types are recognised that are classified as follows:-

- Orthoconglomerate-sieve deposits. Basal palaeochannel fill.
- Paraconglomerates-debris flow deposits. Channel and over channel material.
- Paraconglomerates-sheet flood deposits.

All three gravel types have different sedimentological and spatial affinities and their diamond bearing characteristics vary as a result.

A trial mining exercise carried out by River Diamonds in the period 2003 and early 2004 washed 6,500t and recovered 345.8cts from the Upper Eastern system for an average grade of 5.32cpht. The distribution of the diamond content is related to the sedimentology of the gravel system. The majority of the resulting diamonds that were produced from this exercise were sold locally in Brazil to finance on-going operations. The value of selected stones ranged from US\$ 500 to in excess of US\$ 1,000 per carat although this amount is not a true reflection of the average value of the diamonds recovered.

River Diamonds has been waiting for Brazil to sign the Kimberley Accord that would allow the export of diamonds. The Accord was signed in February 2004 and River Diamonds is to have a parcel of some 300carats available for valuation in Europe in June 2004.

The general conclusions and recommendations of the DMD study are as follows:-

- River Diamonds has assembled a well balanced and a very prospective group of properties covering both exploration and early diamond and by-product gold prospecting.
- River Diamonds's local administrative offices are in Cuiaba and these are complimented by exploration facilities in Diamantino 200km north of Cuiaba. The existing production facility is at Melgueira, 35km from Diamantino. In addition, there are exploration properties at Buriti that is adjacent to Diamantino and Cachoeira de Pau some 75km north of Diamantino.

- River Diamonds is well managed, its on-site teams have extensive skills and its personnel have experienced in successful diamond exploration and exploitation projects acquired from working in Brazil and Angola.
- The Melgueira deposit requires geological mapping to identify the various gravels and the sampling of each horizon to determine the diamond content.
- Once the diamond and associated gold content distribution is known then a mining plan can be designed.
- DMD recommend that River Diamonds continue with a trial mining programme to test the various gravel types. The aim of this programme should be to recover at least 2,000 carats of diamonds.
- Gold is recovered in the heavy mineral concentrate along with the diamonds and from the current trial mining exercise.
- The gold contributes to the total revenue stream.
- The Melgueira deposit has an inferred resource of 5 million cubic metres (10 million tonnes) of diamondiferous gravel and trial mining indicates a diamond content that varies with the sedimentology of the deposit and ranges from 3.0 to 11.0 cpht. The diamonds are predominantly gem quality but to date no adequate parcel has been recovered under controlled testing methods to define an accurate value for the stones.

2. TERMS OF REFERENCE

2.1 General

River Diamonds is a registered company with diamond prospecting and exploration assets in Brazil, where it operates a diamond (and gold) prospect. In addition, it has exploration rights over other properties in Mato Grosso State. DMD was retained by River Diamonds in February 2004 to complete a Competent Person's Report of the Company's diamond properties.

DMD is a specialist company that offers independent technical advice and assists with the development and financing of mineral projects. The principals of DMD are Tony Hopkins and David Jordan, who have a wealth of experience and knowledge in the minerals industry and who have been accepted as authors of Competent Person's Reports for various International Stock Exchanges.

DMD is experienced in the diamond industry and has specific knowledge of the diamond opportunities and operations in the vicinity of River Diamonds's projects. Mr Hopkins began his diamond career in 1964 in the Kaokaveld region of Namibia but was most involved in the industry as chief geologist for Utah International in South Africa in the mid 1970's to the early 1980's. In this time he was in charge of the exploration for diamonds in Southern Africa and has visited many kimberlite, riverine and marine gravel occurrences. Mr Hopkins has also been trained in Israel to sort and evaluate rough diamonds.

Mr Jordan is a mineral processing engineer who has worked on both kimberlite and alluvial diamond deposits in Africa and South America. He has been involved in indicator mineralogical testwork, bulk pilot scale testwork together with flowsheet and engineering design. Mr Jordan has reviewed a number of diamond operating mines and has been involved in specifying and selecting processing equipment. He is familiar with valuation techniques and associated financial analysis and has undertaken a number of such exercises for both public and private companies.

This report is based on a site visit, discussions with senior company personnel, the company's technical consultants and River Diamonds's advisors. All River Diamonds's available geological and operating data were reviewed in conjunction with DMD's own information and various literature and additional relevant material from the Internet and other sources.

2.2 Reporting Definitions

A Competent Person's Report is defined as a technical audit of the information available on River Diamonds's properties by a "Competent Person".

A Competent Person can in practice be an individual or a company in which case a Director or Partner has to sign the Competent Person's Report. A Competent Person has to be professionally qualified and have at least five years of relevant experience with regard to the type of mineral deposits in question. A Competent Person must visit the site and have access to all available information, data and results and reach only conclusions that can be substantiated by evidence.

2.3 Reporting Restrictions

DMD reserves the right to alter the conclusions of its report should additional information become available. Permission is hereby granted to River Diamonds to use this report in support of submissions to Securities Commissions or Stock Exchanges or in support of a prospectus provided the meaning intended by the report as a whole is not altered by partial extractions or quotations.

2.4 Disclaimer

DMD are of the opinion that the authors of the various reports that form the basis for this study have been prepared by professional qualified persons.

3. INTRODUCTION

3.1 Property Description and Location

River Diamonds operates in Brazil under a local company, Sao Carlos Mineracao Ltda. The company holds concessions in the Diamantino and Alto Paraguai areas that was first identified as an alluvial diamond field in 1728.

3.2 Legal Status

River Diamonds formed a 100 per cent owned subsidiary company on the 13th of May 2002 named São Carlos Mineração Ltda, company registration number 51200822561, which is registered with the Junta commercial in the state capital Mato Grosso, Cuiaba. Federal registration CNPJ/MF 05044949/0001-07. The company is also registered and is legalised as a state company "State Inscription" Number 13.209377-4.

The registered company address is:

Av Historiador Rubens de Mendonça,
Ed Empire Center, No 990, Sala 405.
Centro
Cuiabá – MT
CEP: 78008-000

The company is registered with the Central Bank of Brazil for International financial transactions registration number 31119 Exportation of finances licence number RDE IA036623.

Under the incorporation details of Sao Carlos Mineração Ltda the company is allowed to:-

- (i) Obtain an Operating Permit and mining concession for all minerals, gems and precious stones, in accordance with the applicable laws in force, through the National Territory.
- (ii) Extract, mine and prospect for gems and precious stones in mines and mineral deposits.
- (iii) Process, utilise and industrialise minerals classified as gems or precious stones.
- (iv) Purchase and sell nonmetallic gems, precious stones and minerals.
- (v) Export nonmetallic gems, precious stones and minerals.

- (vi) Import equipment and raw materials for mining, processing or industrialisation of nonmetallic gems, precious stones or minerals.
- (vii) Acquire or rent property, installations, equipment and raw materials need to achieve the purpose of the company.
- (viii) Participate in the share capital of other companies, foreign or domestic, as a quotaholder or stockholder, with powers of management or administration of said companies.
- (ix) Provide Geo-Processing and Topographical Services.

The company has secured the Exploration Licences on the following concessions in the state of Mato Grosso, Brazil.

Areas Secured	DNPM Licence Numbers
Melgueira*	866156/2001
Cachoeira de Pau*	866151/2001
Alto Paraguai/Diamantino	866157/2001
Alto Paraguai/Diamantino	866154/2001
Alto Paraguai/Diamantino	866142/2001
Alto Paraguai/Diamantino	866155/2001

*These two areas are River Diamonds's main areas of activity and will be referred to as the Melgueira and Cachoeira de Pau projects.

In addition, the Group has secured a Prospecting Licence for Melgueira (866156/2001) and the relevant environmental licence from FEMA (622/2003). This allows for the Group to carry out further exploration including the bulk-sampling, processing of gravels and recovery of diamonds.

3.3 Physiography and Climate

This region consists in part of the Sul Americano Cainozoic age erosion surface that has been dissected by a number of large rivers and their tributaries. This has resulted in the formation of steep sided plateaus and mesas separated by flat bottomed to gently rolling away valleys and alluvial plains. The largest river in the area is river Paraguai, which has its source on the Sul Americano plateau 11km south of Alto Paraguai. The river initially flows northeasterly, then swings north and eventually westerly, where it cuts through the centre of the properties. The river Paraguai flows for about 1450km until it joins the Parana River on the Argentine-Paraguay border. A regional drainage divide extends northwest to southeast through Novo Diamantino. Southwest of this divide, drainage flows southerly, eventually emptying into the river Paraguai. The northeast drainage is northerly into the Rio Arinos and ultimately into the Amazon.

The properties straddle the northern-most reaches of the Rio Paraguai. The low lands are rimmed continuously around from the northwest through north, east and south by a series of mesas and plateaus. These include the Serra de Tapirapua (northwest), Chapada dos Parecis (north and northeast) and various sub ranges and Chapada of the Serra do Tombador. The alluvial flats widen rapidly southwest and west of the properties and become many tens of kilometres in width where they merge with those of the Rio Santana and Rio dos Bugres, both major tributaries of the Rio Paraguai. A number of continuously flowing tributaries of the Rio Paraguai cut across the properties, including the river Paraguai itself. The main tributary is the Rio Pari.

Elevations in the low lands range from approximately 225m to 275m although much of the ground is below 250m. The land becomes hilly to the northwest, north and southeast, reaching just over 350m where the properties include the lower slopes of mesas and some terrain that is transitional between the alluvial flats and mesas.

The climate is tropical; temperatures commonly range between 15°C and 40°C with an annual average temperature of 24°C. Precipitation ranges between 1000mm and 1750mm per annum. The dry season is typically from April to September with a wet season from October to March. The wettest period is from December to February.

Apart from cattle ranching there is a limited amount of crop farming in the area. On the alluvial plains the soil is relatively poor and vegetation is generally confined to sparse grass, small trees and shrubs. Small stands of tropical forest are occasionally present, typically they are restricted to protection zones alongside the main drainages where they are up to 50m in width along the banks of the rivers.

4. BACKGROUND

4.1 General

The Melgueira Project Image map is shown as Figure 4.

The opening up and settlement of this part of Brazil is essentially due to the search for and development of gold and diamond deposits. Mining activities within the upper reaches of the Rio Paraguai drainage basin date from the early 17th century. In 1728, gold placers were discovered along the Ribeirao de Ouro (River of Gold), now called the Diamantino River, where the city of Diamantino stands today. The discovery of diamonds shortly thereafter provoked the intervention of the Portuguese administration as, at that time, the mining of gold and diamonds was the prerogative of the Portuguese Crown. Consequently, soldiers were assigned to the region to prevent any illegal mining. Over the following years, many places were found throughout the region, but any mining activity was shut down by the authorities. In 1805 restrictions on private exploitation of gold placers were lifted but the mining of diamonds remained prohibited.

In the early 19th century, a French company installed two large dredges near Tres Barras, located approximately 30km southwest of Alto Paraguai at the confluence of the Tamandua and Santana Rivers with the Rio Paraguai. Operations ceased at the outbreak of the First World War and the site and equipment were abandoned.

Mining activities in the area intensified around 1930, particularly in the valley of the Rio Pari located south of Alto Paraguai. In 1938, diamonds were discovered in an intermittently flowing creek called Gatinho, which was only worked during the rainy season. A “diamond rush” ensued; by 1939 the settlement of Gatinho was a large village, which, in 1953, became the city of Alto Paraguai. Between the late 1930’s and 1960 a number of other settlements within the region were established or expanded due mainly to the placer mining activities. These eventually gave rise to the cities of Nortelandia, Arenapolis, Novo Marilandia and Santo Afonso.

After a period of decline, the region underwent a revival of diamond and gold mining in the mid-1970’s. Up to that time, most of the mining utilized manual methods of gravel extraction. After 1976 there was an increase in the amount of mechanised (hydraulic) mining. Several companies carried out research in the area prior to proceeding with exploration. A company called Administrativo Company Morro Vermelho (“CAMV”) belonging to the Carmargo Correa Group, was active along the Santana and Sao Francisquinho Rivers around Nortelandia. CAMV began producing diamonds from about 1979/1980 onwards and installed a dense medium concentrator in 1982. They are still active in the region and are presently the largest producers in the state of Mato Grosso.

In 1974, a Mato Grosso mining company called Companhia Matogrossense de Mineracao (“METAMAT”) began working around Alto Paraguai and Diamantino. In 1979, this work culminated in the development of the Melgueira project, which consisted of a series of shallow open pits with gravels trucked to a central gravity concentration plant. This project, located approximately 10km east of Alto Paraguai, was terminated several years later.

A company associated with the Brascan Group (Canada), Promisa Minerios Ltda, operated from 1979 along the Santana River. Problems caused by an influx of garimpeiros soon forced Promisa to abandon their operation.

SÃO CARLOS MINERATION LIMITED

MELGUEIRA PROJECT

Image Map

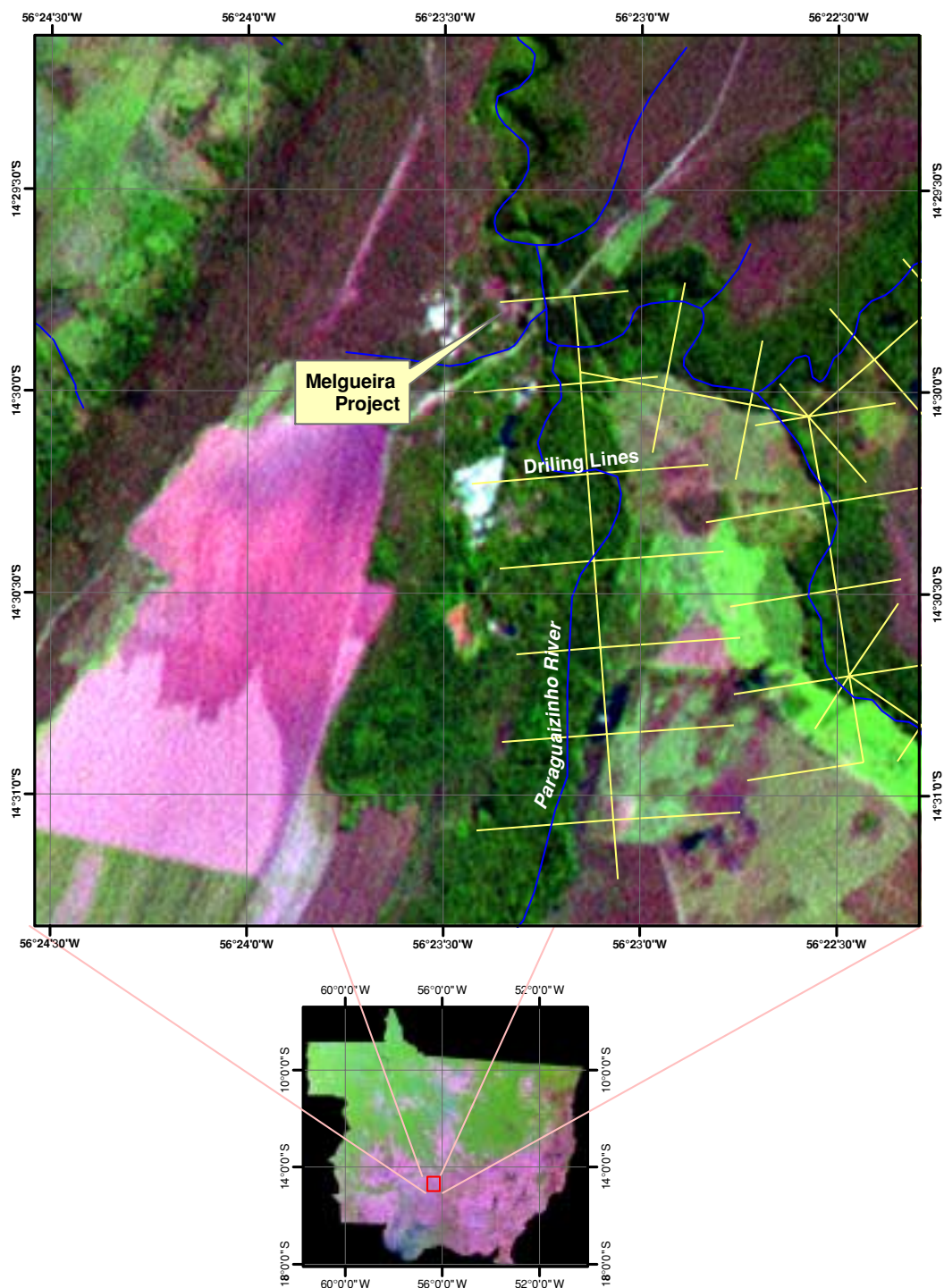


Figure 4

4.2 Current Regional Activities

The mining of diamond and gold continues to be a significant economic factor within this region, particularly for the district of Alto Paraguai. Data presented in a joint study conducted in 1996 by the state environmental agency (FEMA) and METAMAT, (FEMA/METAMAT, 1996) indicated that approximately 1,700 people worked in diamond and gold mining activities within the region encompassing Alto Paraguai/Diamantino in the east and Santo Afonso/Novo Marilandia in the west.

Principle methods used by the garimpeiros to exploit the diamond and gold bearing gravels are briefly summarized below.

Manual Mining: On the terraces overburden and gravel are removed by pick and shovel. Boulders and large cobbles are separated by hand at the work front. The remaining gravel is screened (commonly at 20 mm) to remove large pebbles, the fine fraction is transported to a water source for washing and screening, using a set of screens over a batia. Alongside or near flowing water, washing of gravel takes place using a sluice box placed within the shallow part of a channel. The practice of using flowing water to remove overburden and wash gravel is now banned, but may still occur. If reported, such operations are shut down by FEMA and IBAMA (the federal government environmental agency). The placement of an artificial barrier within a shallow stream is allowed. The barrier partially impedes water flow such that “light” material is washed away and the heavy material is left behind. The heavies are removed from behind the obstacle each day and screened for diamonds and gold.

