



Annual Report and Financial Statements 2023

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Chairman's Statement



Professor Richard Conroy
Chairman

Dear Shareholder,

I have pleasure in presenting the Company's Annual Report and Financial Statements for the year ended 31 May 2023.



Till Sampling in Kuhmo



Excavating Kimberlite Target in Kuhmo

The year was one of significant progress for the Company, both in relation to its diamond exploration and development programme in Finland and its Nickel, Copper and Platinum group metals exploration programme in Northern Ireland.

The Lahtojoki Diamond Deposit

A further significant step towards the development of the Lahtojoki diamond deposit was achieved when the National Land Survey of Finland determined, in December 2022, the compensation to be paid by the Company to local landowners in relation to the establishment of the Lahtojoki mining concession area, which has been approved by TUKES (the Finnish mining authority). The Survey's decision was announced on 14 December at a public meeting held in the Municipal Hall of Tuusniemi in Finland and the compensation amounted in total to €162,815. This compensation has been paid, bar for two landowners who have appealed the amount to be paid to them and a small boundary area, entitling the Company to land possession over the entire mining concession area.

The Lahtojoki diamond mining project comprises a mining concession covering 71 hectares (c.176 acres), including a kimberlite pipe with a surface area of 16 hectares (c.40 acres).

The diamond deposit at Lahtojoki, based on sampling to date, contained high quality colourless gem diamonds and also coloured diamonds, including pink diamonds which are highly sought after and can command prices up to 20 times that of normal coloured diamonds. This is particularly relevant at a time of low diamond prices.



Company Geologist Terhi Tulenheimo with
Excavator Operator

The development of the diamond mine at Lahtojoki will, I believe, not only bring significant benefits to the Company, but also to the entire surrounding Kuopio Kaavi area and when in production is expected to be the first diamond mine in Europe outside Russia.

Diamond Exploration Programme in Finland

During the year there was significant progress made in the Company's diamond exploration programme in Finland. This included a detailed high-resolution drone based magnetic survey carried out by Radai Oy over the Company's diamond exploration licence area in the Kuhmo region, up ice of the green diamond discovery in till by the Company previously announced. Eighty-two flights totalling 250km were flown.

Jeremy S. Brett International Consulting Limited ("Brett Consulting") was retained by the Company to interpret the drone aeromagnetic data generated by the survey. Mr. Brett is a senior geophysical consultant with over 28 years of mineral exploration experience in geophysics across a wide variety of ore deposit settings. He

has explored extensively for kimberlites in Africa, North America and South America.

The geophysical interpretation by Brett Consulting led to the identification of over twenty kimberlite targets in the area. The targets ranged from 0.5 hectares to 4.7 hectares in size and *"with a high ratio of highly ranked targets"* based on their magnetic signature.

The interpretation by Brett Consulting also highlighted potential underlying structural controls to the emplacement of Kimberlite bodies. This data can be applied in a wider context to the overall Kuhmo region.

Previous work by the Company on the Kuhmo licence area included kimberlite indicator mineral sampling, during which the green diamond was discovered. Further kimberlite indicator mineral sampling in the area encountered highly anomalous kimberlite indicators, including G9 and G10 garnets, which are known indicators of diamond prospectivity. Follow-up drilling resulted in the discovery of a kimberlite dyke, confirming the presence of kimberlites in the immediate area.

An extensive follow-up programme, which includes excavating and drilling on the potential diamondiferous kimberlite targets identified by the geophysical interpretation and indicator till sampling, has commenced. This includes a pitting programme over a series of more than twenty kimberlite targets which has been completed, post period.

Exploration for Nickel, Copper and Platinum Group Metals in Northern Ireland

Two additional Mineral Prospecting Licences were granted in October 2023, which will secure the Company's land position in relation to its exploration programme for Nickel-Copper-Platinum mineralisation in Northern Ireland.

The licence applications were made following the discovery, on the Company's KDR-1 licence in Northern Ireland, of indicator minerals, including anomalous amounts of chromite, forsterite olivine and magmatic massive sulphide indicator minerals, which are indicative of the possible presence of Nickel-Copper-Platinum mineralisation.

The licences, KDR-2 and KDR-3, are valid for a period of six years, cover an area of approximately 500km² and are adjacent to the Company's existing KDR-1 licence, giving an increased total exploration area of approximately 750km².

The Nickel-Copper-Platinum exploration targets are based on the mafic and/or ultramafic dyke-sill complexes in the area which are similar to those that are known to host the world class Noril'sk Nickel-Copper-Platinum deposit.

