

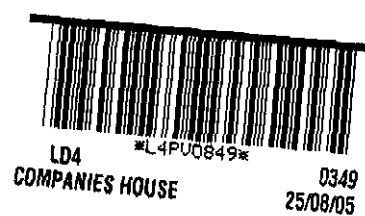
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Company Registration No. 5059077

RIVER DIAMONDS PLC
(Formerly River Diamonds Group Plc)

Financial Statements

For the Year Ended 31 August 2004

MRI Moores Rowland LLP
3 Sheldon Square
London
W2 6PS



River Diamonds Plc

Report and financial statements for the year ended 31 August 2004

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River Diamonds Plc
Officers and professional advisors

Directors

I C Orr-Ewing - (appointed 18 June 2004)
N D Shaw-Hardie - (appointed 18 June 2004)
R E Crew - (appointed 18 June 2004)
D A Lenigas - (appointed 18 June 2004)
A Balme - (appointed 18 June 2004)
K C Morzaria - (appointed 26 June 2004)

Secretary

Bart 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

Capital IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

River Diamonds Plc
Chairman's Statement

Dear Shareholder,

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

HIGHLIGHTS

- General
 - Transfer from OFEX to AIM and associated placing in August 2004, raising approximately GBP£ 1.2 million after costs
 - Rough diamond market very strong; prices have increased 30% since January 2003
 - Turnover increased to GBP£ 31,927 from GBP£ 2,054 during the financial year
- Melgueira Prospect, Brazil
 - 16ft pan processing plant completed and fully operational in June 2004
 - 423cts produced
 - The price of diamond parcels sold was between US \$98 per carat and US\$ 358 per carat

Review of Operations

Melgueira, Mato Grosso, Brazil

Over the past year we have focused all our efforts on the development of our mining operations in Brazil. The Melgueira prospect, which is now in production, has been the most significant development in this regard. The final completion and the commissioning of the processing plant during June 2004 marked the culmination of over two years work at the Melgueira site.

Production at Melgueira was 423 carats for the year ended 31 August 2004. The *in situ* grade during trial mining operations varied between 9.3 cpht (carats per hundred tonnes) and 0.1 cpht. The average size of stones recovered was in line with management expectations at roughly 0.44 carats per stone. Parcels sold locally and in Antwerp varied in price between US\$ 98 / carat and US\$ 358 / carat. One parcel of 99 carats was valued in Antwerp for US\$ 223 / carat of which 86 carats were sold in Antwerp for roughly US\$ 13,000. As a result turnover for the year ended 31 August 2004 at the Melgueira prospect was GBP£ 31,927. These revenues are in line with management expectations bearing in mind that the processing plant became only became fully operational in June 2004.

The Diamond Market

Driven by the growing shortfall, prices of rough diamonds have increased strongly during the year. Rough diamond prices have risen by about 30% since the beginning of 2003; which has also been reflected in the polished diamond market, with prices rising roughly 20% over the same period.

In 2003 De Beers rough diamond sales increased 7% to \$5.5 billion, and in the first half of 2004 sales were \$3 billion an increase of 2%. Only a few years ago De Beers held more than \$4 billion worth of diamond stocks. However it is now facing potentially significant shortages under its demand-driven Supplier of Choice policy. Earlier this year De Beers indicated that its stocks were at minimum working levels and that for the first time its sales would be based on intake, meaning that it would only be able to supply the market on the basis of new production from its mines and purchases from other producers.

River Diamonds Plc
Chairman's Statement (continued)

Demand for diamond jewellery has continued to increase, with global retail sales increasing 7% in 2003. With continued growth forecast for retail demand, and the rough diamond supply deficit expected to continue for at least the next three to five years, the outlook for diamond prices continues to be very positive.

Financial Overview

River Diamonds reached several milestones this year, both in terms of its operations and its financial results. These results are reflective of both the successful execution of our business strategy and the continuing strength of the diamond market.

Year on year the Group increased revenues to GBP£ 31,927. Cost of sales rose to GBP£ 346,844. However GBP£ cost per carat reduced by approximately 5 times reflecting the operating efficiencies gained from the commissioning of the processing plant.