Hydraulic Mining: This is carried out in small open pits of approximately 20m x 20m and to a depth of about 10m. Overburden is removed by excavator and either piled alongside the pit or used to refill a nearby previous working. One part of the pit is sunk to bedrock. Overburden beyond the reach of the excavator and the underlying gravel is removed as a slurry. Once a suitably sized area is established, channels are cut into the bedrock to collect subsequent slurried material for pumping out of the pit. The gravel horizon is retreated until the pit is taken back to the high walls. Large cobbles, (>75 mm) are removed by hand within the pit prior to pumping. The residual slurry is pumped to surface and passed through a rifle box. The 6" pumps most commonly used in this area have a reported capacity of 5m³ per hour at a slurry density of 40 per cent solids by volume. Water is obtained from adjacent flooded workings or from nearby drainages and recycled whenever possible. Some areas are only worked in the rainy season due to lack of water. Partially lithified material not disintegrated by the water jets is broken down by pick and sledgehammer. Clay rich lumps are broken into small pieces by hand although large lumps are removed from the slurry and piled at the work front. No trommells or other devices designed to disintegrate clays have been seen in the vicinity.

The rifle boxes (locally referred to as ladders) are of variable length, slope and width. Typically they are sloped between approximately 15° and 25°, the steepest units are approximately 5m to 7m in length whilst those with shallower slopes may be up to 10m long. The flow of slurry down the ladder is often irregular and often surges of fast flowing, high density, and very turbulent slurry are common. The upper portion of gravel horizon and any thin, residual overburden is usually removed early in the day, with subsequent screening and panning of retained heavies taking place before noon.

The lower portions of gravel are removed to bedrock in the afternoon, with concentrate clean up occurring at the end of the day.

Dredging: Small dredging operations in the Alto Paraguai area have been carried out until very recently. Typically, these operations employ small rafts comprising steel plate pontoons overlain by a floor of logs. Slurry and air pumps operate from the rafts. A diver positions the suction nozzle at the work front and the slurried gravel is pumped to a rifle box located on the river/creek bank. The diamond and gold recovery process is the same as that employed in the open pit operations. The FEMA/METAMAT report refers to dredging operations that were re-working old reject material deposited on the riverbeds and searching for stretches of virgin gravel. Wherever possible the processed gravels are deposited into nearby old pits, otherwise they are left on the riverbanks.



Plate 1 Typical Dredging Operation near Alto Paraguai

5. GEOLOGICAL SETTING

5.1 Background

Though known for some 275 years the understanding of the age and origin of the Brazilian diamondiferous gravels is only now being geologically investigated. The diamondiferous gravels of the area sit on the Amazon-Paraguai watershed and are possibly of Cretaceous (141-65 my), Tertiary (65-1.5 my) and Quaternary age.

- They represent erosive derivatives from the late palaeozoic tillites in the Mato Grosso-Rondonia region.
- It is an area that has been up warped in the late Mesozoic and Cainozoic in a series of broad arches initiating wide scale erosion. The arching is developed along a NW to SE and SW to NE orthogonal grid. Trend 125 is the most well known and has numerous Kimberlite intrusions along its length.
- The geological history of Brazil from the Palaeozoic to the present day has been one of sedimentation throughout the Carboniferous to the Triassic on a sinking continental mass. This was followed with the onset of the continental fragmentation beginning in the Jurassic that induced a denudational phase on an intermittently rising land mass that culminated with the development of a pervasive cover of Cretaceous sediments. After fragmentation and true continental drift in the Cretaceous there was initiated a continuous episode of erosion concomitant with large scale arching throughout the Cainozoic to the present that has reworked much of the Cretaceous leaving only remnants on the major interfluves.
- It was in the various erosion cycles that diamonds from the late Carboniferous sediments were reworked and deposited in the Cretaceous and Cainozoic gravels.

- The various derived gravels are predominantly ephemeral flood deposits and this may account for the low degree of rounding suffered by the diamonds.
- The Paraguai valley is a Cretaceous age drainage system that is being resurrected by the present day drainage.
- The sedimentology of the gravels and accompanying sands indicate that they were deposited in various locations within an alluvial fan and braided stream sequence varying from proximal through to mid fan.
- The palaeo channel deposits are channel fill controlled by the floor morphology and may be of low to medium sinuosity depending on the irregularity of the floor. On the property both varieties are found.
- Identifiable sedimentological associations are a basal channel fill sequence that may either be:–
 - A clear water assemblage represented by orthoconglomerates or a dirty water assemblage represented by paraconglomerates.
 - The sieve deposits are coarse to medium sequence of polymictic matrix supported upper fan orthoconglomerates that fine upwards into both channel and over channel paraconglomerates.
- The paraconglomerates are very coarse poorly sorted fining upward sequences of proximal polymictic paraconglomerate that sit directly on the Proterozoic floor. These are matrix supported deposits and have a clear bi modal composition of very coarse locally derived first cycle boulder sized quartzite clasts with an interstitial well rounded population of smaller polycyclic quartz pebbles.
- These channel fill deposits are followed by a coarse to medium sequence of polymictic matrix supported upper fan paraconglomerates that are well rounded and well sorted. These paraconglomerates are seen in places to grade into clast supported orthoconglomerates indicating a return to clean water deposition.
- Three phases of flooding are recognisable in the area and this gives rise to stacked cyclic succession.
- Being fan deposits they are of finite length and represent remnant localised limited cycle channel fill developments at the fan base. These localised developments were preserved by the fan migration and overlapping deposition of more distal facies.

5.2 Regional Geology

A regional stratigraphic column is shown as Figure 5.

The oldest rocks exposed in the area belong to the Alto Paraguai Group, which comprises a succession of Upper Proterozoic to Cambrian clastic and calcareous lithologies. Within a broader region this Group rests upon older Pre-Cambrian rocks belonging to the Cuiaba series. Alto Paraguai group lithologies are overlain by Cretaceous rocks belonging to the Tapirapua and Parecis formations and by Quaternary alluvium.

The Cuiaba Series (or group) is a metasedimentary sequence of variably coloured phyllites (or schist) with interlayered feldspathic psammites (arkoses), quartzite's and conglomerates. The age of these rocks is uncertain but they are generally taken as representing “basement” in this region.

The Alto Paraguai Group has an overall thickness of between 4000 and 6000 metres. It is divided into six formations which comprise a 1000m thick sequence of marine clastic (Bauxi and Puga Formations) and calcareous (Araras formation) lithologies and much thicker (3000m to 5000m) continental elastic succession (the Raizama, Sepotuba and Diamantino formations). Only the Raizama, Sepotuba and Diamantino formations are represented in any significant way in the general area of the properties. Some additional descriptions of these particular units are provided below.

Raizama Formation has a lower unit of red and white coloured sandstone and arkose with interlayered conglomerate sandstones. A middle unit comprises variably coloured (yellow, red, brown) slates while the upper unit is composed of red, white and yellow sandstones with interlayered conglomerate, slate and siltstone. This formation has a thickness in excess of 1000m.

Sepotuba Formation is approximately 3000m thick and comprises, predominately grey to red often thickly bedded sandstone, arkose and siltstone.

Diamantino Formation grades upward from thinly bedded grey wacke and shale to massive sandstones and arkose units. All lithologies have a red to brown colouration. This formation varies in thickness from 450m to 700m.

The Tapirapua Formation consists of a series of basaltic extrusive rocks that occur along the northern side of the Rio Paraguai valley. The basalts form a highland called Serra de Tapirapua which extends westerly from Diamantino for a distance in excess 110km. The basalt lies unconformably upon Alto Paraguai Group strata. In the Nortelandia area it has a thickness of approximately 100m but further west it is reported to be in excess of 300m thick. Compositionally, the basalt is tholeiite; it is black, aphanic and is occasionally amygdaloidal. In outcrop it appears fresh with a conchoidal fracture.

CRONOESTRATIGRAFIA			LITOESTRATIGRAFIA				
ERA	SISTEMA	Ma.		GRUPO	FORMAÇÃO	FÁCIES	
CENOZÓICO	Quaternário	1.8	♦	Alto Paraguai	Pantanal	Água Fria, Peba e Coité.	
	Terciário				Cachoeirinha	Estiva	
MESOZÓICO	Cretáceo	141	♦	Bauru/ Parecis	Cambambe Cachoeira .do B. Jardim Quilombinho Paredão Grande Kimberlitos		
	Jurássico	209			São Bento	Botucatu	
	Triássico	248					
	Permiano	290		♦	Passa Dois	Terezina Irati Palermo	
Carbonífero	360	Aquidauana					
PALEOZÓICO	Devoniano	395	♦		Ponta Grossa		
	Siluriano	435			Furnas		
	Ordoviciano	500					
	Cambriano	570		♦	Alto Paraguai	Gr. São Vicente Diamantino Raizama Araras	
						Puga Bauxi	
PROTEROZÓICO			♦	Cuiabá			
ARQUEANO		2500	♦				

Figure 5 Coluna estratigráfica regional

Regional Stratigraphic Column

The Parecis Formation is composed of a series of flat lying, continental clastic lithologies represented mostly by buff to red coloured thickly bedded, poorly sorted sandstones and locally important conglomerate horizons. These lithologies underlie most of the region to the northwest and north of the properties. They also occupy most of the plateau that forms the Chapada dos Pareds. The contact of Parecis formation strata with the underlying basalt unit is a non-conformity; immediately north of Diamantino, Parecis formation strata lie unconformably upon Diamantino formation lithologies.

The Quaternary Deposits comprise unconsolidated to partially lithified material, as alluvium river channel, terrace and flood plain deposits associated with the Rio Paraguai and its tributaries. Colluvial deposits are less significant and restricted mainly to the base of escarpments along the Serra do Tombador, Serra de Tapirapua and Chapada dos Parecis. The quaternary deposits are discussed in more detail below.

5.3 Local Geological Setting

The geological setting at Melgueira is shown in Figure 6.

The Diamantino and Alto Paraguai alluvial diamond deposits are found within the current headwaters of the Paraguai river. This drainage is currently exposing and reworking diamondiferous gravel of Cretaceous and Tertiary age and the deposits all have a common or similar sedimentary origin as ephemeral flood deposits.

A consistent regional stratigraphic assemblage is recognised in which the primary gravels are found in a sedimentary package some 20 m thick comprised of a basal bi-modal channel fill sequence that may vary in thickness from 1 to about 10 m. The channel fill is overlain by a variable sand bar development that can range from 0 to 10 m. An outwash sheet gravel follows this succession.

The length of channel developments in the Diamantino and Alto Paraguai areas varies from 1 to 5 km. The thickness of the channel gravels is on average about 3 m but with local potholes exceeding 10m. The gravels are nearly always overlain by a variable sand bar development that can range from 0 to 20 m in thickness.

Channel dimensions vary in width from 50 m to over 500 m.

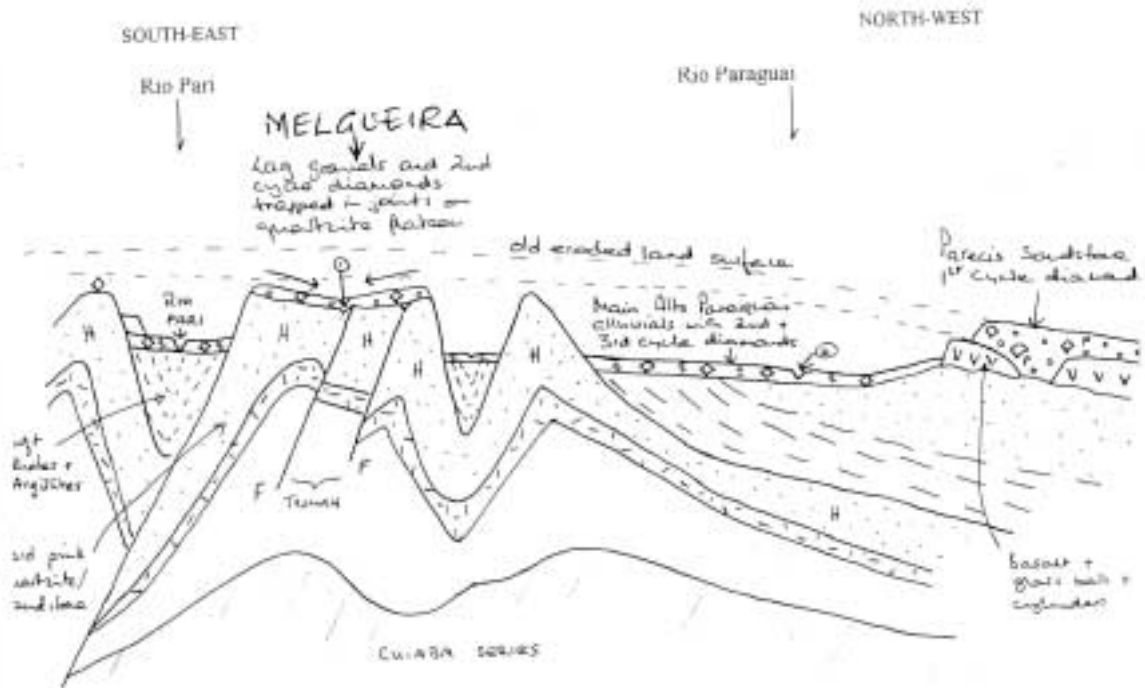
The gravels are regarded as ephemeral flood deposits in origin and three main types are recognised being:

- Orthoconglomerate-sieve deposits. Basal palaeochannel fill.
- Paraconglomerates-debris flow deposits. Upper and over channel material.
- Paraconglomerates-sheet flood deposits.

All have different sedimentological and spatial affinities and their diamond bearing characteristics vary as a result.

SCHEMATIC GEOLOGICAL SKETCH SECTION THROUGH RIO PARI AND RIO PARAGUAI VALLEYS

(Adapted from field sketch section, Rod Baker)



- ① Rio Paraguai flows out of page
- ② Rio Paraguai flows into page

20km Approx

		ALTO PARAGUAI GROUP		
	Quaternary Alluvium	} with diamonds		Diamantina Formation Sandstones
	Parecis Group Sandstones			Sepoiba Formation Argillites
	Tapajós Formation Basalts			Roraima Formation Sandstones
				Araxá Formation?

Figure 6

5.4 Stratigraphy of the Diamondiferous Gravel Deposits

The gravels are water laid sediments that are extremely sensitive to fluid dynamics governed by the hydrological parameters of flow rate, viscosity and density. The former is a function of gravity and water supply whilst the latter are mainly a function of detrital supply.

The presence of diamond as well as the quantity of diamonds present are controlled by the same fluid dynamic principles and as the diamonds are only present in parts per billion then the hydrodynamics of the systems are best interpreted from the macro and mesoscopic geology of the gravels as exposed by mining and drilling. The erosion, transportation and deposition of sediments by the action of rivers is known as the fluvial cycle. The cycle has four recognised environments or associations based on their depositional modes that from the source to the sea are:

- The Alluvial Fan Association
- The Flood Plain Association
- The Coastal Plain Association and
- The Deltaic Association

The gravels on the property are interpreted by DMD as alluvial fan deposits. In each of the associations there are characteristic and definitive sedimentological sequences that identify a depositional model that can in the field be used to position any specific sedimentary sequence.

The main criteria used to identify the palaeogravels at the property are based on:

- The morphology of the deposits
- The sedimentary associations
- The stratigraphic relationships
- Regional and local geology

The main characteristics of fans are that they are found at the upper reaches of river systems in areas of rugged relief that are prone to great climatic fluctuations that govern the supply of water and subsequent detritus. Alluvial fans are seen to have three distinct depositional environments based essentially on fluid mechanical principles and these are:–

Fan Locality

Upper or Proximal Fan (Melgueira)

Mid Fan (Melgueira)

Distal Fan

Associated Sediments

Characterised by gravel deposits that depending on the climatic conditions are either debris flow (matrix supported) deposits or clast supported (sieve deposits)

Sheet like gravel deposits and sandy deposits

Sand and silt deposits that in the distal parts interfingers with sand-mud sequences

Alluvial fans are made up virtually of 100 per cent bed load deposits.

Channel gravel deposits are seen to belong to the Upper or Proximal fan facies and with some overlap into the Mid fan facies. The recognition of both sieve deposits and debris flow deposits is the most significant factor in identifying the diamond runs as alluvial fan deposits.

5.5 Sedimentary Lithology of the Diamondiferous Gravel Deposits

5.5.1 Melgueira

An interpretation of the METAMAT drilling at Melgueira indicates that four palaeochannel systems are present. These consist of a Lower East and West and an Upper East and West system with the Upper superimposed on the Lower. The interpreted morphology of the four systems is shown in Figure 7.

The METAMAT drilling does not distinguish between the various channel systems and the following descriptions are based on the exposed Upper Eastern system and the conclusions applied to the remaining unexposed systems.

The interpretation indicates that the flow of the palaeo-drainage was from north to south. This is based on the configuration of tributaries and is corroborated by an interpretation of the depositional style of sedimentology as exhibited by the exposed Upper Western channel system.

It should be noted that the flow of the present drainage is from south to north and indicates recent back tilting of the area.

Only a limited section of the Upper West palaeochannel system is exposed on the property and a description of the geology and sedimentology is derived from a sequence of old garimpero workings and the recent trial prospecting activities of River Diamonds. The workings extend for some 2km down stream and are adequate to identify the various properties and gravel facies associated with an ephemeral channel system. Within the gravel facies of the Upper West palaeochannel system there are four lithological types divided into two groups base on the viscosity of the transporting medium:

Debris flow deposits } (Turbulent flow, high viscosity)

Sheetflood deposits } (Turbulent flow, medium viscosity)

Stream channel deposits } (Fluid flow, low viscosity)

Sieve deposits } (Turbulent flow, low viscosity)

A diagram to illustrate the relationship of the above progression within the Upper West system together with the relationship of diamond content is given in Figure 7.

At present the nature of the gravels developed in the Upper East and Lower East and West systems are unknown but it is anticipated they will be similar to the Upper West system. The bedrock to the palaeochannel systems at Melgueira as identified from the METAMAT drilling is the **Raizama Formation**. This formation has a lower unit of red and white coloured sandstone and arkose with interlayered conglomerate sandstones. A middle unit comprises variably coloured (yellow, red, brown) slates while the upper unit is composed of red, white and yellow sandstones with interlayered conglomerate, slate and siltstone. The drilling is not detailed enough to describe the nature of the channel systems or indicate any lithological control over the channel morphology.

