RIVER DIAMONDS

Annual Report & Accounts 2005

River Diamonds plc is a UK based diamond exploration company with projects in Brazil and Sierra Leone — two of the most exciting diamond exploration areas in the world

STRATEGY

To build a portfolio of advanced development and production projects in order to provide a sustainable cash flow. This will be used to fund large scale exploration projects that have the potential to yield significant reserves of gem quality diamonds.

- Investing to develop new value adding projects to expand its portfolio of exploratory diamond concessions;
- Pursuing acquisition and business development opportunities based on leveraging River Diamonds' core competencies;
- Continuously improving the operating efficiency of existing assets.

Brazil is one of the world's largest gemstone producers and exporters. Brazil has 600 million cubic metres of sedimentary rock of various grades that represent 1.2% of the world's diamond reserve base.

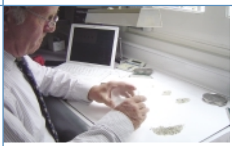
CONTENTS

HIGHLIGHTS

- **Sierra Leone**
- Advanced stage kimberlite dyke project in Panguma.
- Three kimberlite targets on Panguma — one confirmed as diamondiferous.
- Adjacent to the Tongo dyke fields which have produced US$2.75 billion worth of diamonds from 1966 to 1990.
- **Brazil**
- Largest land position Alto Paraguai and Paranatinga.
- Strategic relationship established with Rio Tinto, who have a right to acquire a direct stake in the Alto Paraguai and Paranatinga projects for direct investment of US$10 million in each area.
- **Management**
- Strong management team, with many years experience in investment and operational aspects of the diamonds industry, continue to drive the venture forward.

Sierra Leone is renowned for the quality of its diamonds — producing one of the largest stones in the world, the 969 carat "Star of Sierra Leone".

CHAIRMAN'S STATEMENT



The past year has seen good progress in the growth and development of River Diamonds' group exploration projects.

The year to 31 August 2005 has been a year of change for the Company. We started the year with the expectation of developing the Melgueira concession into a formidable alluvial operation. However, it became apparent during the course of the year that the increasing depth to the bedrock was making the operation uneconomic. In order to understand the structure better we opened negotiations with the local arm of Rio Tinto and signed an agreement with them in August. We hope the agreement will result in the identification of the kimberlitic source of the diamonds, both in Alto Paraguai and Paranatinga. Outside of Brazil, in our pursuit of "close to production" opportunities, we secured a joint venture on the Panguma Dykes project in Sierra Leone, which lies adjacent to the Tongo dyke fields which have produced US$2.75 billion worth of diamonds during the period from 1966 to 1990.

Brazil

In August 2005, River Diamonds entered into an option agreement with Rio Tinto through its wholly owned subsidiary Rio Tinto Desenvolvimentos Minerais Ltda ("RTDM"), regarding the exploration and development of our Alto Paraguai property and the Paranatinga region in Mato Grosso. Rio Tinto has the option to acquire up to a 60% interest in the properties by spending a minimum of US$10 million on each project within a four year time period. As part of the agreement, Rio Tinto provided us with the geophysical data, drilling results and sampling results of both of the areas.

In a recent statement by Rio Tinto, they said that diamond exploration during the current year would absorb 14% of their total exploration budget of US$195 million and that it would be spent in Canada and Brazil. We are hopeful that work they are doing in Rondonia with Vaaldiam will have repercussions in other areas of Brazil. The accepted view has always been that, although there are hundreds of kimberlites in Brazil, most of them are of Cretaceous age, and do not seem to be the source of the plentiful alluvial diamonds. I anticipate that the work being done by the Rio Tinto / Vaaldiam partnership will date some of the earlier kimberlites, revealing that the old mobile belts have had scores of kimberlitic intrusions injected into them over 800 million years. Certainly the chemistry of the earlier kimberlites is better than the Cretaceous age kimberlites and I am hopeful that the known kimberlitic belt in the Alto Paraguai and Paranatinga regions will reveal similar secrets as we progress with our regional studies and our sampling programme.

Currently we are focused on the development of the Alto Paraguai Region (which includes the Melgueira and Tres Barras projects), and we have identified three geophysical anomalies on

Brazil is today South America's leading economic power and a regional leader.

our concessions and a further nineteen in the region as a whole. We have recently commissioned a reinterpretation of the original geophysical data, in which we hope to identify further targets and prioritise the anomalies for testing. We envisage the identification of these targets to be completed by May 2006, with our existing crew in Brazil working on the collection and processing of samples over targets developed from the data packages.

The Board appreciates that the development of the acreage that we hold in Brazil will take longer than originally thought and that knowledge gleaned from other operators in the State of Mato Grosso and perhaps Rondonia may lead to a new appraisal of the properties.

Sierra Leone

In early 2005 we began to examine a "close to production" deal that would be able to prove up diamond resources within a short timescale. Talks had been carried on with African Precious Metals for several months and a deal was finalised in April 2005, by which, the Company can earn a 40% interest in the Panguma lease in Sierra Leone by spending US$1.5 million over a period of two years and can increase the percentage ownership to 51% by the completion of a pre-feasibility study over the Panguma Dyke project.

Dyke mining has become more viable over the last few years as demonstrated by Crown Mines in South Africa (now Petra Diamonds plc), Southern Era (with their Klipspringer dyke) and De Beers with its Snap Lake project in Canada. It is no different from other forms of mining and is based on the value of the rock per tonne and the costs of extraction per tonne.

