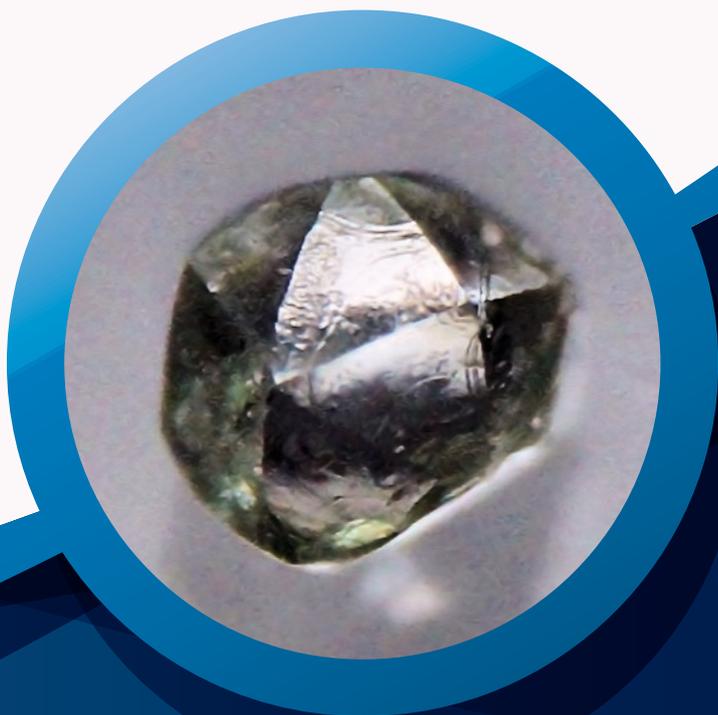


KARELIAN
DIAMOND RESOURCES

Half-Yearly Report 2017



Karelian Diamond Resources plc

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Karelian Diamond Resources plc

Chairman's statement

I have great pleasure in presenting your Company's Half-Yearly Report for the six month period ended 30 November 2017. The discovery of a green diamond in a till sample in the Kuhmo region of eastern Finland has been followed up by an intensive pitting programme designed to find the kimberlite source of the diamond. The latest results suggest that we are now very close to the source. Work has also continued at Riihivaarä, where we have discovered a kimberlite body, and at the Lahtojoki diamond deposit, over which we hold a mining concession and on which a Preliminary Economic Assessment has been completed during the period with highly encouraging results.

Principal activities and business review

Diamond Discovery

Following the discovery by the Company of a green diamond in January 2016, we have been engaged in an intensive exploration programme to discover the source of the diamond. The programme has included airborne geophysics and an extensive pitting programme up-ice from the site of the discovery. The work programme was designed to identify the kimberlite train arising from the kimberlite source and to trace it back to source.

Sampling results (as announced on 14 November 2017) indicated that the source was within two hundred metres of some of the samples taken in the pitting programme. The most recent results (as announced post period on 23 January 2018) suggest that we are now in very close proximity to the source. This success in tracing back the kimberlite train to source is a great achievement considering that it is scarcely a year since the diamond was found.

In October 2017 we were awarded an Exploration Permit covering an area of 601.68 hectares surrounding the location where the Company discovered the diamond.

Riihivaarä

In Eastern Finland, where your Company has discovered a kimberlite body, the first to be discovered in Finland in over 10 years, follow up work has shown that the geotherm there is prospective for diamonds. The kimberlite has been sampled to a model depth of over 200km, well into the diamond stability field, and it is therefore likely to be diamondiferous. The kimberlite body remains open in both directions along strike and to depth and a drilling programme is now envisaged along the known kimberlite.

Seitaperä

At Seitaperä, also in the Kuhmo region of Eastern Finland, where your Company has outlined the largest known kimberlite body in Finland and has reported the presence of both macro and micro diamonds, consideration is being given as to whether or not some, or all, of these micro and macro diamonds may have originated from a larger stone. Should this be considered to be the case, it would have significant implications for any follow up mini bulk sampling programme and for the diamond potential of the kimberlite.

Lahtojoki Mining Development Programme

A Preliminary Economic Assessment ("PEA") has been carried out during the period on the Lahtojoki diamond deposit in the Kuopio-Kaavi region of Finland over which your Company holds a Mining Concession.