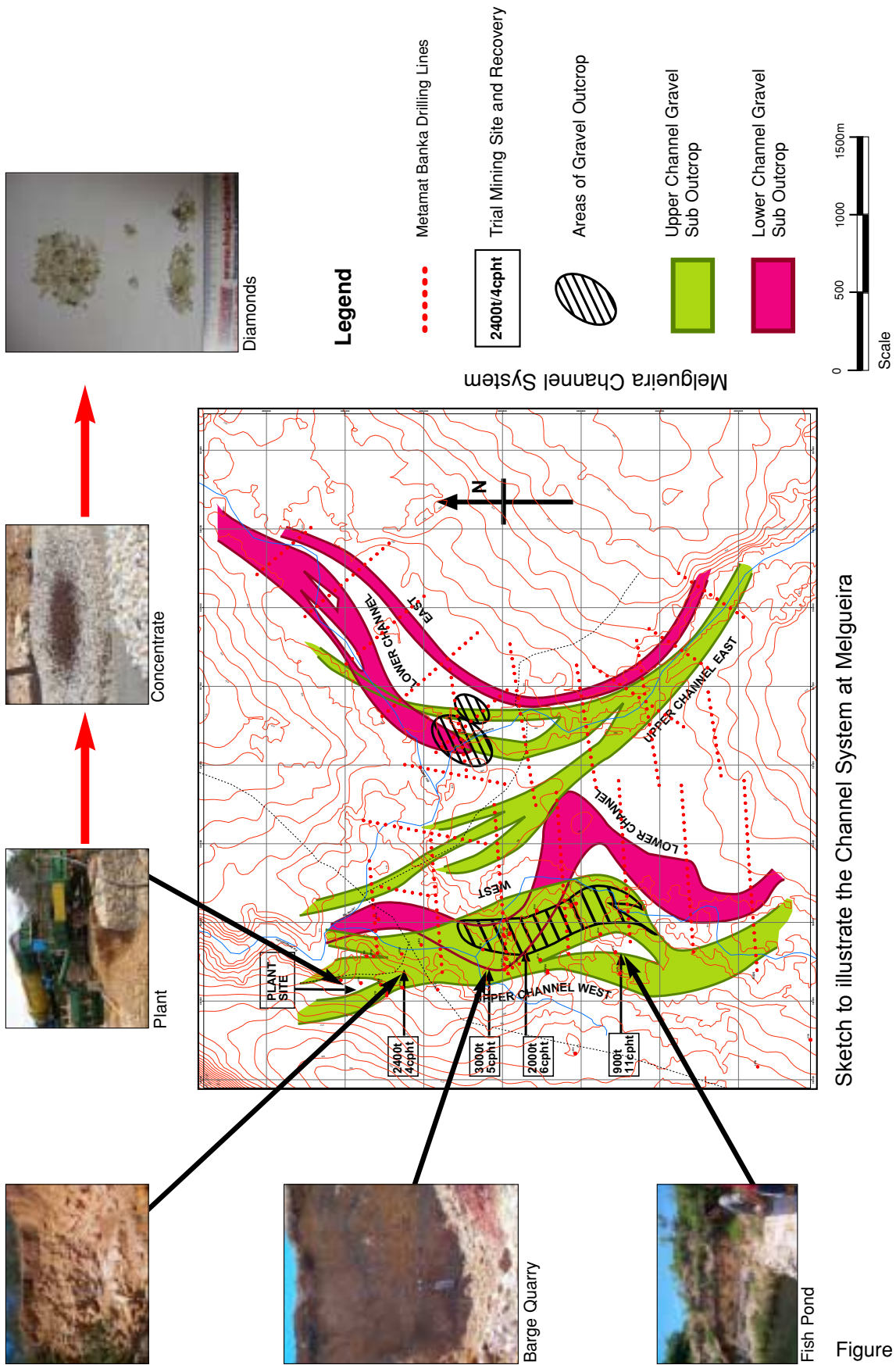


Figure 7

(a) Eastern Upper Channel System

This is the only system that crops out on the property and has been exposed by trial mining in the north and central sectors.

The system is relatively linear and on average is 2,750m in length and 100 to 400m width (average 200m) with gravel thickness of up to 5m (average 3m).

It is estimated that within the system there are some 1.5 million cubic metres of gravel (3 million tonnes).

A prospecting exercise washed 6,500t in 2003/4 and recovered 345.8cts for an average grade of 5.32cpht. The distribution of the diamond content is seen to be directly related to the sedimentology of the gravel system as is shown in Figure 7.

(b) Remaining Channel systems.

At the present time it is estimated from the METAMAT drilling that the unexposed Western Lower and the Eastern Upper and Lower channel systems may contain some 3.5 million cubic metres of gravel (7 million tonnes). The geological nature and diamond content of these gravel systems are untested but it is expected that they will be of a similar nature to the Upper Eastern system. This is based on the geology of other gravel deposits in the Diamantino and Alto Paraguai area.

6. DEPOSIT TYPES

The deposits are classified as alluvial or placer diamond deposits associated with a palaeoriver channel system. The paeogravels are currently being exposed by the modern drainage of the Upper Paraguai river.

6.1 Orthoconglomerate Sieve Deposits

These are clean water sediments that form clast supported fining upward sieve deposits that are classified as orthoconglomerates. A correlation between maximum clast size and bed thickness suggests that the whole unit is the result of a single flow.

In terms of a proximal fan environment they form narrow channel deposits in a very proximal position with limited axial extent.

Orthoconglomerates and sieve deposits in particular represent the clear water stage at the onset of an ephemeral flood sequence when the sediment load of the flood is deficient in fine material. They form fining upward sequences with sand bars and the interstices are often filled with finer material.



Plate 2 Orthoconglomerates at the “Fish Pond” locality

6.2 Debris Flow Deposits

The main characteristic of this type of deposit is that they are represented by matrix supported paraconglomerates that exhibit a distinct coarsening upward sequence in a mudstone matrix.

In terms of the alluvial fan environment debris flow deposits are located in the lower portion of the upper fan and spill over into the mid fan. Because of their high viscosity a decelerating flow cannot deposit its load selectively and all sizes will stop together giving a poorly sorted deposit with large clast floating in a finer matrix.

They form both channel and lobe deposits that may have levees and over channel splays.

They are high viscosity mudflows that in general lack stratification and all sedimentary structures including imbrication. Depending on the density of the mudflow matrix there is a correspondence between bed thickness, clast size and associated structures.

Large flat clasts are often aligned in the plane of the flow. A further feature associated with paraconglomerates is that in both a vertical and overchannel sense they grade upwards and outwards into sandstones with parallel and low angle bedding as a result of waning stage floods.



Plate 3 Very coarse debris flow paraconglomerates near plant site

6.3 Sheetflood deposits

This form of paraconglomerates are relatively lower viscous debris deposits which expand at the downstream end of the channel deposits in the mid fan environment into sheet and braided channel forms. These deposits also represent a reworking of the upper fan sequences.

In the Melgueira area they lie vertically above the proximal and fan head deposits indicating rapid erosion of the source area. In these gravels the clasts are well rounded and sorted and indicate a reworking of a previous gravel such as the Cretaceous conglomerates in the area.

7. MINERALISATION

7.1 Diamond Sources

The source of diamonds contained within many Brazilian alluvial deposits is a matter of some debate. Discussion is focussed around whether or not the diamonds have been liberated directly from a local primary or secondary diamondiferous source.

Ten Kimberlite/Lamproite provinces (9 kimberlite and 1 lamproite) have been recognised by Tompkins and Gonzaga (1989), (Figure 8). Few of the Kimberlites are diamondiferous and only one province, Juina, located in west central Mato Grosso, currently hosts economic or near economic Kimberlites. Of the ten provinces, eight lie along a NW-SE trend referred to as AZ 125° lineament. This structure transects the Amazonico craton boundary and extends across the Parana basin to pass south of the Sao Francisco craton. Watkins and Gonzaga draw attention to two major features of the distribution of Brazilian kimberlites, namely: (a) that the ages of the kimberlite bodies decrease from northwest to southeast, (b) that most of the Mesozoic kimberlite provinces occur in regions of arching, either along basin boundaries or on cratons. They believe that this apparent structural control may be fortuitous and that diamondiferous primary sources may still be found in areas underlain by major cratons, where no well-defined tectonic control patterns exist.

More recent work by Thompson et.al. (1997) points out that late cretaceous kimberlites occur at the fringes of three, plume-head related, igneous provinces (Poxoreu, Ipora and Alto Paranaíba). In these areas, strongly alkalic and potassic basalt from mantle sources is considered to have reached surface through rifts developed in locally thinned lithosphere, where the convecting mantle lay beneath cratonic margins. The authors link these magmatic events to other igneous provinces that lie south-southeast of Cuiaba and to recent plume-related volcanicity on the islands of Trinidad and Martin Vaz, located in the South Atlantic, and to the seamounts of the Victoria chain that link these islands with Brazilian mainland.

The AZ 125° lineament also hosts many secondary diamond sources and has been the focus of considerable exploration by both senior and junior mining companies.

Diamonds found within the Alto Paraguai Region are generally considered to have been derived from conglomerates within the Parecis formation. There appears to have been no systematic exploration within the region to test for the presence of kimberlite indicator minerals although reconnaissance sampling across a much wider area was carried out in the early 1970's as a joint study by DNPM and the Mineral Resources Research Company (CPRM, 1972). The FEMA/METAMAT report suggests that heavy minerals present in diamond bearing gravel should be considered as prospecting guides not to be related to the primary source area. They list a number of monomineralic and polymineralic as being present. Among the polymineralic grains is a whitish stone consisting of tremolite-sericite-quartz, locally known as "faceira". Such stones and grains are used by the garimpeiros to indicate the presence of diamonds within the gravels, to varying degrees of confidence. For example; the presence of faceira is considered to be highly indicative of the presence of diamonds in quantities and sizes directly proportional to those of the faceira. Heavy minerals and stones most commonly noted during the site visit included magnetite, chalcedony, quartz, agate, limonite, hematite, zircon/topaz, tourmaline, ilmenite and the faceira.

7.2 Melgueira

The work of garimpeiros and the Banka drilling and washing carried out by METAMAT have confirmed that the Melgueira gravel is diamondiferous. Some systematic test work was carried out by METAMAT to determine the diamond content of the gravel by pitting and trenching but the results of this test work are not available.

The Banka drilling did not differentiate between gravel types and the material tested represented the total gravel thickness.

The following sections are a review of the various gravel types to assess their depositional characteristics as potential diamond carries.

8. EXPLORATION

Though having four concessions, the company has concentrated its efforts to date on one area known as Melgueira.

Exploration has been sporadic over the past 30 years with the main work has been carried out by:-

- METAMAT (Companhia Matogrossense de Mineracao), the State Mining and Exploration Company in the period 1982 to 1992. This ten-year programme was instituted to investigate and evaluate the alluvial (garimpeiro) diamond workings in the State.
- MIN-EX RESOURCE CONSULTANTS in 2000 on behalf of Paramax Resources Ltd, a precursor of River Diamonds in the Buriti area.
- RIVER DIAMONDS LTD (2001).

The METAMAT programme was essentially exploration to define the extent and potential diamond content of the diamondiferous gravels in the area. The exploration consisted of Banka drilling (a specialised type of drill originating from the Island of Banka in Indonesia that was specifically designed for drilling alluvial tin deposits), a washing programme and mapping of the Garimpos (old workings). The exercise defined a potential tonnage and diamond content for the Melgueira area.

The Min-Ex Resources work is a typical well-executed consultant style descriptive work on an area immediately adjacent to the Melgueira concession summarises the geology and diamond content of the deposits in the Alto Paraguai area and is the main reference work for the region.

The work of garimpeiros, Banka drilling as well as pitting and trenching carried out by METAMAT and test pitting by a company called Rio Branco have confirmed that the gravel is diamondiferous.

Exploration of the deposit for which there are reasonable records is the METAMAT studies. This was an investigation of the Melgueira Garimpo essentially using Banka drilling. In total, 360 holes of approximately 25m depth were drilled on 23 lines.

This programme delineated in the order of 5 million cubic metres of diamondiferous gravel. A total of 27.43 carats of diamonds were recovered from the drill cuttings. The drilling was not able to identify in detail the nature of the gravel or give an indication of a realistic diamond content because the sample recovery was so small.

The description of the diamonds provided by METAMAT is that the average stone size was 0.4cts, 40 per cent was of good gem quality, 50 per cent was of near gem material and 10 per cent was rubbish. The average colour was white.

9. DRILLING

9.1 General

This was an investigation of the Melgueira Garimpo essentially by Banka drilling. In total, 360 holes of approximately 25m depth were drilled on 23 lines.

9.2 Sampling Method and Approach

A detailed description of the of the sampling method and approach taken by METAMAT is not available. The basic methodology was to investigate the areas where diamondiferous gravel was identified from the Banka drilling by both pitting and trenching. The gravel was put through a typical Brazilian Jig Plant and the concentrate hand washed to recover diamonds.

9.3 River Diamonds Operating Procedures

The prospecting operation and treatment operations for the Melgueira alluvial diamond deposit is via a typical South Africa procedure. The following simplified description applies to the River Diamonds operations. All prospecting has been by opencast or strip mining and the final anticipated method will be a form of slot mining following delineated channel trends.

Extraction consists of topsoil stripping, overburden removal, removal of gravels, overburden replacement and topsoil rehabilitation.

The gravels are excavated to bedrock and the floors cleaned to maximise diamond recovery.

Excavated gravel is pre-screened and the undersize gravel transported to the plant for the recovery of diamonds.

At the plant the gravel is re-classified and treated in a rotary pan. The resulting concentrate is then classified by hand screening. The final diamond sorting is by hand sorting.

9.4 Data Verification

The METAMAT programme was carried out over a period in the 1970s, 80s and early 90s. All the diamonds recovered have been disposed of and no records exist for their valuation. The current new River Diamonds sampling programme is to recover a minimum of 2,000 carats to enable the project be evaluated in current terms.

10. ADJACENT PROPERTIES

10.1 Buriti

The nature of the diamond content of adjacent properties as outlined in the Min-Ex Resources report (February 2000) is:

- Properties in the Alto Paraguai drainage, which includes Melgueira and which have the potential to host moderate to large volumes of diamondiferous and gold bearing gravels, ranging up to several metres, have been delineated by drilling.
- Reliable estimates of diamond grades are premature. Historical recoveries of diamonds by garimpeiros cannot be used to imply overall grades for a property as the mining is selective and unrecorded. . The diamonds are predominantly gem quality; most of the diamonds would probably be in the 0.2ct to 0.5ct size range but larger stones can be expected to be found. Preliminary expectations of the average selling price of such diamonds on the world market are in excess of \$150/ct.



Plate 4 Typical Garimpeiro working at Buriti

10.2 Cachoeira De Pau (Waterfall of Wood)

The following notes have been provided by Richard Crew of River Diamonds. DMD visited the area in 2002 but were unable to access the workings due to waterlogged conditions.

(a) History

The locals know Cachoeira de Pau as the diamond eye of Brazil. In the mid 1990's DeBeers built a large jig plant and were about to initiate a large sampling programme. At the same time the local garimpeiros became aware of the area's potential and smothered the area with some 1,700 pumps and Canadian ladders. DeBeers immediately halted their programme as they felt that to remove this volume of men would too difficult. After

a short period of time the Brazilian mining laws changed and the garimpeiros were removed by force by the government enforcement agencies, namely; IBAMA (Federal Forestry Police), FEMA, DNPM and Brazilian police forces.

DeBeers never returned to the area. However their jig plants are still lying in rusted heaps close by.

(b) Location

Cachoeira de Pau lies on the banks of river Arinos and is situated approximately 60kms North of Diamantino in the state of Mato Grosso, (Central Northwest Brazil.) Access is via tarmac, dirt and sand roads. A new tarmac highway is currently being constructed, which will pass within 10kms of the area.

This land claim is situated on the western banks of the Rio Arenos, approximately 60kms north of Diamantino town. METAMAT conducted a survey in 1992, which included a drilling and bulk sampling programme. Only limited data is available at the present time. The River Diamonds claim covers some 1,000 hectares.



Plate 5 Old Workings at Cachoeira de Pau looking north

From the limited data available, an average grade of 3.0cts/m³ and an average stone size of 0.299 were reported. The largest stone recovered according to the survey was 19.3cts. Sixty percent of the stones are classified as white and the remaining 40 per cent as smokey/cloudy.

The predominant shape is octahedral and the stones are categorized as follows: 10 per cent extra, 60 per cent firsts, 30 per cent seconds. The main pathfinder minerals are garnet, rutile, tourmaline and gold.

The source of the diamonds is considered to be the conglomerates of the Cretaceous Parecis Formation.

Further information from C. Human, a South African digger, who has recently done some mining in the area confirms that these grades are reasonably accurate. The average price for the packages of stones he sold were

between \$80-\$90USD per carat. Mr Human has now vacated the property as he was using a rotary pan plant and it could not handle the high sand content.

The Cachoeira de Pau property is a brown fields operation for River Diamonds that will be addressed once the Melgueira project is operational. At this time River Diamonds have no definitive plans for Cachoeira de Pau and apart from a nominal licence fee have no financial commitment to the property.

It is evident that the gravel is diamondiferous and will require a standard exploration approach to evaluate it.

11. MINING AND PROCESSING CONSIDERATIONS

11.1 Mining

The prospecting operation and treatment operations for the Melgueira alluvial diamond deposit is via a typical South African procedure. The following simplified description applies to the River Diamonds operations. All prospecting has been by opencast or strip mining and the final anticipated method will be a form of slot mining following delineated channel trends.

Mining consists of topsoil stripping, overburden removal, removal of gravels, overburden replacement and topsoil rehabilitation.

The gravels are excavated to bedrock and the floors cleaned to maximise diamond recovery.

