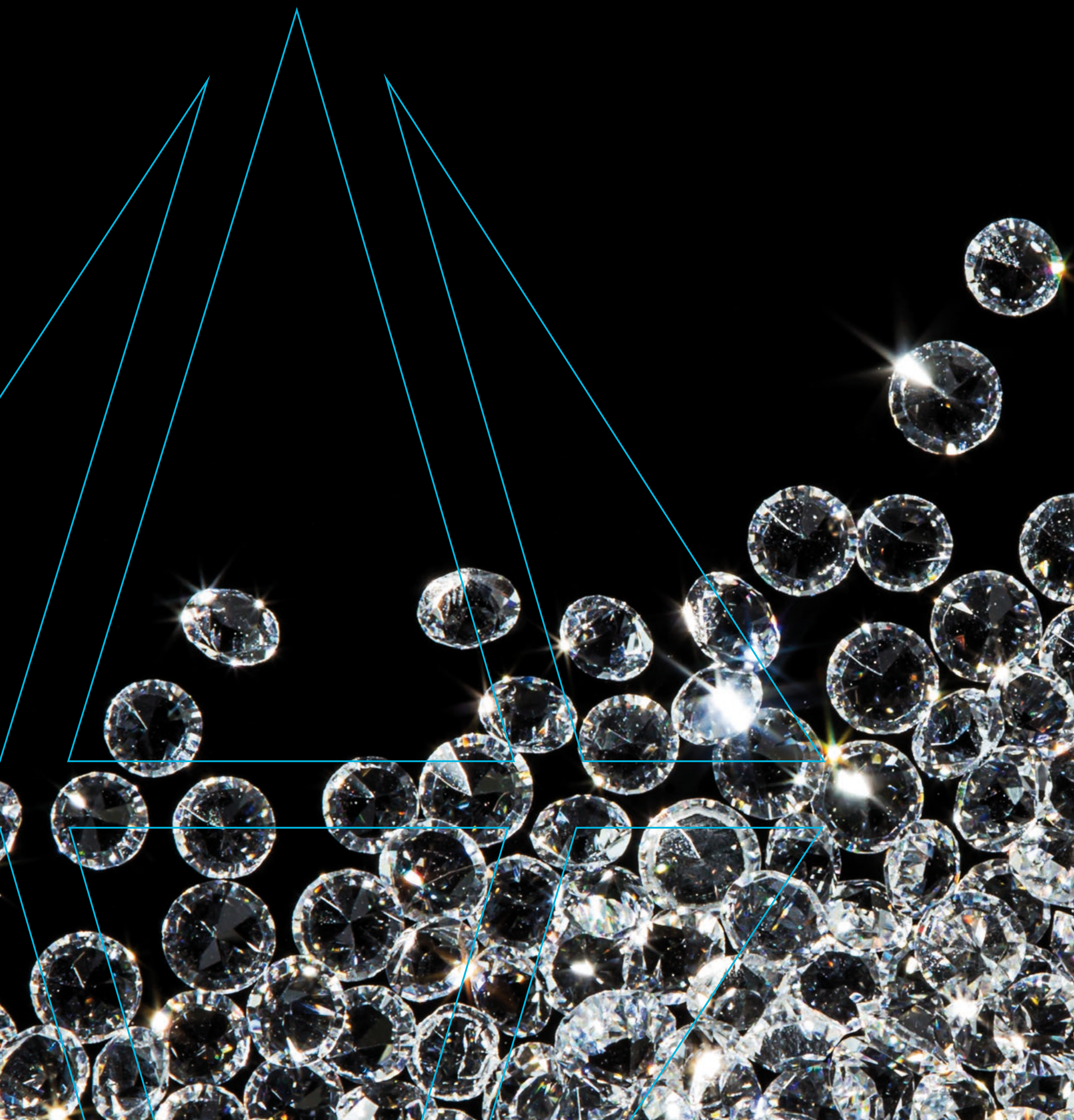
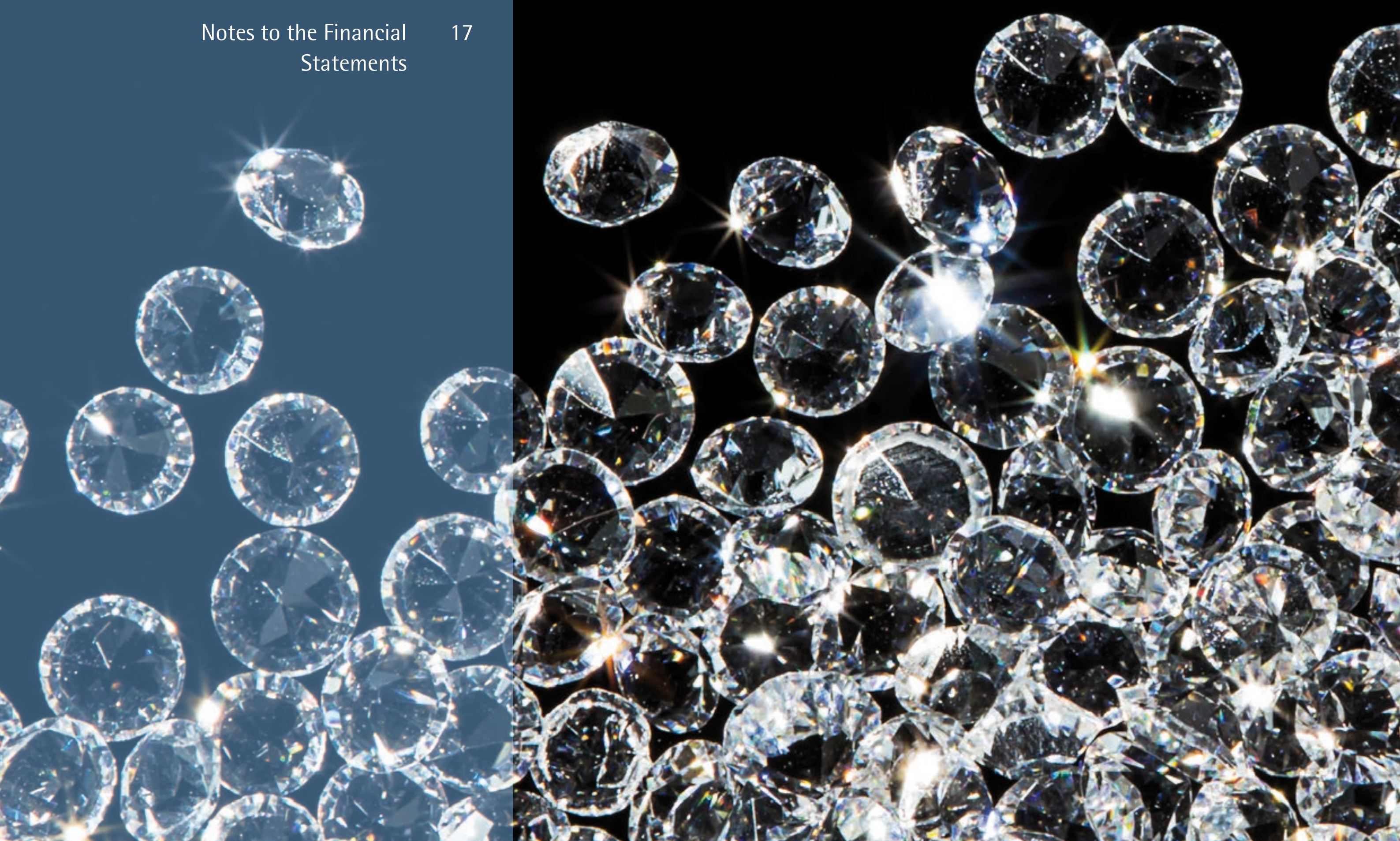
KARELIAN
DIAMOND RESOURCES

Annual Report and Financial Statements 2016



Cover image is of diamonds recovered from the Lathojoki pipe.

