Company Registration No. 5059077

RIVER DIAMONDS PLC

Annual Report

For the Year Ended 31 August 2007

Report and financial statements for the year ended 31 August 2007

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Chairman's Statement

The past year has been a very significant one for River Diamonds. We began the year as a small diamond exploration and development company and ended the year with the Company well advanced to becoming a mid-cap gold mining company. Our change in focus to a more diversified mining and exploration company has been driven by our goal to secure a near production or producing asset, and although we achieved this in some respects with the Panguma Dykes and our investment in the Kao Diamond Pipe neither were delivering sustained capital growth to our shareholders. Therefore we focused our efforts on acquiring an asset that has the potential to deliver substantial cash flow to River Diamonds in the near future. We believe that our investment and eventual acquisition of 100% of the Vatukoula Gold Mine, will achieve this.

Exploration Summary

Given the change in focus of the Company during the year we carried out a review of all our projects, to assess their fit in our future strategy. In Panguma we remain at the trial mining stage, and over the year we have focused on identifying new targets in our exploration areas. An independent report on the area post year end has recommended that a 1,000 tonne sample be taken via the development of an underground mine.

In Brazil we completed our exploration of the Alto Paraguai region, and believe that although the region may hold potential for a Kimberlite discovery, the exploration expenditure to further develop this area is better assigned elsewhere. During the year River Diamonds acquired interests in four areas covering 30,000 hectares within the Tapajós gold province, in central Brazil. These areas had undergone very little modern exploration; however the high numbers of artisanal miners working around the area indicates significant gold mineralisation may be present. The claims lie in a highly prospective area with other companies actively exploring the surrounding region including the working Palito mine, owned by Serabi Mineraçaó.

Corporate

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.

Investments

In April 2007 River Diamonds acquired £1,212,121 new ordinary shares in Lesotho Diamond Corporation for £400,000. Lesotho Diamonds Corporation (now Global Diamond Resources) owns 93% of the Kao Kimberlite Pipe which has proven and probable reserves of 147 million tonnes at a grade of 6.9 carats per hundred tonnes. The Kao Diamond Mine was commissioned on the 22 November 2007, and during the first week 30 tonnes of alluvial material was processed producing the first diamonds including a 0.86 carat stone.

In July 2007 River Diamonds acquired 12.5% of Viso Gero International ("VGI") for a cash consideration of £2.5 million. VGI is a company incorporated in the British Virgin Islands. VGI owns a 94% equity interest in the capital of Westech Gold Pty Ltd ("Westech") which, through its wholly owned direct and indirect subsidiaries, owns the mining rights and associated assets of the Vatukoula Gold Mine in Fiji.

Chairman's Statement (continued)

Post year end River Diamonds announced that it had agreed to increase its stake in VGI from 12.5% to 20%, and in December 2007 River Diamonds signed a conditional sale and purchase agreement to acquire the remaining 80% of VGI not already held by it from Viso Gero Global Inc and which contemplates that VGI will acquire the remaining 6% of Westech Gold Pty Ltd on or before the completion of the acquisition. Therefore, subject to completion of the acquisition, River Diamonds will own 100% of VGI and will indirectly, through Westech Gold Pty Ltd and its indirect subsidiaries, hold a 100% interest in the Vatukoula Gold Mine.

The acquisition constitutes a reverse takeover under the AIM Rules and therefore requires the publication of a re-admission document and shareholder approval. The Company continues to work on the preparation of the re-admission document which will contain more information on the acquisition.

Since the signing of the conditional acquisition agreement River Diamonds has made a loan of £1.45 million to VGI on commercial terms for working capital purposes at the Vatukoula Gold Mine.

Results Summary

Turnover this year was £28,106 (2006: £67,429) this income came from the hire of plant and equipment to contractors in Brazil. The Group loss for the year was £982,111 (2006: £924,783).

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 £159,678; 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 30th March 2007, which raised £376,300, before costs, for the issue of 34.2 million shares and the second was issued on 15th June 2007 and raised £3,087,500 for the issue of 237.5 million shares.

Outlook

The Group's strategy has historically been to build a portfolio of advanced diamond exploration projects which have the potential to yield significant diamonds resources. We believe that although we are now focusing on commodities outside diamonds we are achieving this goal both through our investments and our current wholly owned assets in Sierra Leone and Brazil.

If the acquisition is completed and approved by shareholders, River Diamonds' primary focus going forward will be to bring the Vatukoula mine to full production. If the acquisition does not complete, or is materially delayed, the Company will need to raise additional funds to meet its ongoing working capital requirements.

Finally I would like to say that with the rapid growth of the Company this has inevitably put strains on our staff across many disciplines and the professionals with whom we work; I am especially grateful for the way that they have adapted to these changes and we can all look forward to an exciting year.

Colin Orr Ewing
Chairman
25 February 2008

Operational and Investment review

River Diamonds' two principle wholly owned assets are the Panguma Dykes project in Sierra Leone, and the Rio Novo gold project in Brazil. Our investments cover the Vatukoula Gold Mine and the Kao Diamond Project.

At the beginning of the year we set out operational targets for our wholly owned 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.

On the Panguma project, our target was to complete the resource definition (grade and value test) this year. We did not proceed with this strategy given our change in focus. Our secondary focus was to commence the target delineation stage on Tapajós gold project in Brazil with some initial field mapping, this was achieved and our efforts have identified several interesting targets.

Overall through our exploration programmes in both continents we have managed to achieve our operational targets for the year, however in the case of Panguma we decided to shift capital to the Vatukoula Gold Mine in Fiji, and as such we have not made as much progress as expected.

We have highlighted over the next few pages a summary of results and progress on each of the projects and investments. As a whole, we believe that we have positioned ourselves over an excellent spread of assets and we are confident that these projects will provide an exciting package for our shareholders.