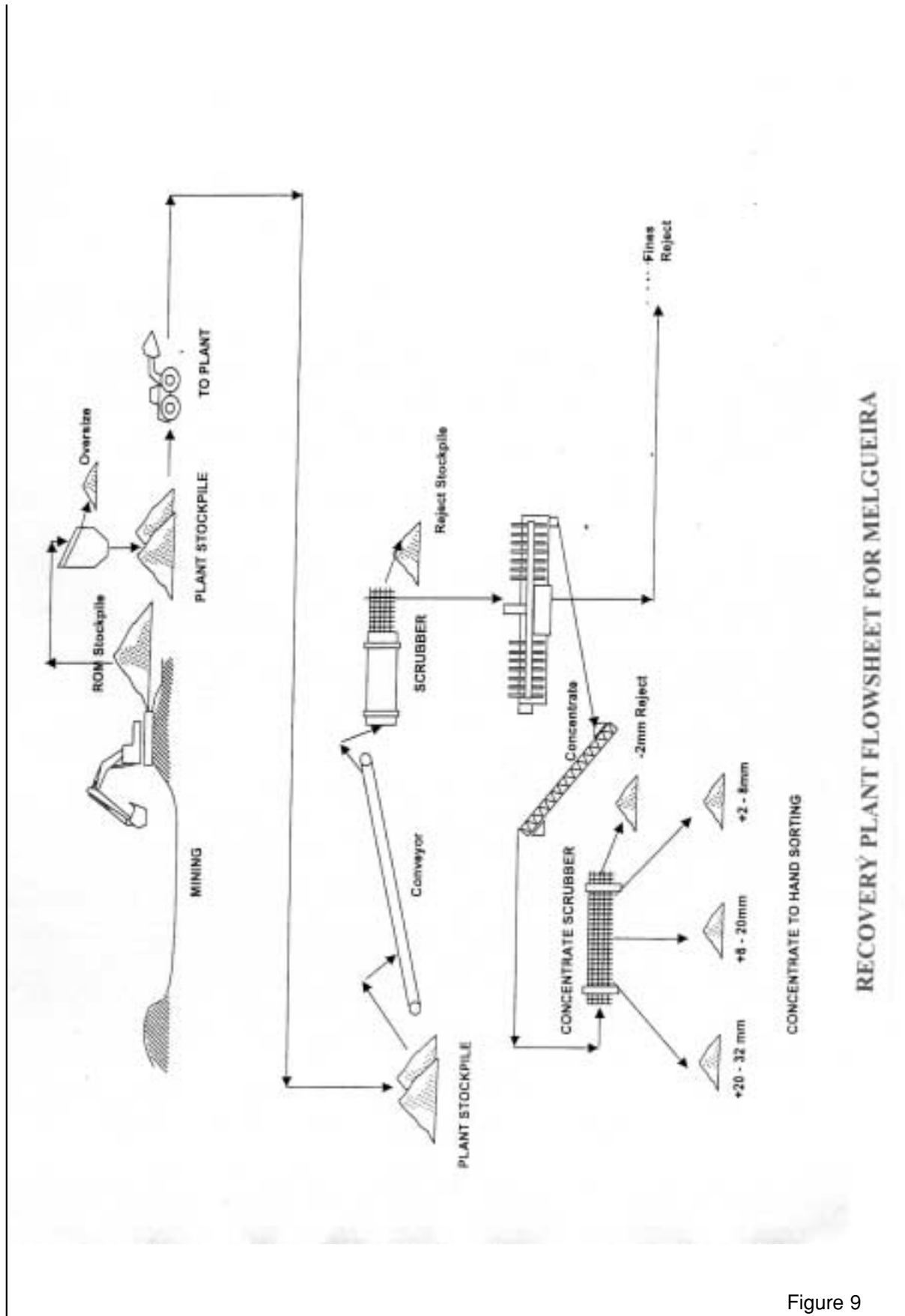
Excavated gravel is pre-screened and the undersize gravel transported to the plant for the recovery of diamonds.

At the plant the gravel is re-classified and treated in a rotary pan. The resulting concentrate is then classified by hand screening. The final diamond sorting is by hand sorting.

11.2 Diamond Recovery Plant at Melgueira

A flow sheet for the recovery plant installed at Melgueira is given in the attached diagram. (Figure 9). Processing is conventional and involves receipt of the excavated material via a stockpile that is in turn screened in a grizzly to remove plus 50 mm oversize. The undersize is stockpiled and then passed through a scrubber where plus 32 mm and minus 2 mm material is rejected. The resulting product is treated in a 16 foot pan that produces a concentrate and reject product. The concentrate is screened and the diamonds and gold recovered by hand sorting. The pan capacity is rated at approximately 80tph. The material balance for the operation is as follows:–

Product	Wt per cent	Comments
Feed	100.0	Ex mine
+ 32 mm	30.0	Reject
+ 32 mm – 2 mm	60.0	To Pan
– 2 mm	10.0	Reject
Concentrate	0.5	To Hand Sorting



RECOVERY PLANT FLOWSHEET FOR MELGUEIRA

Figure 9



Plate 6 Plant at Melgueira

12. MINERAL RESOURCE AND RESERVE ESTIMATE

12.1 Definitions and Methodology

Diamonds as a commodity present the following problems in their identification and the subsequent derivation of reserves and resources:–

- It is not possible to assay for diamonds and to identify and quantify them they have to be physically recovered.
- Diamonds are highly individualistic and vary in shape, size, colour and clarity which on a statistical basis means that a ‘parcel’ of stones must be recovered to give an indication of their average characteristics and subsequent worth. The recommended size of parcel varies from deposit to deposit but a figure of some 2,000 carats would be regarded as the minimum required for the Melgueira gravel.
- The Melgueira gravels have a diamond content that on average is regarded by River Diamonds as varying between 2.0 to 6.0 carats per hundred tonnes(cpht). Actual grades are “historic” and, therefore, it is very difficult to categorise a reserve or resource base within the laid down definitions.
- In practice, reserve or resource figures quoted will be for tonnes of gravel that can be measured under the stipulated rules but where the diamond content and associated value cannot be stated accurately but it is included based on the available historic information.

The following are definitions used by DeBeers as quoted in their annual report. They utilised definitions classified according to the SAMREC code. This code has been compiled along the lines of the Australian JORC code which is being used as a guideline for codes drafted in the United Kingdom, Canada, USA and possibly other countries.

Inferred Resource: That part of a resource from which tonnage, grade and 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. A sufficient large diamond parcel is not available to ensure a reasonable representation of the diamond assortment. It is based on information that may be limited or of uncertain quality or reliability.

Indicated Resource: That part of a resource for which tonnage, densities, shape, physical characteristics, grade and diamond value can be estimated with a reasonable level of confidence. It is based on information at locations that are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed. Sufficient diamonds have been recovered to allow a confident estimate of average diamond value.

Probable Reserve: The economically mineable material derived from a measured or indicated resource. 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 government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified.

The Basis of Assessment Criteria Used: The assessment criteria used for the classification of the resources and reserves are data availability, sampling technique, geological interpretation and estimation technique to define a Probable Reserve.

The probable reserve together with the indicated and inferred resource base will be utilised as the basis for a pre feasibility study. This exercise will assess all the aspects of a mining project, including geological, mining, metallurgical, infrastructural, environmental, social, legislative and commercial factors. The study is sufficiently detailed to support a decision on the project's implementation. An environmental study is an important part of the project's implementation and in the case of the River Diamonds Melgueira deposit this aspect of this project has been carried out to a level that has secured a Prospecting Licence.

A feasibility study that considers the same aspects in more detail is rarely commissioned on alluvial diamond projects because of the acknowledged and typical difficulties of defining a reserve base to support an extended mine life. Typically, a probable reserve base of two years would be derived that would be sufficient to repay initial capital investment. This reserve would be utilised in the pre-feasibility study together with the indicated and inferred resources. The indicated and inferred resources will be upgraded to a probable reserve on an on-going basis throughout the life of the project and this would be the justification for their use in the pre feasibility study.

In essence, a probable reserve is the logical progression from an indicated resource as mining, metallurgical and economic studies indicate that the resource part of the deposit is economically viable and positive decisions for mining operations can be made.

The main stages of exploration to establish a resource/reserve base for an alluvial diamond property are:–

- Discover and identify a gravel package. This is normally done by locating and mapping the old workings in the area. This technique results in the identification of an inferred mineral resource.
- Prove or disprove the continuity and morphology of the gravels as well as diamond content. This procedure is normally carried out by drilling, pitting, trenching and some form of recovery process. This technique upgrades the inferred resource to a combination of indicated and inferred resource.
- Collect a bulk sample of the diamondiferous gravels to both quantify and qualify the nature of the diamonds. This is normally done as a form of trial mining and enables associated technical and

economic studies to be completed and allows indicated and inferred resources to be upgraded to a probable reserve. (This exercise acknowledges the difficulty of determining grade and value of the contained diamonds that is why a quantity of 2,000 carats of recovered stones is stipulated in the SAMREC, JORC and Instrument 43-101 codes of South Africa, Australia and Canada.)

12.2 Resource Base

The work of garimpeiros, Banka drilling as well as pitting and trenching carried out by METAMAT and test pitting by a company called Rio Branco have confirmed that the Melgueira gravel is diamondiferous.

(a) METAMAT

This was an investigation of the Melgueira Garimpo essentially by Banka drilling. In total, 360 holes of approximately 25m depth were drilled on 23 lines.

This programme delineated five million cubic metres of diamondiferous gravel. A total of 27.43 carats of diamonds were recovered from the drill cuttings. The drilling was not able to identify in detail the nature of the gravel or give an indication of a realistic diamond content because the sample recovery was so small.

The description of the diamonds provided by METAMAT is that the average stone size was 0.4cts, 40 per cent was of good gem quality, 50 per cent was of near gem material and 10 per cent was rubbish. The average colour was white.

(b) River Diamonds

A prospecting exercise carried out by River Diamonds in the period 2003 and early 2004 washed 6,500t recovered 345.8cts from the Upper Eastern system for an average grade of 5.32cpht. The distribution of the diamond content is seen to be directly related to the sedimentology of the gravel system as is shown in Figure 10.

River Diamonds propose to recover an additional 2,000 carats to both quantify and qualify the diamond content of the gravel.



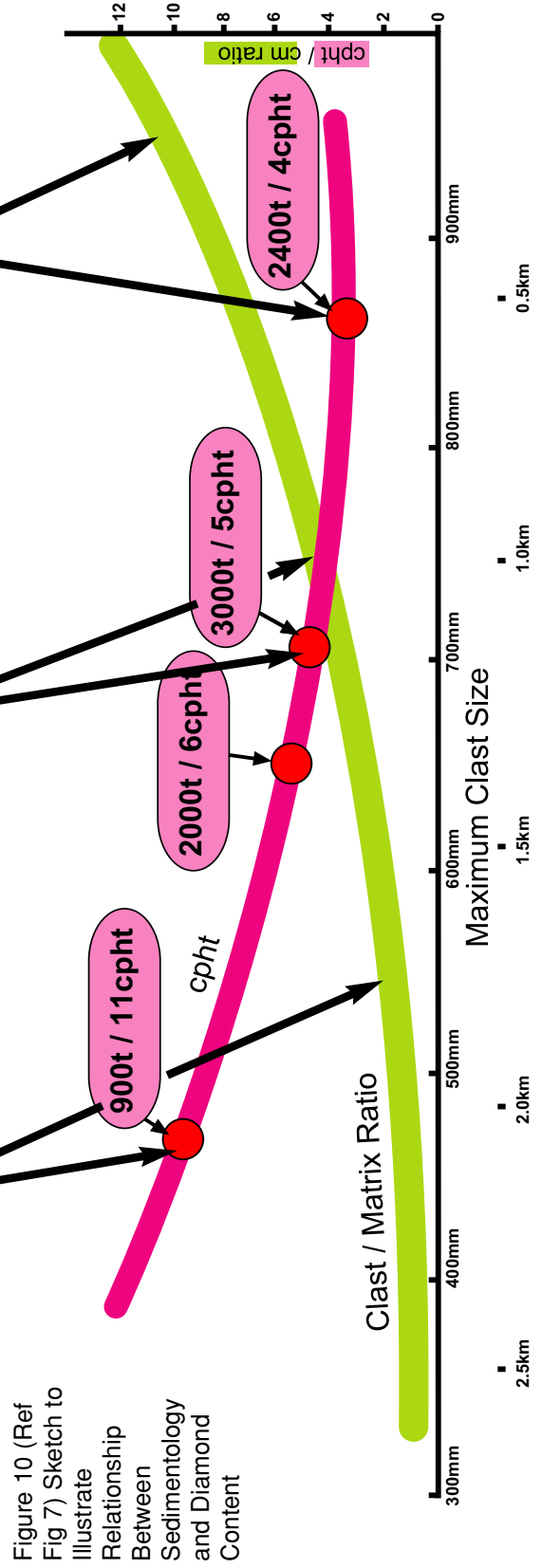
Upper Channel West Fish Pond
Pebble/Cobble (ortho conglomerates)



Upper Channel West Barge Quarry
Cobble Debris Flow
(para conglomerates)



Upper Channel West Plant Site
Very Coarse Boulder Debris Flow
(para conglomerates)



River Diamonds report the following:–

- From past knowledge the average grade from the Melgueira area runs between 2.0 to 6.0 cpht. However there are occasions when isolated sweet spots are hit and the grade soars. (cf. Figures 7 and 10).
- The average stone size is 0.42 ct with regular large stones being found. During an appraisal of the potential of the area in 2000 and 2001, two large stones were recovered by garimpeiros . These were 10.10ct and 33.34ct in size, both of gem quality. An inspection of a 190 stone garimpeiro parcel revealed that 93 per cent were gem quality mainly white with a few coloured stones.

River Diamonds expect an average grade of 3.0cpht with an average price of \$250/ct. DMD regard this as a realistic target that is in line with diamond recoveries from both Melgueira and the Diamantino area in general. From the above records it can be reasonably assumed that the drilling has defined a volume of gravel and that it is diamondiferous.



Plate 7 Diamonds from Melgueira

DMD would classify the current resource base at Melgueira as INFERRED. The tonnage (volumetric) estimates do not differentiate between gravel types and the diamond content of the various gravel types is unknown. To date an adequate size parcel of diamonds has yet to be recovered to afford a reliable average value for the expected production.

13. RECOMMENDATIONS

DMD on the basis of the site visit and discussions with local diamond merchants and garimpeiros recommend that River Diamonds proceed with a prospecting programme to test the various gravel types and to aim at recovering at least 2,000 carats of diamonds.

With respect to the proceeds of funds raised DMD recommend that capital should be spent on:

- Purchase and installation of a fully equipped sort house to include a “Flowsort” machine.
- Earth moving equipment.
- Gold recovery equipment.
- Vehicles.

Such a programme, if successful, would upgrade the resource base to the overall INDICATED category with portions being in the PROBABLE category.

The above exercise relates to a trial mining and test programme that if successful will form the basis of a subsequent funding exercise that would result in a much larger commercial project.

14. REFERENCES

14.1 Reports

- METAMAT (Companhia Matogrossense de Mineracao), the State Mining and Exploration Company in the period 1982 to 1992. This ten-year programme was instituted to investigate and evaluate the alluvial (garimpeiro) diamond workings in the State.
- MIN-EX RESOURCE CONSULTANTS in 2000 on behalf of Paramax Resources Ltd, a precursor of River Diamonds.
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15. GLOSSARY

<i>Term</i>	<i>Description</i>
Agate	Cryptocrystalline variety of quartz
Alluvial	Pertaining to or composed of alluvium
Alluvium	Earth or sand or minerals deposited by the action of running water in transporting the decomposition of rocks
Aphanic	Fine grained carbonate sedimentary rocks
Arkose	Feldspathic sandstone
Basalt	Extrusive fine grained mafic igneous rock
(Tholeiite)	Silica oversaturated basalt
Carboniferous	Geological period from about 345 to 280 million years ago
Cenozoic	Geological period from about 65 million years ago to the present time
Chalcedony	Cryptocrystalline variety of quartz
Conglomerates	A coarse grained clastic sedimentary rock composed of rounded to sub angular fragments(clasts) larger than 2mm in diameter set in a fine grained matrix of sand and silt
(ortho)	Clast supported conglomerates
(para)	Matrix supported conglomerates
Conchoidal	Fractures with a smooth curved surface
cpht	Carats per 100 tonnes
Ct/cts	Metric carat(s) 0.2gm
Cretaceous	Geological period from about 135 to 65 million years ago
DeBeers	DeBeers Consolidated Mines Limited
Debris Flow	A form of para conglomerate
Diamondiferous	Bearing or yielding diamonds
Ephemeral	Short lived geologically
Faceira	A whitish stone consisting of tremolite-sericite-quartz
Gravel	An accumulation of unconsolidated rounded rock fragments resulting from erosion and larger than 2mm in diameter
Garimpeiro	An artisinal diamond digger
Garimpo	An artisinal diamond working
Hematite	A common iron mineral
Ilmenite	An iron titanium mineral
Igneous	Rocks or minerals that have solidified from molten material

<i>Term</i>	<i>Description</i>
Indicated Resource	That part of a resource for which tonnage, densities, shape, physical characteristics, grade and diamond value can be estimated with a reasonable level of confidence. It is based on information at locations that are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed. Sufficient diamonds have been recovered to allow a confident estimate of average diamond value
Inferred Resource	That part of a resource from which tonnage, grade and 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. A sufficient large diamond parcel is not available to ensure a reasonable representation of the diamond assortment. It is based on information that may be limited or of uncertain quality or reliability
Kimberley Accord	An international accord on the control and sale of diamonds
Kimberlite	A peridotitic rock found in pipes and fissures that is a terrestrial source of diamonds
Lamproite	A potassium rich variety of Kimberlite
Limonite	An iron oxide mineral
Magmatic	Pertaining to naturally occurring mobile molten rock material generated within the earth
Magnetite	A magnetic iron mineral
Palaeo-	Denoting great age or remoteness in time
Palaeozoic	Geological period from about 570 to 225 million years ago
Probable Reserve	The economically mineable material derived from a measured or indicated resource. 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 government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
Proterozoic	Geological period from about 2,500 to 570million years ago
Pre Cambrian	Geological period older than 570 million years ago
Psammite	A rock consisting of predominantly sand size material <2mm and >1/16mm
Quartz	A crystalline silicon oxide mineral
Rifle Box	A mechanical gravitation device for recovering heavy minerals from sediments
Sedimentology	The science and study of water lain (sedimentary) rocks
Siltstone	A fine grained sedimentary rock with a grain size <1/16mm
Slate	A fine grained fissile rock with a distinct cleavage
Tertiary	Geological period from about 65 to 2 million years ago

Tillites	Sedimentary rocks derived from glacial erosion
Topaz	A crystalline aluminium silicate mineral
Zircon	A crystalline zirconium oxide mineral

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18. APPENDIX 1 SUMMARY OF BRAZILIAN MINING LEGISLATION

1. INTRODUCTION

Set out below is a summary of certain provisions of Brazilian legislation. It does not purport to be a comprehensive statement of all relevant provisions. It is included for the purposes of background information only and should not be relied on or used for any other purpose.

