Company Registration No. 5059077

RIVER DIAMONDS PLC

Financial Statements

For the Year Ended 31 August 2006

Report and financial statements for the year ended 31 August 2006

Contents **Page**

Chairman's Statement

The past year has seen good progress in the growth and development of River Diamonds plc's exploration portfolio.

Exploration Summary

One of our key objectives for this year was to accelerate the rate of the Company's exploration activities and, in particular, to bring viable deposits to resource definition as quickly as possible. We have made considerable progress in this regard in both Sierra Leone and Brazil.

One of the highlights of the year was the progress made at the Panguma Project, Sierra Leone, which is the Group's most promising exploration project. During the year we began and completed mini bulk sampling of the two main targets and post year end we completed the drilling programme on the third. In addition we have identified several other kimberlite dykes which have yielded promising initial sampling results.

The exploration work to date has brought us to the trial mining stage of the deposit, and currently we are looking to extract a 5,000 to 10,000 tonne sample of kimberlite, recovering a minimum of 5,000 carats. This is required in order to asses the grade and value of the diamonds contained in the Panguma deposit. We are currently assessing both the location and methodology of such an operation.

Given the exploration to date, including the diamond recoveries, recent and historical drilling, we believe that the deposit should be economically viable.

Our work this year in Brazil focused on advancing the option to joint venture with Rio Tinto (Brazil). We have concentrated our efforts on the Alto Paraguai project area which extends over an area in excess of 10,000 square kilometres. During the year we completed the reinterpretation of the aero magnetic data and the ground follow-up of aeromagnetic targets. The reinterpretation generated 32 new geophysical anomalies, in addition to the 32 anomalies generated by Rio Tinto. These anomalies were followed up by further exploration work during the year, resulting in the identification of two anomalies which appear to be attractive and warrant additional exploratory work

Corporate

With the growth in the Group's exploration project portfolio over the past year and the further expansion now being planned, we created two Exploration Manager positions, one in Sierra Leone and one in Brazil. These roles were filled by James De Jaeger and Frank Gaunt respectively, both of whom have extensive experience in the diamond exploration field. They are primarily responsible for the planning and execution of the exploration programmes and evaluating the development potential of both hard rock and alluvial diamond targets in Sierra Leone and Brazil. Both managers bring a wealth of technical and operational experience to the team.

In October 2006 River Diamonds announced it had completed negotiations to acquire 100% of the Panguma Dykes project, to be satisfied by the issue of 93,985,000 ordinary shares in River Diamonds. The acquisition was completed in December 2006 and its consideration was valued at approximately £0.7 million.

Results Summary

Turnover this year was £67,429 (2005: £18,621) this represented the sale of diamonds from our bulk sampling carried out in the previous year. The Group loss for the year was considerably lower than the previous year at £924,783 (2005: £1,414,480). This is attributable to a reduction in prospecting costs of £465,880 to £159,265 (2005: £625,145). This in turn is due to the Company focussing its capital utilisation during the year on the Panguma project.

Chairman's Statement (continued)

As part of our financial key performance indicators, the Company has utilised a comparison between expenditure this year to the budgeted amount over the same period. This year it showed a deficit of £122,565; this variance is attributable to higher than expected staff and fuel costs across our exploration portfolio and is in line with rising operating costs of this nature across the mining industry globally.

During the year two tranches of shares were issued. The first was issued on 10th October 2005, which raised £223,500, before costs, for the issue of 14.9 million shares and the second was issued on 3 January 2006 and raised £1,500,000 for the issue of 150 million shares. The majority of these shares were placed with current institutional shareholders. In addition shares were issued on exercise of warrants during the year which generated £27,000.

Diamond Market Outlook

With consistent growth in the market, as well as the increases over the past few years (20% in 2004, 6% in 2005), there was an expectation that the market would continue it's strong growth, however this year the market for rough diamond prices either remained flat or withdrew slightly.

The two main reasons for this are recent increases in interest rates which have affected the supply chain financing and the surplus of low quality rough diamonds available on the market. None the less the demand for high quality diamonds still remained strong with stones from 0.3 of a carat to 3 carats rising by 4.4%, while some categories of diamonds rising by as much as 11.4%.

The Board believes that with increasing demand from China and India, and a lack of a major new diamond discovery for the last 15 years, the rough diamond deficit is expected to continue for the next three to five years. Therefore the outlook for rough diamond prices continues to be very positive.