During the year the Company raised GBP£ 1.2 million after costs during the move from OFEX to AIM and the associated placing. Items associated with the flotation process on AIM increased our administrative costs to GBP£ 418,637. Excluding these items, administrative costs were marginally higher over the year. In addition the Board felt that it would be appropriate to write down the value of the Company's investment in Cambrian Forestry Products by GBP£ 76,999 which is currently being restructured.

The move from OFEX to AIM and associated placing has proved a very positive move for the Company, which has gained a higher profile, wider investor base, greater liquidity and better access to institutional investors.

Outlook

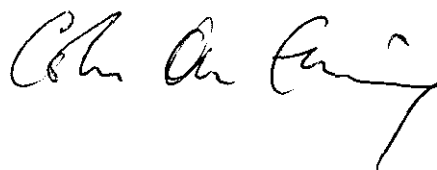
River Diamonds' strategy is to build a portfolio of advanced diamond development and production projects in order to provide sustainable cash flow. This cash flow will be used to fund large scale exploration projects that have the potential to yield significant reserves of gem quality diamonds. We believe that using the funds raised during our AIM placement, the cash flow generated by the Melgueira prospect, and the substantial knowledge base gained from our exploration and operational activities in Brazil, we will be able identify and develop such deposits over the coming years.

We intend to continue developing our mining and exploration operations in Brazil. Our main focus in this regard will be on the exploration of secondary alluvial targets such as the Tres Barras prospect, which was acquired in October 2004, and the exploration of hard rock kimberlitic targets in Paranatinga, Brazil, the licences for which were acquired in December 2004.

With the many opportunities available, and River Diamonds' ability to develop and deliver turnkey projects from exploration through to production, we remain confident about the Company's long term prospects. I would like to reiterate the Board's appreciation of the senior management and operational staff, who have shown continuing support and commitment to the Company. It is they who have built the Company and will contribute to success in the long term.

A notice of our Annual General Meeting and relevant proxy forms will follow in due course.

Colin Orr-Ewing
Chairman
2 March 2004



River Diamonds Plc

Directors' report

For the year ended 31 August 2004

The Directors submit their first report and the financial statements of River Diamonds Plc for the year ended 31 August 2004.

Principal activities

The Company was incorporated on 1 March 2004 as River Diamonds Group plc, acquired River Diamonds UK Limited on 3 April 2004 and changed its name to River Diamonds plc on 30 April 2004. The principal activity of the Group during the period was that of mining exploitation. The principal activity of the Company was that of a holding Company.

Results and dividends

The financial statements of the Group have been prepared on the basis of merger accounting and hence the trading loss of the Group for the year ended 31 August 2004, after taxation was £811,808.

The directors do not recommend the payment of a dividend.

Review of the business and future development

The Directors believe the development of the underlying business to be satisfactory.

On 26 August 2004, the Directors announced that the Company was admitted to AIM enabling the Company to access more readily the capital markets in order to increase the diamond production in Brazil.

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

Post balance sheet events

Subsequent to the year end, the Company has issued and allotted 27,200,000 new Ordinary Shares of 0.1p each pursuant to an exercise of warrants at an exercise price of 1p. The current number of warrants outstanding is 49,269,239.

The Company issued on 8 October 2004 options over 24,900,000 Ordinary Shares of 0.1p each to staff, directors and consultants, which are exercisable at 2.5 pence.

Directors

The following directors have held office during the period from incorporation to 31 August 2004:

I C Orr-Ewing	(appointed 18 June 2004)
N D Shaw-Hardie	(appointed 18 June 2004)
R E Crew	(appointed 18 June 2004)
D A Lenigas	(appointed 18 June 2004)
A Balme	(appointed 18 June 2004)
K C Morzaria	(appointed 26 June 2004)
Bart Management Ltd	(appointed 1 March 2004 and resigned 18 June 2004)

River Diamonds Plc
Directors' report (continued)
For the period ended 31 August 2004

Directors' interest

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

	Beneficial Holding	
	31 August 2004	31 August 2003
I C Orr-Ewing	14,388,700*	6,366,667
N D Shaw-Hardie	-	-
R E Crew	-	-
D A Lenigas	-	-
A Balme	3,300,000**	-
K C Morzaria	-	-