Vatukoula Gold Mine – Fiji – (19% Holding)

Stage – Mine Development / Production

The Vatukoula Gold Mine is one of the longest continuously operating high grade mines in the world with an operational history that extends over 70 years. The mine commenced production in 1933 and has produced some 7 million troy ounces of gold and over 2 million troy ounces of silver from the treatment of around 30 million tonnes of ore.

In the last 10 years of full operation the plant has processed on average 560,000 tonnes per annum at a mined grade of 7.8 grams per tonne of gold producing 122.1 thousand ounces of gold per annum.

The strategy is to bring the mine back to full production by the second half of 2009. The extraction of underground ore reserves commenced in November 2007, with processing to begin in March 2008.

The mining operations are designed using conventional labour intensive stoping methods; together with trackless ground handling and haulage followed by skip hoisting via the vertical shafts. Stoping will be a mixture of Long Wall Breast, Shrinkage and Cut and Fill.

The processing plant comprises a crushing circuit, flotation, roasting and calcines cyanidation circuit and tailings cyanidation.

Panguma Dykes Project – Sierra Leone – (100% holding)

Stage – Resource Definition / Test for Larger Stones

The Company has a 100% interest in the Panguma Diamond Project in Sierra Leone. The Panguma area is about 230 km from Freetown and covers approximately 5,400 hectares in eastern Sierra Leone.

In recent years Sierra Leone appears to have stabilised politically and has a favourable mining law. New bedrock diamond discoveries, as well as the high value of Sierra Leone diamonds, combine to make the country a prime target for diamond exploration.

Prior to the work undertaken by River Diamonds, the Panguma Kimberlites, part of the Tongo dyke system, had never been commercially explored. An alluvial diamond rush took place from 1956 that made Panguma one of the main diamond centres in Sierra Leone. Tongo diamonds are among the highest value in the world, with up to 95% being of gem quality. The Geological Survey undertook exploration in the 1960's, locating six dykes at surface and drill testing to 200m depth.

River Diamonds initiated a detailed exploration programme on the Panguma concession in 2006. Field work comprised initial surveying of the concession area, geological mapping, collection of mini-bulk samples, core drilling, and geochemical soil sampling.

Exploration by River Diamonds has demonstrated that a number of the Kimberlite dyke systems located at Panguma have a strike extent up to 4-5km and the mini-bulk sampling programme confirms that of the most of the Panguma dykes are diamondiferous, with strongly anomalous values within the widest reported (composite) dyke at 0.8m. Some of the other dykes/fissures sampled also contain interesting grades up to 0.77ct/t, although dykes are narrower and may splay and pinch towards the southwest. These results bear comparison with similar work reported by Mano River and partners from the Lion dykes at Kono and the Tongo dyke system, although the narrow width of the dykes at Panguma can present a challenge to economic evaluation and development. Given the narrow dyke width the proposed collection of a bulk sample of up to 1,000 tonnes will require shaft sinking and underground mining on one or more dykes.

Rio Novo – Brazil – (100% holding)

Stage: Target Definition / Target Delineation

The site is located within the Tapajós gold province, in central Brazil, and has undergone very little modern exploration The Mineralisation in the area is associated to quartz veining and hydrothermal alteration related to the veins.

Detailed exploration over the area is limited with Rio Tinto undertaking a systematic mineral exploration across the province in the 1980's and the Brazilian geological survey undertaking a regional mapping and geophysical survey in 2000. In November 2006 River Diamonds undertook a geological review of the area focusing on historic and current artisanal workings of both alluvial and vein hosted origin. The work included mapping and grab sampling.

Operational and Investment review (continued)

Kao Diamond Project –Lesotho – (0.5% holding)

Stage – Mine Development

Kao Diamond Project is a Kimberlite deposit with an indicated and measured resource of 147 million tones of Kimberlite at a grade of 6.9 carats per hundred tonnes. The Kao Diamond Mine was commissioned on the 22 November 2007, and during the first week 30 tonnes of alluvial material was processed producing the first diamonds including a 0.86 carat stone.

K C Morzaria
Director
25 February 2008

Officers and professional advisors

Directors

I C Orr-Ewing, Executive Chairman, age 65

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 33

Mr Morzaria holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School. He has eight years of experience in the mineral resource industry covering gold and diamonds. Mr Morzaria spent his first four years in exploration, mining and civil engineering working for Highland Gold, Firestone Diamonds and CL Associates. 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, Mr Morzaria has been involved in acquisitions, joint ventures, valuations, independent experts' reports, due diligence and capital raisings.

D A Lenigas, Non-Executive Director, age 46

Mr. Lenigas holds a Bachelor of Applied Science Degree in Mining Engineering. He has extensive experience operating in the public company environment and is currently the Executive Chairman of Lonrho PLC and is also Chairman of Leni Gas & Oil PLC, Chairman of Templar Minerals Limited, Chairman of Nare Diamonds Limited and is a non-executive director of Mediterranean Oil and Gas PLC and Global Coal Management PLC and River Diamonds PLC. David is a Member of the Audit and Remuneration committees.

A Balme, Non-Executive Director, age 57

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.

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.

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Directors' report
For the year ended 31 August 2007

The Directors submit their report and the consolidated financial statements of River Diamonds Plc for the year ended 31 August 2007.

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 2007, after taxation was £982,111 (2006: £924,783).

The directors do not recommend the payment of a dividend.

Business Review

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

Post balance sheet events

On 4 October 2007, the Company agreed to increase its holding in Viso Gero Inc by 7.5% to 20% for a cash consideration of £2.5 million. This investment was funded by the issue of 250 million new ordinary shares at a placing price of 1.5 pence per share.