Contents



Chairman's Statement

Professor Richard Conroy
Chairman

I have pleasure in presenting your Company's Annual Report and Financial Statements for the financial year ended 31 May 2016. The year has been an excellent one for your Company. The Lahtojoki diamond deposit was acquired, together with a Mining Permit from the Finnish authorities for its development and your Company's diamond exploration programme showed further success with mineral analysis indicating that the Riihivaarä kimberlite body discovered by your Company is likely to be diamondiferous.

The Lahtojoki diamond deposit and your Company's diamond exploration programme are both located in the Karelian Craton in Finland. The diamond prospectivity of this Craton, which lies across Northern Finland and Russia, has been demonstrated by the discovery and development of the world class Lomonosova and Grib Pipe diamond deposits in the Russian sector of the Craton. Your Company's objective is to discover, or acquire, and develop diamond deposits in the Finnish sector of the Craton.

Acquisition of the Lahtojoki Diamond Ore Body in Central Finland

The Lahtojoki diamond ore body was acquired from A & G Mining Oy ("AGM"), a private Finnish company. The ore body is situated in the Kuopio – Kaavi region in Finland. The location is highly favourable for development with excellent infrastructure including good road access, power distribution and local technical and logistics availability.

An extensive database of information has been received from AGM, including drilling and bulk sampling reports, consultant reports and other technical reports. This has enabled Karelian to expedite its overall assessment of Lahtojoki diamond deposit and to commence planning a development programme including targeting locations for any further drilling or bulk sampling that may be required.

The Lahtojoki diamond ore body has, we believe, the potential to become a profitable open pit diamond mine. As well as acquiring the property, we have received a Mining Permit for its development from the Finnish Safety and Chemical Agency ("TUKES").

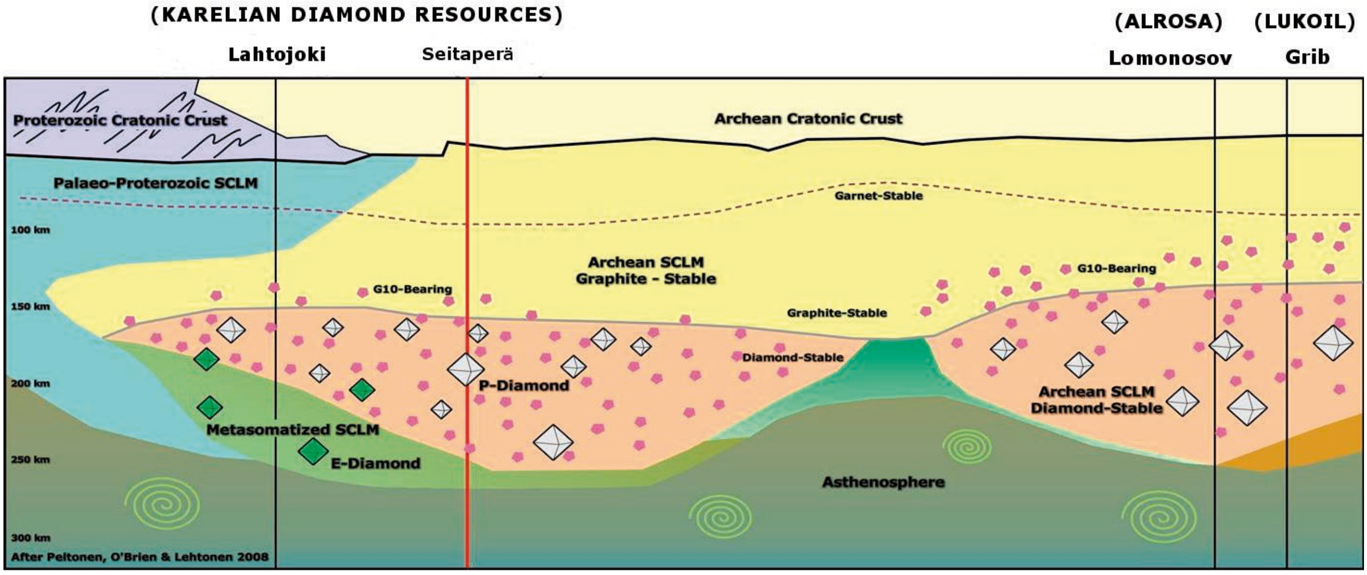
The acquisition of the Lahtojoki diamond ore body, together with a Mining Permit, allows the Company, subject to any relevant environmental assessments or requirements, to proceed through to full development of the property as a mine.

Under the terms of the acquisition a royalty of 1% is payable to AGM either in diamonds or cash on cumulative diamond production up to 2.5 million carats, and 2% payable on cumulative diamond production above 2.5 million carats, in addition to a purchase price of €150,000 (comprising an initial purchase price of €50,000 plus a further €100,000 after twenty-four (24) months unless Karelian decides not to develop the project).

Finland is recognised by the prestigious Fraser Institute as one of the most attractive jurisdictions in the world for mining investment and the mine would be the first diamond mine in Europe (outside Russia).

Additional Potential at Lahtojoki

As well as the Lahtojoki diamond ore body, a series of high interest geophysical and kimberlite indicator mineral anomalies have been identified in the immediate area. The anomalies were outlined following an analysis by your Company of the extensive geophysical data acquired from AGM, including image processed magnetic and electromagnetic data together with compilation maps of previous kimberlite indicator mineral till sampling information in the area.



Karelian Craton – Model

The presence of additional diamond resource potential in the area adjacent to Lahtojoki would, if confirmed, further add to the financial and technical attractiveness of the Lahtojoki diamond deposit.

Riihivaarä – New Kimberlite Body

In the Kuhmo region of Finland where, at Seitaperä, your Company has defined the largest (at 6.9 hectares) diamondiferous kimberlite pipe discovered to date in Finland, your Company has, at Riihivaarä, discovered a new kimberlite body.

Indicator mineral analysis indicates that the Riihivaarä kimberlite is likely to be diamondiferous. The geotherm is prospective for diamonds and the kimberlite has been sampled to a modelled depth of greater than 200km, within the diamond stability field.

During the year, 355 garnet analyses on samples provided by Karelian from Riihivaarä were carried out by Rio Tinto in their Melbourne laboratories in Australia. The samples provided were from outcrop and till. The garnet analysis comprised kimberlite indicator methods of MLA (Mineral Liberation Analysis) screening followed by laser-ablation ICP-MS (Inductively Coupled Plasma – Mass Spectrometry) analysis.

Lherzolitic ("G9") garnets were dominant but scattered high interest Harzburgitic ("G10") garnets were also present. Some evidence of metasomatism was associated with the G9 and G10 populations. Ecologitic garnets, with restricted range in chemical composition of potential diamond-association, were reported from the outcrop sample.

Garnet thermobarometry was also calculated to estimate the geotherm in the Riihivaarä area. The results indicated that the geotherm is prospective for diamonds. The geotherm in Riihivaarä is similar to that in the Kaavi-Kuopio kimberlite field in Finland where your Company has acquired the Lahtojoki diamond deposit, and to kimberlite fields in Southern Africa.

Agreement with Rio Tinto

Your Company has a Confidentiality Agreement (with Back in Rights) with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). I am delighted that this agreement with Rio Tinto has been extended to 2020.

Under the agreement, Rio Tinto discloses to Karelian confidential information and physical geological samples relating to exploration in Finland for the purpose of Karelian considering that information in relations to Karelian's potential and existing exploration programmes in Finland.

In consideration of Rio Tinto disclosing the confidential information to it, Karelian has agreed that Rio Tinto will have the option to earn a 51 per cent interest in any project identified by Karelian in Finland by Rio Tinto paying the direct cash expenditures incurred in developing the project.

Chairman's Statement *continued*

Lathojoki Diamond

Karelian Craton

Lathojoki Core

Finance

The loss after taxation for the year ended 31 May 2016 was €258,734 (2015: €121,551) and the net assets as at 31 May 2016 were €8,470,973 (2015: €8,330,073).

On 17 May 2016, the Company raised £250,000 through the issue of 31,250,000 shares at 0.8p each.

Auditors

I would like to take this opportunity to thank the partners and staff of Deloitte for their services to your Company during the course of the financial year.

Directors

I would like to express my deep appreciation of support and dedication of all the directors, consultants and staff, which has made possible the continued progress and success, which your Company has achieved.