We believe that, if the grade or caratage per hundred tonnes (cpht) on the Panguma side of the dykes measures up to the historic grade which varied from 87 cpht (carats per hundred tonnes) to 268 cpht on the adjacent Tongo dyke field, the project will fly. We currently have identified two dykes and a potential "blow" as our initial sampling targets. It is interesting to note that Petra Diamonds in Sierra Leone are going straight to production with their Lion dykes, which look to be similar to the Company's Panguma complex.

The exploration season began in October 2005 and personnel are currently in Sierra Leone to supervise the taking of a number of bulk samples, along the line of one of the dykes that have been identified. Preliminary results from some of this work should be available in June 2006.

Results Summary

The Group loss for the year was £1,414,480 (2004: £811,808); £699,739 (2004: £346,844) is attributable to the increased bulk sampling and exploration activities during the period. Diamond Stock levels for the period were £66,233. River Diamonds concluded the sale of this stock on 7 September 2005 and the parcel was sold in auction for approximately £69,000.

Shareholders should note that the Group's exploration expenditure and the exploration concession fees are expensed in the year in which they are incurred. This best practice policy aligns River Diamonds with large mining groups, and we believe this to be in the best long term interests of the Group and its shareholders. Therefore the Group's expenditure has not been recognised in the balance sheet and as a consequence no accounting recognition is given to the potential of our Brazilian assets.

Funding

During the year, ordinary common shares were issued against warrant conversions, which generated proceeds of £297,478. Subsequent to the year end we issued two tranches of shares, the first on 10 October 2005 raised £223,500 before costs for the issue of 14.9 million ordinary shares, the second on 3 January 2006 raised £1,500,000 for the issue of 150 million shares. The majority of these shares were placed with current institutional shareholders.

Objectives and Strategy

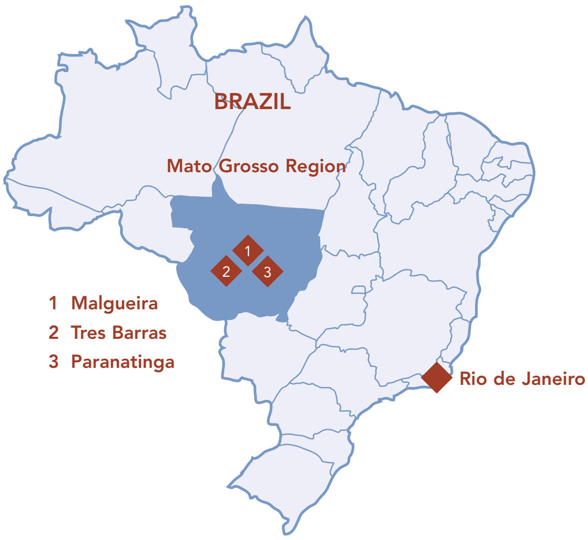
River Diamonds aims to build a portfolio of advanced diamond exploration projects which have potential to yield significant diamonds resources. To achieve this we need to effectively explore and develop our projects in Sierra Leone and Brazil. In the short term this will be achieved by bulk sampling the Panguma dykes to establish the average grade and value of the stones recovered. While in the medium term we would look to develop the kimberlitic targets in the Alto Paraguai and Paranatinga concessions to a stage where Rio Tinto can exercise its option to joint venture.

On behalf of the Board I also wish to record the Company's appreciation of the efforts of my fellow Directors, our employees, contractors and suppliers, who have assisted River Diamonds in its endeavours during the year and we look forward to a rewarding future for all stakeholders in the Company.

Colin Orr-Ewing
Chairman

OPERATIONAL REVIEW

Investing to develop new value adding projects to expand its portfolio of exploratory diamond concessions.



River Diamonds plc was incorporated on 1 March 2004 for the purpose of exploring and developing diamond interests. On 26 August 2004 the Company moved from Ofex to AIM.

- **Sierra Leone — Panguma Project**
  - Advanced exploration target
  - Two confirmed kimberlite dykes, one confirmed as diamondiferous

- **Brazil — Alto Paraguai/Diamantino and Paranatinga Projects**
  - Largest land position in two diamond producing districts
  - Strategic partnership with Rio Tinto
  - Extensive artisanal workings and quality diamonds production
  - Excellent infrastructure, low cost development, ease of permitting

River Diamonds' strategy is to build a portfolio comprising advanced development and production projects in order to provide sustainable cash flow. This cash flow will be used to fund the Company's large-scale exploration projects that have the potential to yield significant reserves of gem quality diamonds. In the short to medium term the Company is focused on developing the diamond projects it holds in Brazil and Sierra Leone. However, it will continue to identify and acquire additional areas which meet the Company's key performance targets — thus showing the potential to add shareholder value.

To achieve this, River Diamonds has adopted a "best of breed" approach in all areas of the business, including:

- Investing to develop new value adding projects to expand its portfolio of exploratory diamond concessions;
- Pursuing acquisition and business development opportunities based on leveraging River Diamond's core competencies;
- Continuously improving the operating efficiency of existing assets.

Diamond Market

The rough diamond market has proved to be robust in recent months and 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.

Sierra Leone's diamond production in 2004 was valued at US$ 127 million

Panguma Dykes Project — Sierra Leone

Location

The Panguma area is about 230km from Freetown and covers approximately 54km^2 in eastern Sierra Leone. It is also approximately 50km from Koidu, where the first hard rock diamond mine in Sierra Leone is being developed.