Outlook

The Group's strategy has always been to build a portfolio of advanced diamond exploration projects which have the potential to yield significant diamonds resources. We believe that in Panguma we have such a deposit. In the following year, we will be committing the large majority of human resources and capital to prove the economic viability of this deposit, and we aim to embark on a trial mining exercise as soon as it is feasible.

To achieve this in the short term the company is currently seeking further financing in the form of an equity placement to provide additional working capital and to allow the group to exploit the potential which we believe exists.

We intend to continue developing our exploration activities in Sierra Leone and our main focus in this regard will be the targeting of kimberlitic targets such as Panguma. In Brazil we will focus on the completion of the follow up work in Alto Paraguai.

With the many opportunities available and River Diamonds' ability to develop and deliver turnkey projects from exploration through to production we are also focusing on pursuing acquisition and business development opportunities in the sector as we believe the time is ripe for consolidation.

Colin Orr Ewing
Chairman

Operational review

River Diamonds' two principle assets are the Panguma Dykes project in Sierra Leone, and the Alto Paraguai and Paranatinga projects in Brazil.

At the beginning of the year we set out operational targets on both of these prospects. These were based on a framework of the advancement of project progressing from target definition through to resource definition and finally bankable feasibility and / or mine development.

Our primary focus this year was the Panguma project and our target was to complete the testing for larger stones within the resource definition category by the end of the financial year. This target was achieved and we aim to complete the final stages of resource definition (grade and value test) this year.

Our secondary focus was to complete the target delineation stage on the Alto Paraguai project via the reinterpretation of the geophysical data and follow up field work. This was achieved and our exploration work to date has eliminated all but two anomalies. We will now move on to target testing and resource definition. The Paranatinga project was our tertiary focus this year and we wanted to complete the reinterpretation of the geophysical survey; this has been achieved and we are now prioritising targets.

In addition to the three projects mentioned above we have been pursuing low cost targeted exploration projects in Brazil, which has included some testing of diamondiferous gravels in the Minas Gerias region and hard rock diamond and gold reconnaissance exploration in the Para region.

Overall through our exploration programmes in both continents we have managed to achieve our operational targets for the year and, in the case of Panguma, we have managed to exceed them. We look forward to proving the economic viability of the project during the coming year and will focus the majority of our capital and industry expertise on this project.

We have highlighted over the next few pages a summary of results and progress on each of the projects. As a whole, we believe that we have positioned ourselves in two of the most prolific and prospective regions for diamond exploration and we are confident that these projects will provide an exciting package for our shareholders.

<u>Panguma Dykes Project – Sierra Leone</u>

Stage – Resource Definition / Test for Larger Stones

Location

The Panguma project is about 230km from Freetown and covers approximately 54 square kilometres in eastern Sierra Leone. It is also approximately 50 kilometres south of Koidu, where the first hard rock diamond mine in Sierra Leone is being operated by Koidu Holdings. Sierra Leone is considered to be one of the most prospective countries for diamond exploration in the world, with exports increasing to 700,000 carats (US$127 million) in 2004, the highest level since 1980.

Historical exploration

The Panguma licence adjoins the Tongo diamond field, which hosts kimberlitic dykes that are in terms of diamond grade 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 tonnes ("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.

Operational review (continued)

Status
The Panguma project is the Company's most promising exploration project due to the high quality of diamonds that have been mined in the area, which historically has produced diamonds in the value of approximately US$177 per carat.

The most significant progress made during the year was the completion of the mapping and mini bulk sampling programme on the Talama dyke. This confirmed the diamondiferous nature of the dyke and its surface continuity. In addition, through our exploration we have been able to identify additional targets on our concession including the Nboin Dyke, in which a mini bulk sample recovered 1.81 carats, from 2.6 tonnes of kimberlite.

To date we have recovered a total of 6.7 carats from 12.5 tonnes kimberlite taken from the Talama and Nboin Dykes, the results of which are outlined below:

Sample No1	Tonnes of Kimberlite	Diamonds recovered (carats)	Stones recovered (num)	Average size (carats)	Largest diamond (carats)
TD1	1.00	1.83	15	0.12	0.98
TD2	1.00	0.75	11	0.07	0.10
TD3	1.88	1.36	13	0.10	0.46
PDS 10	2.56	1.81	10	0.18	0.59
PDS 11	6.08	0.96	11	0.08	0.22
Totals	**12.52**	**6.72**	**60**	**0.11**	

Since the end of the year, approximately 800m of drilling has been completed targeting the Pandubo intrusion in the western part of the property. The results confirm the presence of two intersecting dykes of up to 1 metre in width. These dykes extend from surface to at least 95 metres below surface, correlating with historic drilling which intersected kimberlite dykes at similar depths.