Future Outlook

Your Company has continued to make excellent progress in what is now a combined diamond exploration and development programme. We look forward to building rapidly on this success in the coming year.

Richard Conroy

Professor Richard Conroy
Chairman

17 November 2016

Company Information

Directors

Professor Richard Conroy
*Chairman**

Seamus P. FitzPatrick
Deputy Chairman
Non-Executive Director+§

Dr. Sorċa Conroy
*Non-Executive Director**

Maureen T.A. Jones
*Managing Director**

James P. Jones FCA
*Finance Director**

Louis J. Maguire
Non-Executive Director+§*

Roger I. Chaplin
(resigned 14 December 2015)

* *Member of the Executive Committee*
\+ *Member of the Remuneration Committee*
§ *Member of the Audit Committee*

Company Secretary and Registered Office

James P. Jones FCA
9 Merrion Square North
Dublin 2 D02 WN50

Statutory Audit Firm

Deloitte
Chartered Accountants
Deloitte & Touche House
Charlotte Quay
Limerick V94 X63C

Registrars

Capita Asset Services
Shareholder solutions (Ireland)
2 Grand Canal Square
Dublin 2 D02 A342

www.capitaassetservices.ie

Nominated Adviser

Allenby Capital Limited
3 St. Helen's Place
London, EC3A 6AB
UK

Tel: +44 20 3328 5656
www.allenbycapital.com

Principal Banker

AIB
1-4 Lower Baggot Street
Dublin 2 D02 X342

ESM Adviser

IBI Corporate Finance
2 Burlington Plaza
Burlington Road
Dublin 4 D04 EC66

Broker

Beaufort Securities Limited
63 St Mary Axe
London EC3A 8AA
UK

Legal Advisers

William Fry Solicitors
2 Grand Canal Square
Dublin 2 D02 A342

Roschier-Holmberg
Kaskuskatu 7A
00 100 Helsinki
Finland

Head Office

Karelian Diamond Resources Plc
9 Merrion Square North
Dublin 2 DO2 WN50

For further information visit the Company's website at:

www.kareliandiamondresources.com

Lothbury Financial Services
Floor 6, 131 Cannon Street
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UK

Tel: +44 20 3290 0707

Professor Richard Conroy
Chairman

Seamus P. FitzPatrick
Deputy Chairman

Maureen T.A. Jones
Managing Director

James P. Jones
Finance Director

Dr. Sorċa Conroy
Non-Executive Director

Louis J. Maguire
Non-Executive Director

Report of the Directors

The Directors present their annual report, together with the audited financial statements of Karelian Diamond Resources Plc for the financial year ended 31 May 2016.

Principal Activities and Business Review

The company is a London Stock Exchange AIM-listed and an Irish Stock Exchange ESM-listed natural resource company incorporated in Ireland, which is focused on the discovery of potential world-class diamond deposits in Finland. The company is presently exploring for diamonds and evaluating an existing diamond prospect (diamondiferous kimberlite pipe) in the Karelian Craton of Finland. The company has a number of projects at various stages of development throughout the diamond-prospective Karelian Craton.

Future Development of the Business

It is the intention of the directors to continue to develop the activities of the company concentrating particularly on diamonds. Further strategic opportunities in mineral resources, both in Finland and elsewhere, will be sought by the company.

Risks and Uncertainties

The company's activities are directed towards the discovery, evaluation and development of diamond and other mineral deposits. Exploration for and development of mineral deposits is speculative. Whilst the rewards can be substantial, there is no guarantee that exploration on the company's properties will lead to the discovery of commercially extractable mineral deposits. The future net asset value is therefore, inter alia, dependent on the success or otherwise of the company's exploration programmes. Whether a mineral deposit will be commercially viable in a mining operation depends on a number of factors, such as the grade of the deposit, prices of the commodities being exploited, currency fluctuations, proximity to infrastructure, financing costs and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, import and export regulations and environmental protection.

Key Performance Indicator

Currently the company's main KPI is in relation to the estimated resource potential on discovery and development of economic deposits of diamonds in Finland. In addition, the company reviews expenditure incurred on exploration projects together with an on-going review of operating costs.

Results for the Financial Year and State of Affairs at 31 May 2016

The statement of financial position as at 31 May 2016 and the income statement for the financial year are set out on pages 13 and 14 respectively. The company recorded a loss of €258,734 (2015: €121,551) for the financial year ended 31 May 2016 and has net current assets of €67,605 (2015: €610,526) at that date.

The company has confirmed to Conroy Gold and Natural Resources Plc (a company with common directors) that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources Plc at 31 May 2016, noting it would not call in amounts owing of €168,825 for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources Plc.

The directors did not recommend the payment of a dividend during the current or previous financial year.

Post Statement of Financial Position Events

For important events which have occurred since the financial year end, refer to Note 20 of the financial statements.

Directors

The Directors who served during the financial year are as follows:

Prof. Richard Conroy
Miss. Maureen Jones
Mr. James Jones
Mr. Louis Maguire
Mr. Séamus Fitzpatrick
Roger I. Chaplin
(resigned 14 December 2015)
Dr. Sorċa Conroy
Mr. Henry H. Rennison

The Board reports, with great sadness and regret, the death of Mr. Henry H. Rennison on 9 February 2016. Mr. Rennison has been a director of your Company since its foundation. His dedication, experience, advice and support contributed to a major degree in the success of your Company.

In accordance with the company's Articles of Association, Mr. Louis Maguire and Miss Maureen Jones will retire by rotation in 2016 and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Details of Directors

Professor Richard Conroy, Chairman of the Board, has been involved in natural resources for many years. He established Trans-International Oil, which was primarily involved in Irish offshore oil exploration, and initiated the Deminex Consortium (which included Deminex, Mobil, Amoco and DSM). Trans-International Oil was merged with Aran Energy in 1979 (which was later acquired by Statoil). Professor Conroy founded Conroy Petroleum and Natural Resources which (as well as being involved in oil production and exploration) in 1986 discovered the Galmoy zinc deposit in Ireland. Conroy Petroleum was also a founding member of the Stone Boy consortium, an exploration group which discovered the Pogo gold deposit in Alaska, now a major producing gold mine. Conroy Petroleum acquired Atlantic Resources in 1992 and was renamed ARCON International Resources. Professor Conroy was Chairman and Chief Executive of Conroy Petroleum/ARCON from 1980 to 1994 before founding Conroy Gold and Natural Resources Plc in 1995. An Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland, Professor Conroy served in the Irish Parliament as a Member of the Senate and was at various times front bench spokesman for the government party in the Upper House on Energy, Industry and Commerce; Foreign Affairs; and Northern Ireland.

Miss Maureen Jones, Managing Director, has over 30 years' experience at senior level in the natural resource sector. She has been Managing Director of Karelian Diamond Resources and was a founding director of the company. She joined Conroy Petroleum and Natural Resources Plc on its foundation in

1980 and was a director and board member of Conroy Petroleum/ARCON from 1986 to 1994. Miss Jones has a medical background and specialised in the radiographic aspects of Nuclear Medicine before becoming a manager with International Medical Corporation in 1977. She is also a director of Conroy Gold and Natural Resources Plc.

Mr. James Jones, Finance Director, has been associated with the natural resources industry for many years. A Chartered Accountant, he was finance director of Conroy Petroleum and Natural Resources/ARCON from its formation until 1994. He was a founding director of Karelian Diamond Resources and has served as Finance Director and secretary of the company since its inception. He is also a director of Conroy Gold and Natural Resources Plc.

Mr. Séamus Fitzpatrick, Non-executive Director, has worked in both corporate finance and private equity in London and New York with Morgan Stanley, JP Morgan and Banker's Trust. In 1999 he co-founded CapVest of which he is Managing Partner (which has raised funds in excess of €3.0 billion). He is Chairman of the Mater Private Hospital and of Valeo Foods and is a board member of Scandza AS. He is also a director and Deputy Chairman of Conroy Gold and Natural Resources Plc.