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

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

Directors also hold warrants over Ordinary Shares as follows:

	Number of Warrants	
	31 August 2004	31 August 2003
I C Orr-Ewing	4,900,000*	4,900,000*
N D Shaw-Hardie	1,000,000	1,000,000
R E Crew	3,000,000	3,000,000
D A Lenigas	-	-
A Balme	4,000,000**	-
K C Morzaria	-	-

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

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

Substantial shareholdings

At 21 February 2005 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 1p	%
The Bank of New York (Nominees)	31,890,912	10.69
Capita Trust Company Limited	27,000,000	9.05
Ms Carole Rowan	27,000,000	9.89
Mr Bruce Rowan	25,000,000	8.38
HSBC Global Custody Nominee (UK)	16,890,000	5.66
Pershing Keen Nominees Limited	16,613,889	5.57
Vidacos Nominees Limited	16,400,000	5.50
I C Orr-Ewing	14,388,700	5.30
Chase Nominees Limited	13,000,000	4.36
Vidacos Nominees Limited	10,000,000	3.35
Credit Suisse First Boston Nominees	9,950,000	3.33
Total	208,133,501	71.08

River Diamonds Plc
Directors' report (continued)
For the period ended 31 August 2004

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 2004 was 66 (2003: 25 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

MRI Moores Rowland LLP were appointed auditors to the Company and in accordance with a resolution proposing that they will 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.

Corporate governance

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

On behalf of the Board



I C Orr-Ewing
Director

River Diamonds Plc
Independent auditors' report to the members of River Diamonds Plc

We have audited the Financial Statements of River Diamonds Plc on pages 9 to 25 for the year ended 31 August 2004. The Financial Statements have been prepared under the historical cost convention and on the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out on page 6.

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

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

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

Basis of opinion

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

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

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

River Diamonds Plc
Independent auditors' report to the members of River Diamonds Plc

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 August 2004 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MRI Moores Rowland LLP
Registered Auditor
Chartered Accountants

3 Sheldon Square
London
W2 6PS

2 March 2005

River Diamonds Plc
Consolidated profit and loss account
For the year ended 31 August 2004

	Note	2004 £	2003 £
Turnover		31,927	2,054
Cost of Sales		(346,844)	(209,231)
Gross loss		(314,917)	(207,177)
Administrative expenses		(418,637)	(124,967)
Operating loss	3	(733,554)	(332,144)
Loss on disposal of investment		-	(424,327)
Loss on ordinary activities before interest		(733,554)	(756,471)
Other interest receivable and similar income		385	98
Amounts written off investments		(76,999)	-
Interest payable and similar charges	5	(1,640)	(2,331)
Loss on ordinary activities before taxation		(811,808)	(758,704)
Tax on loss on ordinary activities	6	-	-
Loss on ordinary activities after taxation	16	(811,808)	(758,704)
Loss per share		<i>pence</i>	<i>pence</i>
Basic	8	(0.40)	(0.39)
Fully diluted	8	(0.40)	(0.39)

All activities relate to continuing operations.

River Diamonds Plc
Consolidated statement of total recognised gains and losses
For the year ended 31 August 2004

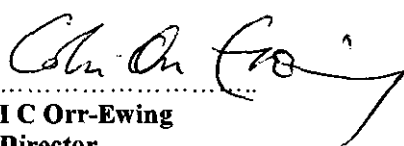
	Note	2004 £	2003 £
Loss for the financial year		(811,808)	(758,704)
Currency translation differences	16	(122,097)	-
Total recognised gains and losses for the year		<u>(933,905)</u>	<u>(758,704)</u>