The samples and drill core are being prepared for both geochemical and micro diamonds analysis with the hope we will be able to correlate the macro and micro diamond content and therefore estimate the grade at depth.

Given the substantial progress made to date we have reached the trial mining stage in which we envisage extracting approximately 5,000 to 10,000 tonnes of kimberlite along the Talama dyke, with the goal of recovering at least 5,000 carats, for valuation and resource calculation. Our aim is to achieve this during 2007.

Alto Paraguai Project – Brazil

Stage: Target Definition / Target Delineation

Location
The Alto Paraguai concessions are situated 130km north of the state capital Cuiaba in the Mato Grosso State of Brazil. The project area extends over an area in excess of 10,000 square kilometres and we currently have retained the mineral rights over areas surrounding promising geophysical targets.

Historic exploration
In August 2005 the Company entered into an option agreement with Rio Tinto (Brazil), regarding the exploration and development of the Alto Paraguai block. Under the terms of the agreement, Rio Tinto (Brazil) has 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. Rio Tinto, Brazil has the option to increase their stake to 80% by completing a standard feasibility study. As part of the same agreement, Rio Tinto Brazil provided the geophysical data, drilling results; sampling results, and reports on the properties carried out to date. River Diamonds paid Rio Tinto (Brazil) US$75,000 over a period of a year and a quarter for the data.

Status

During the year we reinterpreted the geophysical data and embarked on the geological follow up work to delineate targets for resource definition. A total of 32 new anomalies have been generated from the reinterpretation of the Alto Paraguai aero magnetic data in addition to the 32 previously identified by Rio Tinto (Brazil).

The new anomalies comprised of nine priority one, thirteen priority two targets and the remaining were priority 3 targets. During the year all of the anomalies were assessed in relation to the regional geology and ground availability. Exploration of these anomalies has eliminated the majority of the geophysical targets and has identified two anomalies AP-54 and AP-60, both of which warrant further exploration.

Paranatinga– Brazil

Stage: Target Definition /Geophysics

Location
The Paranatinga project is situated 230 km north-east of the state capital Cuiaba in the Mato Grosso State of Brazil. The project area extends over an area in excess of 4,000 square kilometres.

Historic exploration
As per the agreement on Alto Paraguai, in August 2005, the Company entered into an option agreement with Rio Tinto, Brazil under the same terms. 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.

Status
During the year, the reinterpreted Geophysical data was completed which yielded 36 anomalies, seven of which are considered worthy of further follow up work. Of the 36 anomalies, one is considered priority one, one is priority two and five are rated as priority three.

K C Morzaria
Finance Director

Officers and professional advisors

Directors

I C Orr-Ewing, Executive Chairman, age 63

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 resources portfolios. He began his career as an investment manager for the Shell Pension Fund in London after completing his education as a Chartered Accountant. Mr. Orr-Ewing also has extensive experience in international financial affairs. He was deeply involved in the oil industry from 1971 through to 1987 with numerous companies in the North Sea, Libya, Nigeria and Algeria. Mr. Orr-Ewing has also served as a Director for a number of oil and gas exploration and development companies. He is a graduate of Oxford University in geography and geology.

K C Morzaria, Finance Director, age 32

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 manger in South Africa. He was appointed Finance Director of River Diamonds plc in 2004 and since then has been overseeing the development of its mining and exploration projects in Sierra Leone and Brazil. In this role Kiran has been involved in acquisitions, joint ventures, valuations, independent experts' reports, due diligence, and capital raisings. Kiran is also a director of St James's Energy plc, and a non executive director of Hot Tuna International plc and Brinkley Mining plc.

D A Lenigas, Non-Executive Director, age 43

David has 24 years of experience in the gold, diamond, coal and base metals industries. He is a Mining Engineer with a Bachelor of Applied Science (Mining Engineering - with distinction) who moved from Australia four years ago to manage mining companies in London. He Joint Executive Chairman of Lonrho Africa plc and is a non-executive director of Mediterranean Oil and Gas PLC, which is Italy's fourth largest gas producer. He is the Chairman of BDI Mining Cooperation and also a non-executive director of Asia Energy PLC. David is a Member of the Audit and Remuneration committees.

A Balme, Non-Executive Director, age 56

Anthony is the Managing Director of Carter Capital Ltd. and A.M.C. Limited, two private UK investment funds. He identifies early stage opportunities in the resource sector and arranges financings to advance projects to the public market. He is a Director of Forum Uranium Corp which is a Canadian-based energy company with a focus on the acquisition, exploration and development of uranium projects. Anthony has previously worked in the accountancy profession, the securities business and as a commodity broker in London. Anthony is a Member of the Audit and Remuneration committees.