On 14 December 2007, the Company announced that it had entered into a conditional agreement to acquire the remaining 80% of Viso Gero Inc for the issue of approximately 478 million new ordinary shares at 6 pence per share plus a payment of AUD2.1 million. The major asset of the Viso Gero Inc group is the Emperor Gold Mine in Fiji. A conditional placing of approximately 70.8 million shares at 6 pence per share totalling approximately £4.25 million was completed at the same time. Issue of these shares is subject to the completion of the acquisition.

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.

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 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 of 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
D A Lenigas
A Balme
K C Morzaria

Directors' report (continued)
For the year ended 31 August 2007

Directors' interest

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

	Beneficial Holding	
	31 August 2007	31 August 2006
I C Orr-Ewing	22,634,154	17,488,700*
N D Shaw-Hardie	-	-
D A Lenigas	-	-
A Balme	11,500,000	6,500,000**
K C Morzaria	1,647,000	850,000

* - of which 10,555,367 (2006 : 10,555,367) are held beneficially
** - of which 5,500,000 (2006: 5,500,000) are held beneficially

Directors also hold warrants over Ordinary Shares as follows:

	Number of Warrants	
	31 August 2007	31 August 2006
I C Orr-Ewing	3,500,000	8,400,000*
N D Shaw-Hardie	2,000,000	3,000,000
D A Lenigas	3,500,000	3,500,000
A Balme	5,900,000	5,900,000**
K C Morzaria	3,500,000	3,500,000

* - of which 3,500,000 (2006: 4,500,000) are held beneficially
** - of which 1,900,000 (2006: 1,900,000) are held beneficially

Substantial shareholdings

At 30 January 2008 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	%
Templar Minerals Limited	285,000,000	26.18
Euroclear Nominees Limited	109,521,154	10.06
Olympus Mining Corporation Limited	93,985,000	8.63
Bear Stearns Securities Corp	57,650,000	5.30
Teawood Nominees Limited	47,500,000	4.36
HSBC Global Custody Nominee (UK)	45,700,000	4.20
Pershing Keen Nominees Limited	44,795,000	4.11
St Peter Port Capital Limited	38,500,000	3.54
Total	722,651,154	66.38

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 2007 were 102 days (2006: 109 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

With effect from 16 April 2007, MRI Moores Rowland LLP merged its business with that of Mazars LLP following which MRI Moores Rowland LLP resigned as auditors to the company. The directors appointed Mazars LLP to fill the casual vacancy caused by their resignation and in accordance with section 385 of the Companies Act 1985, a resolution to reappoint Mazars LLP 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;

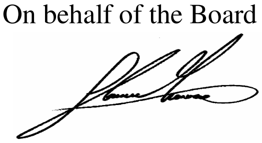
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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
25 February 2008

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 three 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 2007. 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.

Corporate Governance Statement (continued)

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.

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 Auditor's Report to the Shareholders of River Diamonds plc

We have audited the Financial Statements of River Diamonds plc for the year ended 30 August 2007 which comprise the Group income statement, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statement of changes in shareholders' equity and the related notes, which have been prepared in accordance with 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 the directors and auditors

The Directors' responsibilities for preparing the annual report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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, as regards the Group financial statements, Article 4 of the IAS regulation. We also report to you whether, in our opinion, the Directors' Report is consistent with the Financial Statements. In addition, we report to you if 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 transactions with the Company is not disclosed.

We read the other information contained in Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises only of the Chairman and Chief Executive Officer's Statement, the Finance Director's Report, the Directors' Remuneration Report, the Corporate Governance Statement and the Directors' Report. 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) 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 judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group and 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 Auditor's Report to the Shareholders of River Diamonds plc (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 30 August 2007 and of the loss of the Group for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 30 August 2007.
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Mazars LLP

25 February 2008

Mazars LLP
Chartered Accountants
Registered Auditors
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Date

Consolidated income statement
For the year ended 31 August 2007

	Note	2007 £	2006 £
Turnover		28,106	67,429
Cost of sales		(4,116)	(159,265)
Gross profit/(loss)		23,990	(91,836)
Administrative expenses		(1,001,117)	(843,377)
Operating loss	6	(977,127)	(935,213)
Other interest receivable and similar income		9,188	17,653
Interest payable and similar charges	8	(14,172)	(7,223)
Loss on ordinary activities before taxation		(982,111)	(924,783)
Taxation	9	-	-
Loss on ordinary activities after taxation	22	(982,111)	(924,783)
Loss per share		*pence*	*pence*
Basic	11	(0.17)	(0.22)
Fully diluted	11	(0.17)	(0.22)

All activities relate to continuing operations.

Consolidated statement of recognised income and expense
For the year ended 31 August 2007

	Note	2007 £	2006 £
Loss for the financial year		(982,111)	(924,783)
Currency translation differences	22	(27,945)	22,304
Total recognised income and expense for the year		(1,010,056)	(902,479)

Consolidated statement of changes in shareholders' equity
For the year ended 31 August 2007

	Ordinary Share capital £	Share premium £	Merger reserve £	Retained earnings £	Other reserves £	Total £
Balance at 1 September 2006	469,928	3,179,460	2,166,528	(4,779,700)	102,390	1,138,606
Loss for the year	-	-	-	(982,111)	-	(982,111)
Issue of shares	365,694	3,704,951	-	-	-	4,070,645
Exchange adjustment	-	-	-	(27,945)	-	(27,945)
Convertible loan					11,445	11,445
Share based payments	-	-	-	-	40,257	40,257
Balance at 31 August 2007	835,622	6,884,411	2,166,528	(5,789,756)	154,092	4,250,897

Company statement of changes in shareholders' equity
For the year ended 31 August 2007

	Ordinary Share capital £	Share premium £	Retained earnings £	Other reserves £	Total £
Balance at 1 September 2006	469,928	3,179,460	(3,759,777)	102,390	(7,999)
Loss for the year	-	-	(64,007)	-	(64,007)
Issue of shares	365,694	3,704,951	-	-	4,070,645
Convertible loan				11,445	11,445
Share based payments	-	-	-	40,257	40,257
Balance at 31 August 2007	835,622	6,884,411	(3,823,784)	154,092	4,050,341