Sierra Leone is considered to be one of the most prospective countries for diamond exploration in the world, and holds the potential for major new discoveries given the fact it is relatively under-explored.

Resources

The Panguma licence adjoins the Tongo diamond field, which hosts kimberlitic dykes that are, in terms of diamond grade and quality, among the highest in the world. A number of diamondiferous dykes, extending from Tongo, were discovered at Panguma in the 1960s and one six tonne sample was taken; this gave a grade of 38 carats per hundred tons ("cpht") although the size of the sample may have given a misleading result, as mining on three of the dyke exposures on the adjoining Tongo lease produced grades of 150cpht, 268cpht and 100cpht. A current review, commissioned by River Diamonds and undertaken by CSA, suggests that the previously identified Talama kimberlite dyke system ("Talama") at Panguma comprises two main dykes, one of which is probably of greater strike length — possibly over 4km — than originally thought. There is also vertical continuity and extension in width at the second dyke. A third target has also been identified and there is the potential for further undiscovered kimberlites. However, any additional exploration will only take place once the advanced targets have been properly evaluated.

Status

Participation in Panguma is considered by the Directors of River Diamonds to provide an opportunity to enhance the Company's portfolio of alluvial and kimberlitic targets.

As the position of a number of dykes has already been established during a period of geological due diligence, exploration should advance quickly, and priority will be given to proving the continuity of the dykes both laterally and vertically and to confirming the grade by taking a number of bulk samples.

The exploration season began in October 2005 and River Diamonds has identified two dykes and a possible "blow" as its initial sampling targets. Personnel are currently in Sierra Leone to supervise the taking of a number of bulk samples, along the line of one of the dykes that have been identified. Preliminary results from some of this work should be available in June 2006.

As part of the joint venture agreement with African Precious Mineral, River Diamonds will manage the exploration programme.

Middle and below: Talama kimberlite dyke exposed in hillside workings. **Right:** View of Pandubo possible kimberlite 'blow' with dyke extension in the foreground. Photo looking southwest.

Sierra Leone is considered to be one of the most prospective countries for diamond exploration in the world . . .

OPERATIONAL REVIEW
continued

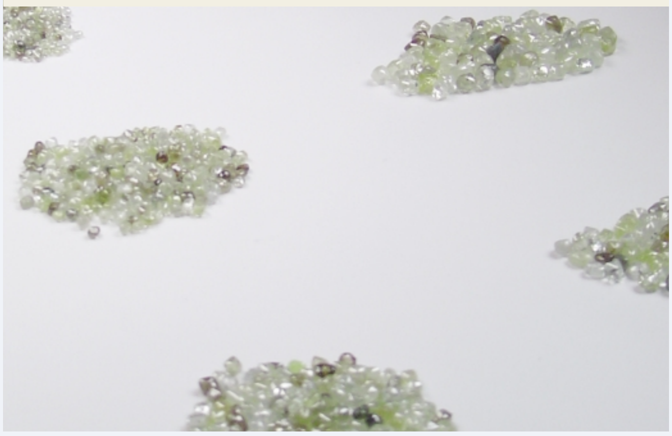
Alto Paraguai — Brazil

Location
The Alto Paraguai concession is situated 250km north-west of the state capital Cuiaba in the Mato Grosso State of Brazil. The Alto Paraguai concession contains both the Tres Barras and Melgueira licences.

Status
The Company has also entered into an option agreement with RTDM, regarding the exploration and development of the Alto Paraguai block. Under the terms of the agreement, RTDM have the option to acquire up to a 60% interest in this property by spending a minimum of US$10 million within a four year time period. RTDM have the option to increase their stake to 80% by completing a standard feasibility study.

As part of the same agreement, RTDM will provide geophysical data, drilling results, sampling results, and reports on the properties carried out to date. River Diamonds will pay Rio Tinto US$150,000 over a period of a year and a quarter for the data. Further to examining and reinterpreting this information River Diamonds will expend a minimum of US$1 million on an exploration programme of the areas. This programme will include geological mapping, stream gravel/loaming sampling and geophysical surveys coupled with trenching, pitting, drilling and mini bulk sampling of selected targets where appropriate. River Diamonds has retained the exclusive right to develop any kimberlite deposit within the properties which do not meet the development criteria of RTDM. In this regard, River Diamonds has the exclusive right to market diamond production from any kimberlite or alluvial diamond deposits developed for its own account.

Below: 426.34 carats parcel of diamonds from the operations in the Mato Grosso region of Brazil. The sale was worth US$126,044. The average value per carat achieved was US$295.64.



To date we have identified three geophysical anomalies on our concessions and a further nineteen in the region as a whole. We have recently commissioned a reinterpretation of the original geophysical data, in which we hope to identify further targets and prioritise the anomalies for testing. We envisage the identification of these targets to be completed in April or May of 2006, with our existing crew in Brazil working on the collection and processing of samples over targets developed from the data packages.

As mentioned before we had envisaged the Melgueira bulk exploration project to transition to a fully fledged alluvial operation during the course of this year. As the year progressed it became apparent that the palaeo-channel environments as envisaged, which are common in South Africa, were not the decisive feature in the emplacement of the alluvial diamonds; structure was clearly more important and as excavations got deeper it became evident that we would need to change the basis of our operation to make a profit at the increased depths that we were working. In view of the need to increase our knowledge of the structure of the area around Alto Paraguai we are utilising the Rio Tinto data package to reassess the basic structure of the area. Since September 2005 we have ceased bulk sampling and test mining at Melgueira and are re-evaluating the geological model with a view to picking some new sampling locations within the Alto Paraguai area (which includes Melgueira). The Board appreciates that the development of the acreage that we hold in Brazil will take longer than originally thought and that knowledge gleaned from other operators in the State of Mato Grosso and perhaps Rondonia may lead to a new appraisal of the properties.