2. MINING LEGISLATION

2.1 Introduction

In Brazil, mineral resources are the property of the Brazilian state. Mineral resources constitute a separate class of property from the property rights in land derived from the surface property. Exploration and mining activities can be undertaken by private entities by way of an authorisation or a concession granted by the federal government which confers ownership rights in the mined resource to the concession holder.

The Mining Code and its Regulations set out the rights relating to mineral resources, the legal regimes for exploration, commercial exploitation of such resources and rehabilitation of mining areas, and also establishes the rules for government control of the mining industry.

2.2 Regulation of Development of Mineral Resources

Pursuant to the provisions of the Mining Code and the Regulations adopted pursuant thereto, the following legal regimes apply to the exploration, commercial exploitation of mineral resources and rehabilitation of mining areas:

- (a) The Concession Regime: This is applicable to the industrial exploitation of the deposit, from the gathering and extraction of the mineral resource to its processing. Operation of a concession is regulated by the Minister of State for Mines and Energy (MME);
- (b) Authorisation Regime: This is applicable to the work required to delineate the deposit, its evaluation and investigation into the feasibility of economic utilisation. Exploration can be undertaken upon the issuance of a mineral exploration (prospecting) licence granted by the Director of the Brazilian Department of Mineral Production (DNPM);
- (c) Other legal regimes are applicable to exploration for and development of mineral resources comprising various construction materials, such as limestone or clay, mining activities by Garimpeiros and development of certain major resources on the monopoly basis.

The authorisation and concession regimes are applicable to the organised and large-scale mining ventures, respectively governing: (i) the exploration work in the first stage; and (ii) the economic development and utilisation of the deposit (mining) in the second stage.

2.3 Exploration Phase

Under Brazilian law, mineral exploration means the performance of the operations required for prospecting, exploration and geological and economic valuation of the feasibility of commercial exploitation of a deposit.

2.3.1 Application

An application for a mineral exploration licence must include a plan for prospecting work, a budget and a schedule for performance of the work to be undertaken.

2.3.2 Priority Rights

An application for a mineral exploration licence related to an area free from other applications to explore for mineral resources will be considered and granted on a priority basis. The first application presented to DNPM for a certain area will, as a rule, have a priority status vis-a-vis later applications for the same area. An area is to be considered free when, among other considerations, the area is not subject to an existing licence or application.

2.3.3 Size of Area

Exploration licences are limited to specified maximum areas of up to 10,000 hectares in the “Amazonia Legal” in which the Group’s interest are located for deposits of metalliferous mineral resources, fertilisers, coal and diamonds.

2.3.4 Duration

A mineral exploration licence is legally valid and in force for a minimum of one year and a maximum of three years from the date of issue.

A mineral exploration licence can be successively renewed at the sole discretion of DNPM, at the request of the licensee. When considering renewal of a licence, DNPM will take into consideration various factors including the work already carried out, the results achieved and other reasons for applications to extend the term.

2.3.5 Report

The holder of an exploration licence must provide any information requested by DNPM. Results of the exploration must be submitted to DNPM on conclusion of the exploration programme.

2.3.6 Obligations

The holder of an exploration licence must *inter alia* (i) perform work only within the specified area, and respect the rights of third parties; (ii) notify DNPM of the discovery of a mineral resource not included in the authorisation granted; (iii) remove substances extracted from the licence area for analysis and industrial experiments without prior authorisation of DNPM; (iv) act in accordance with the applicable environmental legislation; (v) start work within 60 days of the date of publication of the licence or obtaining rights of access; (vi) refrain from interrupting the work, without justification, for more than three consecutive months or for more than 120 non-consecutive days during the term of the licence; (vii) compensate the surface owner or possessor for occupation of the land for any loss or damage caused by the work; (viii) present a final exploration report; and (ix) pay the relevant fees.

2.3.7 Rights

The holder of an exploration licence has the right to carry out the licenced work and necessary ancillary activities, as well as work on land in the private or public domain included in the area indicated on the exploration title. The holder has the right to passage through private property including the soil and subsoil in the area in question as well as in neighbouring areas, for performance of the relevant work. Rent and indemnification are payable as described in paragraph 5 below.

2.3.8 Transferability

A mineral exploration licence is a right which may be totally or partially assigned to anyone who is able to execute the work under such licence in accordance with the applicable legislation. The applications for exploration licences are also transferable, provided that the respective priority rights are assured. Transfer of a licence or application must be communicated to DNPM for approval and registration, and it will only be legally valid after such approval and registration is obtained.

2.3.9 Exclusivity

A mineral exploration licence allows its holder to perform the relevant work in respect of a certain mineral resource within the specified area, and rights over that area cannot be granted to any third parties. Therefore, the holder of a mineral exploration licence will be exclusively entitled to prospect in the specified area, although only for the specified mineral resource.

2.3.10 Sanctions

Failure to comply with the obligations under the exploration licences may, depending on the seriousness of the breach, result in a warning, fine or forfeiture of the licence. Rights of appeal and hearing exist.

2.4 Transition Phase

After completion of the exploration work and submission of the final report within the legal validity term for the exploration licence, DNPM will check the accuracy of the report. DNPM may then decide to (a) approve the report, when the existence of a deposit which can be both technically and financially developed has been confirmed; (b) dismiss the report, when the exploration work undertaken was insufficient or there are technical deficiencies in the report; (c) file the report, when it has been proven that there was no deposit which may be both technically and/or financially developed; or (d) postpone the decision on the report, where it is temporarily impossible, technically and/or financially, to develop the deposit. In the latter case, the holder must submit a new report before a deadline stipulated by DNPM.

In the event of approval of the final report, the holder of the mineral exploration licence will have one year to apply for a mining concession (the second stage referred to below), or to negotiate disposal of the licence to interested third parties. At the request of the licensee, DNPM, may at its own discretion, extend this period for additional similar periods.

If the licensee does not apply for the mining concession within the time period mentioned above, the rights of the licensee will lapse. DNPM will then publicly declare the prospected area available to third parties for the purpose of applying for the mining concession.

2.5 Mining Phase

Brazilian mining legislation defines mining as a set of connected operations with the principal aim to commercially develop and utilise the deposit, regulating each stage from extraction of the useful mineral substances to their processing.

2.5.1 Application

The application for the mining concession presented to DNPM by the holder of a mineral right, or by its successor, must contain certain information including (a) evidence as to availability of funds or existence of financial commitments; (b) a development plan which addresses all the required actions to exploit the deposit; (c) an implementation schedule.

A concession will not be granted if it would contradict public policy or if the Federal Government considers that it could have a negative effect on certain interests which are more important than mineral exploitation. In the latter case, the applicant is entitled to be indemnified by the Federal Government for any expenses incurred relating to the exploration work, if the final exploration report has been approved.

2.5.2 Requirements

A mining concession will only be granted when:

- (a) the area has already been explored, and mining is considered by DNPM to be both technically and economically viable;
- (b) the respective final exploration report has been approved by DNPM;
- (c) the mining area to be developed on a commercial basis is within the boundaries of the explored area and has been considered to be both technically and economically viable by DNPM, as well as being adequate for the extraction and processing of the mineral deposits; and
- (d) the competent environmental agency has issued the corresponding environmental licence.

2.5.3 Size of Area

The extent of the licenced area must be adequate for the extraction and processing work to be undertaken, taking into account technical and economic considerations. The applicant must specify the size of the area required for mining within the licenced area for exploration. DNPM has the unconditional authority and power to establish the size of the mining area.

2.5.4 Duration

Brazilian mining legislation does not establish the duration of mining concessions. These concessions remain in force until depletion of the deposit.

2.5.5 Reports

The holder of a mining concession must comply with detailed reporting requirements related to, *inter alia*, technological processes used, economic results achieved, implementation of the environmental rehabilitation programme and compliance with health and safety regulations.

2.5.6 Ownership of the Mined Product

Although the concession holder is not the owner of the mineral deposit, which remains the property of the state, the concession holder holds the title to the extracted mineral.

2.5.7 Transferability

A mining concession is a personal right of the holder. It may be assigned in total or in part by way of assignment, transfer, alienation or encumbrance for which approval and registration by DNPM is required.

When a concession holder alienates or encumbers a concession, the concession will continue to be legally effective and in force as to its rights, obligations, limitations and effects. Discontinuance of a concession will terminate any debts and encumbrances associated with the concession. The creditors, however, may file personal suits against the former concession holder. No actions can be filed against any new holder of the renewed concession.

2.5.8 Rights

The concession holder will be exclusively entitled to undertake mining work for the mineral resources specified in the concession within the authorised area. However, if another resource, not specified in the concession, is found in the authorised area, the holder may request an addendum to the concession, so that he can undertake mining works in respect of such newly discovered resource.

Once mining commences, the concession holder may seek DNPM's approval for alteration of the development plan, provided that additional knowledge in relation to the mine justifies the alteration, or market conditions require such alteration.

The concession holder has the right to temporarily suspend mining work. If the concession holder wants to suspend the works for more than 6 months DNPM's consent is required. The request for suspension must be technically justified and accompanied by a report on the work already carried out, in addition to a study of the mine and its future possibilities.

In order to enable mining to be undertaken, the concession holder may obtain easements on the property where the mine is located, as well as on the neighbouring properties, (subject to indemnification of the owners of such properties) for a range of purposes including construction, laying of communications lines, water (collection storage, drainage and usage), access, waste storage and disposal.

The mining concession holder may obtain authorisation to divide the concession into two or more separate concessions, provided that this will not harm the commercial development and utilisation of the deposit once the technical and economic feasibility of such division has been demonstrated. The ability of autonomous development of the concessions resulting from such split and the corresponding production must also be supported by evidence.

The mining concession holder may relinquish the concession. In such event, the holder will, at the discretion of DNPM, be able to remove its property from the mine location provided that no damage is caused to the mine by such removal.

2.5.9 Obligations

A mining concession holder has a range of obligations including:

- (a) to start the mining work as per the development plan within six months from the date of publication of the concession in the Official Gazette of the Federal Executive;
- (b) to execute the work in accordance with the development plan approved by DNPM;
- (c) to extract only the resources indicated in the concession or any addendum thereto;
- (d) to communicate to DNPM the discovery of any mineral resource not included in the concession;
- (e) to carry out the work in accordance with the applicable legislation;
- (f) to appoint a duly qualified person to supervise the work;
- (g) refraining from intentionally obstructing or hampering the future development of the deposit;
- (h) to be liable for any loss or damage caused to third parties resulting from the mining work;
- (i) to avoid air or water pollution as a result of the mining work;
- (j) to protect and preserve the water sources, as well as to use them in accordance with the technical instructions and requirements;

- (k) to observe and comply with all instructions and recommendations of the supervisory entities;
- (l) refrain from suspending the mining work for more than 6 months without the consent of DNPM;
- (m) to keep the mine in good condition during any suspension period; and
- (n) to rehabilitate the areas degraded by mining.

The holder of the mining concession must request DNPMs confirmation of its rights of possession on the concession area. This request must be made within 90 days of the publication of the concession in the Official Gazette of the Federal Executive. The concession holder must also prepare and place signs on the site delineating the area of the deposit at the locations indicated in the concession, for inclusion in the title document. Such signs must be clearly visible, and cannot be changed or removed.

The concession holder must pay royalties to the surface owner as referred to in paragraph 5.2.2 below.

3. COMPANIES THAT OPERATE IN MINERAL BUSINESS ACTIVITIES

In order to undertake mining activities, a body corporate must be incorporated under Brazilian laws, and must have its main offices and administration in Brazil. Its main corporate objective must be to prospect for, commercially develop and rehabilitate mineral deposits in Brazil.

Any alteration that causes changes in the register of such company must be filed with the relevant commercial registry and be presented to DNPM within 30 days.

4. ENVIRONMENTAL PROTECTION LEGISLATION

General environmental liability

There is a well developed system of environmental legislation in Brazil. Under that legislation any mineral activities will be subject to licencing, environment impact assessment and obligations to rehabilitate degraded areas.

Companies which carry on activities considered potentially polluting or utilising natural resources, such as mining, must be registered with the Brazilian Environmental and Renewable Natural Resources Institute (IBAMA).

Licences

Environmental licensing is handled by the environmental agency of the relevant state. Nevertheless, in certain cases, the competent agency may be IBAMA. Issue of the licences and handling of any requirements arising therefrom are considered on a case-by-case basis.

The licensing system is divided into three stages, each one referring to the licence granted by the environmental agency with jurisdiction over the mineral area, for each stage of mineral activity. A preliminary licence must be obtained prior to the planning stage. An Environment Impact Assessment (EIA) must be prepared, and the respective Environment Impact Report (RIMA) must also be produced at this time. The EIA/RIMA must be submitted for consideration and approval to the competent environmental agency, together with a plan relating to the rehabilitation the degraded area.

At the exploration stage, the installation licence may only be obtained after an environment control plan (PCA) has been presented to the competent environmental agency.

At the development stage, another licence must be obtained, namely the operating licence for processing plants. This is issued by the competent environmental agency after satisfactory implementation of a PCA. MME will only grant the mining concession after the installation licence is issued by the competent environmental agency.

In the event of mineral exploration involving an extraction permit, an environmental licence for such activity must be obtained. The holder must present a mineral development plan to the competent environment agency

containing the environmental impact evaluation and measures to be adopted in order to mitigate any negative impact.

Restoration responsibilities

Miners and mining companies must assume the liability and obligation to rehabilitate the degraded area, in accordance with the procedure established on a case-by-case basis by the competent environmental agency. Environmental degradation is defined as the process resulting from harm suffered by the environment that causes loss or reduction of environmental properties such as the quality or the production capacity of natural resources.

The rehabilitation plan of the degraded area must be submitted to the state environmental agency responsible for the area where mining activities are being carried out, together with the EIA/RIMA, as a part of the environment control plan.

The rehabilitation must have as its objective as the full restoration of the degraded area to its previous condition so that it can be used again, in accordance with the pre-established plan for using the surface, bearing in mind the need to maintain environmental stability. Such plan is also to be approved on a case-by-case basis.

Within their respective jurisdictions, different government agencies may impose administrative sanctions on those who violate environmental protection laws. Such sanctions include fines, interdictions, losses or restrictions on activities, fiscal incentives and benefits.

A person in breach of these provisions may incur (i) civil liability for the damage caused to the environment, being liable to compensate and/or repair the damage and (ii) criminal liability. Civil liability does not necessarily depend on culpability, evidence as to the act or omission, to the damage, and the relation between such act or omission and the damage may suffice.

Forestry protection and related obligations

General requirements

Under the current Brazilian Forestry Code all rural properties must have a forestry preservation reserve of 20 per cent. of the property's area. If the property is located in the Amazon Region (as applies to the Group's interests) the reserve must be of 80 per cent. of the areas except for areas of savannah (as applies to the Group's interests) where the requirement is 35 per cent. In such cases, the forestry commitment may be satisfied as to 15 per cent. on other eligible properties leaving a requirement for at least 20 per cent. on the primary property.

Mining operations cannot normally be undertaken within 50m of a river. This strip can be included in the forestry preservation area.

5. INDEMNIFICATION AND ROYALTIES

5.1 Introduction

As stated above, in Brazil mineral resources belong to the federal government and not the surface owner. The surface owner, however, is entitled to compensation during the prospecting phase and also a percentage of the results of the mining work.

5.2 Rent, Compensation and Participation

5.2.1 Exploration

The holder of an exploration licence must pay the owner or the possessor (surface owners) of the area under licence a rent for occupation of the land and compensation for any loss or damage caused or that could be caused by virtue of the exploration work.

The payment cannot exceed the maximum net worth of the area effectively occupied for exploration. Compensation for damages caused cannot exceed the fair market value of the property actually occupied.

In the event of damage caused by the exploration activities making the land unusable for agricultural or breeding activities, compensation may reach the fair market value of the whole of the property.

In relation to public land, the holder of the licence is exempted from paying for its use. However it must pay compensation for any loss or damage to the government.

Agreements for payment and compensation must be entered into directly by the mineral rights holder and the surface owner. Exploration can only begin after the agreement has been signed by the parties. In the event of disagreement and at the request of DNPM, the amount to be paid for use of the property will be set by the court with jurisdiction over the area of the exploration licence.

5.2.2 Mining Phase

With regard to the concession and licensing regimes, the landowner is assured the right to participate in the results of the mining work. The value of such participation has been set at 50 per cent. of the total amount due and payable to the states, municipalities and the Federal District, as royalties for exploitation of the mineral resources (see below). Therefore, the value is calculated on the net turnover from sale of the mineral product obtained after the last stage of processing and before manufacture. Payment to the landowner of a percentage of the mining results must be made on a monthly basis.

The right to participation in the results of the mining work cannot be assigned or secured separately from the property. The surface owner, however, may waive such participation, as well as assign or secure the right of receiving instalments in the future.

5.3 Statutory Royalties (Financial Compensation for the Commercial Development of Mineral Resources) (CFEM)

The Federal Constitution has established that the states, municipalities, Federal District and the agencies of the direct federal administration (DNPM and IBAMA) are entitled to receive royalties (“financial compensation”) for the exploitation of the mineral resources.

In light of the above, CFEM has been created, payable by the holders of mining concessions for the exploitation of mineral resources. This compensation has been set at a maximum of 3 per cent. of net turnover from the sale proceeds of the mineral product obtained after the last stage of processing and before its actual manufacturing.

The following CFEM rates have been established:

- (a) aluminium, manganese, salt-gem and potassium ores – 3%;
- (b) iron, fertilisers, coal and other mineral substances – 2%;
- (c) precious coloured stones and gems that can be polished, carbonised stones and precious metals – 0.2%; and
- (d) gold – 1 % (Garimpeiros are exempted).

CFEM is distributed among different levels of government as follows: 23 per cent. to the states (or the Federal District) where mining activities are performed; 65 per cent. to the municipality where mining activities are performed; and 12 per cent. to DNPM, which must give 2 per cent. of its share to IBAMA.

PART IV

FINANCIAL INFORMATION ON THE GROUP

The following is the full text of a report on the Company and on River Diamonds UK from MRI Moores Rowland LLP, the Reporting Accountants, to the Directors and the Proposed Director of the Company and to the Directors of W H Ireland.