Consolidated balance sheet
As at 31 August 2007

	Note	2007 £	2006 £
Assets			
Non current assets			
Goodwill	16	1,213,091	-
Property, plant and equipment	12	434,268	477,596
Investments	13	2,900,250	233,934
		4,547,609	711,530
Current assets			
Investment	15	1	1
Trade and other receivables	17	56,561	60,735
Cash and cash equivalents		35,436	525,230
		91,998	585,966
Total assets		4,639,607	1,297,496
Equity and liabilities			
Current liabilities			
Trade and other payables	18	300,155	158,890
Non current liabilities			
Convertible loan	19	88,555	-
Total liabilities		388,710	158,890
Equity attributable to equity holders of the parent			
Share capital	21	835,622	469,928
Share premium account	22	6,884,411	3,179,460
Merger reserve	22	2,166,528	2,166,528
Other reserves	22	154,092	102,390
Retained earnings	22	(5,789,756)	(4,779,700)
Total equity		4,250,897	1,138,606
Total equity and liabilities		4,639,607	1,297,496

Approved by the Board on

Signed on behalf of the Board of Directors

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K C Morzaria
Director
25 February 2008

Company Balance sheet
As at 31 August 2007

	Note	2007 £	2006 £
Assets			
Non current assets			
Investments	14	4,113,091	1
Current assets			
Trade and other receivables	17	33,805	-
Total assets		4,146,896	1
Equity and liabilities			
Current liabilities			
Trade and other payables	18	8,000	8,000
Non current liabilities			
Convertible Loan	19	88,555	-
Total liabilities		96,555	8,000
Equity			
Share capital	21	835,622	469,928
Share premium account	22	6,884,411	3,179,460
Other reserves	22	154,092	102,390
Retained earnings	22	(3,823,784)	(3,759,777)
Total equity		4,050,341	(7,999)
Total equity and liabilities		4,146,896	1

Approved by the Board on

Signed on behalf of the Board of Directors

…………………………..
K C Morzaria
Director
25 February 2008

Consolidated cash flow statement
For the year ended 31 August 2007

	Note	2007	2006
		£	£
Cash flow from operating activities			
Loss from operating activities		(977,127)	(935,213)
Adjustments for:			
Share based payments		40,257	
Depreciation		86,031	73,408
Loss on disposal of fixed assets		-	7,545
Impairment		-	11,483
Foreign exchange		(54,281)	22,304
Net cash from operating activities before changes in working capital		(905,120)	(820,473)
Decrease in inventories		-	66,233
Decrease in receivables		(4,174)	(35,071)
Increase/(decrease) in payables		141,265	(56,272)
Net cash flow from operating activities		(768,029)	(845,583)
Investing activities			
Purchase of property, plant and equipment		(12,073)	(107,792)
Interest received		9,188	17,653
Purchase of investments		(3,879,407)	(233,934)
Sale of property, plant and equipment		3,877	18,469
Net cash flow from investing activities		(3,878,415)	(305,604)
Financing activities			
Proceeds from issue of ordinary shares net of issue costs		4,070,645	1,675,500
Interest paid		(14,172)	(7,223)
Proceeds from issue of convertible loan note		100,000	-
Net cash flow from financing activities		4,156,473	1,668,277
Net movement in cash and cash equivalents	23	(489,971)	517,090

Company cash flow statement
For the year ended 31 August 2007

	Note	2007 £	2006 £
Cash flow from operating activities			
Loss from operating activities		(23,750)	(1,675,500)
Net cash from operating activities before changes in working capital		(23,750)	(1,675,500)
Increase in receivables		(33,805)	-
Net cash flow from operating activities		(57,555)	(1,675,500)
Investing activities			
Purchase of Investments		(4,113,090)	-
Net cash flow from investing activities		(4,113,090)	-
Financing activities			
Proceeds from issue of ordinary shares		4,070,645	1,675,500
Proceeds from issue of convertible loan note		100,000	-
Net cash flow from financing activities		4,170,645	1,675,500
Net movement in cash and cash equivalents		-	-

Notes forming part of the financial statements (continued)
For the year ended 31 August 2007

1. Corporate information

River Diamonds Plc is registered in England and Wales under number 5059077. The Company is governed by its articles of association and the principal statute governing the company is the Companies Act 1985. The Company's registered office is situated at 5th floor, Carmelite, Victoria Embankment, Blackfriars, London, EC4Y 0LS.

2. Accounting policies

i) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities at fair value through the income statement.

The Group and Company have not applied the following IFRSs and IFRICs that are applicable to the Group and Company and that have been issued but are not yet effective.

IAS 1, Amendment to IAS 1 (Revised), Presentation of Financial Statements, effective for financial year beginning 1 January 2007
IAS 23, Borrowing Costs, revised 2007 (effective 1 January 2009)
IAS 27, Consolidated and Separate Financial Statements, revised 2008 (effective 1 July 2009)
IAS 28, Investment in Associates, revised 2008 (effective 1 July 2009)
IAS 31, Interests in Joint Ventures, revised 2008 (effective 1 July 2009)
IAS 32, Financial Instruments: Presentation, revised 2008 (effective 1 January 2009)
IFRS 2, Share-based Payment, revised 2008 (effective 1 January 2009)
IFRS 3, Business Combinations, effective for financial year beginning 1 January 2007
IFRS 7, Financial Instruments: Disclosures, effective for financial year beginning 1 January 2007
IFRS 8, Operating Segements (effective 1 January 2009)
IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006)
IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective 1 March 2007)
IFRIC 12, Service Concession Agreement (effective 1 January 2008)
IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008)
IFRIC 14, IAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

ii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group (its subsidiaries) made up to 31 August each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The result of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate except for the acquisition by River Diamonds plc of River Diamonds UK Limited which was treated as a merger.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

iii) Going concern

The financial information has been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the financial statements. The directors consider this to be appropriate, as the shareholders will continue to provide financial support to the company for the foreseeable future. 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.