Mr. Louis Maguire, Non-executive Director, is an Auctioneer by profession and land valuation expert with particular expertise in the purchase of mineral rights and in land acquisition for mining. He is a founding director of the Company. He is also a director of Conroy Gold and Natural Resources Plc.

Dr. Sorċa Conroy, Non-executive Director, was recruited to ING Bank in 2006 and whilst there was ranked second in the Extel Survey for Biotechnology Specialist Sales. She had previously been sales specialist for life sciences and institutional equities at Canaccord Adams (2005-2006), where she ranked fourth in the 2006 Extel survey and Hoodless Brennan (2004-2005). A medical graduate of The Royal College of Surgeons in Ireland, she held a number of clinical positions in between her graduation in 1995 and joining Hoodless Brennan.

Directors' and Secretary's Shareholdings and Other Interests

The interests of the Directors and Secretary, all of which were beneficially held, in the ordinary share capital and warrants of the company at 31 May 2016 and 1 June 2015 were as follows:

	At 31 May 2016		At 1 June 2015	
	Ordinary shares of €0.01 each	Warrants	Ordinary shares of €0.01 each	Warrants
Richard T.W.L. Conroy	76,806,168*	5,521,049	76,806,168*	6,521,049
Maureen T.A. Jones	6,110,875	4,191,275	6,110,875	4,941,275
James P. Jones	3,814,873	2,604,689	3,814,873	3,104,689
Roger I. Chaplin	20,000	71,262	20,000	271,262
Seamus P. Fitzpatrick	922,426	232,201	922,426	432,201
Louis J. Maguire	51,668	232,201	51,668	432,201
Sorċa C. Conroy	470,000	–	470,000	–

* Of the 76,806,168 (2015: 76,806,168) Ordinary Shares beneficially held by Professor Richard Conroy, 30,815,030 (2015: 30,815,030) are held by Conroy Plc a company in which Professor Conroy has a controlling interest.

Details of warrants, all of which are exercisable currently, are as follows:

Directors	At 1 June 2015	Granted During Financial Year	Lapse During Financial Year	At 31 May 2016	Price	Expiry Date
Richard T.W.L. Conroy	1,000,000	–	(1,000,000)	–	5p stg	1 September 2015
Richard T.W.L. Conroy	5,521,049	–	–	5,521,049	€0.10	16 November 2022
Maureen T.A. Jones	750,000	–	(750,000)	–	5p stg	1 September 2015
Maureen T.A. Jones	4,191,275	–	–	4,191,275	€0.10	16 November 2022
James P. Jones	500,000	–	(500,000)	–	5p stg	1 September 2015
James P. Jones	2,604,689	–	–	2,604,689	€0.10	16 November 2022
Roger I. Chaplin	200,000	–	(200,000)	–	5p stg	1 September 2015
Roger I. Chaplin	71,262	–	–	71,262	€0.10	16 November 2022
Seamus P. Fitzpatrick	200,000	–	(200,000)	–	5p stg	1 September 2015
Seamus P. Fitzpatrick	232,201	–	–	232,201	€0.10	16 November 2022
Louis J. Maguire	200,000	–	(200,000)	–	5p stg	1 September 2015
Louis J. Maguire	232,201	–	–	232,201	€0.10	16 November 2022

Report of the Directors *continued*

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the company. Apart from loans from a shareholder, who is also a director (see Note 14 to the financial statements), there have been no contracts or arrangements during the financial year in which a director of the company was materially interested and which were significant in relation to the company's business.

Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed and the shareholder's listed below, held 3% or more of the issued ordinary share capital of the company at 31 May 2016.

Name	Number of ordinary shares	%
Professor Richard T.W.L. Conroy	76,806,168	24.17
Mr Alan Osborne	11,708,566	3.68

Political Donations

No political donations were made during the financial year.

Disclosure of Information to Auditors

So far as each of the directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The Directors 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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

Directors' Compliance Statement

The directors, in accordance with Section 225(2)(a) of the Companies Act 2014 (the "Act"), acknowledge that they are responsible for securing the Company's compliance with its "relevant obligations." "Relevant obligations", in the context of the Company, are the Company's obligations under:

(a) the Act, where a breach of the obligations would be a category 1 or category 2 offence;

(b) the Act, where a breach of the obligation would be a serious Market Abuse or Prospectus offence; and

(c) tax law.

Pursuant to Section 225(2)(b) of the Act, the directors confirm that:

(i) the company is in the process of drawing up a compliance policy statement as required by Section 225(3)(a) of the Act setting out the Company's policies (that, in the directors' opinion, are appropriate to the Company) respecting compliance by the Company with its relevant obligations;

(ii) appropriate arrangements and structures are in the process of being put in place that, in their opinion, will be designed to secure material compliance with the Company's relevant obligations, and

(iii) a review will be conducted, in the forthcoming financial year, of the arrangements and structures referred to in paragraph (ii).

Going Concern

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects for raising additional equity as required and taking into account the high potential of the acreage under license, they consider it appropriate to prepare the financial statements on a going concern basis. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the company's assets, in particular the intangible fixed assets, to their realisable values (Note 2).

Accounting Records

The measures that the directors have taken to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014, with regard to the keeping of accounting records, are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The company's accounting records are maintained at the company's registered office at 9 Merrion Square North, Dublin 2.

Auditors

The auditors, Deloitte, Chartered Accountants and Statutory Audit Firm, continue in office in accordance with Section 383 (2) of the Companies Act 2014.

Approved by the Board and signed on its behalf by

Richard Conroy	**Maureen Jones**
Director	*Director*

17 November 2016

Directors' Responsibilities Statement

The directors' are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Company Financial Statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Corporate Governance Statement

Introduction

The Board of Directors is accountable to the Company's shareholders for good corporate governance.

Board of Directors

The board supports standards in corporate governance and endeavours to implement such standards constructively and in a sensible and pragmatic fashion with the objective of enhancing and protecting shareholder value.

Regular board meetings are scheduled to take place throughout the financial year. During the financial year five meetings were held. All major policies are approved by the board. All directors are subject to re-election, with the exception of the Chief Executive. A Directors' Responsibilities Statement in relation to the annual financial statements is set out at page 9.

Remuneration Committee

The remuneration committee comprises Mr. Louis Maguire and Mr. Séamus Fitzpatrick. It is responsible for making recommendations to the board on the company's executive remuneration. The committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive directors. The board itself determines the remuneration of the non-executive directors.

Audit Committee

The committee's terms of reference have been approved by the board. The audit committee comprises Mr. Louis Maguire, and Mr. Séamus Fitzpatrick. The audit committee reviews the interim and annual financial statements before they are presented to the board, focusing in particular on accounting policies and areas of management judgement and estimation. The committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The committee considers internal control issues and contributes to the board's review of the effectiveness of the company's internal control and risk management systems. It also considers the need for an internal audit function, which it believes is not required at present because of the company's limited operations. The members of the committee have agreed to make themselves available should any member of staff wish to make representations to them about the conduct of the affairs of the company.

The committee advises the board on the appointment of external auditors and on their remuneration and discusses the nature and scope of the audit with the external auditors. It meets formally at least once a financial year with the company's external auditors. An analysis of the fees payable to the external audit firm in respect of audit services during the financial year is set out in Note 5 to the financial statements.

The audit committee also undertakes a review of any non-audit services provided to the company; and a discussion with the auditors of all relationships with the company and any other parties that could affect independence or the perception of independence.

Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Miss Maureen Jones, Mr. James Jones and Mr. Louis Maguire. Its purpose is to support the Managing Director in carrying out the duties delegated to her by the board. It also ensures that regular financial reports are presented to the board, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the company.

Internal Control

The board of directors is responsible for, and annually reviews, the company's systems of internal control, financial and otherwise. Such systems provide reasonable but not absolute assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets.

Communication with Shareholders

Extensive information about the company and its activities is given in the annual report and financial statements. Further information is available on the company's website, **www.kareliandiamondresources.com**, which is promptly updated whenever announcements or press releases are made.

The company welcomes private shareholders to participate at general meetings. All Board members attend the Annual General Meeting and are available to answer questions. Separate resolutions are proposed on substantially different issues and the agenda of business to be conducted at the Annual General Meeting includes a resolution to receive and consider the Annual Report and financial statements. The chairmen of the Board's committees will also be available at the Annual General Meeting. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, directors and management to meet and exchange views.