Ireland is already a well-established mining area, with a world class zinc mine, Tara, and other major zinc/lead discoveries in the Lower Carboniferous limestones, together with a series of significant orogenic gold discoveries in both Northern Ireland and the Republic of Ireland.

The exploration programme for Nickel, Copper and Platinum Group Metals is an exciting new development for the Company with positive results from a stream sediment sampling programme duly announced in October 2023.

Environmental, Social and Governance Issues

Great emphasis is placed by the Company on environmental, social and governance issues. The Company is committed to high standards of corporate governance and integrity in all its activities and operations, including rigorous health and safety compliance, environmental consciousness and the promotion of a culture of good ethical values and behaviour.

Financials

The loss after taxation from continuing operations for the financial year ended 31 May 2023 was €291,467 (31 May 2022: profit of €13,593) and the net assets of the Company at 31 May 2023 were €9,786,074 (31 May 2022: €9,480,803). During the year there was a fundraising, debt capitalisation and creditor conversion totalling £250,000 at 2.5 pence per share together with a convertible loan of £112,500, convertible at 5 pence per share. Post year end a further fundraising of £250,000 at 2.5 pence per share was also concluded.

Directors and Staff

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

Outlook

I look forward to continued success for the Company both in diamond exploration and development in Finland and in nickel, copper and platinum group metals exploration in Ireland.

Richard Conroy

Professor Richard Conroy
Chairman

28 November 2023



Team Stream Sediment Sampling in Northern Ireland

Company Information

Directors

Professor Richard Conroy

*Executive Chairman**

Séamus P. FitzPatrick

Deputy Chairman/Non-executive Director+§

Maureen T.A. Jones

*Managing Director**

Dr. Sorça Conroy

Non-executive Director§*

Brendan McMorrow

Non-executive Director+§*

Howard Bird

Non-executive Director+*

* Member of the Executive Committee

+ Member of the Remuneration Committee

§ Member of the Audit Committee

Company registration number

382499

Company Secretary and Registered Office

Maureen T.A. Jones (*resigned 22 Nov 2023*)

Cathal Jones (*appointed 22 Nov 2023*)

3300 Lake Drive

Citywest Business Campus

Dublin 24, D24 TD21, Ireland

Nominated adviser (NOMAD)

Allenby Capital Limited

5 St. Helen's Place

London, EC3A 6AB, United Kingdom

Broker

Peterhouse Capital Limited

3rd Floor, 80 Cheapside

London, EC2V 6EE, United Kingdom

Statutory audit firm

Deloitte Ireland LLP

Chartered Accountants and Statutory

Audit Firm

6 Lapps Quay

Cork, T12 VY7W, Ireland

Bankers

AIB

1-4 Lower Baggot Street

Dublin 2, D02 X342, Ireland

Nordea Bank

Satamaradankatu 5

Helsinki, Finland

Registrar

Avenir Registrars Limited

No. 1 Main Street, Blessington

Co. Wicklow, W91 V82T, Ireland

www.avenir-registrars.ie

Legal advisers

William Fry Solicitors

2 Grand Canal Square

Dublin 2, D02 A342, Ireland

Roschier, Attorneys Ltd.

Kasarmikatu 21 A

00130 Helsinki, Finland

HPP Attorneys Ltd.

Bulevardi 1 A

FI-00100 Helsinki, Finland

Head office

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London Stock Exchange

AIM Market Symbol: KDR

SEDOL: BD09HK6

ISIN number: IE00BD09HK61



Professor Richard Conroy
Chairman



Seamus P. FitzPatrick
Deputy Chairman



Dr. Sorça C. Conroy
Non-Executive Director



Maureen T.A. Jones
Managing Director



Howard M. Bird
Non-Executive Director



Brendan McMorrow
Non-Executive Director

Board of Directors

Professor Richard Conroy - Chairman of the Board of Directors

Professor Richard Conroy is responsible for leading the Board and ensuring it operates in an effective manner whilst promoting communication with shareholders. He has over 40 years' experience of founding and growing companies in the natural resources industry with a track record in making discoveries of global significance.

Experience

Professor Richard Conroy has been involved in natural resources for many years. He established Trans-International Oil, which was primarily involved in Irish offshore oil exploration. Trans-International Oil initiated the Deminex Consortium which included Deminex, Mobil, Amoco and DSM. Trans-International Oil was merged with Aran Energy P.L.C. in 1979, which was later acquired by Statoil.