iv) Significant accounting estimates

The preparation of financial statements requires the application of estimates and judgement by management, which affects assets and liabilities at the balance sheet date and income and expenditure for the period. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in the relevant accounting policies discussed below. The best estimates of management may differ from the actual result.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Material estimates and assumptions are made in particular with regard to:

Income taxes

The Group is subject to income taxes in the United Kingdom and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

3. Changes in accounting principles

The accounting policies adopted are consistent with those of the previous financial periods except for:

(a)Adoption of IFRS
Previously the Company and its subsidiaries prepared the financial statements in accordance with UK GAAP. The Group elected to publish its first consolidated interim financial statements to 31 August 2007 under IFRS with its transition date to IFRS being 1 September 2006.

(b) Introduction to IFRS – First time adoption
The rules for first time adoption of IFRS are set out in IFRS 1, First-Time Adoption of International Financial Reporting Standards. In general, selected accounting policies must be applied retrospectively in determining the opening balance sheet under IFRS. However, IFRS 1 allows a number of exemptions to this general principle.

4. Summary of significant accounting policies

i) Revenue recognition
Revenue and associated costs from the sale of minerals are recognised when effective control together with the risks and rewards of ownership are transferred to the customer, and the amount of revenue and costs can be reliably measured, as long as it is probable that the economic benefits associated with the transaction will flow to the entity.

ii) The Company's investments in subsidiaries
In its separate financial statements the Company recognises its investments in subsidiaries at cost, less any impairment for permanent diminution in value.

iii) Foreign currency
Transactions entered into by individual Group companies in currencies other than the currency of the primary economic environment in which it operates (the 'functional currency') of the entity involved in the transaction are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value, that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair values are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss.

iv) Tangible fixed assets and depreciation

Fixed assets are stated at cost less depreciation 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:

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

The depreciation charge for each period is recognised in the income statement, unless it is included in the carrying amount of another asset.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Repairs and maintenance which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

The gain or loss arising from the de-recognition of any items of property, plant and equipment is included in the income statement when the item is de-recognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Assets under construction are carried at cost less any recognised impairment.

Borrowing costs attributable to assets under construction are recognised as an expense as incurred.

v) Mining and exploration expenditure

The Group applies the full cost method of accounting for Exploration and Evaluation costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating areas of gold interest are accumulated and capitalized by reference to appropriate cost pools. Each area of interest is considered to be a separate cash pool.

Exploration and evaluation costs are initially capitalised within 'Intangible assets'. Such exploration and evaluation costs are capitalised provided that one of the following conditions is met;

i. such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
ii. the activities have not established whether or not economically recoverable resources exist; and active and significant operations in relation to the area are continuing.

Costs incurred prior to having obtained the legal rights to explore an areas, are expensed directly to the income statement as they are incurred.

Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Intangible exploration and evaluation assets related to each exploration license/prospect are not depreciated and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Group's definition of commercial reserves for such purpose is proven and probable reserve on an entitlement basis.

If commercial reserves have been discovered, the related exploration and evaluation assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant exploration and evaluation assets is then reclassified as development and production assets within property, plant and equipment.

Intangible exploration and evaluation assets that relate to exploration and evaluation activities that have not yet resulted in the discovery of commercial reserves remain capitalised as intangible exploration and evaluation assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test as set out below. Such exploration and evaluation assets are amortised on a unit of production basis over the life of the commercial reserves o the pool to which they relate.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the exploration and evaluation assets concerned fall within the scope of an established full cost pool, the exploration and evaluation assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the exploration and evaluation assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the exploration and evaluation assets concerned will generally be written off in full.

Any impairment loss is recognised in the income statement as additional depreciation and separately disclosed.

Summary of significant accounting policies (continued)

vi) Impairment of tangible and intangible assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

vii) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Summary of significant accounting policies (continued)

Impairment of financial assets
At each balance sheet date, the Company assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Financial liabilities
The Company's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities, except for derivatives, are recognised initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are sold or impaired, as well as through the amortization process.

viii) Trade and other payables
Trade and other payables are not interest-bearing and are stated at cost.

ix) Trade and other receivables
Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Where the time value of money is material, receivables are carried at amortised cost.

x) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits held on call with bank, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Company unless otherwise stated. Cash and cash equivalents are measured at fair value, based in the relevant exchange rates at balance sheet date.

xi) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations, and a reliable estimate of the amount can be made.

xii) Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Summary of significant accounting policies (continued)

xiii) Income taxes

Tax on profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

xiv) Share-based payments

The Company operates a share option scheme for granting share options, for the purpose of providing incentives and rewards to eligible employees of the Group. The cost of share options granted is measured by reference to the fair value at the date at which they are granted. It is recognised together with a corresponding increase in equity, over the vesting period. The cumulative expense recognised at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of shares that in the opinion of the Directors of the Group at that date will ultimately vest.

xv) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Key estimates are made by management.

Notes forming part of the financial statements (continued)
For the year ended 31 August 2007

Summary of significant accounting policies (continued)

xvi) 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.

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

xviii) Foreign currency translation
The reporting currency of the Group is Sterling (GBP), which is also the financial currency of the principal business of the River Diamonds Group in the period.

Gains and losses that arise from the effect of exchange rate changes on balances denominated in currencies other than that of the measurement currency of the company and its subsidiaries are included in the operating results.

xix) Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

5. Segment information

The primary sector results are attributable to the operation of diamond and gold exploration in Brazil. Turnover, operating results and net assets are mainly attributable to activities in this sector for both 2006 and 2007.