River Diamonds Plc
Consolidated balance sheet
As at 31 August 2004

	Note	2004	2003
		£	£
Fixed assets			
Tangible assets	9	240,227	135,547
Current assets			
Debtors	11	83,288	84,610
Investment	12	1	77,000
Cash at bank and in hand		1,396,869	9,691
		<u>1,480,158</u>	<u>171,301</u>
Creditors:			
Amounts falling due within one year	13	(350,091)	(220,587)
Net current assets/(liabilities)		<u>1,130,067</u>	<u>(49,286)</u>
Total net assets		<u><u>1,370,294</u></u>	<u><u>86,261</u></u>
Capital and reserves			
Called up share capital	15	271,250	196,359
Profit and loss account	16	(2,472,644)	(1,538,739)
Share premium account	16	1,405,160	-
Merger reserve	16	2,166,528	1,428,641
		<u>1,370,294</u>	<u>86,261</u>
Equity shareholders' funds	17	<u><u>1,370,294</u></u>	<u><u>86,261</u></u>

Approved by the Board on 2 March 2005

Signed on behalf of the Board of Directors

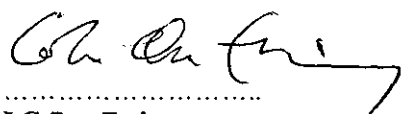

I C Orr-Ewing
Director

River Diamonds Plc
Company Balance sheet
As at 31 August 2004

	Note	2004	
		£	£
Fixed assets			
Investments	10		196,359
Current assets			
Debtors	11	1,480,051	
		<hr/>	
		1,480,051	
Creditors: amounts falling due within one year	13	(8,000)	
		<hr/>	
Net current assets			1,472,051
			<hr/>
Total net assets			<u>1,668,410</u>
Capital and reserves			
Called up share capital	15		271,250
Share premium account	16		1,405,160
Profit and loss account	16		(8,000)
			<hr/>
Equity shareholders' funds	17		<u>1,668,410</u>

Approved by the Board on 2 March 2005

Signed on behalf of the Board of Directors



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I C Orr-Ewing
Director

River Diamonds Plc
Consolidated cash flow statement
For the year ended 31 August 2004

	Notes	2004 £	2003 £
Net cash outflow from operating activities	18	(609,198)	(235,177)
Returns on investment and servicing of finance	18	(1,255)	(2,233)
Taxation		-	-
Capital expenditure and financial investment	18	(207,130)	(10,506)
Cash outflow before financing		(817,583)	(247,916)
Management of liquid resources	18	-	98,672
Financing	18	2,217,938	136,000
Increase/(decrease) in cash in the year	18	1,400,355	(13,244)
Reconciliation of net cash flow to movement in net asset/(debt)			
		£	£
Increase/(decrease) in cash in the year		1,400,355	(13,244)
Net debt at 1 September 2003		(18,350)	(5,106)
Net asset/(debt) at 31 August 2004	18	1,382,005	(18,350)

River Diamonds Plc
Notes to the financial statements
For the year ended 31 August 2004

1. Accounting policies

Basis of accounting

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

Basis of consolidation

The Group financial statements consolidate the accounts of the Company and its interest in subsidiary undertakings. During the year, there was a reorganisation that required a new parent company for the Group, River Diamonds plc. This has been accounted for using merger accounting principles and the results have been presented as if the new Group had been established throughout the current and prior years. All other transactions have been accounted for using the acquisition method of accounting, whereby the Group's results include the results of the acquired business from the date of acquisition. Overseas subsidiaries are consolidated using the closing rate method. Foreign exchange differences arising on consolidation are taken to reserves.

Tangible fixed assets and depreciation

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

Mining leases	Over 3 years
Plant and machinery	Over 3 – 10 years
Motor Vehicles	Over 3 years
Fixtures Fittings and Equipment	Over 4 years

Investments

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

Deferred taxation

As required by FRS 19 – Deferred Tax, 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.

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

1. Accounting policies (continued)

Liquid resources

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

2. Segment information

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

3. Operating loss

	2004	2003
	£	£
Operating loss is stated after charging:		
Depreciation	81,584	64,083
Auditors' remuneration	10,000	7,500
	<u> </u>	<u> </u>

During the year under review, non audit fees amounting to £129,848 (2003: £nil) were set against the share premium account.