The Directors and the Proposed Director
River Diamonds Plc
29 Chelsea Wharf
Lots Road
London
SW10 0QS

The Directors
W H Ireland Limited
Cannongate House
62 – 64 Cannon Street
London
EC4N 6AE

29 July 2004

Dear Sirs

Introduction

We report in connection with the proposed admission of the Company to the Alternative Investment Market and the Placing of up to 60,000,000 Ordinary Shares. This report has been prepared for inclusion in the Admission Document to be dated 29 July 2004 (“the Document”). We report separately on the Company (Section A) and its subsidiary undertaking River Diamonds UK Limited (“River Diamonds UK”) (Section B).

Section A – River Diamonds Plc (“The Company”)

Basis of preparation

The financial information set out below has been extracted from the financial records of the Company for the period ended 29 April 2004, no adjustments being considered necessary.

Responsibility

The financial records are the responsibility of the directors of the Company. The directors of the Company are also responsible for the contents of the Document in which this report is included.

It is our responsibility to complete the financial information set out in our report from the Company’s financial records, to form an opinion on the financial information and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. 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.

Opinion

In our opinion the financial information set out below gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company as at 29 April 2004.

Balance Sheet

	<i>As at</i> <i>29 April 2004</i> £
Current assets	
Cash in hand	12,500
Capital and reserves	
Called up share capital	<u>12,500</u>

The Company was incorporated on 1 March 2004 with an authorised share capital of £500,000 divided into 4,500,000 ordinary shares of 1p each and 50,000 Redeemable Preference Shares of £1 each, of which 2 ordinary shares were issued, fully paid, on incorporation.

On 5 March 2004 the Company issued 50,000 Redeemable Preference Shares part paid as to 25p on each share.

On 9 March 2004 the Company was issued with a trading certificate under section 119 of the Companies Act 1985.

The Company has not traded, prepared any financial statements for presentation to members, incurred neither profit nor loss, and has neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotment of shares described herein. Accordingly, no profit and loss account information is presented in this report.

On 30 April 2004 the Company subdivided its issued and unissued ordinary shares into 0.1p shares on a 10 for 1 basis and re-registered under the name River Diamonds plc.

On 30 April 2004, under a Scheme of Arrangement under Section 425 of the Companies Act 1985 the Company acquired the whole of the issued share capital of River Diamonds UK, the consideration for which was satisfied by the allotment and issue of 19,358,490 ordinary shares of 0.1 pence each, credited as fully paid in the Company. A further 188 ordinary shares were subscribed for cash at par to restore to former shareholders in River Diamonds UK the fractional entitlements ignored under the Scheme of Arrangement.

Section B – River Diamonds UK

Basis of preparation

The financial information set out below has been extracted from audited financial statements of River Diamonds UK for the thirteen month period ended 31 August 2001, and from audited consolidated financial statements for each of the two years ended 31 August 2003 and for the six months ended 29 February 2004, after making such adjustments as we consider necessary.

The financial statements of River Diamonds UK for the thirteen month period ended 31 August 2001 were audited by Enoch & Partners, Chartered Accountants, Hillside House, 2-6 Frien Park, London, N12 9BY.

The financial statements for each of the two years ended 31 August 2003, and for the six months ended 29 February 2004, were audited by MRI Moores Rowland LLP.

The audit opinion on the financial statements for the thirteen month period ended 31 August 2001 was qualified by an inability to verify certain expenditure incurred in Brazil. As a consequent, the audit report contained the following statement:

“We were unable to verify expenditure in Brazil due to lack of supporting documentary evidence. It is apparent that some of the funds were applied to expenditure not authorised by the directors. In all

other respects, the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2001 and of its loss for the period then ended and in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985."

The audit opinion on the financial statements for the year ended 31 August 2002 was qualified in respect of the limitation on the work undertaken relating to expenditure of £77,551 in Brazil. As a consequence the audit report contained the following statement:

"In respect alone of the limitation on our work relating to expenditure in Brazil:

- We have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- We were unable to determine whether proper accounting records had been maintained."

The audit report in the financial statements for each of the two years ended 31 August 2003 and the six months ended 29 February 2004 contained the following statement:

"In forming our opinion we have considered the adequacy of the disclosures made on page 12 of the financial statements concerning the availability of financial resources. In view of the significance of this uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect".

The audit reports in the financial statements for the year ended 31 August 2003 and for the six months ended 29 February 2004 were unqualified.

Responsibility

The financial statements are the responsibility of the directors of River Diamonds UK who approved their issue and who are also directors of the Company.

The Directors of the Company are responsible for the contents of the Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the statutory financial statements of River Diamonds UK, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that obtained by us relating to the audit of the financial statements underlying the information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and of whether the accounting policies are appropriate to River Diamond UK'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.

Opinion

In our opinion, the financial information set out below gives, for the purpose of the Document, except for any adjustments that might have been found to be necessary in the period ended 31 August 2001 had we been able to verify all expenditure incurred by River Diamonds UK in Brazil, and in the year ended 31 August 2002, had we been able to obtain sufficient evidence concerning expenditure in Brazil in the amount of £77,551, a true and fair view of the losses, cash flow and total recognised losses of River Diamonds UK for the thirteen months ended 31 August 2001, and a true and fair view of the consolidated losses, cash flow and total recognised losses of River Diamonds UK for each of the two years ended 31 August 2003 and for the six months ended 29 February 2004, and of the state of affairs of River Diamonds UK at the end of the four periods.

PROFIT AND LOSS ACCOUNTS

The profit and loss account of River Diamonds UK for the thirteen month period ended 31 August 2001, and the consolidated profit and loss accounts for each of the two years ended 31 August 2003, and for the six months ended 29 February 2004, are set out below:

	<i>Notes</i>	<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Sales	1	–	–	2	–
Cost of sales		<u>(302)</u>	<u>(182)</u>	<u>(209)</u>	<u>(150)</u>
Gross loss		(302)	(182)	(207)	(150)
Administrative expenses		<u>(103)</u>	<u>(193)</u>	<u>(125)</u>	<u>(260)</u>
Operating loss	2	(405)	(375)	(332)	(410)
Loss on disposal of unlisted investment	2	<u>–</u>	<u>–</u>	<u>(424)</u>	<u>–</u>
Loss on ordinary activities before interest		(405)	(375)	(756)	(410)
Interest payable and similar charges	3	<u>–</u>	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>
Loss on ordinary activities after taxation	1	(405)	(376)	(758)	(411)
Tax on loss on ordinary activities	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss on ordinary activities after taxation	12	(405)	(376)	(758)	(411)
Loss per share					
		<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>
Basic	6	<u>(1.17)</u>	<u>(0.48)</u>	<u>(0.61)</u>	<u>(0.26)</u>
Fully diluted	6	<u>(1.17)</u>	<u>(0.48)</u>	<u>(0.61)</u>	<u>(0.26)</u>

There are no recognised gains or losses other than those passing through the profit and loss account.

All activities relate to continuing operations.

BALANCE SHEETS

The balance sheet of River Diamonds UK at 31 August 2001, and the consolidated balance sheets as at 31 August 2002, 31 August 2003 and at 29 February 2004 are set out below:

	<i>Notes</i>	<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Fixed assets					
Tangible assets	7	170	189	135	265
		<u>170</u>	<u>189</u>	<u>135</u>	<u>265</u>
Current assets					
Stock	8	–	–	–	9
Debtors	9	22	8	85	161
Investments	10	–	100	77	77
Cash at bank and in hand		51	16	10	24
		<u>73</u>	<u>124</u>	<u>172</u>	<u>271</u>
Creditors: amounts falling due within one year	11	(67)	(104)	(221)	(124)
Net current assets/(liabilities)		<u>6</u>	<u>20</u>	<u>(49)</u>	<u>147</u>
Total net assets		<u>176</u>	<u>209</u>	<u>86</u>	<u>412</u>
Capital and reserves					
Called up share capital	12	580	989	1,414	1,963
Share premium reserve	13	–	–	211	399
Profit and loss account	13	(404)	(780)	(1,539)	(1,950)
Equity shareholders' funds	14	<u>176</u>	<u>209</u>	<u>86</u>	<u>412</u>

CASH FLOW STATEMENTS

The cash flow statement of River Diamonds UK for the thirteen month period ended 31 August 2001 and the consolidated cash flow statements for each of the two years ended 31 August 2003 and for the six months ended 29 February 2004, are set out below:

	<i>Notes</i>	<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Net cash flow from operating activities	15	(359)	(282)	(235)	(520)
Returns on investments and servicing of finance	15	–	(1)	(2)	(1)
Taxation		–	–	–	–
Capital expenditure and financial investment	15	(170)	(82)	(11)	(191)
Cash flow before financing		(529)	(365)	(248)	(712)
Management of liquid resources		–	(100)	99	–
Financing	15	580	409	136	737
Increase/(decrease) in cash in the period		<u>51</u>	<u>(56)</u>	<u>(13)</u>	<u>25</u>
Reconciliation of net Cash Flow to Movement in Debt					
		<i>2001</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>	<i>2003</i> <i>£'000</i>	<i>2004</i> <i>£'000</i>
Increase/(decrease) in cash in the period		<u>51</u>	<u>(56)</u>	<u>(13)</u>	<u>25</u>
Net funds/(debt) brought forward		<u>–</u>	<u>51</u>	<u>(5)</u>	<u>(18)</u>
Net funds/(debt) carried forward	15	<u>51</u>	<u>(5)</u>	<u>(18)</u>	<u>7</u>

ACCOUNTING POLICIES

Basis of accounting

The financial information has been prepared under the historical cost convention in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial information includes the accounts of River Diamonds UK and each of its subsidiaries (“The River Diamonds Group”) which are accounted for using the acquisition method of accounting, whereby the River Diamonds Group’s results include the results of the acquired business from the date of acquisition. Following acquisitions, the financial information for each of the two years ended 31 August 2003 and for the six month period ended 29 February 2004, represent the results of the River Diamonds Group whilst the results for the thirteen months ended 31 August 2001 represent those of River Diamonds UK only.

Going concern

Having reviewed the income, expenditure and cash flow projections of The River Diamonds Group, the directors have a reasonable expectation that the River Diamonds Group has sufficient financial resources to continue trading for the foreseeable future. Accordingly the financial information has been prepared on the going concern basis.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is calculated to write down the cost, of all tangible fixed assets by equal annual instalments over their expected useful life, as follows:

Mining leases	Over 3 years
Plant and machinery	Over 3 to 10 years
Motor vehicles	Over 3 years
Fixtures, fittings and equipment	Over 4 years

Investments

Fixed and current asset investments are stated at cost less provision for any impairment in value.

Stock

Stocks of materials are valued at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Foreign currencies

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

1. Turnover and loss on ordinary activities before taxation

Turnover and loss before taxation are all derived from mining exploration wholly undertaken outside the United Kingdom.

2. Operating loss

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Operating loss is stated after charging:				
Depreciation	–	63	63	34
Auditors remuneration	4	4	8	9
Loss on disposal of listed investment	–	–	424	–
Loss on disposal of fixed assets	–	–	–	27
Foreign exchange loss	–	–	–	6

A loss of £424,000 arose from the disposal of the current asset investment in Jubilee Investment Trust Plc in the year ended 31 August 2003.

3. Interest payable and similar charges

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Interest on bank loans and overdrafts	–	1	2	1

4. Employees

Number of employees

The average monthly number of employees (including directors) was:

	2001 No.	2002 No.	2003 No.	2004 No.
Office and management	3	3	4	5

Employment costs

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Wages and salaries	–	93	113	28
Social security costs	–	–	–	–

Directors' remuneration

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Aggregate emoluments (including benefits in kind)	98	35	64	18

5. Taxation

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
UK Corporation tax	–	–	–	–

There is no charge to UK corporation tax due to the availability of losses.

6. Loss per share

The loss for the period ended 29 February 2004 attributable to shareholders is £411,148 (2003: Loss £758,704; 2002: Loss £375,553; 2001: Loss £404,482). This is divided by the weighted average number of shares outstanding calculated to be 158,372,682 (2003: 122,871,388; 2002: 77,933,333; 2001: 34,571,111) to give basic loss per share of 0.26p (2003: Loss 0.61p; 2002: Loss 0.48p; 2001: Loss 1.17p).

The calculation of diluted loss per share is based on the weighted average number of shares outstanding adjusted by the dilutive share options. The weighted average number of shares outstanding used in the calculation is 158,372,682 (2003: 122,871,388; 2002: 77,933,333; 2001: 34,571,111).

7. Tangible fixed assets

	<i>Mining leases £'000</i>	<i>Plant & machinery £'000</i>	<i>Motor vehicles £'000</i>	<i>Fixtures fittings & equipment £'000</i>	<i>Total £'000</i>
Cost					
At 8 August 2000	–	–	–	–	–
Additions	85	85	–	–	170
At 31 August 2001	85	85	–	–	170
Additions	46	23	13	–	82
At 31 August 2002	131	108	13	–	252
Additions	–	–	6	4	10
At 31 August 2003	131	108	19	4	262
Additions	–	168	22	1	191
Disposals	–	(25)	(19)	(4)	(48)
At 29 February 2004	131	251	22	1	405
Depreciation					
At 8 August 2000	–	–	–	–	–
Charge in the period	–	–	–	–	–
At 31 August 2001	–	–	–	–	–
Charge in the year	44	16	3	–	63
At 31 August 2002	44	16	3	–	63
Charge in the year	43	16	5	–	64
At 31 August 2003	87	32	8	–	127
Charge in the period	22	11	–	–	33
Disposals	–	(12)	(8)	–	(20)
At 29 February 2004	109	31	–	–	140
Net book value					
At 29 February 2004	22	220	22	1	265
At 31 August 2003	44	76	11	4	135
At 31 August 2002	87	92	10	–	189
At 31 August 2001	85	85	–	–	170

8. Stock

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Materials	–	–	–	9

9. Debtors

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Trade debtors	11	–	–	–
Other debtors	1	8	85	21
Called up share capital not paid	10	–	–	140
	<u>22</u>	<u>8</u>	<u>85</u>	<u>161</u>

10. Current assets investment

	<i>Listed Investments</i> £'000	<i>Unlisted Investments</i> £'000	<i>Total</i> £'000
Balance 1 September 2001	–	–	–
Additions	–	350	350
Disposals	–	(250)	(250)
Balance 31 August 2002	–	100	100
Additions	500	–	500
Disposals	(500)	(23)	(523)
Balance 31 August 2003 and 29 February 2004	<u>–</u>	<u>77</u>	<u>77</u>
Net book value			
As at 29 February 2004	<u>–</u>	<u>77</u>	<u>77</u>
As at 31 August 2003	<u>–</u>	<u>77</u>	<u>77</u>
As at 31 August 2002	<u>–</u>	<u>100</u>	<u>100</u>
As at 31 August 2001	<u>–</u>	<u>–</u>	<u>–</u>

11. Creditors: amounts falling due within one year:

	2001 £'000	2002 £'000	2003 £'000	2004 £'000
Bank loans and overdrafts	–	21	28	17
Trade creditors	–	23	15	11
Directors' current account	5	29	60	3
Other creditors	25	–	100	–
Accruals and deferred income	39	31	18	93
	<u>67</u>	<u>104</u>	<u>221</u>	<u>124</u>

12. Share capital

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Authorised				
250,000,000 Ordinary shares of 1p each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>250,000</u>
Allotted, called up and fully paid				
196,258,698 (2003: 141,403,332; 2002: 98,900,000; 2001: 58,000,000) Ordinary shares of 1p each	<u>580</u>	<u>989</u>	<u>1,414</u>	<u>1,963</u>

River Diamonds UK allotted shares for cash consideration during the year ended 31 August 2003, and the six month ended 29 February 2004, as follows:

29 February 2004:
 20,000,000 Ordinary shares at 1.25p each
 17,500,000 Ordinary shares at 1.6p each
 6,666,666 Ordinary shares at 1.5p each

In addition 10,688,700 Ordinary shares were issued in conversion of £106,887 of loans

31 August 2003:
 1,166,667 Ordinary shares at 1.35p;
 2,833,332 Ordinary shares at 1.5p;
 4,000,000 Ordinary shares at 1p;
 2,170,000 Ordinary shares at 1.4285p.

In addition, River Diamonds UK issued 33,333,333 Ordinary shares of 1p each in a share exchange agreement to purchase 500,000 shares of £1 each in The Jubilee Investment Trust plc.

Warrants

During the year ended 31 August 2003, and during the six months ended 29 February 2004, the following movements occurred on the warrants to purchase 1p ordinary shares in River Diamonds UK:

	<i>Number</i>	<i>Exercise price</i>	
	<i>of warrants</i>	<i>Exercised</i>	<i>per share</i>
At 1 September 2002	41,900,000	5,000,000	1p
Granted	15,000,000		1p
Issued	(5,000,000)		1p
Granted	13,333,332		1.5p
Granted	8,750,000		2p

73,983,332 warrants remain outstanding at 29 February 2004 (2003: 45,900,000; 2002: 41,900,000; 2001: nil).

13. Statement of movements on reserves

	<i>Share premium reserve</i> £'000	<i>Profit and loss account</i> £'000	<i>Total</i> £'000
Balance at 8 August 2000	–	–	–
Retained loss for the period	–	(404)	(404)
Balance at 31 August 2001	–	(404)	(404)
Retained loss for the year	–	(376)	(376)
Balance at 31 August 2002	–	(780)	(780)
Retained loss for year	–	(759)	(759)
Premium on shares issued	211	–	211
Balance at 31 August 2003	211	(1,539)	(1,328)
Retained loss for period	–	(411)	(411)
Premium on shares issued	188	–	188
Balance at 29 February 2004	399	(1,950)	(1,551)

14. Reconciliation of the movement in shareholders' funds

	<i>2001</i> £'000	<i>2002</i> £'000	<i>2003</i> £'000	<i>2004</i> £'000
Loss for the period	(404)	(376)	(759)	(411)
Net issue of share capital	580	409	636	737
	176	33	(123)	326
Opening shareholders' funds	–	176	209	86
Closing shareholders' funds	176	209	86	412

15. Cash flows

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2001	2002	2003	2004
	£'000	£'000	£'000	£'000
Operating loss	(405)	(375)	(332)	(410)
Depreciation	–	63	64	33
(Increase)/decrease in debtors	(22)	14	(76)	(76)
Increase/(decrease) in creditors	68	16	109	(85)
Increase in stocks	–	–	–	(9)
Loss on disposal of fixed assets	–	–	–	27
Net cash outflow from operations	(359)	(282)	(235)	(520)

(b) Analysis of cash flows in the cash flow statement

	2001	2002	2003	2004
	£'000	£'000	£'000	£'000
Returns on investments and servicing of finance				
Interest received	–	–	–	–
Interest paid	–	(1)	(2)	(1)
Net cash outflow from returns on investment and servicing of income	–	(1)	(2)	(1)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(170)	(82)	(11)	(191)
Management of liquid resources				
Current asset investment	–	(100)	99	–
Financing				
Net receipts from issue of shares	580	409	136	737
Net cash inflow from financing	580	409	136	737

(c) Analysis of net debt/(funds)

	2001	2002	2003	2004
	£'000	£'000	£'000	£'000
Cash at bank and in hand	51	16	10	24
Bank overdraft	–	(21)	(28)	(17)
Net funds/(debt)	51	(5)	(18)	7

16. Related party transactions

At 29 February 2004, an amount of £2,665 (2003: £60,221; 2002: £24,516; 2001: £5,366) was owed by the River Diamonds Group to I C Orr-Ewing a Director of River Diamonds UK.