The directors consider that the Group's activities represent a single class of business. The analysis of the Group's turnover, profit before tax and minority interests, assets, liabilities, additions to plant, property and equipment and depreciation by geographical origin of customers is set out below:

	2007	2006
Turnover	**£**	£
United Kingdom	**-**	-
Brazil	**28,116**	67,429
Sierra Leone	**-**	-
	28,116	67,429

Notes forming part of the financial statements (continued)
For the year ended 31 August 2007

Segment Information (continued)

	2007	2006
	£	£
Gross Profit		
United Kingdom	-	-
Brazil	23,990	-91,836
Sierra Leone	-	-
	23,990	(91,836)
Carrying amount of assets		
United Kingdom	4,149,535	747,474
Brazil	483,279	550,022
Sierra Leone	6,793	-
	4,639,607	1,297,496
Liabilities		
United Kingdom	273,304	136,068
Brazil	23,815	22,822
Sierra Leone	3,036	-
	300,155	158,890
Additions to plant, property & equipment		
United Kingdom	-	-
Brazil	7,809	107,792
Sierra Leone	4,264	-
	12,073	107,792
Depreciation		
United Kingdom	-	-
Brazil	64,524	73,408
Sierra Leone	21,507	-
	86,031	73,408

Notes forming part of the financial statements (continued)
For the year ended 31 August 2007

6. Operating loss

	2007 £	2006 £
Operating loss is stated after charging:		
Depreciation	86,031	73,408
Auditors' remuneration		
Parent company – audit services	20,000	19,000
Parent company – non-audit services	4,000	18,030
Subsidiary – audit services	5,000	4,500
Impairment of tangible assets	-	11,482
Loss on disposal of tangible fixed assets	-	7,545
Contribution to retirement plans		
Share based payments	40,257	-

7. Employees

	2007 No.	2006 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Productive labour	11	17
Office and management	8	5
	19	22

	2007 £	2006 £
Employment costs		
Wages and salaries	196,200	188,640
Pension	3,402	3,402
	199,602	192,042

Directors' remuneration	2007 £	2006 £
Aggregate emoluments (including benefits in kind)	121,048	136,892

8. Interest payable and similar charges

	2007 £	2006 £
Bank overdraft interest payable	14,172	7,223

Notes to the financial statements (continued)
For the year ended 31 August 2007

9. Taxation

	2007 £	2006 £
Current tax charge/(credit)	-	-
Deferred tax charge	-	-

The charge for the year has can be reconciled to the profit per the income statement as follows:

	2007 £	2006 £
Loss before tax	(982,111)	(924,783)
Tax at UK corporation tax rate of 30% (2006: 30%)	(294,633)	(277,435)
Effect of depreciation in excess of capital allowances not recognised	25,809	22,022
Effect of utilisation of tax losses not previously utilised	268,824	255,413
UK Corporation tax	-	-

10. 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 £64,007 (2006: £1,675,500), which is dealt with in the accounts of the parent company.

11. Earnings per share

In accordance with IAS 33 and as the group has reported a loss for the period the shares are not dilutive

	Group 2007 £	Group 2006 £
Loss after taxation	(982,111)	(924,783)
	Number	Number
Basic and diluted weighted average ordinary shares in issue during the period	583,857,497	414,706,048
Basic and diluted earnings per share based on the issued share capital as at 31 August 2007	(0.17)	(0.22)

Notes to the financial statements (continued)
For the year ended 31 August 2007

12. Property, plant and equipment

Group:

		Plant & Machinery	Motor Vehicles	Fixtures Fittings and Equipment	Assets under construction	Total
		£	£	£	£	£
Cost						
At 1 September 2006		446,286	281,754	6,418	78,492	812,950
Additions	-	7,809	-	4,264	-	12,073
Transferred on completion	-	78,492	-	-	(78,492)	-
Disposals	-	-	(19,494)	-	-	(19,494)
Exchange difference	-	22,302	11,590	625	-	34,517
At 31 August 2007		554,889	273,850	11,307	-	840,046
Depreciation						
At 1 September 2006		265,079	67,515	2,760	-	335,354
Charge for the year		31,546	53,844	641	-	86,031
Impairment in year		-	-	-	-	-
Disposals		-	(15,607)	-	-	(15,607)
At 31 August 2007		296,625	105,752	3,401	-	405,778
Net book value						
At 31 August 2006		181,207	214,239	3,658	78,492	477,596
At 31 August 2007		258,264	168,098	7,906	-	434,268

Notes to the financial statements (continued)
For the year ended 31 August 2007

13. Non current asset investments

Group:	**Unlisted Investment**
Cost	
Balance brought forward	233,934
Included as cost of acquisition of subsidiary	(233,934)
Additions	2,900,250
At 31 August 2007	2,900,250
Provision for diminution in value	
Charge for the year	-
Balance carried forward	-
Net book value	
At 31 August 2007	2,900,250

The investment in 2006 represents the Company's initial investment in the Panguma Dykes Project in Sierra Leone and entitled it to 10.64%participation rights in the project. During 2006, the Company acquired 100% participation rights to the project. This acquisition was satisfied by the issue of 93,985,000 ordinary shares of 0.1p each in the Company. Based on the closing mid-market share price on the date of acquisition the consideration was valued at approximately £700,000.

Non current asset investments constitute holdings in the following entities:

Name of business	**Country of Incorporation**	**Principal activities**	**% held**
Viso Gero International	British Virgin Islands	Mining	12.5
Lesotho Diamonds Corporation	Gibraltar	Mining	0.5

In April 2007, the Company acquired 1,212,121 new ordinary shares in Lesotho Diamond Corporation for £400,000.