4. Employees

	2004	2003
	No.	No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Office and management	5	4
	<u> </u>	<u> </u>
	2004	2003
	£	£
Employment costs		
Wages and salaries	114,861	112,975
	<u> </u>	<u> </u>
Directors' remuneration	2004	2003
	£	£
Aggregate emoluments (including benefits in kind)	75,299	64,335
	<u> </u>	<u> </u>

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

5. Interest payable

	2004	2003
	£	£
Bank loan interest payable	1,640	2,331
	<u> </u>	<u> </u>

6. Taxation

	2004	2003
	£	£
UK Corporation tax	-	-
	<u> </u>	<u> </u>
Factors affecting the tax charge for the period		
Losses on ordinary activities before taxation	(811,808)	(758,704)
Profits on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2003: 30%)	(243,542)	(227,611)
Effects of :		
Depreciation add back	24,475	19,225
Amounts written off investments	23,100	127,298
Losses carried forward	195,967	81,088
UK Corporation tax	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

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 £8,000 which is dealt with in the accounts of the parent company.

8. Loss per share

Loss for the year attributable to shareholders is £811,808 (2003: £758,704). This is divided by the weighted average number of shares outstanding calculated to be 204,221,365 (2003: 196,358,698) to give basic loss per share of 0.40p (2003: 0.39p).

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 nil.

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

9. Tangible fixed assets
Group:

	Mining Leases	Plant & Machinery	Motor Vehicles	Fixtures Fittings and Equipment	Total
	£	£	£	£	£
Cost					
At 1 September 2003	130,761	108,077	19,482	4,190	262,510
Additions	5,223	180,369	20,924	614	207,130
Disposals	-	(25,000)	(16,255)	-	(41,255)
At 31 August 2004	135,984	263,446	24,151	4,804	428,385
Depreciation					
At 1 September 2003	87,174	32,264	7,525	-	126,963
Charge for the year	43,587	37,397	600	-	81,584
On disposals	-	(12,264)	(8,125)	-	(20,389)
At 31 August 2004	130,761	57,397	-	-	188,158
Net book value					
At 31 August 2003	43,587	75,813	11,957	4,190	135,547
At 31 August 2004	5,223	206,049	24,151	4,804	240,227

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

10. Fixed asset investments
Company:

	Shares in group undertakings 2004 £
Cost	
Additions	196,359
	<hr/>
At 31 August 2004	196,359
	<hr/>

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

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

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

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

11. Debtors

	Group 2004 £	Company 2004 £	Group 2003 £
Amounts owed by group undertakings	-	1,416,051	-
Unpaid share capital	50,000	50,000	-
Other debtors and prepayments	33,288	14,000	84,610
	<u>83,288</u>	<u>1,480,051</u>	<u>84,610</u>

12. Current Assets Investment

Group

	Unlisted Investments £
Cost	
Balance brought forward and carried forward	77,000
Provisions	
Brought forward in the year	-
Provisions in the year	76,999
Balance carried forward	76,999
Net Book Value	
As at 31 August 2004	1
As at 31 August 2003	77,000

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

13. Creditors: Amounts falling due within one year

	Group 2004 £	Company 2004 £	Group 2003 £
Bank loans and overdrafts	14,864	-	28,041
Trade creditors	202,913	-	14,880
Directors' current account	-	-	60,221
Other creditors	17,525	8,000	100,000
Accruals and deferred income	111,340	-	17,445
Taxation and social security	3,449	-	-
	<hr/>	<hr/>	<hr/>
	350,091	8,000	220,587
	<hr/>	<hr/>	<hr/>

14. Foreign currency risks and exposures

a Objectives, policies and strategies

Currency rate risk

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

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

The group's expenses in Brazil are incurred in Reals. Any weakening in the 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 2004 the Group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

14. Foreign currency risks and exposures (continued)

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:-

	2004 £	2003 £
Within one year	14,864	28,041

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.

15. Share capital

	2004 £
Authorised	
450,000,000 Ordinary shares of 0.1p each	450,000
Allotted, issued and fully paid	
271,250,425 Ordinary shares of 0.1p each	271,250

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

5,171,818 Ordinary shares of 0.1p at 2.75p each;
875,000 Ordinary shares of 0.1p at 1.6p each;
1,534,909 Ordinary shares of 0.1p at 2.5p each;
67,310,000 Ordinary shares of 0.1p at 2.75p each;

In addition the Company issued 196,358,698 Ordinary shares of 0.1p at 3.857p each in a share exchange agreement to purchase 196,358,698 shares in River Diamonds UK Limited, which were accounted for using the merger relief provisions of the Companies Act 1985.