River Diamonds has the exclusive right to market diamond production from any kimberlite or alluvial diamond deposits developed for its own account.

Paranatinga — Brazil

Description

In December 2004 the Company acquired the sub-surface exploration rights to 40,000 hectares — the Paranatinga project ("the Project") — in the Paranatinga region of Brazil. The region is prospective for both kimberlite and alluvial deposits. The Project is located approximately 220km north-east of Cuiaba in the Municipality of Paranatinga and is accessible via a federal highway and gravel road.

The Paranatinga region is noted for its historic alluvial diamond production and the presence of kimberlites. In the 1950s, alluvial diamond mining developed along the Batovi, Jara and Paranatinga Rivers and production reached a peak in the early 1960s when official production reached a rate of 4,000 carats per month. The area has produced some large stones and 60% of the diamonds recovered were of gem quality.

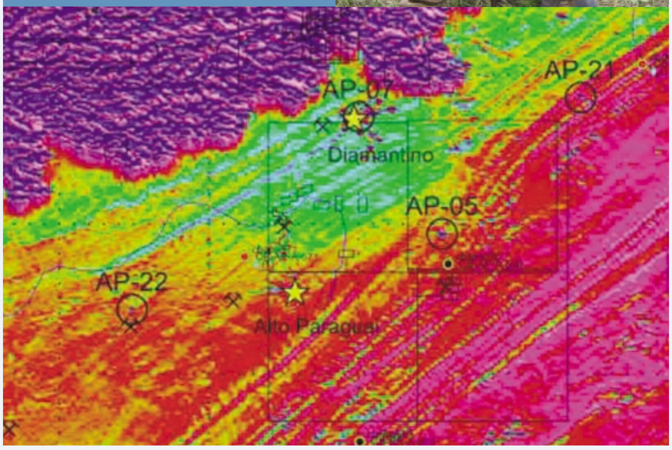
Between the 1970s and 1990s, the region was intermittently explored by several major mining and exploration companies and around forty kimberlites were discovered. The Company believes that these targets, and the region as whole, are worth reinvestigating because of advances in technology and a new understanding of the kimberlite emplacement theory in Brazil.

Traditionally the initial stages of kimberlite exploration have been carried out using a combination of airborne magnetic surveys and following "trials" of kimberlitic indicator minerals such as G10 Garnets. However, as evidenced by recent exploration in the state of Rondonia by other companies, these methods have failed to identify all the kimberlites and in fact additional kimberlites and kimberlitic targets have been identified using ground electro-magnetic surveys. The electro-magnetic surveys identified much larger anomalies underneath previously identified kimberlites, which suggest multiple intrusions of kimberlites along zones of weakness rather than one episode of kimberlitic intrusion as previously believed.

Status

The Company has also entered into an option agreement with RTDM, regarding the exploration and development of the Paranatinga (Batovi) block. Under the terms of the agreement, RTDM have the option to acquire up to a 60% interest in this property too by spending a minimum of US$10 million within a four year time period. As with Alto Paraguai, RTDM have the option to increase their stake to 80% by completing a standard feasibility study.

Below: Geophysical anomalies AP-07 and AP-05 in the Parantinga region.



As part of the same agreement, RTDM will provide geophysical data, drilling results, sampling results, and reports on the properties carried out to date. River Diamonds will pay Rio Tinto US$150,000 over a period of a year and a quarter for the data. Further to examining and reinterpreting this information River Diamonds will expend a minimum of US$1 million on an exploration programme of the areas. This programme will include geological mapping, stream gravel/loaming sampling and geophysical surveys coupled with trenching, pitting, drilling and mini bulk sampling of selected targets where appropriate. River Diamonds has retained the exclusive right to develop any kimberlite deposit within the properties which do not meet the development criteria of RTDM. In this regard, River Diamonds has the exclusive right to market diamond production from any kimberlite or alluvial diamond deposits developed for its own account.

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

Sierra Leone now has full government control and is renowned for the quality of its diamonds.

DIRECTORS & ADVISERS

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.

Kiran Morzaria, Finance Director, age 31
Kiran holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School. He began his career as an exploration geologist working in Central America, after which, he moved to Firestone Diamonds Plc, where he worked as an exploration and project manager in South Africa. In addition, Kiran has provided corporate advice in the resource sector, and has experience in valuations, due diligence and AIM admissions. He is also currently a Non Executive Director of Hot Tuna International plc, a surf lifestyle company.

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 Chief Executive Officer of Lonrho Africa plc, the Chairman of Mediterranean Oil and Gas and a Non-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. He is the Financial Director of 802, a wireless security technology company.

Directors
I C Orr-Ewing
N D Shaw-Hardie
D A Lenigas
A Balme
K C Morzaria
Bart Management Ltd

Secretary
Laytons Secretaries Limited
Carmelite
50 Victoria Embankment
London
EC4Y 0LS

Registered office
5th Floor Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0LS

Nominated Adviser and Broker
W H Ireland Limited
Cannongate House
62–64 Cannon Street
London
EC4N 6AE

Auditors
MRI Moores Rowland LLP
3 Sheldon Square
London
W2 6PS

Solicitors
Laytons
Carmelite
50 Victoria Embankment
London
EC4Y 0LS

Registrars
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

DIRECTORS' REPORT
For the year ended 31 August 2005

The Directors submit their report and the financial statements of River Diamonds plc for the year ended 31 August 2005.