In July 2007, the Company acquired 12.5% of Viso Gero International ("VGI") for a cash consideration of £2,500,000. VGI is a company incorporated in the British Virgin Islands. VGI owns a 94% equity interest in the capital of Westech Gold Pty Ltd ("Westech") which, through its wholly owned direct and indirect subsidiaries, owns the mining rights and associated assets of the Vatukoula Gold Mine in Fiji.

Notes to the financial statements (continued)
For the year ended 31 August 2007

14. Investment in subsidiary companies

	Shares in group undertakings 2007 £	Shares in group undertakings 2006 £
Cost		
Balance brought forward	196,359	196,359
Additions	4,113,090	-
Balance carried forward	4,309,449	196,359
Impairment		
Balance brought forward	196,358	196,358
Impairment in year	-	
Balance carried forward	196,358	196,358
Net book value	4,113,091	1

Name of business	Country of Incorporation	Principal activities	% held
River Diamonds UK Limited	England & Wales	Mining	100
Panguma Diamonds Limited	Sierra Leone	Mining	100
São Carlos Mineração Limitada*	Brazil	Mining	100

*The investment in this entity is held in River Diamonds UK Limited, a 100% owned subsidiary of the Company.

Notes to the financial statements (continued)
For the year ended 31 August 2007

15. Current asset investments

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 2007 & 31 August 2006	1

16. Goodwill

	£
Group:	Panguma Diamonds Ltd
Acquisition of Group undertakings	1,213,091

During the year the Group acquired 100% of the share capital of Panguma Diamonds Ltd for a cost of investment of £1,213,091. The fair value of the net assets acquired was £nil.

17. Trade and other receivables

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Amounts owed by Group undertakings	-	-	33,805	-
Other debtors and prepayments	56,561	60,735	-	-
	56,561	60,735	33,805	-

18. Trade and other payables

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Bank loans and overdrafts	5,415	4,969	-	-
Trade creditors	162,209	47,352	-	-
Accruals and deferred income	132,531	92,562	8,000	8,000
Taxation and social security	-	14,007	-	-
	300,155	158,890	8,000	8,000

Notes to the financial statements (continued)
For the year ended 31 August 2007

19. Non Current Liabilities

On the 22nd April 2007 River Diamonds Plc issued a fully redeemable convertible loan note for £100,000 repayable in cash by December 2009. The loan note carries a coupon rate of 1% per annum. The loan note will be convertible at £0.012 equating to 8,333,333 shares in River Diamonds Plc. The net proceeds from the issue of the convertible loan has been split between the liability element and an equity component as follows:

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Nominal value	100,000	-	100,000	-
Equity component	(11,445)	-	(11,445)	-
Liability component	88,555		88,555	

20. Financial risk management objectives and policies

a) Objectives, policies and strategies

The company's activities expose it to a variety of financial risks; currency risk, credit risk, liquidity risk and cashflow interest rate risk. These risks are limited by the company's financial management policies and procedures as described below:

i) *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 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.

As at 31 August 2007 the Group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

ii) *Cashflow and fair value 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:

	2007 £	2006 £
Within one year	5,145	4,969
Due within 2 to 5 years	100,000	-

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.

iii) *Credit risk*

The Group has no significant concentrations of credit risk. The Group has credit risk management policies in place and exposure to credit risk is monitored on an ongoing basis. Management generally adopts conservative strategies and tight control on credit policy. The Group has limited amount of credit exposure to customers.

iv) *Liquidity risk*

To ensure liquidity, the Group maintains sufficient cash and cash equivalents to meet its obligations as and when they fall due.

21. Share capital

a) Authorised

	2007 £	2006 £
Authorised		
1,500,000,000 Ordinary shares of 0.1p each (2006: 750,000,000 Ordinary shares of 0.1p each)	1,500,000	750,000
Allotted, issued and fully paid		
835,622,055 Ordinary shares of 0.1p each (2006:469,927,966 Ordinary shares of 0.1p each)	835,622	469,928

Notes to the financial statements (continued)
For the year ended 31 August 2007

21. Share capital (continued)

b) Share issues during the period

	Note	Issue value per share £	Shares	Share Capital £	Share premium £
Share issue	**(i)**	0.011	34,209,089	34,209	326,023
Share issue	**(ii)**	0.013	237,500,000	237,500	2,768,025
Share issue	**(iii)**	0.0075	93,985,000	93,985	610,903
			365,694,089	365,694	3,704,951

(i) On 30th March 2007, 34,209,089 ordinary shares of 0.1p were issued for cash of 1.1p per share, representing a premium of 1p per share.
(ii) On 15th June 2007, 237,500,000 ordinary shares of 0.1p were issued for cash of 1.3p per share, representing a premium of 1.2p per share.
(ii) On 23rd October 2006, 93,985,000 ordinary shares of 0.1p were issued for cash of 0.75p per share, representing a premium of 0.65p per share. These were issued as consideration for the acquisition of Panguma Diamonds Limited.

c) Warrants

During the year ended 31 August 2007 the following movements occurred on the warrants to purchase 0.1p ordinary shares in River Diamonds plc.

	Number of warrants	Number of warrants	Number of warrants	Number of warrants	Number of warrants	Number of warrants
Exercise price	**1p**	**1.3p**	**1.5p**	**2p**	**2.5p**	**Total**
Balance at 1 September 2006	8,000,000	-	13,333,332	7,750,000	22,500,000	43,833,332
Granted during the year	-	8,333,333	-	-	-	16,083,333
Exercised during the year	-	-	-	-	-	-
Expired during the year	-	-	-	-	-	-
Balance at 31 August 2007	8,000,000	8,333,333	13,333,332	7,750,000	22,500,000	59,916,665

* These options were issued to Directors, Staff and Consultants. The options are exercisable at the Placing Price of 2.5 pence pursuant to and on the terms of the option scheme summarised in the AIM Admission document of August 2004.