I am delighted that the PEA was positive and a mining operation recommended (as announced on 1 August 2017).

The PEA suggests a +1mm recoverable grade of 39.7 carats per hundred tonnes (cpht) and also indicates the presence of a high percentage of gem quality stones within the diamonds that have been recovered to date. Previous drilling indicates 5,603,584 tonnes are present to a depth of 160 metres below surface. For the purposes of the PEA US\$100/carat was used in the economic evaluation and mine design. A total resource (non JORC) estimate of 2,225,000 carats was indicated in the study with plant recovery of diamonds estimated at 95 per cent. The location of Lahtojoki is highly favourable for development and we believe the Lahtojoki diamond deposit has the potential to become a profitable open pit diamond mine.

Karelian Diamond Resources plc

Chairman's statement (*continued*)

Lahtojoki Mining Development Programme (*continued*)

Clearly much work remains to be done but the PEA Report is a major and highly encouraging step forward in our assessment of the Lahtojoki diamond deposit. Should the deposit be developed it would be the first diamond mine in Europe (outside Russia).

Exploration by your Company suggests that in addition to the Lahtojoki deposit there may also be further diamond resource potential in the immediate area. Having considered a series of geophysical and kimberlite indicator mineral anomalies in the area, your Company has applied for a Claim Reservation in the area adjacent to the Lahtojoki mining concession. The Claim Reservation covers the up-ice area of the kimberlite boulder discovery (as previously announced on 9 November 2016 and 12 January 2017) and totals an area of 8.67km². Post period a Claim covering 28.84 hectares was granted within the Claim Reservation on 22 January 2018. The Claim surrounds the location where the kimberlite boulder discovery was made.

Should a further significant diamond deposit be discovered close to the Lahtojoki deposit, this would of course add greatly to the economic potential and attractiveness of the Lahtojoki diamond deposit.

Finance

The loss after taxation for the six month period ended 30 November 2017 was €211,590 (30 November 2016: €117,067) and the net assets as at 30 November 2017 were €9,281,407 (30 November 2016: €8,370,091).

Post period, at the Annual General Meeting on 21 December 2017, shareholders approved the consolidation of the Company's ordinary shares into new ordinary shares of €0.00025 each. Immediately following which, each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares. The consolidation was considered to be in the shareholders' interests as the existing number of shares was unwieldy and the bid-offer range was too large as a proportion of the share price. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at this time.

Directors and Staff

I would like to thank my fellow directors, staff and consultants for their support and dedication.

Outlook

The Company has made outstanding progress in the period under review and I look forward with confidence to further success during the coming period.

Yours faithfully,



Professor Richard Conroy
Chairman

27 February 2018

Karelian Diamond Resources plc

Condensed income statements and condensed statement of comprehensive income
for the six month period ended 30 November 2017

Condensed income statement

	Note	Six month period ended 30 November 2017 (Unaudited) €	Six month period ended 30 November 2016 (Unaudited) €	Year ended 31 May 2017 (Audited) €
Continuing operations				
Operating expenses		(211,590)	(117,067)	(410,814)
Loss before taxation		(211,590)	(117,067)	(410,814)
Income tax expense		-	-	-
Loss for the financial period/year		(211,590)	(117,067)	(410,814)
Loss per share				
Basic and diluted loss per share	2	(€0.0091)	(€0.0050)	(€0.0176)

Condensed statement of comprehensive income

		Six month period ended 30 November 2017 (Unaudited) €	Six month period ended 30 November 2016 (Unaudited) €	Year ended 31 May 2017 (Audited) €
Loss for the financial period/year		(211,590)	(117,067)	(410,814)
Income/expense recognised in other comprehensive income		-	-	-
Total comprehensive expense for the financial period/year		(211,590)	(117,067)	(410,814)

The accompanying notes form an integral part of these condensed financial statements.