Professor Richard Conroy founded Conroy Petroleum and Natural Resources P.L.C. ("Conroy Petroleum"). Conroy Petroleum was involved in both onshore and offshore oil production and exploration and also in mineral exploration. Conroy Petroleum, in 1986, made the significant discovery of the Galmoy zinc deposits in County Kilkenny which was later developed as a major zinc mine. The discovery at Galmoy led to the revival of the Irish base metal industry and to Ireland becoming an international zinc province.

Conroy Petroleum was also a founding member of the Stoneboy consortium, which included Sumitomo Metal Mining Co. Ltd., an exploration group which discovered the world class Pogo gold deposit in Alaska, now in production as a major gold mine.

Conroy Petroleum acquired Atlantic Resources P.L.C. in 1992 and subsequently changed its name to ARCON International Resources P.L.C. ("ARCON"). The oil and gas interests in ARCON were transferred to form Providence Resources P.L.C. ARCON was later acquired by Lundin Mining Corporation.

Professor Richard Conroy was Chairman and Chief Executive of Conroy Petroleum/ARCON from 1980 to 1994. He founded Karelian Diamond Resources P.L.C. in 1995. Since then, Professor Richard Conroy has utilised his extensive experience in the exploration industry in his role as Chairman of the Board.

Professor Richard Conroy served in the Irish Parliament as a Member of the Senate. He 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.

Professor Richard Conroy is Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. Professor Richard Conroy's research included pioneering work on jet lag, shift working and decision making in business after intercontinental flights. He co-authored the first textbook on human circadian rhythms.

Séamus P. FitzPatrick - Deputy Chairman/Non-executive Director

Mr FitzPatrick is the Managing Partner and a co-founder of CapVest, a private equity firm, established in London in 1999. Mr FitzPatrick has recently been actively involved in fund raising for CapVest III, IV and V, and on various substantial co-investor entities. He was formerly Chairman of Mater Private, Youngs Bluecrest, FoodVest, Vaasan & Vaasan and Valeo Foods, and was a director of RenoNorden, Scandi Standard, Curium and the 850 Food Group. He is currently a director of Kerridge Commercial Systems.

Experience

Prior to co-founding CapVest, Mr FitzPatrick worked in investment banking and private equity with Morgan Stanley, Chase, and Bankers Trust, in both London and New York.

Mr FitzPatrick holds an honours degree in English and Psychology from Trinity College Dublin.

Board of Directors *(continued)*

Maureen T.A. Jones - Managing Director

Maureen T.A. Jones oversees all of the Company's business and is responsible for formulating the Company's objectives and strategy. Until recently, she was also the Company Secretary for the Company ensuring all filings and requirements of the Companies Acts were fulfilled.

Experience

Maureen T.A. Jones joined Conroy Petroleum on its foundation in 1980 and was a Director and a member of the Board of Directors of Conroy Petroleum/ARCON from 1986 to 1994. Maureen T.A. Jones has a medical background and specialised in the radiographic aspects of nuclear medicine before becoming a manager of International Medical Corporation in 1977.

Maureen T.A. Jones has over twenty years' experience at senior level in the natural resource sector. She is Managing Director of Karelían Diamond Resources P.L.C. and was a founding Director of the Company. Maureen T.A. Jones brings a vast amount of managerial experience to the Board along with extensive experience of the exploration industry.

Dr. Sorča Conroy - Non-executive Director

Dr. Sorča Conroy brings a broad range of knowledge to bear on the Company through her capital markets experience and her experience in the natural resources sector.

Experience

Dr. Sorča Conroy was recruited to ING Bank in 2006 and whilst there was ranked second in the Eitel Survey for Biotechnology Specialist Sales. Dr. Sorča Conroy had previously worked in specialist sales for life sciences and institutional equities at Canaccord Adams (2005-2006; where she ranked fourth in the 2006 Eitel survey) and Hoodless Brennan (2004-2005). A medical graduate of The Royal College of Surgeons in Ireland, Dr. Sorča Conroy held a number of clinical positions between her graduation in 1995 and joining Hoodless Brennan and is a director of Conroy Gold and Natural Resources P.L.C. for over 10 years.

Brendan McMorrow - Non-executive Director

Brendan McMorrow brings a broad range of knowledge gained through holding senior financial roles in a variety of listed public companies in the natural resources sector.