M G Hills (Appointed 21/12/2006), age 49

Martin is the Projects Director for African Precious Minerals Ltd, a private company founded for the development and acquisition of precious mineral projects in Africa. Martin has over 35 years of experience in the exploration and development of mineral deposits.

Officers and professional advisors

Directors - continued

N D Shaw-Hardie, Non-Executive Director, age 49

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 Limited, a wireless security technology company. Nick is a Member of the Audit and Remuneration committees.

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 2006

The Directors submit their report and the consolidated financial statements of River Diamonds Plc for the year ended 31 August 2006.

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 trading loss of the Group for the year ended 31 August 2006, after taxation was £924,783 (2005: £1,414,480).

The directors do not recommend the payment of a dividend.

Post balance sheet events

Subsequent to the year end, the Company completed the acquisition of the Panguma Diamond Project. The consideration for the Acquisition is to be satisfied by the issue of 93,985,000 Ordinary Shares of 0.1 pence each in River Diamonds Plc. Based on the closing mid-market share price of River Diamonds as at 20th December 2006 of 0.75 pence, the consideration for the acquisition is valued at approximately £0.7 million.

Business Review

A review of the current and future development of the groups business is given in the Chairman's statements on pages 1 - 2 and the operational review on pages 3-5.

Given the nature of business and industry the key performance indicators are based on operational objectives set at the beginning of the year. Performance in relation to these is highlighted in the operational review on pages 3-5.

Financial key performance indicators are based on the variance to the budget as set out at the beginning of the year. Performance against these indicators is highlighted in the Chairman's statement on pages 1 – 2.

Financial risk management

The Group's operations expose it to financial risks that include liquidity risk, interest rate and foreign exchange risk. The group does not have any debt and is not therefore required to use derivative financial instruments to manage interest rate costs nor is hedge accounting applied.

Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The Group's finance department implements the policies set by the board of directors.

Directors' report (continued)

For the year ended 31 August 2006

Liquidity risk

The Group actively manages its working finance to ensure the group has sufficient funds for operations and planned expansion. The directors are currently seeking to raise further funds to provide the capital required to finance future operations. As the referred to in Note 1 of the financial statements it is for this reason that the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Interest rate cash flow risk

The Group's interest bearing liabilities comprise solely short term bank overdraft facilities. Interest bearing assets are only cash balances that earn interest at a floating rate.

Foreign exchange risk

The Group principally operates in Sierra Leone and Brazil. The board has assessed its exposure using value at risk methodology and it does not currently consider the risk of exposure to these currencies to be material. As such the directors do not currently consider it necessary to enter into forward exchange contracts. This situation is monitored on a regular basis.

Directors' insurance

The Company has taken out an insurance policy to indemnify the directors and officers of the company against liability when acting for the company.

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
M G Hills (Appointed 21 December 2006)
Bart Management Ltd

Directors' interests

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

	Beneficial Holding	
	31 August 2006	**31 August 2005**
I C Orr-Ewing	17,488,700	14,388,700*
N D Shaw-Hardie	-	-
R E Crew (resigned 30 November 2005)	-	-
D A Lenigas	-	-
A Balme	6,500,000	3,500,000**
K C Morzaria	850,000	150,000

* - of which 10,555,367 (2005 : 7,855,367) are held beneficially
** - of which 5,500,000 (2005: 2,300,000) are held beneficially

Directors also hold warrants over Ordinary Shares as follows:

	Number of Warrants	
	31 August 2006	**31 August 2005**
I C Orr-Ewing	3,500,000	8,400,000*
N D Shaw-Hardie	2,000,000	3,000,000
R E Crew (resigned 30 November 2005)	-	6,500,000
D A Lenigas	3,500,000	3,500,000
A Balme	1,900,000	5,900,000**
K C Morzaria	3,500,000	3,500,000

* - of which 3,500,000 (2005: 4,500,000) are held beneficially
** - of which 1,900,000 (2005: 4,700,000) are held beneficially

Substantial shareholdings

At 13 February 2007 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	**%**
Olympus Mining Corporation Limited	93,985,000	16.67
Credit Suisse First Boston Nominees	43,775,000	7.76
Bear Stearns Securities Corp	40,000,000	7.09
Chase Nominees Limited	31,050,000	5.51
Pershing Keen Nominees Limited	29,199,999	5.18
Ms Carole Rowan	27,000,000	4.79
Mr Bruce Rowan	25,000,000	4.43
Securities Services Nominees	18,465,912	3.27
I C Orr-Ewing	17,488,700	3.10
Total	325,964,611	57.80

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 2006 was 109 days (2005: 26 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 re-appointed 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.