Karelian Diamond Resources plc

Condensed statement of financial position as at 30 November 2017

	Note	30 November 2017 (Unaudited) €	30 November 2016 (Unaudited) €	Year ended 31 May 2017 (Audited) €
Assets				
Non-current assets				
Intangible assets	3	9,607,634	9,014,182	9,276,955
Financial assets		4	4	4
Total non-current assets		9,607,638	9,014,186	9,276,959
Current assets				
Cash and cash equivalents		44,347	49,224	523,324
Other receivables		386,848	161,503	292,562
Total current assets		431,195	210,727	815,886
Total assets		10,038,833	9,224,913	10,092,845
Equity				
Capital and reserves				
Called up share capital		5,844	3,177,850	5,844
Called up deferred share capital		3,174,672	-	3,174,672
Share premium		8,201,664	6,791,581	8,201,664
Share based payments reserve		802,939	681,312	765,977
Retained losses		(2,903,712)	(2,280,652)	(2,692,122)
Total equity		9,281,407	8,370,091	9,456,035
Liabilities				
Non-current liabilities				
Trade and other payables: amounts falling due after more than one year	5	158,088	309,589	158,008
Total non-current liabilities		158,088	309,589	158,008
Current liabilities				
Trade and other payables: amounts falling due within one year		599,338	545,233	478,802
Total current liabilities		599,338	545,233	478,802
Total liabilities		757,426	854,822	636,810
Total equity and liabilities		10,038,833	9,224,913	10,092,845

The accompanying notes form an integral part of these condensed financial statements.

Karelian Diamond Resources plc

Condensed statement of cash flows

for the six month period ended 30 November 2017

	Six month period ended 30 November 2017 (Unaudited) €	Six month period ended 30 November 2016 (Unaudited) €	Year ended 31 May 2017 (Audited) €
Cash flows from operating activities			
Loss for the financial period/year	(211,590)	(117,067)	(410,814)
<i>Adjustments for:</i>			
Expense recognised in income statement in respect of equity settled share based payments	6,810	2,900	74,280
Increase/(decrease) in trade and other payables	120,536	59,733	(6,698)
(Increase)/decrease in other receivables	(94,633)	49,865	(81,194)
Net cash used in operating activities	(178,877)	(4,569)	(424,426)
Cash flows from investing activities			
Investment in exploration and evaluation	(300,527)	(287,944)	(537,432)
Net cash used in investing activities	(300,527)	(287,944)	(537,432)
Cash flows from financing activities			
Issue of share capital	-	-	1,412,749
Share issue costs	-	-	(117,723)
Shareholders loan repayment	-	-	(151,581)
Shareholders loan reclassified	80	-	-
Advances made to related parties	(143,339)	-	-
Repayments from related parties	143,686	-	-
Net cash provided by financing activities	427	-	1,143,445
(Decrease)/increase in cash and cash equivalents	(478,977)	(292,513)	181,587
Cash and cash equivalents at beginning of financial period/year	523,324	341,737	341,737
Cash and cash equivalents at end of financial period/year	44,347	49,224	523,324

The accompanying notes form an integral part of these condensed financial statements.

Karelian Diamond Resources plc

Condensed statement of changes in equity for the six month period ended 30 November 2017

	Share capital	Share premium	Share-based payment reserve	Retained losses	Total equity
	€	€	€	€	€
Balance at 1 June 2017	3,180,516	8,201,664	765,977	(2,692,122)	9,456,035
Share-based payments	-	-	36,962	-	36,962
Loss for the financial period	-	-	-	(211,590)	(211,590)
Balance at 30 November 2017	3,180,516	8,201,664	802,939	(2,903,712)	9,281,407
Balance at 1 June 2016	3,177,850	6,791,581	665,127	(2,163,585)	8,470,973
Share-based payments	-	-	16,185	-	16,185
Loss for the financial period	-	-	-	(117,067)	(117,067)
Balance at 30 November 2016	3,177,850	6,791,581	681,312	(2,280,652)	8,370,091

Share capital

The share capital comprises the nominal value share capital issued for cash and non-cash consideration. The share capital also comprises deferred share capital. The deferred share capital* arose through the restructuring of share capital which was approved at the Annual General Meeting held on 9 December 2016.

Authorised share capital:

The authorised share capital at 30 November 2017 comprised 182,532,751,034 ordinary shares of €0.00001 each, and 317,785,034 deferred shares of €0.00999 each* (€5,000,000), (30 November 2016: 500,000,000 ordinary shares of €0.01 each (€5,000,000)).