Experience

Brendan McMorrow has over 30 years' experience in a number of public companies in the oil and gas and base metals mining sectors listed in London, Toronto and Dublin where he held senior executive finance roles. He is currently Chief Executive Officer of Ormonde Mining P.L.C., a natural resources exploration company. Prior to that he was Chief Financial Officer of Circle Oil P.L.C. from 2005 to 2015, an AIM listed oil and gas exploration, development and production company, with operations in North Africa and the Middle East. Brendan is a Fellow of the Chartered Association of Certified Accountants.

Howard Bird - Non-executive Director

Howard Bird brings a broad range of knowledge gained through holding senior positions in a variety of different roles in the natural resources sector. He was appointed to the Board on 17 September 2019.

Experience

Howard Bird is an internationally experienced Professional Geoscientist (diamonds, gold, platinum and base metals) and has over 30 years' diverse junior and senior mining company exploration, development and mining experience, including over 15 years at senior executive management level. Howard has extensive worldwide experience and was involved in programmes that have led to the discovery of over 100 kimberlites, working in Canada, Australia, Brazil, South Africa, Angola, Zimbabwe, Democratic Republic of Congo, Botswana and Gabon.

Together, the Directors form the Board of Directors with a gender balance of four and two. The mix of experience that the Directors bring to the Board include financial and managerial experience, mining, development and natural resources experience which are crucial to the business of the Company and crucial to the smooth running of a Board of Directors and company.

Directors' Report

The Board of Directors submit their annual report together with the audited financial statements of Karelian Diamond Resources P.L.C. (the "Company") for the financial year ended 31 May 2023.

Principal activities, business review and future developments

Information with respect to the Company's principal activities and the review of the business and future developments as required by Section 327 of the Companies Act 2014 is contained in the Chairman's statement on pages 2 to 3. The Company is a mineral exploration and development company whose objective and strategy is to discover and develop world class diamond projects in politically stable and geographically attractive countries such as Finland and Ireland in order to create value for shareholders. During the financial year under review, the principal focus of management was to continue to develop the activities of the Company, concentrating particularly on diamond exploration and evaluation.

The challenges facing the Company in achieving this strategy are world commodity prices and general economic activity, ensuring compliance with governmental and environmental legislation and meeting work commitments under exploration permits and licences sufficient to maintain the Company's interest therein. To accomplish its strategy and manage the challenges involved, the Company employs experienced individuals with a track record of success of discovering world class ore bodies together with suitably qualified technical personnel and consultants, experienced drilling and geophysical and other contractors and uses accredited international laboratories and technology to interpret and assay technical results. Additionally, the Company ensures as far as possible to obtain adequate working capital to carry out its work obligations and commitments. Please refer to the section on risks and uncertainties on pages 14 and 15 for further details.

By co-ordinating all of the above, this should result in a satisfactory return and value for shareholders.

Results for the year and state of affairs at 31 May 2023

The statement of profit or loss for the financial year ended 31 May 2023 and the statement of financial position at that date are set out on pages 24 and 26 respectively. The loss for the financial year amounted to €291,467 (31 May 2022: profit of €13,593) and net assets at 31 May 2023 were €9,786,074 (31 May 2022: €9,480,803). No interim or final dividends have been or are recommended by the Board of Directors.

The Company is not yet in a production stage and so has no income. Consequently, the Company is not expected to report material profits until it disposes of or is able to profitably develop or otherwise turn to account its exploration projects. The Directors monitor the activities and performance of the Company on a regular basis and uses both financial and non-financial indicators to assess the Company's performance.

Important events since the year-end

Post year end the Company announced the completion of a stream sampling programme in Northern Ireland where subsequent indicator mineral and microprobe analysis results confirmed the prospectivity of the Company's licence area for nickel, copper and platinum group metals.

The Company also announced that it has completed a pitting programme over a series of more than twenty kimberlite target locations in the Kuhmo region of Finland. The resulting glacial till samples have been sent for kimberlite indicator mineral testing.

The Company also raised funds of £250,000 in October 2023 (including £100,000 from Board members) with a view to carrying out follow up exploration in Northern Ireland and to continue its ongoing work in Finland.

There were no further important events to note post year end.

Directors' Report *(continued)*

Directors

There directors, who served at any time during the financial year, except as noted, were as follows:

Professor Richard Conroy

Séamus P. Fitzpatrick

Maureen T.A Jones

Dr. Sorca Conroy

Brendan McMorrow

Howard Bird

Except as disclosed in the following tables, neither the Directors nor their families had any beneficial interest in the share capital of the Company. Apart from Directors' remuneration (detailed in Note 2 and Note 4), there here have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest. Refer to Note 14 for further details.