17. Post balance sheet events

On 30 April 2004 the whole of the issued share capital of River Diamonds UK was acquired by the Company, under a Scheme of Arrangement under section 425 of the Companies Act 1985.

18. Ultimate controlling party

There was no ultimate controlling party during the period under review.

19. Nature of financial information

The financial information presented above does not constitute statutory accounts for each of the periods under review. Statutory accounts of River Diamonds UK for the thirteen month period ended 31 August 2001 and for each of the two years ended 31 August 2003 have been delivered to the Registrar of Companies. The audited accounts for the six month period ended 29 February 2004 are not statutory accounts and will not be delivered to the Registrar of Companies.

20. Consent

We consent to the inclusion of this report in the Document and accept responsibility for this report for the purposes of paragraphs 45(8)(b) and 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Yours faithfully

MRI Moores Rowland LLP

Chartered Accountants

Registered Auditors

PART V

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The Directors whose names, address and functions appear on page 3 of this Document, accept responsibility for the information contained in this Document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors of 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 makes no admission likely to affect the import of such information.

2. The Group

- 2.1 The Company was incorporated in England as River Diamonds Group plc under the Act as a public limited company on 2004 with registered number 5059077. On 30 April 2004 it re-registered under the name of River Diamonds plc.
- 2.2 The Company was issued on 9 March 2004 with its certificate under S117 of the Act enabling it to do business and to borrow. The liability of the members of the Company is limited.
- 2.3 The registered office of the Company is at Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0LS. Its head office and principal place of business in the UK is at 29 Chelsea Wharf, Lots Road, London SW10 0QJ.
- 2.4 On 30 April 2004 pursuant the terms of a scheme of arrangement of River Diamonds UK under Section 425 of the Act the Company acquired the whole of the issued share capital River Diamonds UK.
- 2.5 The principal activity of the Company is to act as the holding company of the following companies all of which, under the laws of England and Wales, are wholly owned:

River Diamonds UK Limited

<i>Previous Names:</i>	River Diamonds Limited and Electgem Limited
<i>Date of Incorporation:</i>	8 August 2000
<i>Registered Number:</i>	4048755
<i>Registered Office:</i>	Carmelite, 50 Victoria Embankment, Blackfriars London EC4Y 0LS
<i>Authorised Share Capital:</i>	£2,500,000
<i>Issued Share Capital:</i>	£1,963,586.98
<i>Shareholder(s):</i>	River Diamonds plc
<i>Directors:</i>	C Orr-Ewing A Balme R Crew D Lenigas N Shaw-Hardie
<i>Company Secretary:</i>	Laytons Secretaries Limited
<i>Principal Activity:</i>	Intermediate holding company

São Carlos Mineração Ltda

<i>Previous Names:</i>	none
<i>Date of Incorporation:</i>	13 May 2002
<i>Registered Number:</i>	51200822561
<i>Registered Office:</i>	Av. Historiador Rubens de Mendonça, Ed. Empire Centre, No 990, sala 405, Bairro Centro, Cuiabá-MT CEP 78008-000
<i>Federal Registered Number:</i>	CNPJ/MF 05044949/0001-07
<i>Authorised Share Capital:</i>	R\$500,000
<i>Issued Share Capital:</i>	R\$500,000
<i>Shareholder(s):</i>	Richard Edwin Crew – BRL245,000 Ian Colin Orr-Ewing – BRL245,000 Magda Flemming – BRL10,000 (All shareholders hold their shares as nominees for River Diamonds UK)
<i>Directors:</i>	R Crew C Orr-Ewing
<i>Company Secretary:</i>	Not required by law
<i>Principal Activity:</i>	Exploration and mining

Title to the capital of SCML is at present held on behalf of River Diamonds UK by Ian Colin Orr-Ewing (49 per cent.), Richard Edwin Crew (49 per cent.) and Magda Siqueira Jardim Fleming, a Brazilian national engaged by River Diamonds UK (2 per cent.), each acting as a nominee of River Diamonds UK under declarations of trust. Accordingly, under English law the beneficial owner of SCML is River Diamonds UK. However, under Brazilian law, such beneficial ownership is not recognised. The process for the transfer of the legal (as well as the beneficial) ownership of SCML to River Diamonds UK, which has been commenced, includes inter alia:

- (i) the obtaining of a debt clearance certificate issued by the Brazilian National Social Security Service in the name of SCML;
- (ii) the provision of a certified copy of the articles of association and proof of existence of River Diamonds UK;
- (iii) the appointment of a legal representative, resident in Brazil, to River Diamonds UK;
- (iv) the appointment of a legal representative, resident in Brazil, to all and each of Ian Colin Orr-Ewing, Richard Edwin Crew and Magda Siqueira Jardim Fleming;
- (v) the execution of certain amendments to the articles of association of River Diamonds UK;
- (vi) the filing of the above documentation with the Brazilian Board of Trade.

Pending such transfer becoming effective, Ian Colin Orr-Ewing, Richard Edwin Crew and Magda Siqueira Jardim Fleming are bound by the terms of the declarations of trust under which any and all rights of legal ownership of the shares in SCML are foregone in favour of River Diamonds UK. In addition, Messrs Orr-Ewing and Crew have signed indemnities in favour of River Diamonds UK in respect of any failure by them to transfer the capital of SCML to River Diamonds UK.

3. Share Capital

3.1 The table below sets out the authorised, issued and fully paid share capital of the Company as at the date of this Document. The Preference shares in issue are part paid as to 25p of the nominal value of £1:

<i>Class</i>	<i>Authorised</i>		<i>Issued</i>	
	<i>No</i>	<i>£</i>	<i>No</i>	<i>£</i>
£1 Preference	50,000	50,000	50,000	50,000
0.1p Ordinary	450,000,000	450,000	203,940,425	203,490.43

- 3.2 The table below sets out the authorised, issued and fully paid share capital of the Company as it will be immediately following the Placing and Admission (assuming Full Subscription) and the redemption of the Preference shares.

<i>Class</i>	<i>Authorised</i>		<i>Issued</i>	
	<i>No</i>	<i>£</i>	<i>No</i>	<i>£</i>
£1 Preference	50,000	50,000	Nil	Nil
0.1p Ordinary	450,000,000	450,000	263,940,425	263,940.43

- 3.3 The table below sets out the Subsisting Warrants to subscribe for Ordinary shares as at the date of this Document.

<i>Holder</i>	<i>Latest Exercise Date</i>	<i>Number</i>	<i>Exercise price</i>
B Rowan	29/1/2005	23,000,000	£0.01
C Making	14/11/2005	2,000,000	£0.01
The Drill Company Limited	11/4/2006	3,900,000	£0.01
B Rowan	11/4/2006	2,000,000	£0.01
AMC Limited	11/4/2006	1,000,000	£0.01
Loeb Aron & Company Limited	11/4/2006	900,000	£0.01
J Guy	11/4/2006	1,000,000	£0.01
N Shaw-Hardie	29/6/2006	1,000,000	£0.01
C Orr-Ewing	29/6/2006	1,000,000	£0.01
B Walsham	29/6/2006	1,000,000	£0.01
K Plaskett	29/6/2006	3,000,000	£0.01
R Crew	29/10/2006	3,000,000	£0.01
M Shaw-Walker	14/3/2007	2,000,000	£0.01
A Balme	10/9/2007	3,000,000	£0.01
Giltspur Investments Limited	10/9/2007	3,000,000	£0.01
Tiger Resource Finance Plc	23/10/2008	6,666,666	£0.015
Tiger Resource Finance Plc	25/2/2009	6,666,666	£0.015
Fenwick Securities Limited	29/6/2006	1,000,000	£0.01
P Haydn-Slater	31/12/2005	500,000	£0.02
P Richards	31/12/2005	500,000	£0.02
Morston Nominees fbo RAB Special Solutions LP	31/12/2005	7,750,000	£0.02
J M Finn Nominees	31/12/2005	590,000	£0.04
Madoff Securities International Limited	31/12/2005	455,000	£0.04
Guy-Philippe Bertin	31/12/2005	454,545	£0.04
Steve Parris	31/12/2005	454,545	£0.04
Leonard John Russell	31/12/2005	450,000	£0.04
Quixley Investments Pty Limited	31/12/2005	136,363	£0.04
Donald Strang	31/12/2005	45,454	£0.04
Total		<u>76,469,239</u>	

- 3.4 The Company has made a commitment to certain personnel that following Admission it will grant options over 1,100,000 Ordinary Shares under an employee option scheme.
- 3.5 The Company is also, conditional on Admission, issuing the W H Ireland Warrants entitling W H Ireland to subscribe for up to 7,918,213 Ordinary shares, to be equivalent to 3 per cent. of the Enlarged Share Capital, at the Placing Price, which warrants are exercisable for a period of three years following Admission.
- 3.6 Save as disclosed in paragraphs 3.3, 3.4 and 3.5 and in connection with the Placing, no share or loan capital of the Company is proposed to be issued or is under option or is agreed conditionally or unconditionally to be under option.
- 3.7 The following changes to the issued share capital of the Company have occurred since its incorporation:

- (i) On 5 March 2004 the Company issued 50,000 preference shares to Colin Orr-Ewing at a subscription price of £1 per share of which 25p per share was paid upon issue. The Preference Shares will be redeemed for the amount paid up on the shares upon Admission from the proceeds of the Placing;
- (ii) On 30 April 2004 the ordinary share capital of the Company was subdivided into ordinary shares of 0.1p each on the basis of 10 new ordinary shares for each ordinary share of 1p;
- (iii) On 30 April 2004 the Company allotted 19,358,490 Ordinary Shares of 1p to the shareholders of River Diamonds UK pursuant to the terms of the Scheme of Arrangement dated 23 March 2004;
- (iv) On 30 April 2004 the Company allotted 188 Ordinary Shares for cash at par value in respect of fractional entitlements that had been ignored under the Scheme of Arrangement;
- (v) On 17 May 2004 the Company issued 5,171,818 Ordinary Shares of 0.1p each for cash at a price of 2.75p per share;
- (vi) On 30 June 2004 the Company issued 1,534,909 Ordinary Shares of 0.1p each at a price of 2.75p per share;
- (vii) On 28 July 2004 the Company issued 875,000 Ordinary Shares of 0.1p each at a price of 1.6p per share.

3.8 The Articles of Association of the Company.

- (i) Authorise the Directors pursuant to and in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £500,000 of the Company, such authority to expire on the date of the Company's next Annual General Meeting (or if sooner the expiry of 15 months after the passing of the resolution) except as regards the allotment made pursuant to an offer or an agreement made the Company before such date, such authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of relevant securities;
- (ii) Empower the Directors pursuant to Section 95 of the Act to allot and to make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority described in 3.8(i) above as if Section 89(1) of the Act did not apply to any such allotment, in respect of a maximum aggregate nominal amount of £500,000, such power (unless previously revoked, varied or renewed) to expire at the sooner of the 31 December 2005 and the conclusion of the annual general meeting of the Company to be held in 2005, save that the Company may before expiry make an offer or agreement which would or might acquire securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred thereby had not expired.

However, following Admission the Directors intend to limit the exercise of this power to a maximum nominal amount equal to 5 per cent. of the nominal value of the Enlarged Share Capital.

- 3.9 Save as disclosed in sub-paragraph 3.8 above, the provisions of Section 89 of the Act, which to the extent not disapplied pursuant to Section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash apply to the authorised but unissued share capital of the Company.
- 3.10 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.
- 3.11 Save for the issue of ordinary shares pursuant to the Placing and on the exercise of the Warrants as described in paragraph 3.3, 3.4 and 3.5, the Company has no present intention to issue any of the authorised but unissued share capital of the Company.

3.12 Except as stated in this Part V:

- (a) the Company does not have in issue any securities not representing share capital; and
- (b) there are no outstanding convertible securities issued by the Company.

4. Memorandum and Articles of Association

4.1 The principal objects of the Company which are set out in full in Paragraph 3 of its Memorandum of Association are to carry on the business of a general commercial company.

4.2 The Articles of Association of the Company contains provisions, *inter alia*, which are summarised below. The summary does not purport to be complete and is qualified in its entirety by the full terms of the Articles of Association.

(a) *Voting Rights*

At general meetings of the Company, on a show of hands, every member who (being an individual) is present in person or (being a body corporate) is represented by a duly authorised representative shall have one vote and on a poll every member present in person or by proxy or (being a body corporate) by duly authorised representative shall have one vote for every share held by him.

No member shall, unless the Directors otherwise determine, be entitled to vote if any call or other sum presently payable by him/her to the Company in respect of the shares remains unpaid.

(b) *Alteration of Capital*

(i) The Company may from time to time by ordinary resolution (a) increase its capital as the resolution shall prescribe; (b) consolidate and divide all or any of its shares into shares of larger amount; (c) sub-divide all or any of its shares into shares of smaller amount and attach varying rights to the shares resulting from such sub-division; and (d) cancel any shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

(ii) The Company may by special resolution reduce its share capital, any capital redemption reserve fund and any share premium account subject to the provisions of the Act.

(c) *Variations of Rights*

Subject to the provisions of the Act, if the capital of the Company is divided into different classes of shares, the rights attached any class may be varied, either whilst the Company is a going concern or during or in contemplation of a winding-up either (a) in such manner as may be provided by such rights or (b) in the absence of any such provision with the written consent of the holders of the three fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of that class.

Any meeting for the purposes mentioned above should be convened and conducted in all respects as nearly as possible in the same way as an Extraordinary General Meeting but no member who is not a Director shall be entitled to notice of the meeting and no person who is not a Director or a duly appointed proxy of a member entitled to shares of the class shall be entitled to attend at the meeting unless he holds shares of the class intended to be affected by the resolution. Votes shall only be given in respect of shares of that class and at any such meeting the quorum shall be persons holding or representing by proxy at least one-third of the issued shares of the class . If at an adjourned meeting such a quorum is not present the quorum shall be one holder of the class present in person or by proxy.

(d) *Purchase of Own Shares*

The Company may purchase its own shares of any class (including redeemable shares) at any price, subject to the provisions of the Act and to the written approval of not less than three quarters of the holders of that class or to an extraordinary resolution passed at a separate meeting of the holders of such class.

(e) *Transfer of Shares*

Any member may transfer all or any of their shares. Save where any rules or regulations made under the Act permit otherwise, the instrument of transfer of a share shall be in any usual or common form or in any other form which the Board may approve and shall be executed by or on behalf of the transferor and (in the case of a share which is not fully paid) by the transferee. The Board may in its absolute discretion and without giving any reason decline to register any transfer of shares that are not fully paid or on which the Company has a lien. The provisions of the Articles of Association apply equally to uncertificated shares transferred under Crest as they do to certificated shares of the Company.

The Board may decline to register any instrument of transfer unless the duly stamped instrument of transfer:

- (i) is in respect of only one class of share;
- (ii) is lodged at the registered office or such other place as the Board may appoint;
- (iii) is accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; and
- (iv) in the case of a transfer to joint holders, the number of joint holders does not exceed four.

(f) *Dividends and Other Distributions*

The Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears that they are justified by the financial position of the Company.

All dividends shall be apportioned and paid *pro rata* to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

Any dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

The Board may, if authorised by an ordinary resolution of the Company, offer members the right to elect to receive shares credited as fully paid in whole or in part, instead of cash, in respect of the dividend specified by the ordinary resolution.

In a winding up, the liquidator may, with the sanction of an extraordinary resolution and subject to the Insolvency Act 1986, divide among the members *in specie* the whole or any part of the assets of the Company and/or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator determines.

(g) *Restrictions on Shares*

No member shall, unless the Board otherwise determines, be entitled to vote in respect of any share if a member has not paid to the Company all calls and other sums then payable by them in respect of that share in the Company.

No member shall, unless the Board otherwise determines, be entitled to vote in respect of any share held by them if they have been served with a notice under Section 212 of the Act in respect of that share and have failed to provide the information requested in the notice within 28 days of service.

(h) *Directors*

- (i) At each annual general meeting of the Company all those directors who were elected or last re-elected at or before the annual general meeting held in the third calendar year prior to the date of that annual general meeting shall retire from office by rotation and shall be eligible for re-election.
- (ii) Save as provided in paragraph (iii) below, a Director shall not vote at a meeting of the Board or any committee of the Board on any resolution of the Directors concerning a matter in which he has an interest which together with any interest of any person connected with him is a material interest. The Company may by ordinary resolution suspend or relax such provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.
- (iii) The prohibition in paragraph (ii) above shall not apply to a Director in relation to any of the following matters, namely: (a) the giving of any guarantee, security or indemnity in respect of 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 subsidiaries; (b) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by giving of security; (c) a Director being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares, debentures, or other securities by the Company or any of its subsidiaries for subscription, purchase or exchange; (d) the subscription or purchase by a Director of shares, debentures or other securities of the Company pursuant to an offer or invitation to members or debenture holders of the Company, or any class of them; (e) any proposal concerning any other company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent. or more of either any class of the equity share capital or the voting rights in such company; (f) any resolution relating to an arrangement for the benefit of employees of the Company or any of its subsidiaries and which does not provide in respect of any Director any privilege or benefit not accorded to the employees to whom the arrangement relates; and (g) any proposal concerning the purchase and/or maintenance of any insurance policy against liability for negligence, default, breach of duty or breach of trust in relation to the Company under which he may benefit.
- (iv) The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Articles) shall not exceed £100,000 each per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board. The Directors shall be entitled to all such reasonable expenses as they may properly incur in attending meetings of the Board or in the discharge of their duties as Directors. Any Director who by request of the Board performs special services may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.
- (v) Unless otherwise determined by ordinary resolution of the Company, the number of Directors shall not be less than two. There is no maximum number of Directors. A Director shall not be required to hold any shares of the Company by way of qualification.