Independent Auditors' Report

To the Members of Karelian Diamond Resources Plc

We have audited the financial statements of Karelian Diamond Resources Plc for the financial year ended 31 May 2016 which comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 22. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 May 2016 and of the loss for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Emphasis of Matter – Realisation of Intangible Assets and Going Concern

In forming our opinion on the financial statements, which is not modified, we draw your attention to:

- The disclosures made in Note 2 and Note 9 to the financial statements concerning the realisation of exploration and evaluation assets included as intangible assets in the Statement of Financial Position. The realisation of intangible assets amounting to €8,712,953 at the financial year end 31 May 2016, is dependent on the further successful development and ultimate production of the mineral reserves and the availability of adequate finance to bring the reserves to economic maturity and profitability. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot at present be determined.
- The disclosure made in Note 2 to the financial statements concerning the Company's ability to continue as a going concern. The company incurred a loss of €258,734 during the financial year ended 31 May 2016. The directors have reviewed the cash flows for the company and on the basis of the projected cash flow information, the prospects for raising additional equity as required and taking into account the high potential of the acreage under license, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities that would be necessary if the company was unable to continue as a going concern.

Independent Auditors' Report *continued*

Matters on which we are Required to Report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Gerard Casey

For and on behalf of Deloitte
Chartered Accountants
and Statutory Audit Firm
Limerick

17 November 2016

Statement of Financial Position

At 31 May 2016

	Note	2016 €	2015 €
ASSETS			
Non-current Assets			
Intangible assets	9	**8,712,953**	8,029,132
Financial assets	10	**4**	4
Property, plant and equipment	11	**–**	–
		8,712,957	8,029,136
Current Assets			
Trade and other receivables	12	**211,368**	402,122
Cash and cash equivalents		**341,737**	474,026
		553,105	876,148
Total Assets		**9,266,062**	8,905,284
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital presented as equity	15	**3,177,850**	2,865,350
Share premium	15	**6,791,581**	6,786,177
Share based payments reserve		**665,127**	570,256
Retained deficits		**(2,163,585)**	(1,891,710)
Total Equity		**8,470,973**	8,330,073
Non-current Liabilities			
Trade and other payables: Amounts falling due after more than one year	14	**309,589**	309,589
Total non-current liabilities		**309,589**	309,589
Current Liabilities			
Trade and other payables: Amounts falling due within one year	13	**485,500**	265,622
Total Current Liabilities		**485,500**	265,622
Total Liabilities		**795,089**	575,211
Total Equity and Liabilities		**9,266,062**	8,905,284

The financial statements were approved by the Board of Directors on 17 November 2016 and authorised for issue on 17 November 2016. They were signed on its behalf by:

Richard Conroy
Director

Maureen Jones
Director

Income Statement

For the financial year ended 31 May 2016

	Note	2016 €	2015 €
OPERATING EXPENSES	4	(258,904)	(124,488)
Finance income – bank interest receivable		170	2,937
Finance costs – interest on shareholder loan		–	–
LOSS BEFORE TAXATION	5	(258,734)	(121,551)
Income tax expense	7	–	–
LOSS RETAINED FOR THE FINANCIAL YEAR		(258,734)	(121,551)
Basic and diluted loss per share	8	(€0.0008)	(€0.0004)

Statement of Comprehensive Income

For the financial year ended 31 May 2016

	2016 €	2015 €
LOSS FOR THE FINANCIAL YEAR	(258,734)	(121,551)
Total income and expense recognised in other comprehensive income	–	–
TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR	(258,734)	(121,551)

Statement of Changes in Equity

For the financial year ended 31 May 2016

	Share Capital €	Share Premium €	Share-Based Payment Reserve €	Retained Deficits €	Total Equity €
At 1 June 2014	2,865,350	6,786,177	525,275	(1,770,159)	8,406,643
Share-based payments	–	–	44,981	–	44,981
Loss for the financial year	–	–	–	(121,551)	(121,551)
At 31 May 2015	**2,865,350**	**6,786,177**	**570,256**	**(1,891,710)**	**8,330,073**
At 1 June 2015	2,865,350	6,786,177	570,256	(1,891,710)	8,330,073
Share issue	312,500	5,404	–	–	317,904
Share issue costs	–	–	–	(13,141)	(13,141)
Share-based payments	–	–	94,871	–	94,871
Loss for the financial year	–	–	–	(258,734)	(258,734)
At 31 May 2016	**3,177,850**	**6,791,581**	**665,127**	**(2,163,585)**	**8,470,973**

Share Capital

The share capital comprises of the nominal value share capital issued for cash and non-cash consideration.

Share Premium

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

Share Based Payment Reserve

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

Retained Deficits

This reserve represents the accumulated losses absorbed by the company to the Statement of Financial Position date.

Cash Flow Statement

For the financial year ended 31 May 2016

	Note	2016 €	2015 €
Cash flows from operating activities			
Cash generated by/(used in) operations	16	170,029	(971,118)
Net cash generated by/(used in) operating activities		170,029	(971,118)
Cash flows from investing activities			
Investment in exploration and evaluation		(607,251)	(662,834)
Net cash used in investing activities		(607,251)	(662,834)
Cash flows from financing activities			
Issue of share capital		317,904	–
Share issue costs		(13,141)	–
Interest received		170	2,937
Net cash generated from financing activities		304,933	2,937
Decrease in cash and cash equivalents		(132,289)	(1,631,015)
Cash and cash equivalents at beginning of financial year		474,026	2,105,041
Cash and cash equivalents at end of financial year		341,737	474,026

Notes to the Financial Statements

For the financial year ended 31 May 2016

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations adopted by the International Accounting Standards Board. These financial statements have also been prepared in accordance with the Companies Acts 2014. The financial statements are prepared under the historical cost convention.

Adoption of New and Revised Standards

Standards and Interpretations not affecting the reported results nor the financial position

In the current financial year, the following new and revised Standards have been adopted. Their adoption has not had any material impact on the amounts reported in these financial statements but they may affect the accounting for future transactions and arrangements. The adoption of these Standards has not led to any changes in the company's accounting policies.

IAS 19 *Defined Benefit Plans* (effective for annual periods beginning on or after 1 February 2015).

Annual Improvements 2010-2012 Cycle (July 2014) (effective for annual periods beginning on or after 1 February 2015).

Annual Improvements 2011-2013 Cycle (July 2014) (effective for annual periods beginning on or after 1 February 2015).

IAS 28 (revised December 2015) *Investments in Associates and Joint Ventures* (effective immediately).

Standards and Interpretations in Issue Not Yet Effective

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Standards were in issue but not yet effective and in some cases had not been adopted by the European Union:

IFRS 9 *Financial Instruments* (effective for annual periods on or after 1 January 2016)

Amendments to IAS 16 and IAS 41 (June 2014) *Agriculture: Bearer Plants* (effective date to be confirmed)

IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods on or after 1 January 2018)

Amendments to IFRS 10 and IAS 28 (September 2014) *Sale or contribution of assets between an investor and its Associate or Joint Venture* (effective for annual periods on or after 1 January 2016)

Amendments to IAS 1 (December 2016) *Disclosure Initiative* (effective date to be confirmed)

IFRS 2 *Share based payment* (effective for annual periods on or after 1 January 2016)

IFRS 12 *Disclosure of interests in other entities* (effective for annual periods on or after 1 January 2016)

IAS 34 *Interim Financial Reporting* (effective for annual periods on or after 1 January 2016)

IFRS 11 *Joint Arrangements* (effective for annual periods on or after 1 January 2016)

IAS 7 *Statement of Cashflows* (effective for annual periods on or after 1 January 2016)

IAS 12 *Income Taxes* (effective for annual periods on or after 1 January 2016)

IAS 27 *(Revised August 2014)* (effective for annual periods on or after 1 January 2016)

Amendments to IAS 16 and IAS 38 (May 2015) *Clarification of Acceptable Methods of Depreciation and Amortisation* (effective date to be confirmed)

Amendments to IFRS 11 (May 2015) *Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods on or after 1 January 2016)

IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods on or after 1 January 2016)

Amendments to IAS 19 Employee Benefits (effective for annual periods on or after 1 January 2016)

IFRIC 21 *Levies* (effective for accounting periods beginning on or after 17 June 2015)

Annual Improvements to IFRSs: 2012-2014 Cycle (September 2014): *Annual Improvements to IFRSs: 2012-2014 Cycle* (effective date to be confirmed)

Annual Improvements to IFRSs: 2011-2013 Cycle (December 2013): *Annual Improvements to IFRSs: 2011-2013 Cycle* (1 January 2016)

Annual Improvements to IFRSs: 2010-2012 Cycle (December 2013): *Annual Improvements to IFRSs: 2010-2012 Cycle* (1 February 2016)

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

A. Intangible Assets

The company accounts for mineral expenditure in accordance with International Financial Reporting Standard 6 – Exploration For and Evaluation of Mineral Resources.

