



Condensed Financial Statements
for the six month period ended 30 November 2019



Karelian Diamond Resources plc

Directors, officers and other information

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Karelian Diamond Resources plc

Chairman's statement

Dear Shareholder,

I have great pleasure in presenting the Company's half-yearly report for the six months ended 30 November 2019. During the period the Company continued to advance its diamond mining project at Lahtojoki in the Kaavi region and its successful diamond exploration programme in the Kuhmo region, both in Eastern Finland. During the half year Howard Bird, a distinguished geoscientist who has wide experience in the diamond industry, joined the Board of the Company as a non-executive director.

The Lahtojoki Diamond Deposit

Progress has continued to be made in relation to the assessment and permitting of the Lahtojoki diamond deposit, which the Company acquired in the Kaavi region of Eastern Finland, and which, if developed, will not only be the Company's first diamond mine but the first diamond mine in Europe (outside Russia).

A particularly interesting feature of the Lahtojoki deposit is the presence of coloured stones and especially of pink diamonds. Analysis of available data and reports suggests that these coloured stones could amount to as much as seven per cent of the diamond content of the Lahtojoki deposit and that perhaps three per cent could be pink diamonds. Examination of the pink diamonds made available for inspection by the Company, together with photographs of diamonds from the deposit, indicates that these diamonds are of high quality.

The importance of the pink diamonds may be put into context when one considers that pink diamonds, although only accounting for less than five per cent of the world's biggest diamond mine, Argyle in Western Australia, account for nearly fifty per cent of its revenue.

Progress in relation to mandatory regulatory matters under the Finnish mining laws continued to be made. In particular, the process in relation to agreeing compensation for landowners at Lahtojoki is now at an advanced stage.

Diamond Exploration

Kimberlite boulders discovered to the south of the Lahtojoki diamond deposit are comprised of material which does not appear to be derived from the Lahtojoki kimberlite. This suggests that these boulders may come from an undiscovered kimberlite up ice. The Company therefore applied for an exploration permit over the relevant area and has been informed that this has become legally valid. The possible existence of a further diamondiferous kimberlite nearby, if confirmed, would, in the Board's view, further increase the attractiveness of the Lahtojoki diamond deposit.

Exploration is also continuing in the Kuhmo region of Finland where the Company has already discovered a diamond in till, a very rare event, and, of course, the best possible kimberlite indicator. The Company has also discovered a new kimberlite body, at Riihivaara, and is following up on the large series of other kimberlite anomalies which it has discovered in the region.

Board Appointment

I am delighted to report that in September 2019, Howard Bird joined the Board of the Company as a Non-Executive Director. This is in addition to his previously announced role as a geoscience consultant to the Company which will continue. Mr Bird is an internationally experienced geoscientist who has been involved in the discovery through to production success of several new economic diamond deposits.

In December 2019 and post period end, Louis Maguire did not stand for re-election at the Company's Annual General Meeting and retired from the Board.

Extraordinary General Meetings

The Company has, since just before the beginning of the half year, had to contend with a series of actions by a group of shareholders which have hindered the Board of Directors and management from pursuing the Company's business objectives as planned during the period.

Karelian Diamond Resources plc

Chairman's statement (*continued*)

These actions culminated in the holding of two separate Extraordinary General Meetings ("EGMs") in July 2019 and October 2019 following requisitions being received from these shareholders. The requisitionists, in association with a former employee/consultant to the Company, endeavoured to gain control of the Company by removing all but two of the current members of the Board and electing four replacements, nominated by them, to the Board.

The resolutions were rejected by shareholders of the Company at the first EGM and the same resolutions were defeated by an even larger majority at the second EGM.

Finance

The loss after taxation for the half year ended 30 November 2019 was €250,150 (for the six-month period ended 30 November 2018: €215,342) and the net assets as at 30 November 2019 were €9,177,513 (30 November 2018: €9,345,090).

During the period the Company raised a total of €150,000 through two subscriptions. In addition, I converted loans amounting to €71,425 into equity.