On 30 April 2004, the Company subdivided its issued and unissued 45,000,000 Ordinary shares of 1p into 450,000,000 Ordinary shares of 0.1p.

River Diamonds Plc

Notes to the financial statements (continued) For the year ended 31 August 2004

15. Share capital (continued)

Warrants

During the year ended 31 August 2004 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 4p	Number of warrants Total
Balance at 1 September 2003	43,900,000	-	-	-	43,900,000
Granted during the year	7,900,000	13,333,332	8,750,000	2,585,907	32,569,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 August 2004	51,800,000	13,333,332	8,750,000	2,585,907	76,469,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16. Statement of movements on reserves

	Group Merger reserve 2004 £	Company and Group Share premium account 2004 £	Group Profit and loss account 2004 £	Company Profit and loss account 2004 £
Balance at 1 September 2003	1,428,641	-	(1,538,739)	-
Loss for the year	-	-	(811,808)	(8,000)
Premium on shares issued during the year	-	1,806,293	-	-
Issue costs written off	-	(401,133)	-	-
Merger reserve adjustment	737,887	-	-	-
Exchange adjustment	-	-	(122,097)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 August 2004	2,166,528	1,405,160	(2,472,644)	(8,000)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

River Diamonds Plc

Notes to the financial statements (continued)
For the year ended 31 August 2004

17. Reconciliation of movement in shareholders' funds

	Group 2004 £	Company 2004 £	Group 2003 £
Loss for the year	(811,808)	(8,000)	(758,704)
Exchange adjustment	(122,097)	-	-
Proceeds from issue of shares			
- On acquisition of River Diamonds UK Limited	-	196,359	-
- On admission to AIM	1,682,750	1,682,750	-
- Other	198,434	198,434	636,000
Merger reserve adjustment	737,887	-	-
Issue costs written off	(401,133)	(401,133)	-
	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	1,284,033	1,668,410	(122,704)
Opening shareholders' funds	86,261	-	208,965
	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	1,370,294	1,668,410	86,261
	<hr/>	<hr/>	<hr/>

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

18. Cash flows

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

	2004	2003
	£	£
Operating loss	(733,554)	(332,144)
Depreciation	81,584	64,084
(Increase)/decrease in debtors	1,322	(76,309)
Increase in creditors	142,681	109,192
Foreign exchange	(122,097)	-
Loss on disposal of fixed assets	20,866	-
	<u> </u>	<u> </u>
Net cash outflow from operating activities	(609,198)	(235,177)
	<u> </u>	<u> </u>

b Analysis of cash flows

Returns on investment and servicing of finance

Interest received	385	98
Interest paid	(1,640)	(2,331)
	<u> </u>	<u> </u>
Net cash outflow for returns on investment and servicing of finance	(1,255)	(2,233)
	<u> </u>	<u> </u>

Capital expenditure and financial investment

Purchase of fixed assets	207,130	10,506
	<u> </u>	<u> </u>

Management of liquid resources

Current asset investment	-	98,672
	<u> </u>	<u> </u>

Net cash inflow from financing

Net receipts from issue of shares	2,217,938	136,000
	<u> </u>	<u> </u>

River Diamonds Plc
Notes to the financial statements (continued)
For the year ended 31 August 2004

18. Cash flows (continued)

c Analysis of changes in net debt

	At 31 August 2003 £	Cash flow £	At 31 August 2004 £
Cash at bank and in hand	9,691	1,387,178	1,396,869
Overdraft	(28,041)	13,177	(14,864)
	<hr/>	<hr/>	<hr/>
Net funds	(18,350)	1,400,355	1,382,005
	<hr/>	<hr/>	<hr/>

d Non cash movement

During the year, the Company entered into a share for share investment with River Diamonds UK Ltd.

19. Related party transactions

At 31 August 2004, an amount of £17,525 (2003: £60,221) was owed by the Group to I C Orr-Ewing, a director of River Diamonds Plc.

20. Ultimate controlling party

There was no ultimate controlling party during the year.