(i) Capitalisation

Certain costs (other than payments to acquire the legal rights to explore) incurred prior to acquiring the rights to explore are charged directly to the Income Statement. Exploration, appraisal and development expenditure incurred on exploring, and testing exploration prospects are accumulated and capitalised as intangible exploration and evaluation (E&E) assets. Capitalised costs include geological and geophysical costs, and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities). In addition, capitalised costs includes an allocation from operating expenses, including share based payments, all such costs are directly related to exploration and evaluation activities.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying amount of the relevant E&E asset will be reclassified as a development and production asset, once the carrying value of the asset has been assessed for impairment.

If following completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability, or if the right to explore expires, then the costs of such unsuccessful exploration and evaluation is written off to the Income Statement in the period in which the event occurred.

(ii) Impairment

If facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount, an impairment review is performed. The following are considered to be key indicators of impairment:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For E&E assets, where the above indicators exist, an impairment test is carried out. The E&E assets are categorised into Cash Generating Units ("CGU"). The carrying value of the CGU is compared to its recoverable amount and any resulting impairment loss is written off to the income statement. The recoverable amount of the CGU is assessed as the higher of its fair value, less costs to sell, and its value in use.

1. ACCOUNTING POLICIES *continued*

B. Transaction Costs

Transaction costs expenses arising on the issue of equity securities are accounted for as a deduction from equity against retained earnings.

C. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of the assets over their estimated useful lives as follows:

Plant and office equipment	10 years

D. Taxation

The tax expense represents the sum of the current and deferred tax charge.

The tax currently payable is based on taxable profits for the financial year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the statement of financial position liabilities method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

E. Share Based Payments

For equity-settled share based payment transactions (i.e. the granting of share options and share warrants), the company measures the services and the corresponding increase in equity at fair value at the measurement date (which is the grant date) using a recognised valuation methodology for the pricing of financial instruments (Binomial Lattice Model). Given that the share options, and warrants granted do not vest until the completion of a specified period of service the fair value is determined on the basis that the services to be rendered by employees as consideration for the granting of share options and warrants will be received over the vesting period, which is assessed as the grant date.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of equity instruments that will eventually vest. The amount expensed to the income statement excludes the amount capitalised as part of intangible assets.

F. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

G. Trade and other receivables and payables

Trade and other receivables and payables are measured at initial recognition at fair value, and subsequently measured at amortised cost.

H. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank held by the company and short term bank deposits with a maturity of three months or less. Cash and cash equivalents are held for the purpose of meeting short term cash commitments.

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

I. Pension costs

The company provides for certain employees through defined contribution pension schemes. The amounts charged to the income statement and statement of financial position is the contribution payable in that financial year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables at the statement of financial position.

J. Foreign Currencies

Transactions denominated in foreign currencies relating to revenues, costs and non-monetary assets are translated into Euro at the rates of exchange ruling on the dates on which the transactions occurred.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the Income Statement.

K. Shareholder Loan

Shareholder loan is initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

L. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

Exploration and evaluation assets

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management considers the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. In addition there is uncertainty as to whether the exploration activity will yield any economical viable discovery.

Impairment of intangible assets

If an indicator of impairment exists (as outlined in the Intangible Assets accounting policy), the exploration and evaluation assets need to be allocated into Cash Generating Units ("CGU"). The determination of what constitutes a cash generating unit requires judgement. Once this is decided, the carrying value of each cash generating unit is compared to its recoverable amount. The recoverable amount of the CGU is assessed as the higher of its fair value, less costs to sell, and its value in use.

The determination of value in use requires the following judgements:

- Estimation of future cash flows expected to be derived from the asset.
- Expectation about possible variations in the amount or timing of the future cash flows.
- The determination of an appropriate discount rate.

1. ACCOUNTING POLICIES *continued*

Going concern

The preparation of the financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on finance being available for the continuing working capital requirements of the company and finance for the development of the company's projects becoming available. The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects for raising additional equity as required and taking into account the high potential of the acreage under license, they consider it appropriate to prepare the financial statements on a going concern basis. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the company's assets, in particular the intangible fixed assets, to their realisable values.

Key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the financial year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the company is the Binomial Lattice Model. In addition, the directors consider that 80% of their activity is primarily focused on the company's diamond prospects and therefore, the directors consider it appropriate to capitalise 80% of such costs to exploration and evaluation assets.

Deferred tax

No deferred tax asset has been recognised in respect of tax losses as it cannot be considered probable that future taxable profits will be available against which the related temporary differences can be utilised.

2. GOING CONCERN

Mineral exploration and evaluation costs capitalised as intangible assets amounted to €8,712,953 (2015: €8,029,132) as disclosed in Note 9, at the financial year end 31 May 2016.

The directors recognise that the future realisation of intangible assets is dependent on the further successful development and ultimate production of the mineral reserves and the availability of adequate finance to bring the reserves to economic maturity and profitability.

During the financial year, the company issued equity of €317,904 (2015: €Nil). The company incurred a loss of €258,734 (2015: €121,551) during the financial year ended 31 May 2016.

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects for raising additional equity as required and taking into account the high potential of the acreage under license, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

Notes to the Financial Statements *continued*

3. SEGMENTAL REPORTING

Operating segments have been identified on the basis of internal reports about components of the company that are regularly reviewed by the Chief Operating Decision Maker, being the Board of Directors, in order to allocate resources to segments and to assess their performance. The company has one class of business, diamond exploration, and operates within one geographical market, Finland. Accordingly, the Income Statement and Statement of Financial Position represents the activity of the company's sole business segment.

4. OPERATING EXPENSES

	2016 €	2015 €
Operating expenses	**617,067**	484,980
Transfer to intangible assets (Note 9)	**(358,163)**	(360,492)
	258,904	124,488

Operating expenses are analysed as follows:	2016 €	2015 €
Wages and salaries	**240,831**	279,092
Share based payments	**94,871**	44,981
Depreciation	**–**	165
Auditor's remuneration	**12,500**	10,000
Other operating expenses	**268,865**	150,742
	617,067	484,980

Of the above costs, a total of €358,163 (2015: €360,492) is capitalised to intangible assets, based on a review of the nature and quantum of the underlying costs.

(a) Wages and salaries as disclosed above is analysed as follows:

	2016 €	2015 €
Wages and salaries	**216,581**	253,042
Social welfare costs	**250**	2,050
Pension costs	**24,000**	24,000
	240,831	279,092

The wages and salaries capitalised in intangible assets during the financial year amount to €197,934 (2015: €201,816).

The average number of employees during the financial year was 6 (2015: 7).