Post period a subscription and issue of a convertible loan note raised a total of £240,000. This subscription and issue of convertible loan note was subscribed by a new investor Fredrik Björnberg.

Mr Björnberg, qualified in geology, was involved in the early stages of the discovery of the Lahtojoki diamond deposit and is a member of a prominent family in Finland with a range of business activities. The Björnberg family previously owned the Luikonlahti copper mine in the Kaavi area and still have close connections with this part of Finland.

Directors and Staff

I would like to welcome Howard Bird to the Board. I would also like to express my deep appreciation for the support and dedication of my fellow directors, staff and consultants which has enabled the continued success of the Company.

I would particularly wish to express my appreciation and thanks to Louis Maguire who did not seek re-election as a director of the Company at the Annual General Meeting held in December 2019. Louis was a founding director of the Company and played a major role in its development and success.

Outlook

The Company has continued to 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 2020

Karelian Diamond Resources plc

Condensed income statement and condensed statement of comprehensive income for the six month period ended 30 November 2019

Condensed income statement

	Note	Six month period ended 30 November 2019 (Unaudited) €	Six month period ended 30 November 2018 (Unaudited) €	Year ended 31 May 2019 (Audited) €
Continuing operations				
Operating expenses		(250,150)	(215,342)	(370,654)
Loss before taxation		(250,150)	(215,342)	(370,654)
Income tax expense		-	-	-
Loss for the financial period/year		(250,150)	(215,342)	(370,654)
Loss per share				
Basic and diluted loss per share	2	(€0.0069)	(€0.0064)	(€0.0109)

Condensed statement of comprehensive income

		Six month period ended 30 November 2019 (Unaudited) €	Six month period ended 30 November 2018 (Unaudited) €	Year ended 31 May 2019 (Audited) €
Loss for the financial period/year		(250,150)	(215,342)	(370,654)
Income/expense recognised in other comprehensive income		-	-	-
Total comprehensive expense for the financial period/year		(250,150)	(215,342)	(360,654)

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

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Condensed statement of financial position as at 30 November 2019

	Note	30 November 2019 (Unaudited) €	30 November 2018 (Unaudited) €	Year ended 31 May 2019 (Audited) €
Assets				
Non-current assets				
Intangible assets	3	10,282,861	9,967,646	10,152,733
Financial assets		4	4	4
Total non-current assets		10,282,865	9,967,650	10,152,737
Current assets				
Cash and cash equivalents		20,901	198,692	30,833
Other receivables		13,254	166,655	102,989
Total current assets		34,155	365,347	133,822
Total assets		10,317,020	10,332,997	10,286,559
Equity				
Capital and reserves				
Called up share capital		10,010	8,622	8,622
Called up deferred share capital		3,174,672	3,174,672	3,174,672
Share premium		9,005,750	8,768,276	8,768,276
Share based payments reserve		456,624	525,124	456,624
Retained losses		(3,469,543)	(3,131,604)	(3,218,415)
Total equity		9,177,513	9,345,090	9,189,779
Liabilities				
Non-current liabilities				
Trade and other payables: amounts falling due after more than one year	5	93,662	158,008	158,087
Total non-current liabilities		93,662	158,008	158,087
Current liabilities				
Trade and other payables: amounts falling due within one year		1,045,845	829,899	938,693
Total current liabilities		1,045,845	829,899	938,693
Total liabilities		1,139,507	987,907	1,096,780
Total equity and liabilities		10,317,020	10,332,997	10,286,559