*Capital reorganisation:

Following approval at the Annual General Meeting held on 9 December 2016, the Company reorganised its share capital by subdividing and reclassifying each issued ordinary share of €0.01 as one ordinary share of €0.00001 each and one deferred share of €0.00999 each. The Deferred Shares have no right to vote, attend or speak at general meetings of the Company and have no right to receive any dividend or other distribution, and have only limited rights to participate in any return of capital on a winding-up or liquidation of the Company, which will be of no material value. No application was made to the London Stock Exchange for admission of the Deferred Shares to trading on the AIM.

Post period end:

After the period end, on 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the Company, whether issued or unissued were consolidated into New Ordinary Shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at this time (see Note 2).

Share premium

The share premium reserve comprises the excess consideration received in respect of share capital over the nominal value of the shares issued.

Share based payment reserve

The share based payment reserve represents the amount expensed to the condensed income statement in addition to the amount capitalised as part of intangible assets of share-based payments granted which are not yet exercised and issued as shares.

Retained losses

This reserve represents the accumulated losses absorbed by the Company to the condensed statement of financial position date.

The accompanying notes form an integral part of these condensed financial statements.

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2017

1 Accounting policies

Reporting entity

Karelian Diamond Resources plc (the "Company") is a company domiciled in Ireland.

Basis of preparation and statement of compliance

The condensed financial statements for the six months ended 30 November 2017 are unaudited.

The condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*.

The condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 May 2017, which are available on the Company's website - www.kareliandiamondresources.com. The accounting policies adopted in the presentation of the condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 May 2017. There are no new standards, amendments to published standards or interpretations which are effective for the first time in the current period that have a material effect on the condensed financial statements.

The condensed financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are measured at fair value at each reporting date.

The condensed financial statements are presented in Euro ("€"). € is the functional currency of the Company.

The preparation of condensed financial statements requires the Board of Directors and management to use judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial period in which the estimate is revised and in any future financial periods affected. Details of critical judgements are disclosed in the accounting policies detailed in the annual financial statements.

The financial information presented herein does not amount to statutory financial statements that are required by Chapter 4 part 6 of the Companies Act 2014 to be annexed to the annual return of the Company. The statutory financial statements for the financial year ended 31 May 2017 were annexed to the annual return and filed with the Registrar of Companies. The audit report on those financial statements was unqualified.

These Condensed Financial Statements were authorised for issue by the Board of Directors on 27 February 2018.

Going concern

The Company incurred a loss of €211,590 (30 November 2016: €117,067) for the six month period ended 30 November 2017. The Company had net current liabilities of €168,143 (30 November 2016: €334,506) at that date.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2018. As set out in the Chairman's statement, the Company expects to incur material levels of capital expenditure in 2018, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets and on the basis of the equity raised during the year to 31 May 2017, the results obtained from the exploration programme and the prospects for raising additional funds as required, the Board of Directors are satisfied that it is appropriate to prepare the condensed financial statements on a going concern basis.

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2017 (*continued*)

1 Accounting policies (*continued*)

Standards, interpretations and amendments issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued to date and are not yet effective for the financial period ended 30 November 2017, and have not been applied nor early adopted, where applicable, in preparing these condensed financial statements:

- IFRS 9: *Financial Instruments; Classification and Measurement* – effective for periods beginning 1 January 2018
- IFRS 15: *Revenue from Contracts with Customers* - effective for periods beginning 1 January 2018
- IFRS 2: *Classification and Measurement of Share-based Payment Transactions (Amendment)* - effective for periods beginning 1 January 2018
- IFRS 1: *Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)* - effective for periods beginning 1 January 2018
- IAS 28: *Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)* - effective for periods beginning 1 January 2018
- IFRS 16: *Leases* - effective for periods beginning 1 January 2019
- IFRS 17: *Insurance Contracts* - effective for periods beginning 1 January 2021
- IFRS10/IAS28: *Sale or contribution of an asset between an investor and its Associate of Joint Venture (Amendment)* – Deferred indefinitely by amendments made in December 2015.

The Board of Directors anticipate that the adoption of new standards, interpretations and amendments that were in issue at the date of authorisation of these condensed financial statements, but not yet effective, will have no material impact on the condensed financial statements in the period of initial application.