Principal activities
The principal activity of the Group during the period was that of mineral exploration. The principal activity of the Company was that of a holding company.

Results and dividends
The financial statements of the Group have been prepared on the basis of merger accounting and hence the trading loss of the Group for the year ended 31 August 2005, after taxation, was £1,414,480 (2004: £811,808).

The Directors do not recommend the payment of a dividend.

Review of the business and future development
The Directors believe the development of the underlying business to be slower than expected and therefore a new strategy is being implemented, as further explained in the Chairman's Statement.

A joint venture with African Precious Metals Limited was entered into on 25 April 2005.

An option to enter a joint venture with Rio Tinto Desenvolvimentos Minerais Ltda was entered into on 18 August 2005.

There was no trade relating to these ventures in the current financial year.

A detailed review of the business and future developments is included in the Chairman's Statement on pages 2 and 3.

Post-balance sheet events
Subsequent to the year end, the Company has issued and allotted 14,900,000 new Ordinary Shares of 0.1p at 1.5p per share and 150,000,000 new Ordinary Shares of 0.1p at 1p per share.

Directors
The following directors have held office during the year:
I C Orr-Ewing
N D Shaw-Hardie
R E Crew (Resigned 30 November 2005)
D A Lenigas
A Balme
K C Morzaria
Bart Management Ltd

Directors' interests
Directors' interests, including family interests in the Ordinary share capital, were as follows:

	Beneficial Holding	
	31 August 2005	31 August 2004
I C Orr-Ewing	14,388,700*	14,388,700*
N D Shaw-Hardie	—	—
R E Crew (resigned 30 November 2005)	—	—
D A Lenigas	—	—
A Balme	3,500,000†	3,300,000†
K C Morzaria	150,000	—

* of which 7,855,367 are held beneficially
† of which 2,500,000 (2004: 2,300,000) are held beneficially

Directors also hold warrants over Ordinary Shares as follows:

	Number of Warrants	
	31 August 2005	31 August 2004
I C Orr-Ewing	8,400,000	4,900,000‡
N D Shaw-Hardie	3,000,000	1,000,000
R E Crew (resigned 30 November 2005)	6,500,000	3,000,000
D A Lenigas	3,500,000	—
A Balme	5,900,000	4,000,000§
K C Morzaria	3,500,000	—

‡ of which 4,500,000 (2004: 1,000,000) are held beneficially
§ of which 4,900,000 (2004: 3,000,000) are held beneficially

Substantial shareholdings
At 21 February 2006 the following had notified the Company of disclosable interests in 3% or more of the nominal value of the company's shares:

	Ordinary shares of 0.1p	%
Credit Suisse First Boston Nominees	43,775,000	9.37
Fitel Nominees Limited	42,400,000	9.07
Chase Nominees Limited	31,000,000	6.63
The Bank of New York (Nominees)	29,390,912	6.29
Roy Nominees Limited	27,000,000	5.78
Ms Carole Rowan	27,000,000	5.78
Mr Bruce Rowan	25,000,000	5.35
Bear Stearns Securities Corp	20,000,000	4.28
Vidacos Nominees Limited	16,400,000	3.51
Pershing Keen Nominees Limited	14,929,999	3.20
Total	276,895,911	59.26

DIRECTORS' REPORT
continued

Policy on payment of creditors
The Company seeks to maintain good terms with all of its trading partners. In particular, it is the Company's policy to agree appropriate terms and conditions for its transactions with suppliers and, provided the supplier has complied with its obligations, to abide by the terms of payment agreed. Trade creditor days of the Group for the year ended 31 August 2005 was 26 (2004: 66 days), calculated in accordance with the requirements set down by the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year and the amounts due, at the year end, to trade creditors.

Auditors
In accordance with section 385 of the Companies Act 1985, a resolution proposing that MRI Moores Rowland LLP be reappointed will be put to the Annual General Meeting.

Directors' responsibilities in the preparation of financial statements
Company law requires Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, Directors are required to:

a select suitable accounting policies and then apply them consistently;

b make judgements and estimates that are reasonable and prudent;

c state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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

Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance
The Directors believe that the Company complies with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the Group.

On behalf of the Board

K C Morzaria
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RIVER DIAMONDS plc

We have audited the Financial Statements of River Diamonds plc on pages 12 to 23 for the year ended 31 August 2005. The Financial Statements have been prepared under the historical cost convention and on the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out on page 10.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company or Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company or Group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. The other information comprises the Directors' Report and Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the future funding of the Group. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 August 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MRI Moores Rowland LLP
Registered Auditor
Chartered Accountants
3 Sheldon Square
London
W2 6PS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 August 2005

	Note	2005 £	2004 £
Turnover		**18,621**	31,927
Cost of Sales		**(699,739)**	(346,844)
Gross loss		**(681,118)**	(314,917)
Administrative expenses		**(744,633)**	(418,637)
Operating loss	3	**(1,425,751)**	(733,554)
Other interest receivable and similar income		**18,601**	385
Amounts written off investments		**—**	(76,999)
Interest payable and similar charges	5	**(7,330)**	(1,640)
Loss on ordinary activities before taxation		**(1,414,480)**	(811,808)
Tax on loss on ordinary activities	6	**—**	—
Loss on ordinary activities after taxation	18	**(1,414,480)**	(811,808)
Loss per share		**pence**	pence
Basic	8	**(0.49)**	(0.40)
Fully diluted	8	**(0.49)**	(0.40)