(i) *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party provided that such borrowing may not without prior shareholder approval exceed in aggregate £5,000,000.

(j) *Overseas Members*

A member who (having no registered address within the United Kingdom) has not supplied to the Company an address within the United Kingdom for the service of notice shall not be entitled to receive notices from the Company.

5. Material contracts

5.1 The following contracts, not being entered into in the ordinary course of business and which are, or may be, material, have been entered into by the Group within the two years immediately preceding the date of this Document:

- (i) The Placing Agreement dated 29 July 2004 between the Company (1), the several directors of the Company (2) and W H Ireland Limited (3) pursuant to which W H Ireland Limited has agreed, conditionally upon, *inter alia*, Admission to use reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

The Placing Agreement contains certain representations, warranties and undertakings in favour of W H Ireland Limited given by the Company and its directors. It also contains provisions which entitled W H Ireland Limited to terminate its obligations thereunder in certain circumstances before Admission.

Pursuant to this Agreement the Company has agreed to pay W H Ireland a fee together with commission of 2.5 per cent. of the aggregate value of the Placing Shares, plus a commission of 2.5 per cent. of the aggregate value of those Placing Shares for which W H Ireland procures subscribers, together with any applicable VAT thereon.

- (ii) A Nominated Adviser Agreement dated 20 July 2004 between River Diamonds plc (1) and W H Ireland Limited (2) pursuant to which W H Ireland Limited has agreed to provide financial advisory services in connection with Admission and related fundraising.

The Agreement contains certain indemnities given by the Company in favour of W H Ireland Limited and also contains provisions which entitle W H Ireland Limited to terminate its obligations in certain circumstances before Admission.

Pursuant to this Agreement the Company has agreed to pay W H Ireland Limited a success fee and an annual advisory fee together with any applicable VAT thereon together with a warrant success fee.

- (iii) A Broker Agreement dated 20 July 2004 between River Diamonds plc (1) and W H Ireland Limited (2) pursuant to which W H Ireland Limited has agreed to provide broker services in connection with Admission.

The Agreement contains certain indemnities given by the Company in favour of W H Ireland Limited and also contains provisions which entitle W H Ireland Limited to terminate its obligations in certain circumstances before Admission.

Pursuant to this Agreement the Company has agreed to pay W H Ireland a fee, commission of 2.5 per cent. of the aggregate value of the Placing Shares, plus a commission of 2.5 per cent. of the aggregate value of those Placing Shares for which W H Ireland procures subscribers, and a retainer together with any applicable VAT thereon.

- (iv) A Subscription Agreement dated 9 January 2003 between River Diamonds UK (1) and Jubilee Investment Trust plc (2) whereby River Diamonds UK subscribed for 500,000 Ordinary Shares in the capital of Jubilee Investment Trust plc in exchange for the issue to Jubilee Investment Trust plc of 33,333,333 Ordinary Shares of 1p each credited as fully paid in the capital of River Diamonds UK.

- (v) An Agreement dated 9 September 2003 between River Diamonds UK (1) and Christiaan Petrus Human (2) whereby the River Diamonds UK purchased processing plant and machinery for alluvial diamond mining for the sum of £147,000.
- (vi) An agreement dated 13 May 2004 between River Diamonds plc (1) and Christiaan Petrus Human (2) pursuant to which River Diamonds plc agreed to purchase plant and equipment for a total of US\$155,000.

6. Litigation

- 6.1 No company within the Group is involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened and of which the Group is aware) which are having or may have a significant effect on the Group's financial position.

7. Dependence on Patents, intellectual property rights, licences or contracts

- 7.1 Save in relation to the Exploration Licences described below there are no patents or other intellectual property rights or licences or other contracts which are of fundamental importance to the Group's business:

<i>DNPM Licence Nos</i>	<i>Description</i>
866156/2001	Melgueira
866151/2001	Cachoeira de Pau
866157/2001	Alto Paraguai/Diamantino
866154/2001	Alto Paraguai/Diamantino
866142/2001	Alto Paraguai/Diamantino
866155/2001	Alto Paraguai/Diamantino

8. Payments to Promoters

Except as disclosed in this Document, no person (other than professional advisers named in this Document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the application for Admission or entered into contractual arrangements (not otherwise disclosed in this Document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

- (i) fees totalling £10,000 or more; or
- (ii) securities in the Company with a value of £10,000 or more, calculated by reference to the expected opening price; or
- (iii) any other benefit with a value of £10,000 or more at the date of Admission.

Each of the Directors is, or may be deemed to be, a promoter of the Company.

9. Taxation

- 9.1 The statements below are intended only as a general guide to certain aspects of current United Kingdom law and United Kingdom Inland Revenue practice. They are of a general nature only and concern only the position of persons who become the beneficial owner of Ordinary Shares. In particular, they do not address the position of certain classes of shareholders (such as dealers in securities, market makers and persons connected with depository receipt arrangements and clearance systems). **Shareholders who are in any doubt about their tax position, and in particular those who are subject to tax in a jurisdiction other than the United Kingdom, are strongly advised to consult their own professional adviser.**

9.2 *Tax in relation to dividends*

Under current UK Tax legislation no tax is withheld from dividends paid by a company. However when the Company pays a dividend there will be a tax credit attaching to such dividends equal to one ninth of the cash dividend paid (or 10 per cent. of the aggregate of the net dividend and the tax credit). The tax credit will discharge the income tax liability of a United Kingdom resident individual Shareholder who is not liable to income tax at a greater rate than the basic rate. The higher rate of

income tax on dividends is currently 32.5 per cent. so that a United Kingdom resident individual Shareholder who is a higher rate taxpayer will have further income tax to pay at a rate of 22.5 per cent. of the aggregate of the dividend and the tax credit.

Shareholders not resident in the UK, are generally not taxed in the UK on dividends received by them (unless, exceptionally, the investment is managed by a UK investment manager acting, broadly, on arm's length terms). By virtue of double taxation agreements between the UK and certain other countries, in limited cases some overseas shareholders are able to claim repayment of all or part of the tax credits carried by the dividends they receive from UK companies.

9.3 *Tax in relation to disposal of shares*

An individual shareholder who is either resident or ordinarily resident in the United Kingdom (whether or not domiciled there), may, subject to the availability of exemptions, reliefs and allowable losses, be liable to capital gains tax on any disposal of his shares in the Company.

A United Kingdom resident corporate shareholder may, subject to the availability of exemptions, reliefs and allowable losses, be liable to corporation tax on chargeable gains on any disposal of its shares in the Company.

A shareholder who is not resident (nor, in the case of an individual, ordinarily resident) in the United Kingdom, will not normally be liable to United Kingdom tax on capital gains on any disposal of shares in the Company unless the shareholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency, and the shares are, or have been used, held or acquired for the purpose of such trade, profession or vocation, branch or agency.

9.4 *Stamp Duty and Stamp Duty Reserve Tax*

Except in relation to depository receipt arrangements and clearance services where special rules apply, under current law, no stamp duty or SDRT will be payable on the issue of shares.

Transfers on sales of Ordinary Shares will be subject to *ad valorem* stamp duty (payable by the purchaser and generally at the rate of 50p per £100 or part thereof rounded up to the nearest £5) and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to SDRT (payable by the purchaser and generally at that rate). However, if within 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid.

10. Working capital

The Directors are of the opinion, after making due and careful enquiry, and after taking into account available bank, other facilities and the net proceeds of the Placing receivable by the Company, that the Group has sufficient working capital for its present requirements, that is for at least the 12 months following Admission.

11. Directors' interests

11.1 As at the date of this Document and as they are expected to be immediately following Admission (assuming Full Subscription), the interests of the Directors and the Proposed Director in the share capital of the Company which:

- (i) are required to be notified to the Company pursuant to section 324 or 328 of the Act; or
- (ii) are required to be entered in the register maintained under section 325 of the Act; or
- (iii) are interests of a person connection (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director

are set out below:

<i>Director/ Proposed Director</i>	<i>Number of Ordinary Shares as at the date of this Document</i>	<i>Percentage of issued ordinary share capital at the date of this Document</i>	<i>Number of Ordinary Shares immediately following Admission</i>	<i>Percentage of issued ordinary share capital immediately following Admission</i>
Colin Orr-Ewing	14,388,700*	7.06	14,388,700*	5.45
Anthony Balme	3,300,000**	1.62	3,300,000**	1.25
Richard Crew	nil	nil	nil	nil
Nicholas Shaw-Hardie	nil	nil	nil	nil
David Lenigas	nil	nil	nil	nil
Kiran Morzaria	nil	nil	nil	nil

* - of which 7,855,367 are held beneficially

** - of which 2,300,000 are held beneficially

The Directors also hold warrants over Ordinary Shares as follows:

<i>Director/ Proposed Director</i>	<i>Number of Warrants as at the date of this Document</i>
Colin Orr-Ewing	4,900,000*
Anthony Balme	4,000,000**
Richard Crew	3,000,000
Nicholas Shaw-Hardie	1,000,000
David Lenigas	nil
Kiran Morzaria	nil

* - of which 1,000,000 are held beneficially

** - of which 3,000,000 are held beneficially

11.2 The directorships of the Directors other than of the Company held over the previous five years are set out below:

<i>Director</i>	<i>Existing directorships</i>	<i>Other directorships in last 5 years</i>
Colin Orr-Ewing	Thames Mining Services Limited Esmelbraz Mining and Exploration Limited Paramount Ventures & Finance Inc Stratic Energy Corporation Stratic Energy (UK) Limited International Medical Research Limited	Charnwood Minerals (1994) Limited
Anthony Balme	CHBL Limited Carter Capital Limited DHC (Bradford) Limited Sable Exports (UK) Limited Fine Fibres Limited By By Limited Eurestex Limited Lymington Underwriting Limited Baltimore Limited India Minerals plc Your Finance Limited Indigo Homes Limited AMC Limited Forum Developments Limited Adroit Resources Inc	VRA Developments Limited Rollbrief Limited

<i>Director</i>	<i>Existing directorships</i>	<i>Other directorships in last 5 years</i>
Richard Crew	none	none
Nicholas Shaw-Hardie	Thames Mining Services Limited	Westwood West Limited UB Systems Limited Heath & Brown Insurance Services Limited Focusclaim Limited Doowtsew Limited
David Lenigas	Asia Energy PLC BM Diamondcorp Inc Deepgreen West Virginia Inc	Federation Group Limited Pinnacle VRB Limited
Kiran Morzaria	none	none

Save as set out above, none of the Directors has been appointed director of any further companies nor have they resigned from such appointment.

- 11.3 (i) Anthony Balme was a director of Baynard Securities Ltd, a company which went into liquidation in 1990. The liquidation process remains ongoing. Baynard Securities Ltd was regulated by The Securities Association (“TSA”), whose functions are now carried out by the Financial Services Authority. In his capacity as managing director of Baynard Securities Ltd, Mr Balme admitted four disciplinary offences under the rules of TSA, and was fined £7,000. Whilst TSA did not consider the rule violations to have prejudiced investors directly, they expressed criticism of the lack of care and inadequate compliance procedures which had allowed them to happen.
- (ii) Mr Balme was a director of Universal Hoists & Cranes Limited, a company that went into liquidation in 1986. Mr Balme has not been the subject of public criticism in connection with the liquidation.
- (iii) Nicholas Shaw-Hardie was a director of Westwood West Limited, a company that went into voluntary receivership in January 2004. The company is now being liquidated and has an expected creditor shortfall of approximately £576,000. Mr Shaw-Hardie has not been the subject of public criticism in connection with the receivership or liquidation.
- 11.4 Save as disclosed in paragraph 11.3 above, no Director has:
- (i) any unspent convictions in relation to indictable offences;
 - (ii) a bankruptcy order made against him;
 - (iii) been publicly criticised by any statutory or regulatory authority; or
 - (iv) been a director of a company which has been placed in receivership or liquidation whilst he was a director of that company or within twelve months after he ceased to be a director of that company.

12. Substantial and Other Interests

12.1 In so far as is known to the Directors, the following persons (other than Directors) are, at the date of this Document, interested, directly or indirectly, in 3 per cent. or more of the issued equity share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares as at the date of this Document</i>	<i>Percentage of issued ordinary share capital at the date of this Document</i>	<i>Number of Ordinary Shares immediately following Admission*</i>	<i>Percentage of issued ordinary share capital immediately following Admission*</i>
Capita Trust Company Limited	29,500,000	14.47	29,500,000	11.18
Carole Rowan	27,000,000	13.24	27,000,000	10.23
WB Nominees Limited	17,765,000	8.71	17,765,000	6.73
Morstan Nominees Limited	15,500,000	7.60	15,500,000	5.87
Tiger Resource Finance PLC	6,666,666	3.27	6,666,666	2.53

* – assuming Full Subscription

12.2 Save as set out in paragraph 11.1 or 12.1 the Directors are not aware of any person who is interested, directly or indirectly in 3 per cent. or more of the Enlarged Share Capital (assuming Full Subscription) which interest is required to be notified to the Company under Part VI of the Act.

12.3 W H Ireland Group PLC is the beneficial owner of 875,000 Ordinary Shares. W H Ireland is a wholly owned subsidiary of W H Ireland Group PLC.

13. Directors' Service Contracts and Emoluments

13.1 Each of the Directors has entered into service agreements or letters of engagement with the Company as set out below:

- (i) Colin Orr-Ewing is engaged under a service contract with River Diamonds plc terminable by the Director or the employing company upon 3 months' notice. His basic salary is £39,000 per annum.
- (ii) Richard Crew is engaged under a service contract with River Diamonds plc terminable by the Director or the employing company upon 3 months' notice. His basic salary is US\$48,000 plus £18,000 per annum.
- (iii) Kiran Morzaria is engaged under a service contract with River Diamonds plc terminable by the Director or the employing company upon 3 months' notice. His basic salary is £39,000 per annum.
- (iv) David Lenigas is engaged under a consultancy contract terminable on 3 months' notice whereby his services are provided at a monthly rate of £1,500.
- (v) Anthony Balme is engaged under a consultancy contract terminable on 3 months' notice whereby his services are provided at a monthly rate of £1,000.
- (vi) Nick Shaw-Hardie is engaged under a consultancy contract terminable on 3 months' notice whereby his services are provided at a monthly rate of £1,125.

13.2 Save as set out above, there are no service agreements or contracts in the nature of services, between any Director and the Company or any company within the Group, which do not expire or cannot be determined without payment of compensation on no more than 12 months notice and no such contracts are proposed.

- 13.3 The aggregate remuneration paid and benefits in kind granted to the directors in the year ended 31 August 2003 were approximately £64,335. For the year ending 31 August 2004 they are estimated to be £168,000.
- 13.4 Save as set out in this Document, there are no existing or proposed agreements between any of the Directors and the Company.

14. General

- 14.1 In the Directors' opinion, the minimum amount which must be raised by the Company pursuant to the Placing in order to provide the sums required pursuant to paragraph 21(a) of Schedule 1 of the POS Regulations is £1.0 million comprising:

	<i>£'000</i>
Purchase of property	nil
Issue expenses and commissions	375
Repayment of monies borrowed	nil
Redemption of Preference shares	13
Working capital	612*
Total	<u>1,000</u>

* in part to be applied to the purchase of plant and machinery

- 14.2 The auditors of the Company are MRI Moores Rowland LLP.
- 14.3 The total costs, charges and expenses in connection with or incidental to the Placing and Admission including London Stock Exchange fees printing, advertising and distribution costs, legal and accounting fees and expenses are estimated to amount to approximately £400,000 (inclusive of VAT which is considered to be irrecoverable and assuming Full Subscription) and are payable by the Company.
- 14.4 DMD have given and have not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear and to the inclusion of their report set out in Part III of this Document and accept responsibility for their report for the purpose of regulation 13(1)(d) of the POS Regulations.
- 14.5 MRI Moores Rowland LLP have given and have not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear and to the inclusion of their reports and letters set out in Part IV of this Document and accept responsibility for their reports for the purposes of regulation 13(1)(d) of the POS Regulations. MRI Moores Rowland LLP have not become aware, since the date of such reports and letters, of any matter affecting the validity of their reports and letters at that date.
- 14.6 WH Ireland has given and has not withdrawn its written consent to the inclusion of references to it herein in the form and context in which it appears.
- 14.7 Save as set out in this Document, there are no investments in progress or under active consideration which are significant.
- 14.8 Save as set out in this Document, there have been no significant recent trends concerning the development of the Group's business since 29 February 2004, the date to which the accountants' report in section B of Part IV of this Document has been made up.
- 14.9 Save as set out in this Document, the Directors are not aware of any exceptional factors that have influenced the Group's activities.
- 14.10 The Placing has not been underwritten or guaranteed by any person.

- 14.11 Subscription monies will be received by W H Ireland. Monies received pursuant to the Placing will be held in W H Ireland's client account until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 30 September 2004 the subscription monies will be returned to the applicant at their risk without interest.
- 14.12 Save as set out in this Document no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which this Document relates or of his procuring or agreeing to procure subscriptions for such securities.
- 14.13 The financial information contained in Part IV of this Document does not comprise statutory accounts for the purposes of Section 240 of the Act.
- 14.14 The Company's accounting reference date is 31 August.
- 14.15 The Placing Shares will be issued at 2.5 per share, a premium of 2.4 per Ordinary Share above their nominal value.
- 14.16 No paying agent has been appointed by the Company.
- 14.17 The total proceeds which it is expected will be raised by the Placing are £1.5 million and the net proceeds after deduction of expenses (including VAT considered to be irrecoverable), are estimated at approximately £1.10 million, in each case assuming Full Subscription.
- 14.18 There are no arrangements under which future dividends are waived or agreed to be waived.
- 14.19 Copies of this Document will be available free of charge (for collection only) from the Company's registered office and the offices of W H Ireland at Cannongate House, 62-64 Cannon Street, London EC4N 6AW for a period of one month from Admission.

Dated: 29 July 2004