2 Loss per share

Basic earnings per share

	Six month period ended 30 November 2017 (Unaudited) €	Six month period ended 30 November 2016 (Unaudited) €	Year ended 31 May 2017 (Audited) €
Loss for the financial period/year attributable to equity holders of the Company	(211,590)	(117,067)	(410,814)
Number of ordinary shares for the purposes of earnings per share [‡]	23,378,067	23,378,067	23,378,067
Loss per ordinary share	(€0.0091)	(€0.0050)	(€0.0176)

[‡] On 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the Company, whether issued or unissued were consolidated into new ordinary shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. (*In line with IAS 33: Earnings per share, the calculation of basic and diluted EPS for all periods presented is adjusted retrospectively when the number of ordinary or potential ordinary shares outstanding increases as a result of a reverse share split.*)

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2017 (*continued*)

2 Loss per share (*continued*)

Diluted earnings per share

The effect of share options and warrants is anti-dilutive.

Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at that time, to the following:

- Expiry date : 29 December 2018 - 20p sterling;
- Expiry date : 28 April 2019 - 20p sterling;
- Expiry date : 19 November 2022 - £2.20 sterling.

3 Intangible assets

Exploration and evaluation assets

Cost

	30 November 2017 (Unaudited) €	30 November 2016 (Unaudited) €	31 May 2017 (Audited) €
At 1 June	9,276,955	8,712,953	8,712,953
Expenditure during the financial period/year			
• Licence and appraisal costs	136,002	148,320	255,962
• Other operating expenses	164,525	139,625	281,470
• Equity settled share based payments	30,152	13,284	26,570
At 30 November/31 May	<u>9,607,634</u>	<u>9,014,182</u>	<u>9,276,955</u>

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities. These assets are carried at historical cost and have been assessed for impairment in particular with regard to the requirements of IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities as a result of specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount.

The Board of Directors have considered the proposed work programmes for the underlying mineral resources. They are satisfied that there are no indications of impairment.

The Board of Directors note that the realisation of the intangible assets is dependent on further successful development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability.

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2017 (*continued*)

4 Commitments and Contingencies

At 30 November 2017, there were no capital commitments or contingent liabilities (31 May 2017: No capital commitments or contingencies liabilities). Should the Company decide to develop the Lahtojoki project, an amount of €100,000 is payable by the Company.

5 Related party transactions

(a) Shareholders loans

	30 November 2017 (Unaudited) €	30 November 2016 (Unaudited) €	31 May 2017 (Audited) €
Opening balance 1 June	158,008	309,589	309,589
Reclassification of loan balance	80	-	-
Loan repayment	-	-	(151,581)
Closing balance 30 November/31 May	158,088	309,589	158,008

Prior to the various placings of shares, the immediate funding requirements of the Company had been financed by advances from Professor Richard Conroy (executive chairman and major shareholder).

(b) Apart from Directors remuneration, and loans from shareholders, (who are also Directors), there here have been no contracts or arrangements entered into during the six month period in which a Director of the Company had a material interest.

(c) The Company shares accommodation with Conroy Gold and Natural Resources plc which have certain common Directors and shareholders. For the six month period ended 30 November 2017, Conroy Gold and Natural Resources plc incurred costs totalling €143,686 (30 November 2016: €126,057) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources plc. At 30 November 2017, Conroy Gold and Natural Resources plc owed €273,453 to the Company. Amounts owed from Conroy Gold and Natural Resources plc are included within other receivables in the current and previous financial periods/years.

6 Post balance sheet events

Mr. James P. Jones resigned as the Secretary of the Company on the 18 December 2017, and was replaced by Maureen T.A. Jones at that time. Mr. James P. Jones also retired as a director by rotation at the AGM on 21 December 2017, and did not offer himself for re-election at that time.

On 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the company, whether issued or unissued were consolidated into new ordinary shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted as detailed in Note 2.

7 Approval of the Condensed Financial Statements

These Condensed Financial Statements were approved by the Board of Directors on 27 February 2018. A copy of the Condensed Financial Statements will be available on the Company's website www.kareliandiamondresources.com on 28 February 2018.