Company secretary

Maureen T.A. Jones served as Company Secretary throughout the year and resigned on 22 November 2023. Cathal Jones was appointed as Company Secretary on that date.

Directors' shareholdings and other interests

The interests of the Directors and their connected persons in the share capital of the Company were as follows:

Director	Date of signing financial statements	Date of signing financial statements	31 May 2023	31 May 2023	31 May 2022	31 May 2022
	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.00025 each	Warrants
Professor Richard Conroy	12,263,912	3,850,000	10,263,912	1,850,000	10,263,912	2,070,841
Dr. Sorca Conroy	3,143,165	2,000,000	1,129,911	-	1,129,911	-
Maureen T.A. Jones	789,990	150,000	789,990	150,000	789,990	317,651
Séamus P. FitzPatrick	481,341	-	481,341	-	481,341	9,288
Brendan McMorrow	285,000	-	285,000	-	285,000	-

* Of the 10,263,912 (31 May 2022: 10,263,912) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2023, 1,232,601 (31 May 2022: 1,232,601) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.

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

Director	Date of signing financial statements	Date of signing financial statements	31 May 2023	31 May 2023	31 May 2022	31 May 2022	Expiry Date
	Warrants	Price £	Warrants	Price £	Warrants	Price £	
Professor Richard Conroy	1,850,000	0.08	1,850,000	0.08	1,850,000	0.08	09 December 2023
Professor Richard Conroy	2,000,000	0.04	-	-	-	-	31 October 2024
Professor Richard Conroy	-	-	-	-	220,841	2.20	16 November 2022
Maureen T.A. Jones	150,000	0.08	150,000	0.08	150,000	0.08	09 December 2023
Maureen T.A. Jones	-	-	-	-	167,651	2.20	16 November 2022
Séamus P. Fitzpatrick	-	-	-	-	9,288	2.20	16 November 2022
Dr Sorca Conroy	2,000,000	0.04	-	-	-	-	31 October 2024

During the year, 397,780 warrants held by the directors exercisable at £2.20 per share lapsed on 16 November 2022.

Substantial shareholdings

So far as the Board of Directors are aware, no person or company, other than the shareholders listed below, held 3% or more of the issued ordinary share capital of the Company.

Shareholder	Date of signing financial statements	Date of signing financial statements	31 May 2023	31 May 2023	31 May 2022	31 May 2022
	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.00025 each	%
Professor Richard Conroy	12,263,912	11.67%	10,263,912	10.86%	10,263,912	14.97%
Mr. Steven Coomber	7,613,116	7.24%	7,613,116	8.06%	4,801,690	7.01%
Fredrik Björnberg	6,450,000	6.14%	6,450,000	6.83%	3,000,000	4.38%
Mr. Kevin Taylor	6,000,000	5.71%	6,000,000	6.35%	5,500,000	8.02%
Conroy Gold and Natural Resources plc	5,000,000	5.24%	5,000,000	5.29%	-	0.00%
Martello Holdings Limited	4,178,571	3.98%	4,178,571	4.42%	4,178,571	6.10%

* Of the 10,263,912 (31 May 2022: 10,263,912) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2023, 1,232,601 (31 May 2022: 1,232,601) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.

Compliance policy statement of Karelían Diamond Resources P.L.C.

The Directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section ('relevant obligations'). The Directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to compliance with relevant obligations;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structures.

It is the policy of the Company to review during the course of each financial year the arrangements and structures referred to above which have been implemented with a view to determining if they provide a reasonable assurance of compliance in all material respects with relevant obligations.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report, including 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 that law, they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

Under company law, the Directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of the Company's profit or loss for that year and otherwise comply with the Companies Act 2014. In preparing the Company's financial statements, the Directors are required to:

- select suitable accounting policies for the Company's 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 the applicable accounting standards, identify those standards, and note the effect and the reason for any material departure from these standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report *(continued)*

Statement of Directors' responsibilities in respect of the annual report and the financial statements *(continued)*

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company are prepared in accordance with the relevant accounting framework and comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Company recorded a loss of €291,467 (31 May 2022: profit of €13,593) for the financial year ended 31 May 2023. The Company had net assets of €9,786,074 (31 May 2022: €9,480,803) at that date. The Company had net current liabilities of €1,241,046 (31 May 2022: €1,429,982) at that date. The Company had cash and cash equivalents of €116,038 (31 May 2022: €117,868) at 31 May 2023.