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 August 2005

	Note	2005 £	2004 £
Loss for the financial year		**(1,414,480)**	(811,808)
Currency translation differences	18	**112,293**	(122,097)
Total recognised gains and losses for the year		**(1,302,187)**	(933,905)

CONSOLIDATED BALANCE SHEET

As at 31 August 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	9		**480,709**		240,227
Current assets					
Investment	11	**1**		1	
Stock	12	**66,233**		—	
Debtors	13	**25,664**		83,288	
Cash at bank and in hand		**8,551**		1,396,869	
		100,449		1,480,158	
Creditors					
Amounts falling due within one year	14	**(194,549)**		(350,091)	
Net current (liabilities)/assets			**(94,100)**		1,130,067
Provision for liabilities and charges	15	**21,024**		—	
Total net assets			**365,585**		1,370,294
Capital and reserves					
Called up share capital	17		**302,328**		271,250
Share premium account	18		**1,671,560**		1,405,160
Merger reserve	18		**2,166,528**		2,166,528
Profit and loss account	18		**(3,774,831)**		(2,472,644)
Equity shareholders' funds	19		**365,585**		1,370,294

Approved by the Board on 24 February 2006

Signed on behalf of the Board of Directors

K C Morzaria

Director

COMPANY BALANCE SHEET

As at 31 August 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Investments	10	**1**		196,359	
Current assets					
Debtors	13	—		1,480,051	
		—		1,480,051	
Creditors: amounts falling due within one year	14	**(8,000)**		(8,000)	
Net current (liabilities)/assets			**(7,999)**		1,472,051
Total net (liabilities)/assets			**(7,999)**		1,668,410
Capital and reserves					
Called up share capital	17		**302,328**		271,250
Share premium account	18		**1,671,560**		1,405,160
Profit and loss account	18		**(1,981,887)**		(8,000)
Equity shareholders' (deficit)/funds	19		**(7,999)**		1,668,410

Approved by the Board on 24 February 2006

Signed on behalf of the Board of Directors

K C Morzaria

Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 August 2005

	Note	2005 £	2004 £
Net cash outflow from operating activities	20	**(1,246,174)**	(609,198)
Returns on investment and servicing of finance	20	**11,271**	(1,255)
Taxation		**—**	—
Capital expenditure and financial investment	20	**(441,409)**	(207,130)
Cash outflow before financing		**(1,676,312)**	(817,583)
Management of liquid resources	20	**—**	—
Financing	20	**297,478**	2,217,938
(Decrease)/increase in cash in the year	20	**(1,378,834)**	1,400,355

Reconciliation of net cash flow to movement in net funds

		£	£
(Decrease)/increase in cash in the year		**(1,378,834)**	1,400,355
Opening net funds/(deficit)		**1,382,005**	(18,350)
Closing net funds	20	**3,171**	1,382,005

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2005

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The financial statements have been prepared on a going concern basis. This is considered appropriate as the Company will seek further funding by way of an issue of new shares in order to meet operational cash flows, once current cash resource has been utilised. Should the Company be unable to continue trading, adjustments would have to be made to reduce the value of assets to their reasonable amounts, to provide for further liabilities which might arise, and to classify fixed assets as current assets.

Basis of consolidation

The Group financial statements consolidate the accounts of the Company and its interest in subsidiary undertakings. The acquisition of River Diamonds UK Limited has been accounted for using merger accounting principles. All other transactions have been accounted for using the acquisition method of accounting. Overseas subsidiaries are consolidated using the closing rate method. Foreign exchange differences arising on consolidation are taken to reserves.

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:

Exploration and prospecting leases	Initially over 3 years: annual renewals will be expensed over the period covered by the payment
Plant and machinery	Over 3 – 10 years
Motor vehicles	Over 3 years
Fixtures fittings and equipment	Over 4 years
Assets under construction	Transferred to plant and machinery when completed and no depreciation is charged until completion

Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund.

Investments

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

Stock

Stock is 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, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

Turnover

Turnover represents amounts receivable for goods and services net of VAT, trade discounts and other sales tax.

Liquid resources

The Group considers cash on short term deposits and other short term investments to be liquid resources.

2. Segment information

Turnover, operating results and net assets are substantially attributable to activities in Brazil.

3. Operating loss

	2005 £	2004 £
Operating loss is stated after charging:		
Depreciation	**56,886**	81,584
Auditors' remuneration	**23,000**	10,000
Remuneration of auditors for non-audit work	**1,195**	—
Impairment of tangible assets	**144,041**	—

Following a change in Group strategy, the Directors have reviewed the fixed assets and made an impairment provision in the amount of £144,041.