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

K C Morzaria
Director

28 February 2007

Corporate Governance Statement

Compliance with the Combined Code

The directors recognise the value of the Combined Code on Corporate Governance and whilst under AIM rules full compliance is not required, the directors believe that the Company applies the recommendations insofar as is practicable and appropriate for a public company of its size.

Board of Directors

The board of directors comprises two executive directors one of whom is the Chairman and four non-executive directors. The directors are of the opinion that the board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The board, through the Chairman and the Finance Director in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the board develops an understanding of the views of major shareholders about the company.

The board meets regularly throughout the year and met six times up to the period ending August 2006. The board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the executive directors who are charged with consulting the board on all significant financial and operational matters. Consequently decisions are made promptly and following consultation amongst the directors concerned where necessary and appropriate.

All necessary information is supplied to the directors on a timely basis to enable them to discharge their duties effectively, and all directors have access to independent professional advice, at the company's expense, as and when required.

The chairman is available to meet with institutional shareholders to discuss any issues and concerns regarding the group's governance. The non-executive director can also attend meetings with major shareholders if requested.

The participation of both private and institutional investors at the Annual General Meeting is welcomed by the board.

Internal controls

The directors acknowledge their responsibility for the company's and the group's systems of internal control, which are designed to safeguard the assets of the group and ensure the reliability of financial information for both internal use and external publication. Overall control is ensured by a regular detailed reporting system covering both technical progress of a project and the state of the group's financial affairs. The board has put in place procedures for identifying, evaluating and managing any significant risks that face the group.

Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

Corporate Governance Statement (continued)

Committees

Each of the following committees has its own terms of reference.

Audit Committee

The Audit Committee comprises the non-executive directors. Its terms of reference indicate at least two regular meetings per year, however it has not met formally since it was set up. The Audit Committee's primary responsibilities are to review the effectiveness of the company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of the audit, and to evaluate and select external auditors.

Remuneration Committee

The Remuneration Committee comprises the non-executive directors. It plans to meet at least twice in each year. In view of the current sense of operations the committee has not met since it was set up.

The Company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the board a framework for the remuneration of the chairman, the executive directors and the senior management of the company. The principal objective of the Committee is to ensure that members of the executive management of the Company are provided incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Non-executive fees are considered and agreed by the board as a whole.

Independent auditors' report to the members of River Diamonds Plc

We have audited the financial statements of River Diamonds plc for the year ended 31 August 2006 set out on pages 16 to 33. These financial statements have been prepared under 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 auditors' 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 the directors and auditor

As described in the Statement of Directors' Responsibilities above, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, and whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the Company 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 other transactions is not disclosed.

We read the chairman's statement, operational review, the directors' report and the corporate governance statement and consider the implications for our report if we become aware of any apparent misstatements within each.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. 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 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.

Independent auditors' report to the members of River Diamonds Plc (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and of the Group's affairs as at 31 August 2006 and of its result and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter: Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Company's ability to continue as a going concern. As disclosed in Note 1 to the financial statements, the Company is reliant on obtaining further funding in order for the going concern basis to be appropriate. At the date of this report, the Company has yet to obtain such funding. This indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

MRI Moores Rowland LLP

28 February 2007

MRI Moores Rowland LLP
Registered Auditor
Chartered Accountants

3 Sheldon Square
London
W2 6PS

The maintenance and integrity of the River Diamonds Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may vary from legislation in other jurisdictions.

Consolidated profit and loss account
For the year ended 31 August 2006

	Note	2006 £	2005 £
Turnover		67,429	18,621
Cost of Sales		(159,265)	(625,145)
Gross loss		(91,836)	(606,524)
Administrative expenses		(843,377)	(819,227)
Operating loss	3	(935,213)	(1,425,751)
Other interest receivable and similar income		17,653	18,601
Interest payable and similar charges	5	(7,223)	(7,330)
Loss on ordinary activities before taxation		(924,783)	(1,414,480)
Tax on loss on ordinary activities	6	-	-
Loss on ordinary activities after taxation	18	(924,783)	(1,414,480)
Loss per share		*pence*	*pence*
Basic	8	(0.22)	(0.49)
Fully diluted	8	(0.22)	(0.49)

All activities relate to continuing operations.