The Directors, namely Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorca Conroy, Howard Bird, Brendan McMorro, and former Director, namely James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €1,291,969 (31 May 2022: €1,106,970) for a minimum period of 12 months from the date of approval of the financial statements, unless the Company has sufficient funds to repay.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2024. As set out in the Chairman's statement, the Company expects to incur capital expenditure in 2023 and 2024, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets, the results obtained from the exploration programme, the funds raised post year end 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.

Corporate governance

The Board adopted the QCA Corporate Governance Code ("QCA Code"), which is derived from the 2018 UK Corporate Governance Code and the Guidance on Board Effectiveness (the "Code") but adapted to the needs of smaller quoted companies. The Company agrees that good governance contributes to sustainable success and recognises the renewed emphasis on business building trust by forging strong relationships with key stakeholders. The Company understands the importance of a corporate culture that is aligned with the Company's purpose and business strategy, and which promotes integrity and includes diversity. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. The Board is satisfied that its corporate culture and culture of its employees aligns the Company's objectives, strategy and business model. It is an objective of the Company that all individuals are aware of their responsibilities in applying and maintaining these standards in all their actions. The Board ensures that support is available in the form of staff training and updating its employee handbook such that staff members understand what is expected of them. The Company's Statement of Compliance with the QCA Code is available on the Company's website www.kareliandiamondresources.com/corporate-governance.

Board of Directors

The Board of Directors is made up of two executive and four non-executive Directors. Biographies of each of the Directors are set out on pages 5 and 6.

The Board of Directors agrees a schedule of regular meetings to be held in each calendar year and also meets on other occasions as necessary. Meetings are usually held at the head office in 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland. With appropriate arrangements made to facilitate remote attendance where required by way of teleconference calls. Board of Directors' meetings were held on 10 occasions from 1 June 2022 to 31 May 2023 and

attendance at these meetings is set out in the table below. An agenda and supporting documentation were circulated in advance of each meeting.

	Board Attendance
Meetings held during the year	10
Professor Richard Conroy	10
Séamus P. FitzPatrick	7
Maureen T.A. Jones	10
Dr. Sorca Conroy	10
Brendan McMorrow	10
Howard Bird	8

There is an agreed list of matters which the Board of Directors has formally reserved to itself for decision, such as approval of the Company's commercial strategy, trading and capital budgets, financial statements, Board of Directors' membership, major capital expenditure and risk management policies. Responsibility for certain matters is delegated to Board of Directors' committees. Executive Directors spend as much time on Company's matters as is necessary for the proper performance of their duties. Non-executive Directors are expected to spend a minimum of one day a month on Company's activities in addition to preparation for and attendance at Board and sub-committee meetings.

There is an agreed procedure for Directors to take independent legal advice.

The Company Secretary is responsible for ensuring that Board of Director's procedures are followed, and all Directors have direct access to the Company Secretary.

All Directors receive regular reports and full Board of Directors' papers are sent to each Director in sufficient time before Board of Director's meetings, and any further supporting papers and information are readily available to all Directors on request. The Board of Director's papers include the minutes of all committees of the Board of Directors which have been held since the previous Board of Director's meeting, and, the Chairman of each committee is available to give a report on the committee's proceedings at Board of Director's meetings if appropriate.

The Board of Directors has a process whereby each year every Director may meet the Chairman to review the conduct of Board of Director's meetings and the general corporate governance of the Company. The non-executive Directors (other than Dr. Sorca Conroy) are regarded as independent by the Board of Directors and have no material interest or other relationship with the Company (Dr. Sorca Conroy is a daughter of Professor Richard Conroy).

The Board, having fully considered the corporate needs of the Company, is satisfied that it has an appropriate balance of experience and skills to carry out its duties. The Chairman of the Company oversees this process and reviews the Board composition to ensure it has the necessary experience, skills and capabilities.

The current non-executive Directors have a wide range of financial and technical skills based on both qualifications and experience, including significant fundraisings, financial management, technical expertise and the discovery and bringing into production of operating mines. Each board member keeps their skills up to date through a combination of courses, continuing professional development through professional bodies and reading.

The Company Secretary provides Directors with updates on key developments relating to the Company, the sector in which the Company operates, legal and governance matters including advice from the Company's broker, lawyers and advisors.

Board performance

The Board, through its Chairman, will, in the coming year evaluate its ongoing performance, based on the requirements of the business and corporate governance standards.