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 2019

	Six month period ended 30 November 2019 (Unaudited) €	Six month period ended 30 November 2018 (Unaudited) €	Year ended 31 May 2019 (Audited) €
Cash flows from operating activities			
Loss for the financial period/year	(250,150)	(215,342)	(370,654)
<i>Adjustments for:</i>			
Expense recognised in income statement in respect of equity settled share based payments	-	5,965	5,966
Increase in trade and other payables	77,133	116,730	225,524
Decrease in other receivables	89,735	70,827	79,974
Net cash used in operating activities	(83,282)	(21,820)	(59,190)
Cash flows from investing activities			
Investment in exploration and evaluation	(130,128)	(306,087)	(491,174)
Net cash used in investing activities	(130,128)	(306,087)	(491,174)
Cash flows from financing activities			
Issue of share capital	238,862	569,390	534,988
Share issue costs	(978)	(31,390)	(31,390)
Shareholder's loan advances/(repayments)	7,000	(34,481)	148,293
Shareholder's loan converted	(71,425)	-	-
Advances from/(repayments to) Conroy Gold and Natural Resources P.L.C.	30,019	4,377	(89,397)
Net cash provided by financing activities	203,478	507,896	562,494
(Decrease)/increase in cash and cash equivalents	(9,932)	179,989	12,130
Cash and cash equivalents at beginning of financial period/year	30,833	18,703	18,703
Cash and cash equivalents at end of financial period/year	20,901	198,692	30,833

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 2019

	Share capital (including deferred share capital)	Share premium	Share-based payment reserve	Retained losses	Total equity
	€	€	€	€	€
Balance at 1 June 2019	3,183,294	8,768,276	456,624	(3,218,415)	9,189,779
Issue of share capital	1,388	237,474	-	-	238,862
Share issue costs	-	-	-	(978)	(978)
Share based payments	-	-	-	-	-
Loss for the financial period	-	-	-	(250,150)	(250,150)
Balance at 30 November 2019	3,184,682	9,005,750	456,624	(3,469,543)	9,177,513
Balance at 1 June 2018	3,180,516	8,201,664	519,159	(2,884,872)	9,016,467
Issue of share capital	2,778	566,612	-	-	569,390
Share issue costs	-	-	-	(31,390)	(31,390)
Share based payments	-	-	5,965	-	5,965
Loss for the financial period	-	-	-	(215,342)	(215,342)
Balance at 30 November 2018	3,183,294	8,768,276	525,124	(3,131,604)	9,345,090

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 an Annual General Meeting held on 9 December 2016.

Authorised share capital:

The authorised share capital at 30 November 2019 comprised 7,301,301,041 ordinary shares of €0.00025 each, and 317,785,034 deferred shares of €0.00999 each* (€5,000,000), (30 November 2018: 7,301,301,041 ordinary shares of €0.00025 each, and 317,785,034 deferred shares of €0.00999 each* (€5,000,000)).

*Capital reorganisation:

Following approval at an Annual General Meeting ("AGM") 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.

Consolidated shares:

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 issues during the period:

On 16 July 2019, the Company raised €111,377, (before expenses) through the issue of 2,500,000 ordinary shares of €0.00025 in the capital of the Company at a price of £0.04 per Subscription Share. On 8 October 2019, the Company raised €56,060, (before expenses) through the issue of 1,428,571 ordinary shares of €0.00025 in the capital of the Company at a price of £0.035 per Subscription Share. On 4 September 2019, the Director, Richard Conroy converted €71,425 of his loan into 1,625,000 shares of €0.00025 in the capital of the Company at a price of £0.04 per Subscription Share.

On 11 June 2018, the Company raised €569,390, (before expenses), through the issue of 11,111,111 ordinary shares of €0.00025 in the capital of the Company at a price of £0.045 per Subscription Share. 388,889 broker warrants were also issued on 11 June 2018.

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 comprises of the fair value of all share options and warrants which have been charged over the vesting period, net of amounts relating to share options and warrants forfeited, exercised or lapsed during the year, which are reclassified to retained earnings.

Retained losses

This reserve represents the accumulated losses incurred by the Company up 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 2019

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 2019 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 2019, 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 2019

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 2019 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 2020.

Going concern

The Company incurred a loss of €250,150 (30 November 2018: €215,342) for the six month period ended 30 November 2019. The Company had net current liabilities of €1,011,690 (30 November 2018: €464,552) 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 28 February 2021. As set out further in the Chairman's statement, the Company expects to incur capital expenditure in 2020, 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 financial period, 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 financial statements on a going concern basis.

Statement of compliance

The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union ("EU").