Notes to the financial statements (continued)
For the year ended 31 August 2007

21. Share capital (continued)

d) Share options

A charge to the consolidated income statement has been made for the period and presented in the financial statements.

	Group Year ended 31-Aug-07 Weighted average exercise price	Number	Company Year ended 31-Aug-07 Weighted average exercise price	Number
Outstanding at 31 August 2006	1.92p	43,833,332	1.92p	43,833,332
Granted in period	1.4p	16,083,333	1.4p	16,083,333
Lapsed in period		-		-
Exercised in period		-		-
Outstanding at end of period		59,916,665		59,916,665

The weighted average fair value of each option granted during the period was 0.40p
The company used a discount factor of 50% in arriving at fair value due to the fact the company was a start up at the date of grant and the stock was illiquid.

The Group used the Black Scholes model to determine the value of the options and the inputs were as follows:

Share Price	2.5p
Exercise price	1.3p - 2.5p
Expected volatility	11.30%
Expected life	2-6 Years
Risk free rate	5%
Expected dividends	Nil
Discount factor	50%

The total share-based payment expense in the year for the Group was £40,257 (2006: £nil)

Notes to the financial statements (continued)
For the year ended 31 August 2007

22. Statement of movements on reserves

	Group merger reserve	Company and Group share premium account	Group retained earnings	Company and Group other reserves	Company retained earnings
	£	£	£	£	£
Balance at 1 September 2006	2,166,528	3,179,460	(4,779,700)	102,390	(3,759,777)
Loss for the year	-	-	(982,111)	-	(64,007)
Premium on shares issued during the year	-	3,704,951	-	-	-
Exchange adjustment	-	-	(27,945)	-	-
Convertible loan				11,445	
Share based payment	-	-	-	40,257	-
Balance at 31 August 2007	2,166,528	6,884,411	(5,789,756)	154,092	(3,823,784)

23. Notes to the Cash flow statement

Analysis of changes in net debt

	At 31 August 2006	Cash flow	At 31 August 2007
	£	£	£
Cash at bank and in hand	525,230	(489,794)	35,436
Overdraft	(4,969)	(177)	(5,415)
Net funds	520,262	(489,971)	30,021

Notes to the financial statements (continued)
For the year ended 31 August 2007

24. Explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last statements under UK GAAP were for the year ended 31 August 2006 and the date of transition to IFRS was therefore 1 September 2006.

Reconciliation of equity at 1 September 2006

Note		UK GAAP	Effect of transition to IFRSs	IFRSs
	Property, plant and equipment	477,596	-	477,596
	Goodwill	-	-	-
	Investments	233,934	-	233,934
	Total non-current assets	711,530	-	711,530
	Investment	1	-	1
	Trade and other receivables	60,735	-	60,735
	Cash and cash equivalents	525,230	-	525,230
	Total current assets	585,966	-	585,966
	Total assets	1,297,496	-	1,297,496
	Trade and other payables	158,890	-	158,890
	Total liabilities	158,890	-	158,890
	Total assets less total liabilities	1,138,606	-	1,138,606
	Issued capital	469,928	-	469,928
	Share premium	3,179,460	-	3,179,460
	Merger reserve	2,166,528	-	2,166,528
	Other reserves	-	102,390	102,390
	Retained earnings	(4,677,310)	(102,390)	(4,779,700)
	Total equity	1,138,606	-	1,138,606

The effect of transition to IFRS is to provide for the liability (£102,390) to the valuation of share options as calculated under the Black-Scholes model.

Notes to the financial statements (continued)
For the year ended 31 August 2007

24. Explanation of transition to IFRS (continued)

Reconciliation of profit and loss for 2006

Note		UK GAAP	Effect of transition to IFRSs	IFRSs
	Revenue	**67,429**	**-**	**67,429**
	Cost of sales	**(159,265)**	**-**	**(159,265)**
	Gross profit	**(91,836)**	**-**	**(91,836)**
	Other operating income	**17,653**	**-**	**17,653**
	Administrative expenses	**(843,377)**	**-**	**(843,377)**
	Other operating expense	**(7,223)**	**-**	**(7,223)**
	Finance income	**-**	**-**	**-**
	Finance costs	**-**	**-**	**-**
	Profit before tax	**(924,783)**	**-**	**(924,783)**
	Tax expense	**-**	**-**	**-**
	Net loss	**(924,783)**	**-**	**(924,783)**

There is no effect on the transition of IFRS.

25. Acquisition

Group

Positive goodwill arose during the year on the acquisition of 100% of the share capital of Panguma Diamonds Limited.

The assets acquired were analysed as follows:

	£
Net assets acquired	-
Goodwill arising on acquisition	1,213,091
Cost of acquisition	1,213,091

Notes to the financial statements (continued)
For the year ended 31 August 2007

26. Ultimate controlling party

There was no ultimate controlling party during the year.

27. Related party transactions

There were no related party transactions during the period under review.

28. Post Balance Sheet Events

On 4 October 2007, the Company agreed to increase its holding in Viso Gero Inc by 7.5% to 20% for a cash consideration of £1.75 million. This investment was funded by the issue of 250 million new ordinary shares at a placing price of 1.5 pence per share.

On 14 December 2007, the Company announced that it had entered into a conditional agreement to acquire the remaining 80% of Viso Gero Inc for the issue of approximately 478 million new ordinary shares at 6 pence per share plus a payment of AUD2.1 million. The major asset of the Viso Gero Inc group is the Emperor Gold Mine in Fiji. A conditional placing of approximately 70.8 million shares at 6 pence per share totalling approximately £4.25 million was completed at the same time. Issue of these shares is subject to the completion of the acquisition.

In addition since the 14th December 2007, funds of £1.45 million have been loaned to Viso Gero Inc on commercial terms for working capital purposes.