4. OPERATING EXPENSES *continued*

(b) An analysis of remuneration for each director (prior to amounts capitalised as part of intangible assets) of the company in the current financial year is as follows:

	Fees €	Salary €	Share Based Payments €	Pension Contributions €	Total €
Prof. Richard T.W.L. Conroy	20,000	65,000	12,460	–	97,460
Maureen T.A. Jones	10,000	50,000	9,459	15,000	84,459
James P. Jones	10,000	30,000	5,878	9,000	54,878
Dr. Sorċa C. Conroy	10,000	–	–	–	10,000
Louis J. Maguire	10,000	–	524	–	10,524
Seamus P. Fitzpatrick	10,000	–	524	–	10,524
Roger I. Chaplin	5,385	–	161	–	5,546
	75,385	**145,000**	**29,006**	**24,000**	**273,391**

An analysis of remuneration for each director (prior to amounts capitalised as part of intangible assets) of the company in the prior financial year is as follows:

	Fees €	Salary €	Share Based Payments €	Pension Contributions €	Total €
Prof. Richard T.W.L. Conroy	20,000	65,000	15,033	–	100,033
Maureen T.A. Jones	10,000	50,000	11,389	15,000	86,389
James P. Jones	10,000	30,000	7,165	9,000	56,165
Dr. Sorċa C. Conroy	5,068	–	–	–	5,068
Louis J. Maguire	10,000	–	1,039	–	11,039
Seamus P. Fitzpatrick	10,000	–	1,039	–	11,039
Roger I. Chaplin	10,000	–	676	–	10,676
	75,068	**145,000**	**36,341**	**24,000**	**280,409**

The total share based payment charge of €94,871 (2015: €44,981) is accounted for as shown below:

	2016 €	2015 €
Share based payment charge expensed to income statement	**18,301**	7,911
Share based payment charge transferred to intangible assets (Note 9)	**76,570**	37,070
	94,871	44,981

In the opinion of the directors, approximately eighty per cent of the share based payment charge is directly related to exploration and evaluation activities, and has been capitalised within intangible assets.

Notes to the Financial Statements *continued*

5. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging the following items, which are stated at amounts prior to the transfer to intangible assets:

	2016 €	2015 €
Depreciation	–	165
Auditor's remuneration		
The analysis of the auditors' remuneration is as follows:		
– Audit of individual accounts	12,500	10,000
– Other assurance services	–	–
– Tax advisory services	–	–
– Other non-audit services	–	–

6. DIRECTORS' REMUNERATION

	2016 €	2015 €
Aggregate emoluments paid to or receivable by directors in respect of qualifying services	220,385	220,068
Aggregate amount of money or value of other assets including shares, but excluding share options, paid to or receivable by the directors under long term incentive schemes in respect of qualifying services	–	–

	2016 Number of DIrectors	2016 €	2015 Number of DIrectors	2015 €
Aggregate contributions paid, treated as paid, or payable during the financial year to a retirement benefit scheme in respect of qualifying services of directors:				
– Defined contribution schemes	2	24,000	2	24,000
– Defined benefit schemes	–	–	–	–

	2016 €	2015 €
Compensation paid, or payable, or other termination payments, in respect of loss of office to directors of the company in the financial year:		
– Office of director of the company	–	–
– Other offices	–	–
Total	–	–

	2016 €	2015 €
Amounts paid or payable to past directors of the company or its holding undertaking:		
– For retirement benefits in relation to services as directors	–	–
– For other retirement benefits	–	–
Total for retirement benefits	–	–

	2016 €	2015 €
Compensation paid or payable for loss of office or other termination benefits:		
– Office of director	–	–
– Other offices	–	–
Total	–	–

7. INCOME TAX EXPENSE

(a) Analysis of the taxation charge for the financial year

	2016 €	2015 €
Irish corporation tax	–	–
Total current tax	–	–

No taxation charge arises in the current or prior financial year due to losses being incurred.

(b) Factors affecting the tax charge for the financial year:

The tax due for the financial year is different to the standard rate of Irish corporation tax. This is due to the following:

	2016 €	2015 €
Loss on ordinary activities before tax	**(258,734)**	(121,551)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12½% (2015: 12½%)	**(32,342)**	(15,194)
Effects of:		
Losses carried forward for future utilisation	**32,342**	15,194
Tax charge for the financial year	–	–

No deferred tax asset has been recognised on accumulated tax losses as it cannot be considered probable that future taxable profit will be available against which the deferred tax asset can be utilised. The amount not recognised amounts to €701,881 (2015: €669,539).

Notes to the Financial Statements *continued*

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share of €0.0008 (2015: €0.0004) is based on the loss for the financial year of €258,734 (2015: €121,551) and the weighted average number of ordinary shares on a basic and fully diluted basis during the financial year of 287,819,281 (2015: 286,535,034).

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

9. INTANGIBLE ASSETS

Exploration and evaluation:	**2016 €**	**2015 €**
Cost		
At 1 June	**8,029,132**	7,329,228
Expenditure during the financial year		
– licence and appraisal cost	**325,658**	339,412
– other operating costs (Note 4)	**281,413**	323,422
– equity settled share based payments (Note 4)	**76,750**	37,070
At 31 May	**8,712,953**	8,029,132

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities.

The directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation, and, consequently, in relation to the carrying value of capitalised exploration and evaluation assets.

The directors have considered the proposed work programmes for these mineral reserves. They are satisfied that there are no indications of impairment, but nonetheless recognise that future realisation of the intangible assets, is dependent on further successful development and ultimate production of the mineral reserves and the availability of adequate finance to bring the resources to economic maturity and profitability.

10. FINANCIAL ASSETS

	2016 €	**2015 €**
Investment in subsidiaries	**4**	4

Financial assets represent investments of €2 in each of the company's wholly owned subsidiary undertakings, Karelian Diamonds Limited and Nordic Diamonds Limited. The net assets of each entity is €2. Certain diamond claims in Finland are held in the name of the company's subsidiaries. The registered office of both non-trading subsidiaries is 9 Merrion Square North, Dublin 2.

The above subsidiaries have not been consolidated on the basis that they are not trading, and the net assets of each entity is €2.

11. PROPERTY, PLANT AND EQUIPMENT

Plant & Office Equipment	2016 €	2015 €
Cost		
At 1 June	**1,677**	1,677
At 31 May	**1,677**	1,677
Accumulated Depreciation		
At 1 June	**1,677**	1,512
Charge for the financial year	**–**	165
At 31 May	**1,677**	1,677
At 31 May	**–**	–

12. TRADE AND OTHER RECEIVABLES

	2016 €	2015 €
VAT receivable	**39,833**	28,443
Prepayments	**2,710**	2,959
Amounts due from related party (Note 18)	**168,825**	370,720
	211,368	402,122

The company has confirmed to Conroy Gold and Natural Resources Plc (a company with common directors) that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources Plc at 31 May 2016 of €168,825 for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources Plc. During the financial year an amount of €201,895 was repaid to the company by Conroy Gold and Natural Resources Plc.

13. TRADE AND OTHER PAYABLES

(Amounts falling due within one year)	2016 €	2015 €
Accrued directors' remuneration		
– fees and other emoluments	**195,007**	17,578
– pension contributions	**204,000**	180,000
Accruals	**86,493**	52,669
PAYE/PRSI	**–**	15,375
	485,500	265,622

It is the company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the company's policy that payment is made according to the agreed terms. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying value of the trade and other payables approximates to their fair value.

Notes to the Financial Statements *continued*

14. NON-CURRENT FINANCIAL LIABILITIES

(Amounts falling due after more than one year)	2016 €	2015 €
Shareholder loans		
Opening balance	**309,589**	309,589
	309,589	309,589

Prior to the various placings of shares, the immediate funding requirements of the company had been financed by advances from Prof. R.T.W.L. Conroy (executive chairman and major shareholder). The amount outstanding at 31 May 2016 is €309,589 (2015: €309,589).

15. CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	2016 €	2015 €
Authorised:		
500,000,000 ordinary shares of €0.01 each	5,000,000	5,000,000

Issued and Fully Paid – current financial year

	Number	Share Capital Presented as Equity €	Share Premium €
At start of financial year	**286,535,034**	**2,865,350**	**6,786,177**
Share issue	**31,250,000**	**312,500**	**5,404**
At end of financial year	**317,785,034**	**3,177,850**	**6,791,581**

(a) On 16 May 2016, 31,250,000 ordinary shares of €0.01 each at 0.8p sterling (€0.010173) per share resulting in a premium of €0.000173 per share together with 31,500,000 warrants at an exercise price of 1.6 pence per warrant. The Warrants can be exercised at any time up to 24 May 2018. The Warrants also contain a mandatory exercise clause if the closing price of the Ordinary Shares remains at 5 pence sterling or higher for 10 or more consecutive business days.