Directors' Report *(continued)*

Board of Directors *(continued)*

Board performance *(continued)*

It is envisaged that the review process will include the use of internal reviews and periodic external facilitation. The results of such reviews will be used to determine whether any alterations are needed at either a board or senior management level or whether any additional training would be beneficial. It is intended that with effect from the end of the next financial year, these evaluations will be undertaken annually, after the end of each financial year but prior to the publication of the respective annual report and accounts.

Director's performance will be measured by way of such matters as:

- Commitment;
- Independence;
- Relevant experience;
- Impartiality;
- Specialist knowledge; and
- Effectiveness on the Board.

As set out in the Constitution of the Company, each year, one third of the Directors with the exception of the Chairman and the Managing Director, retire from the Board of Directors by rotation. Effectively, therefore, each such Director will retire by rotation within a three-year period.

Ethical values and behaviours

The Board of Directors is committed to high standards of corporate governance and integrity in all its activities and operations and promotes a culture of good ethical values and behaviour. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. Individual staff members must ensure that they apply and maintain these standards in all their actions.

The Chairman of the Board of Directors regularly monitors and reviews the Company's ethical standards and cultural environment and where necessary takes appropriate action to ensure proper standards are maintained. Due to the size and available resources of the Company, the Chairman of the Board of Directors carries out executive functions. The Company is fully committed to complying with all relevant health, safety and environment rules and regulations as these apply to its operations. It is an objective of the Company that all individuals are aware of their responsibilities in providing a safe and secure working environment.

Board Committees

The Board of Directors has implemented an effective committee structure to assist in the discharge of its responsibilities. The committees and their members are listed on page 1 of this report. Membership of the Audit and Remuneration Committees is comprised exclusively of non-executive Directors. There were no Remuneration Committee meetings in the year under review and attendance at the Audit Committee meetings is set out in the table below:

	Audit Committee	Remuneration Committee
Meetings held during the year	3	-
Séamus P. FitzPatrick	2	-
Brendan McMorrow	3	-
Dr. Sorca Conroy	3	n/a
Howard Bird	n/a	-

Board of Directors (continued)*Audit Committee*

The Audit Committee's terms of reference have been approved by the Board of Directors. The Audit Committee, constituted in accordance with Section 1097 of the Companies Act 2014, comprises three non-executive Directors and is chaired by Séamus P. FitzPatrick. The Audit Committee reviews the accounting principles, policies and practices adopted, and areas of management judgement and estimation during the preparation of the interim and annual financial statements and discusses with the Company's Auditor the results and scope of the audit. The external auditor has the opportunity to meet with the members of the Audit Committee alone at least once a year.

The Audit Committee also advises the Board of Directors on the appointment of the external auditor and on their remuneration. An analysis of the fees payable to the external audit firm in respect of audit services during the financial year is detailed in Note 3 to the financial statements. The Audit Committee also undertakes a review of any non-audit services provided to the Company. There were no such non-audit services provided during the period under review.

The Audit Committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The Audit Committee also reviews internal controls and reviews the effectiveness of the Company's internal controls and risk management systems. It also considers the need for an internal audit function, which it believes is not primarily required at present because of the size of the Company's operations. The members of the Audit 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.

Remuneration Committee

The Remuneration Committee's terms of reference have been approved by the Board of Directors and are in accordance with the QCA Remuneration Committee Guide for Small and Mid-Size Quoted Companies. The Remuneration Committee comprises three non-executive Directors and is chaired by Séamus P. FitzPatrick. Emoluments of executive Directors and senior management are determined by the Remuneration Committee. In the course of each financial year, the Remuneration Committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive Directors. The Remuneration Committee applies the same philosophy in determining executive Directors' remuneration as is applied in respect of all employees. The underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Company. No meetings of the Remuneration Committee were held in the period under review.

The Board of Directors itself determines the remuneration of the non-executive Directors. Details of Directors' remuneration for the current period are detailed in Note 2 and Note 4 to the financial statements.

Executive Committee

The Executive Committee comprises Professor Richard Conroy, Dr. Sorca Conroy, Ms. Maureen T.A. Jones, Brendan McMorro and Howard Bird. Its purpose is to support the Managing Director in carrying out the duties delegated to her by the Board of Directors. It also ensures that regular financial reports are presented to the Board of Directors, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the Company. The three non-executive directors are not involved in the daily management of the Company.