4. Employees

	2005 No.	2004 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Productive labour	**23**	15
Office and management	**10**	5
	33	20

	2005 £	2004 £
Employment costs		
Wages and salaries	**294,425**	133,265
Pension	**3,119**	—
	297,704	133,265

Directors' remuneration	2005 £	2004 £
Aggregate emoluments (including benefits in kind)	**150,825**	75,299

5. Interest payable

	2005 £	2004 £
Bank loan interest payable	**7,330**	1,640

6. Taxation

	2005 £	2004 £
UK Corporation tax	**—**	—
Factors affecting the tax charge for the period		
Losses on ordinary activities before taxation	**(1,414,480)**	(811,808)
Profits on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30%)	**(424,344)**	(243,542)
Effects of:		
Depreciation add back	**17,066**	24,475
Fixed asset impairment provision	**43,212**	—
Amounts written off investments	**—**	23,100
Losses carried forward	**364,066**	195,967
UK Corporation tax	**—**	—

NOTES TO THE FINANCIAL STATEMENTS

continued

7. Loss for the year

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these Financial Statements. The Group loss figure includes a loss after taxation of £1,973,887 (2004: £8,000), which is dealt with in the accounts of the parent company.

8. Loss per share

Loss for the year attributable to shareholders is £1,414,480 (2004: £811,808). This is divided by the weighted average number of shares outstanding calculated to be 290,932,734 (2004: 204,221,365) to give basic loss per share of 0.49p (2004: 0.40p).

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 290,932,734 (2004: 204,221,365).

9. Tangible fixed assets

Group

	Exploration and prospecting Leases £	Plant & Machinery £	Motor Vehicles £	Fixtures Fittings and Equipment £	Assets under construction £	Total £
Cost						
At 1 September 2004	130,761	263,446	24,151	4,804	5,223	428,385
Additions	—	203,422	126,792	540	92,806	423,560
Exchange difference	—	11,389	5,832	364	1,260	18,845
At 31 August 2005	130,761	478,257	156,775	5,708	99,289	870,790
Depreciation						
At 1 September 2004	130,761	57,397	—	—	—	188,158
Charge for the year	—	34,092	22,310	484	—	56,886
Exchange difference	—	996	—	—	—	996
Impairment in year	—	144,041	—	—	—	144,041
At 31 August 2005	130,761	236,526	22,310	484	—	390,081
Net book value						
At 31 August 2004	—	206,049	24,151	4,804	5,223	240,227
At 31 August 2005	—	241,731	134,465	5,224	99,289	480,709

10. Fixed asset investments

Company

	Shares in Group undertakings 2005 £	Shares in Group undertakings 2004 £
Cost		
Balance brought forward	**196,359**	—
Additions	**—**	196,359
Balance carried forward	**196,359**	196,359
Impairment		
Balance brought forward	**—**	—
Impairment in year	**196,358**	—
Balance carried forward	**196,358**	—
Net book value	**1**	196,359

Name and nature of business	Country of Incorporation	Class of shares	% held
River Diamonds UK Ltd — Mining	England & Wales	Ordinary	100

The principal subsidiary undertaking owned by River Diamonds UK Ltd is as follows:

Name and nature of business	Country of Incorporation	Class of shares	% held
São Carlos Mineração Ltda — Mining	Brazil	Ordinary	100

11. Current assets investment

Group

	Unlisted Investments £
Cost	
Balance brought forward and carried forward	77,000
Provisions	
Balance brought forward and carried forward	76,999
Net book value	
As at 31 August 2005 and 31 August 2004	1

12. Stock

	Group 2005 £	**Company 2005 £**	Group 2004 £	Company 2004 £
Finished goods	**66,233**	**—**	—	—

NOTES TO THE FINANCIAL STATEMENTS

continued

13. Debtors

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Amounts owed by Group undertakings	—	—	—	1,416,051
Unpaid share capital	—	—	50,000	50,000
Other debtors and prepayments	25,664	—	33,288	14,000
	25,664	—	83,288	1,480,051

14. Creditors: Amounts falling due within one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank loans and overdrafts	5,380	—	14,864	—
Trade creditors	79,410	—	202,913	—
Other creditors	54	—	17,525	—
Accruals and deferred income	79,772	8,000	111,340	8,000
Taxation and social security	29,933	—	3,449	—
	194,549	8,000	350,091	8,000

15. Provisions for liabilities and charges

	Other Group £	Other Company £
Balance brought forward	—	—
Charge for the period	21,024	—
Balance carried forward	21,024	—

The above provision represents the cost of rehabilitating the land in Brazil. The provision is based on the Directors' best estimate of the costs incurred. This work is expected to be undertaken during 2006.

16. Foreign currency risks and exposures

a Objectives, policies and strategies

Currency rate risk

Loans between companies which are members of the River Diamonds Group are made in the operating currency of the lending company. In all other respects, the policy for all Group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time.

The Group's revenue derives from the sale of rough and polished diamonds by its Brazilian operating subsidiaries. While proceeds of sales are received in Reals diamonds are sold in US Dollars, with the Reals proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Reals exchange rate prevailing on the date of the sale. As the Group reports in Sterling, reported revenue is affected by the combination of changes in the US Dollar/Reals and Sterling/Reals rates.

The Group's expenses in Brazil are incurred in Reals. Any weakening in the Real would result in a reduction in expenses in Sterling terms, which would be to the Group's advantage. There is an equivalent downside risk to the Group of strengthening in the Real which would increase Brazilian operating expenses in Sterling terms.

16. Foreign currency risks and exposures continued

b Currency exposures

As at 31 August 2005 the Group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

c Interest rate risk

Group borrowings are all subject to a floating rate of interest and taken out in Sterling only.

The maturity profile of financial liabilities of the Group (Company: £nil) is as follows:

	2005 £	2004 £
Within one year	5,380	14,864

The fair value of all financial instruments is approximately equal to book value due to their short term nature and the fact that they bear interest at floating rates based on the local bank rate.