Consolidated statement of total recognised gains and losses
For the year ended 31 August 2006

	Note	2006 £	2005 £
Loss for the financial year		(924,783)	(1,414,480)
Currency translation differences	18	(22,304)	112,293
Total recognised gains and losses for the year		(947,087)	(1,302,187)

Consolidated balance sheet
As at 31 August 2006

	Note	2006		2005	
		£	£	£	£
Fixed assets					
Tangible assets	9		477,596		480,709
Investments	10		233,934		-
			711,530		480,709
Current assets					
Investment	11	1		1	
Stocks	12	-		66,233	
Debtors	13	60,735		25,664	
Cash at bank and in hand		525,230		8,551	
		585,966		100,449	
Creditors:					
Amounts falling due within one year	14	(158,890)		(194,549)	
Net current assets			427,076		(94,100)
Provisions for liabilities and charges	15		-		(21,024)
Total net assets			1,138,606		365,585
Capital and reserves					
Called up share capital	17		469,928		302,328
Share premium account	18		3,179,460		1,671,560
Merger reserve	18		2,166,528		2,166,528
Profit and loss account	18		(4,677,310)		(3,774,831)
Equity shareholders' funds	19		1,138,606		365,585

Approved by the Board on 28th February 2007

Signed on behalf of the Board of Directors

……………………..

K C Morzaria
Director

Company balance sheet
As at 31 August 2006

	Note	2006		2005	
		£	£	£	£
Fixed assets					
Investments	10	1		1	
Current assets					
Debtors	13	-		-	
		1		1	
Creditors: amounts falling due within one year	14	(8,000)		(8,000)	
Net current (liabilities)/assets			(7,999)		(7,999)
Total net (liabilities)/assets			(7,999)		(7,999)
Capital and reserves					
Called up share capital	17		469,928		302,328
Share premium account	18		3,179,460		1,671,560
Profit and loss account	18		(3,657,387)		(1,981,887)
Equity shareholders' deficit	19		(7,999)		(7,999)

Approved by the Board on 28th February 2007

Signed on behalf of the Board of Directors

…………………………..
K C Morzaria
Director

Consolidated cash flow statement
For the year ended 31 August 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	20	(845,583)	(1,246,174)
Returns on investment and servicing of finance	20	10,430	11,271
Taxation		-	-
Capital expenditure and financial investment	20	(323,257)	(441,409)
Cash outflow before financing		(1,158,410)	(1,676,312)
Management of liquid resources	20	-	-
Financing	20	1,675,500	297,478
Increase/(Decrease) in cas h in the year	20	517,090	(1,378,834)

Reconciliation of net cash flow to movement in net funds

		£	£
Increase/(Decrease) in cash in the year		517,090	(1,378,834)
Opening net funds		3,171	1,382,005
Closing net funds	20	520,261	3,171

Notes to the financial statements
For the year ended 31 August 2006

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 by the directors as the Company is seeking further funding by way of an issue of new shares in order to meet operational cashflows requirements. The results of future fund raising are by their nature uncertain in amount and timing. Should sufficient funding not be obtained the Company will be unable to continue trading, and adjustments would have to be made to reduce the value of assets to their recoverable 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 business combinations 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 depreciations and impairment. 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 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.

Notes to the financial statements (continued)
For the year ended 31 August 2006

1. Accounting policies (continued)

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.

Corresponding amounts

In certain cases the directors have re-analysed corresponding amounts in order to make their disclosure more meaningful.

2. Segment information

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

Net assets are attributed to the Groups' operations in the following geographic regions:

	2006	2005
	£	£
Brazil	411,757	357,062
Sierra Leone	233,693	-
Unallocated	493,156	8523
	1,138,606	365,585

Notes to the financial statements (continued)
For the year ended 31 August 2006

3. Operating loss

	2006 £	2005 £
Operating loss is stated after charging:		
Depreciation	73,408	56,886
Auditor's remuneration		
- Audit services	23,500	23,000
- Non-audit work	18,030	1,195
Impairment of tangible assets	11,482	144,041
Loss on disposal of tangible fixed assets	7,545	-

Following the change in Group strategy, in 2005 the directors reviewed the fixed assets and made an impairment provision in the amount of £144,041. A further impairment of £11,482 was required in 2006.