(b) At 31 May 2015 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding and have now lapsed.

(c) At 31 May 2015 and 31 May 2016, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2022 were outstanding.

(d) At 31 May 2015 and 31 May 2016, 1,000,000 options were outstanding and are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.

(e) The share price at 31 May 2016 was 1p sterling. During the financial year the price ranged from 0.525p to 1.2p sterling.

15. CALLED UP SHARE CAPITAL AND SHARE PREMIUM *continued*

Issued and Fully Paid – previous financial year

	Number	Share Capital Presented as Equity €	Share Premium €
At start and end of financial year	286,535,034	2,865,350	6,786,177

(a) At 31 May 2014 and 31 May 2015 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding and have now lapsed.

(b) At 31 May 2014 and 31 May 2015, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2022 were outstanding. These warrants previously had been exercisable anytime up to 16 November 2017. At the annual general meeting on 15 December 2014 the exercise period was extended by five years from 2017 to 2020.

(c) At 31 May 2014 and 31 May 2015, 1,000,000 options were outstanding and are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.

(d) The share price at 31 May 2015 was 1.15p sterling. During the financial year the price ranged from 0.85p to 1.725p sterling.

16. NOTE TO THE CASHFLOW STATEMENT

Reconciliation of operating loss to Net Cash generated by/(used in) Operations:	**2016 €**	**2015 €**
Operating loss	**(258,904)**	(124,488)
Depreciation	**–**	165
Expense recognised in income statement in respect of equity settled share based payments	**18,301**	7,911
Increase/(decrease) in creditors	**219,878**	(508,363)
Decrease/(increase) in debtors	**190,754**	(346,343)
Net cash used in operations	**170,029**	(971,118)

17. COMMITMENTS AND CONTINGENCIES

At 31 May 2016 there were no capital commitments or contingent liabilities (2015: €Nil). Should the company decide to develop the Lathojoki project, an amount of €100,000 is payable by the company.

Notes to the Financial Statements *continued*

18. RELATED PARTY TRANSACTIONS

(a) Details as to shareholder loans and share capital transactions and transactions with Prof. R.T.W.L Conroy are outlined in Notes 14 and 15 to the financial statements.

(b) The company shares accommodation with Conroy Gold and Natural Resources Plc which has certain common shareholders and directors. For the financial year ended 31 May 2016, Conroy Gold and Natural Resources Plc, incurred costs totalling €245,733 (2015: €301,992) on behalf of the company. These costs were recharged to the company by Conroy Gold and Natural Resources Plc.

The costs are analysed as follows:

	2016 €	2015 €
Wages and salaries	**6,344**	26,823
Rent and rates	**34,876**	21,843
Travel and subsistence	**16,776**	43,587
Legal and professional	**21,815**	25,902
Other operating expenses	**46,958**	69,298
Exploration costs	**118,964**	114,539
	245,733	301,992

At 31 May 2016, €168,765 (2015: €370,720) was owed by Conroy Gold and Natural Resources Plc. During the financial year an amount of €201,895 was repaid to the Company by Conroy Gold and Natural Resources Plc. At 31 May 2016, €80 (2015: €80) was owed to Maureen Jones.

(c) Details of key management compensation which comprises directors' remuneration including short term employee benefits €220,385 (2015: €220,068), post-employment benefits €24,000 (2015: €24,000), other long term benefits €Nil (2015: €Nil), share based payment €29,006 (2015: €36,341) and termination benefits €Nil (2015: €Nil) are outlined in Note 6 to the financial statements.

19. SHARE BASED PAYMENTS

The company operates a share option scheme for employees who devote a substantial amount of their time to the business of the company.

Options granted generally have a vesting period of ten years. Details of the share options outstanding during the financial year are as follows:

	2016		2015	
	No. of Share Options	Weighted Average Exercise Price €	No. of Share Options	Weighted Average Exercise Price €
1 June	**1,000,000**	**0.0803**	1,000,000	0.0803
Granted during financial year	**–**	**–**	–	–
Exercised during financial year	**–**	**–**	–	–
Lapsed during financial year	**–**	**–**	–	–
31 May	**1,000,000**	**0.0803**	1,000,000	0.0803

19. SHARE BASED PAYMENTS *continued*

Warrants granted generally have a vesting period of ten years. Warrants granted during the financial year vested immediately. Details of the warrants outstanding during the financial year are as follows:

	2016		2015	
	No. of Share Warrants	Weighted Average Exercise Price €	No. of Share Warrants	Weighted Average Exercise Price €
1 June	**16,852,677**	**0.0919**	**16,852,677**	**0.0919**
Granted during financial year	**31,250,000**	**0.021**	–	–
Exercised during financial year	**–**	**–**	–	–
Lapsed during financial year	**(4,000,000)**	**0.0659**	–	–
31 May	**44,102,677**	**0.044**	16,852,677	**0.0919**

The company estimated the fair value of employee stock options and warrants awards using the Binomial Lattice Model. The determination of the fair value of share based payment awards on the date of grant using the Binomial Lattice Model is affected by Karelian Diamond Resources Plc stock price as well as assumptions regarding a number of subjective variables. These variables include the expected term of the awards, the expected stock price volatility over the term of the awards, the risk free interest rate associated with the expected term of the awards and the expected dividends.

The company's Binomial Lattice Model included the following weighted average assumptions for the company's employee stock option and warrants.

	2016 Stock Options	2016 Stock Warrants	2015 Stock Options	2015 Stock Warrants
Dividend yield	**0%**	**0%**	0%	0%
Expected volatility	**70%**	**70%**	70%	70%
Risk free interest rate	**4.2%**	**4.1%**	4.2%	4.1%
Expected life (in years)	**10**	**10**	10	10

This calculation results in a share based payments reserve movement of €94,871 (2015: €44,981).

20. SUBSEQUENT EVENTS

There are no important events since financial year end which need to be disclosed within these financial statements.

Notes to the Financial Statements *continued*

21. FINANCIAL INSTRUMENTS

The company's financial assets and liabilities stated at carrying amount and fair value are as follows at 31 May 2016:

	Carrying Amount 2016 €	Fair Value 2016 €	Carrying Amount/ Fair Value 2015 €
Trade and other receivables	**211,368**	**211,368**	402,122
Cash and cash equivalents	**341,737**	**341,737**	474,026
Trade and other payables and financial liabilities	**758,776**	**758,776**	575,211

The following sets out the methods and assumptions used in estimating the fair value of financial assets and liabilities.

Trade and Other Receivables/Payables and Financial Liabilities

As both trade and other receivables and trade and other payables have a remaining life of less than one financial year, the carrying value is deemed to reflect fair value. The company has received confirmation that payment of the shareholder loan will not be demanded for a period of 12 months from the date of approval of the financial statements. The directors consider that its carrying value reflects its fair value as no fixed repayment arrangements attached to same.

Cash and Cash Equivalents

As cash and cash equivalents have a remaining maturity of less than three months, the nominal amount is deemed to reflect the fair value.

Risk Management

The company is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including interest rate risk).

Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has a policy of dealing only with credit worthy counterparties. The company's exposure to credit risk relates to the carrying value of cash and cash equivalents and trade and other receivables which at 31 May 2016 amounted to €553,291 (2015: €876,148).

At 31 May 2016 and 31 May 2015 all trade and other receivables were not past due.

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The company's policy is to monitor cash flow and consider whether available cash resources are sufficient to meet its ongoing exploration programme.

The nature of the company's activities can result in differences between actual and expected cash flows. This risk was managed by the directors during the financial year by way of raising sufficient finance so that the company has sufficient resources to carry out its forthcoming work programme.

Market Risk – Interest Rate Risk

The company's exposure to changes in interest rates relates primarily to the shareholder loan balance. If the interest rate rose by 1%, the company's loss would increase by €3,096. A decrease in the interest rate would result in a corresponding decrease in the same amount.

22. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board on 17 November 2016.