17. Share capital

	2005 £	2004 £
Authorised 450,000,000 Ordinary shares of 0.1p each	**450,000**	450,000
Allotted, issued and fully paid 302,327,966 Ordinary shares of 0.1p each	**302,328**	271,250

The Company has allotted shares for cash consideration during the year as follows:

1,477,541 Ordinary shares of 0.1p at 0.1p each;
29,600,000 Ordinary shares of 0.1p at 1p each.

Warrants

During the year ended 31 August 2005 the following movements occurred on the warrants to purchase 0.1p ordinary shares in River Diamonds plc.

Exercise price	Number of warrants 1p	Number of warrants 1.5p	Number of warrants 2p	Number of warrants 2.5p	Number of warrants 4p	Number of warrants Total
Balance at 1 September 2004	51,800,000	13,333,332	8,750,000	—	2,585,907	76,469,239
Granted during the year	—	—	—	24,900,000*	—	24,900,000
Exercised during the year	(29,600,000)	—	—	—	—	(29,600,000)
Balance at 31 August 2005	22,200,000	13,333,332	8,750,000	24,900,000	2,585,907	71,769,239

* These options were issued to Directors, staff and consultants. These options are exercisable at the placing price of 2.5 pence pursuant to and on the terms of the option scheme summarised in the Prospectus.

NOTES TO THE FINANCIAL STATEMENTS

continued

18. Statement of movements on reserves

	Group Merger reserve 2005 £	Company and Group Share premium account 2005 £	Group Profit and loss account 2005 £	Company Profit and loss account 2005 £
Balance at 1 September 2004	2,166,528	1,405,160	(2,472,644)	(8,000)
Loss for the year	—	—	(1,414,480)	(1,573,887)
Premium on shares issued during the year	—	266,400	—	—
Exchange adjustment	—	—	112,293	—
Balance at 31 August 2005	2,166,528	1,671,560	3,774,831	(1,981,887)

On 3 April 2004, River Diamonds plc acquired the issued share capital of River Diamonds UK Limited in a share for share transaction. This was accounted for using the principles of merger accounting.

19. Reconciliation of movement in shareholders' funds

	Group 2005 £	**Company 2005 £**	Group 2004 £	Company 2004 £
Loss for the year	**(1,414,480)**	**(1,973,887)**	(811,808)	(8,000)
Exchange adjustment	**112,293**	**—**	(122,097)	—
Proceeds from issue of shares				
— On acquisition of River Diamonds UK Ltd	**—**	**—**	—	196,359
— On admission to AIM	**—**	**—**	1,682,750	1,682,750
— Other	**297,478**	**297,478**	198,434	198,434
Merger reserve adjustment	**—**	**—**	737,887	—
Issue costs written off	**—**	**—**	(401,133)	(401,133)
Net addition to shareholders' funds	**(1,004,709)**	**(1,676,409)**	1,284,033	1,668,410
Opening shareholders' funds	**1,370,294**	**1,668,410**	86,261	—
Closing shareholders' funds	**365,585**	**(7,999)**	1,370,294	1,668,410

20. Cash flows

a Reconciliation of operating loss to net cash flow from operating activities

	2005 £	2004 £
Operating loss	**(1,425,751)**	(733,554)
Depreciation	**56,886**	81,584
Impairment	**144,041**	—
Foreign exchange	**112,293**	(122,097)
Loss on disposal of fixed assets	**—**	20,866
Increase in stocks	**(66,233)**	—
Decrease in debtors	**57,624**	1,322
(Decrease)/increase in creditors	**(125,034)**	142,681
Net cash inflow/(outflow) from operating activities	**1,246,174**	(609,198)

b Analysis of cash flows

	2005 £	2004 £
Returns on investment and servicing of finance		
Interest received	**18,601**	385
Interest paid	**(7,330)**	(1,640)
Net cash inflow/(outflow) for returns on investment and servicing of finance	**11,271**	(1,255)
Capital expenditure and financial investment		
Purchase of fixed assets	**441,409**	207,130
Management of liquid resources		
Current asset investment	**—**	—
Net cash inflow from financing		
Net receipts from issue of shares	**297,478**	2,217,938

c Analysis of changes in net debt

	At 31 August 2004 £	Cash flow £	**At 31 August 2005 £**
Cash at bank and in hand	1,396,869	(1,388,378)	**8,551**
Overdraft	(14,864)	9,484	**(5,380)**
Net funds	1,382,005	(1,378,834)	**3,171**

21. Related party transactions

At 31 August 2005, an amount of £nil (2004: £17,525) was owed by the Group to I C Orr-Ewing, a director of River Diamonds plc.

In the year K C Morzaria, a Director of River Diamonds plc, sold office equipment for £2,000 (2004: £nil) to River Diamonds UK Limited.

22. Ultimate controlling party

There was no ultimate controlling party during the year.

23. Post balance sheet events

Subsequent to the year end, the Company has issued and allotted 14,900,000 new Ordinary Shares of 0.1p at 1.5p per share and 150,000,000 new Ordinary Shares of 0.1p at 1p per share.

Designed and Printed by Jones & Palmer Limited, Birmingham. *tel:* **(0121) 236 9007**

River Diamonds plc
29 Chelsea Wharf
Lots Road
London SW10 0QJ
United Kingdom

t: +44 (0)20 7349 6905
f: +44 (0)20 7352 6157

www.riverdiamonds.co.uk