4. Employees

	2006 No.	2005 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Productive labour	17	23
Office and management	5	10
	22	33

	2006 £	2005 £
Employment costs		
Wages and salaries	188,640	294,425
Pension	3,402	3,119
	192,042	297,544

Directors' remuneration	2006 £	2005 £
Aggregate emoluments (including benefits in kind)	136,892	150,825

5. Interest payable and similar charges

	2006 £	2005 £
Bank overdraft interest payable	7,223	7,330

Notes to the financial statements (continued)

6. Taxation

	2006 £	2005 £
UK Corporation tax	-	-
Factors affecting the tax charge for the period		
Losses on ordinary activities before taxation	(924,783)	(1,414,480)
Profits on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30%)	(277,435)	(424,344)
Effects of :		
Depreciation add back	22,022	17,066
Fixed asset impairment provision	3,445	43,212
Amounts written off investments	-	-
Losses carried forward	251,968	364,066
UK Corporation tax	-	-

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 £1,675,500 (2005: £1,973,887), which is dealt with in the accounts of the parent company.

8. Loss per share

Loss for the year attributable to shareholders is £924,783 (2005: £1,414,480). This is divided by the weighted average number of shares outstanding calculated to be 414,706,048 (2005: 290,932,734) to give basic loss per share of 0.22p (2005: 0.49p).

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 414,706,048 (2005: 290,932,734).

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 2005	130,761	478,257	156,775	5,708	99,289	870,790
Reclassifications	-	(48,009)	58,227	-	(10,218)	-
Additions	-	6,460	82,470	489	-	89,419
Transferred on completion	-	14,023	-	-	(14,023)	-
Disposals	-	(12,444)	(24,033)	-	-	(36,477)
Exchange difference	-	7,999	8,315	221	3,444	19,979
At 31 August 2006	130,761	446,286	281,754	6,418	78,492	943,711
Depreciation						
At 1 September 2005	130,761	236,526	22,310	484	-	390,081
Reclassifications	-	(5,367)	4,357	1,010	-	-
Charge for the year	-	25,254	46,947	1,207	-	73,408
Exchange difference	-	514	1,031	59	-	1,604
Impairment in year	-	11,482	-	-	-	11,482
Disposals	-	(3,330)	(7,130)	-	-	(10,460)
At 31 August 2006	130,761	265,079	67,515	2,760	-	466,115
Net book value						
At 31 August 2005	-	241,731	134,465	5,224	99,289	480,709
At 31 August 2006	-	181,207	214,239	3,658	78,492	477,596

10. Fixed asset investments

Group:	**Unlisted Investment**
Cost	
Balance brought forward	-
Additions	233,934
Balance carried forward	233,934

The above investment represents the group's initial investment in the Panguma Dykes Project, and as such entitled the group to 10.64% participation rights in the project. Subsequent to the year end the Group has acquired 100% of this project as disclosed in Note 21.

Company:	**Shares in group undertakings 2006 £**	**Shares in group undertakings 2005 £**
Cost		
Balance brought forward	196,359	196,359
Additions	-	-
Balance carried forward	196,359	196,359
Impairment		
Balance brought forward	196,358	-
Impairment in year	-	196,358
Balance carried forward	196,358	196,358
Net book value	1	1

Name and nature of business	**Country of Registration**	**Class of shares**	**% held**
River Diamonds UK Limited- Mining	England & Wales	Ordinary	100

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

Name and nature of business	**Country of Incorporation**	**Class of shares**	**% held**
São Carlos Mineração Limitada- Mining	Brazil	Ordinary	100

11. Current assets investment

Group

	Unlisted Investments £
Cost	
Balance brought forward and carried forward	77,000
Additions	-
Provisions	
Balance brought forward and carried forward	76,999
Net book value	
As at 31 August 2006 & 31 August 2005	1

12. Stock

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Finished goods	-	-	66,233	-

13. Debtors

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Other debtors and prepayments	60,735	-	25,664	-
	60,735	-	25,664	-

14. Creditors: Amounts falling due within one year

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Bank loans and overdrafts	4,969	-	5,380	-
Trade creditors	47,352	-	79,410	-
Other creditors	-	-	54	-
Accruals and deferred income	92,562	8,000	79,772	8,000
Taxation and social security	14,007	-	29,933	-
	158,890	8,000	194,549	8,000

15. Provisions for liabilities and charges

	Other Group £	Other Company £
Balance brought forward	21,024	-
Charge for the period	(21,024)	-
Balance carried forward	-	-

The above provision represented the cost of rehabilitating the land in Brazil. The provision was based on the directors best estimate of the costs involved. This work was undertaken during 2006 and accordingly the provision has been released to the profit and loss account.

16. Financial 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 diamonds either directly through its Brazilian operating subsidiaries or the diamonds are exported and sold by River Diamonds Ltd. If the sales are carried out in Brazil, the monies are received in Reals and the diamonds value is denominated 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.