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2019 (*continued*)

1 Accounting policies (*continued*)

Recent accounting pronouncements

The following new standards, amendments to standards and interpretations adopted and endorsed by the EU came into effect 1 January 2019. The adoption of these amendments and interpretations does not have a significant impact on the consolidated financial statements either due to being not applicable or immaterial:

- Amendments to IFRS 9: Prepayment features with negative compensation – Effective date 1 January 2019
- Amendments to IAS 28: Long-term interests in associates and joint ventures – Effective date 1 January 2019
- Annual improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – Effective date 1 January 2019
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement – Effective date 1 January 2019
- IFRS 16 – Leases – Effective date 1 January 2019
- IFRIC 23: Uncertainty over income tax treatments – Effective date 1 January 2019.

The following new standard and amendments to standards have been issued by the International Accounting Standards Board but have not yet been endorsed by the EU, accordingly none of these standards have been applied in the current period. The Board of Directors are currently assessing whether these standards once endorsed by the EU will have any impact or a material impact on the consolidated financial statements.

- Amendments to references to the Conceptual Framework in IFRS Standards – Effective date 1 January 2020
- IFRS 17: Insurance contracts – Effective date 1 January 2021
- Amendments to IFRS 3 Business Combinations – Definition of a Business – Effective date 1 January 2020
- Amendments to IAS 1 and IAS 8 – Definition of Material – Effective date 1 January 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – Effective date 1 January 2020
- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture – postponed indefinitely.

2 Loss per share

Basic earnings per share

	Six month period ended 30 November 2019 (Unaudited) €	<i>Six month period ended 30 November 2018 (Unaudited) €</i>	<i>Year ended 31 May 2019 (Audited) €</i>
Loss for the financial period/year attributable to equity holders of the Company	(250,150)	(215,342)	(370,654)
Number of ordinary shares for the purposes of earnings per share	40,042,749	34,489,179	34,154,324
Loss per ordinary share	(€0.0069)	(€0.0064)	(€0.0109)

Karelian Diamond Resources plc

Notes

to and forming part of the condensed financial statements for the six month period ended 30 November 2019 (*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: 16 November 2022 - £2.20 sterling.

3 Intangible assets

Exploration and evaluation assets

Cost

	30 November 2019 (Unaudited) €	<i>30 November 2018 (Unaudited) €</i>	<i>31 May 2019 (Audited) €</i>
<i>At 1 June</i>	10,152,733	9,661,559	9,661,559
Expenditure during the financial period/year			
• License and appraisal costs	2,978	71,198	298,829
• Other operating expenses	127,150	234,889	192,345
• Equity settled share based payments	-	-	-
<i>At 30 November/31 May</i>	10,282,861	9,967,646	10,152,733

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 2019 (*continued*)

4 Commitments and Contingencies

At 30 November 2019, there were no capital commitments or contingent liabilities (31 May 2019: No capital commitments or contingencies liabilities). Should the Company decide to develop the Lahtojoki project, an amount of €80,000 is payable by the Company.

5 Related party transactions

(a) Shareholders' loans

	30 November 2019 (Unaudited) €	30 November 2018 (Unaudited) €	31 May 2019 (Audited) €
Opening balance 1 June	158,087	192,489	192,489
Loan repayment	-	(34,481)	-
Loan advances	7,000	-	-
Loan converted into shares	(71,425)	-	(34,402)
Closing balance 30 November/31 May	93,662	158,008	158,087

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 2018, Conroy Gold and Natural Resources plc incurred costs totalling €54,034 (30 November 2018: €74,968) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources plc. At 30 November 2019, Conroy Gold and Natural Resources plc is owed €29,812 by the Company. At 30 November 2018 Conroy Gold and Natural Resources plc owed €117,514 to the Company.

6 Subsequent events

Post period a subscription and issue of a convertible loan note raised a total of £240,000. This subscription and issue of convertible loan note was subscribed by a new investor Mr. Fredrik Björnberg.

7 Approval of the Condensed Financial Statements

These Condensed Financial Statements were approved by the Board of Directors on 27 February 2020. A copy of the Condensed Financial Statements will be available on the Company's website www.kareliandiamondresources.com on 28 February 2020.