If the sales are carried out in the UK, the monies are received in Sterling and the diamonds value is denominated in US Dollars, with the Sterling proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Sterling 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/Sterling.

The Group's expenses in Brazil are incurred in Reals. Any weakening in the Reals 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 Reals which would increase Brazilian operating expenses in Sterling terms.

b Currency exposures

As at 31 August 2006 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:

	2006 **£**	**2005** **£**
Within one year	4,969	5,380

16. Financial risks and exposures (continued)

c Interest rate risk (continued)

All interest bearing financial assets (which comprise solely cash at bank) earn interest at a floating rate, and are denominated in the following currencies at year end:

	2006
Sterling	493,156
Brazilian Reals	32,075
	525,231

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

	2006 **£**	**2005** **£**
Authorised		
750,000,000 Ordinary shares of 0.1p each	750,000	450,000
Allotted, issued and fully paid		
469,927,966 Ordinary shares of 0.1p each	469,928	302,328

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

14,900,000 Ordinary shares of 0.1p at 1.5p each on 10 October 2006
150,000,000 Ordinary shares of 0.1p at 1p each on 3 January 2006
2,700,000 Ordinary shares of 0.1p at 1p each on 27 June 2006

Warrants

During the year ended 31 August 2006 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 2005	22,200,000	13,333,332	8,750,000	24,900,000	2,585,907	71,769,239
Exercised during the year	(2,700,000)	-	-	-	-	(2,700,000)
Expired during the year	(11,500,000)	-	(8,750,000)	(2,400,000)	(2,585,907)	(25,235,907)
Balance at 31 August 2006	8,000,000	13,333,332	-	22,500,000	-	43,833,332

18. Statement of movements on reserves

	Group Merger reserve	Company and Group Share premium account	Group Profit and loss account	Company Profit and loss account
	£	£	£	£
Balance at 1 September 2005	2,166,528	1,671,560	(3,774,831)	(1,981,887)
Loss for the year	-	-	(924,783)	(1,675,500)
Premium on shares issued during the year	-	1,507,900	-	-
Exchange adjustment	-	-	22,306	-
Balance at 31 August 2006	2,166,528	3,179,460	(4,677,310)	(3,657,387)

19. Reconciliation of movement in shareholders' funds

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Loss for the year	(924,783)	(1,675,500)	(1,414,480)	(1,973,887)
Exchange adjustment	22,304	-	112,293	-
Proceeds from issue of shares	1,675,500	1,675,500	297,478	297,478
Net addition to shareholders' funds	773,021	-	(1,004,709)	(1,676,409)
Opening shareholders' funds	365,585	(7,999)	1,370,294	1,668,410
Closing shareholders' funds	1,138,606	(7,999)	365,585	(7,999)

20. Notes to the cash flow statement

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

	2006 £	2005 £
Operating loss	(935,213)	(1,425,751)
Depreciation	73,408	56,886
Impairment	11,483	144,041
Foreign exchange	22,304	112,293
Loss on disposal of fixed assets	7,545	-
Decrease/(Increase) in stocks	66,233	(66,233)
(Increase)/Decrease in debtors	(35,071)	57,624
(Decrease) in creditors	(56,272)	(125,034)
Net cash outflow from operating activities	(845,583)	(1,246,174)

b Analysis of cash flows

Returns on investment and servicing of finance		
Interest received	17,653	18,601
Interest paid	(7,223)	(7,330)
Net cash outflow for returns on investment and servicing of finance	10,430	11,271
Capital expenditure and financial investment		
Purchase of fixed assets	(107,792)	(441,409)
Purchase of investment	(233,934)	-
Sale of fixed assets	18,469	-
	(323,257)	(441,409)
Net cash inflow from financing		
Net receipts from issue of shares	1,675,500	297,478

20. Notes to the cash flow statement (continued)

c Analysis of changes in net debt

	At 31 August 2005 £	Cash flow £	At 31 August 2006 £
Cash at bank and in hand	8,551	516,679	525,230
Overdraft	(5,380)	411	(4,969)
Net funds	3,171	517,090	520,261

21. Related party transactions

In the year ended 31 August 2005, K C Morzaria, a director of River Diamonds plc, sold office equipment for £2,000 to River Diamonds UK Limited. (2006: Nil).

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 completed the acquisition of the Panguma Diamond Project. The consideration for the acquisition was satisfied by the issue of 93,985,000 Ordinary Shares of 0.1 pence each in River Diamonds Plc. Based on the closing mid-market share price of River Diamonds as at 20th December 2006 of 0.75 pence, the consideration for the acquisition is valued at approximately £0.7 million.