Directors' Report *(continued)*

Board of Directors *(continued)*

Internal control

The Directors have overall responsibility for the Company's system of internal control to safeguard shareholders' investments and the Company assets. They operate a system of financial controls which enables the Board of Directors to meet its responsibilities for the integrity and accuracy of the Company's accounting records. Among the processes applied in reviewing the effectiveness of the system of internal controls are the following:

- The Board of Directors establishes risk policies as appropriate, for implementation by executive management;
- All commitments for expenditure and payments are subject to approval by personnel designated by the Board of Directors; and
- Regular management meetings take place to review financial and operational activities.

The Board of Directors has considered the requirement for an internal audit function. Based on the scale of the Company's operations and close involvement of the Board of Directors, the Directors have concluded that an internal audit function is not currently required.

Risks and uncertainties

The Company is subject to a number of potential risks and uncertainties, which could have a material impact on the long-term performance of the Company and could cause actual results to differ materially from expectation. The management of risk is the collective responsibility of the Board of Directors and is considered as part of all Board meetings. An ongoing process for identifying, evaluating and managing or mitigating the principal risks faced by the Company has been in place throughout the financial year and has remained in place up to the approval date of the report and accounts. The Board intends to keep its risk control procedures under constant review, particularly with regard to the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

As might be expected in a Company of this size, a key control procedure is the day-to-day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations. The Board has considered the impact of the values and culture of the Company and ensures that, through staff communication and training, the Board's expectations and attitude to risk and internal control are embedded in the business. The Board of Directors consider the following risks to be the principal risks affecting the business.

General Industry Risk

The Company's business may be affected by the general risks associated with all companies in the diamond exploration industry. These risks (the list of which is not exhaustive) include: general economic activity, the world diamond prices, government and environmental regulations, permits and licenses, fluctuating metal prices, the requirement and ability to raise additional capital through future financings and price volatility of publicly traded securities. As such there is no guarantee that future market conditions will permit the raising of the necessary funds by way of issue of new equity, debt financing or farming out of interests. To mitigate this risk, the Board regularly reviews Company cash flow projections and considers different sources of funds.

Environmental Risk and Climate Change

Environmental and safety legislation may change in a manner that may require stricter or additional standards than those now in effect. These could result in heightened responsibilities for the Company and could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. The primary area that is expected to impact the Company is in the area of climate change where related legislation and regulations are evolving in pursuit of national and international climate change objectives. There will cause any applicable standards to be more stringent and the impact of this risk will continue to be monitored by the Directors and management. Management will continue to closely monitor any regulatory updates in this area and its potential impact on the Company. The Company employs staff and consultants experienced in the requirements of the relevant environmental authorities and seeks, through their experience, to mitigate the risk of non-compliance with accepted best practice.

Risks and uncertainties (continued)*Exploration Risk*

All drilling to establish productive diamond resources is inherently speculative, and, therefore, a considerable amount of professional judgement is involved in the selection of any prospect for drilling. In addition, in the event drilling successfully encounters diamonds, unforeseeable operating problems may arise which render it uneconomic to exploit such finds. Estimates of potential resources include substantial proportions which are undeveloped. These resources require further capital expenditure in order to bring them into production. No guarantee can be given as to the success of drilling programmes in which the Company has an interest. The Company employs highly competent experienced staff and uses a range of techniques to minimise risk prior to drilling and utilises independent experts to assess the results of exploration activity.

Financial Risk

Refer to Note 16 in relation to the use of financial instruments by the Company, the financial risk management objectives of the Company and the Company's exposure to inflation, interest rate risk, foreign currency risk, liquidity risk and credit risk. Management is authorised to achieve best available rates in respect of each forecast currency requirement.

Pandemic Risk

The COVID-19 pandemic continued to have some impact on the Company's activities during the financial year. Since the outbreak of the COVID-19 pandemic, the Company has taken necessary measures in accordance with Government's guidelines to protect the health, safety and wellbeing of its employees, contractors and partners in Finland and Ireland including for a period, staff working remotely. The field and laboratory work were not impacted as much in this financial year end. The Company's exploration and development programme continued.

Russia/Ukraine war Risk

Since February 2022, the world has been watching closely the situation between Russia and the Ukraine and the impact on Europe and the rest of the world. The main impacts seen to date are on the energy prices and any supply issues that may occur in the energy sector as a result of restrictions imposed. Directors and management will continue to closely monitor the situation and in particular the impact which it may have on the operations of the business.

Communication with shareholders

The Company gives high priority to communication with both shareholders and all other stakeholder groups. This is achieved through publications such as the annual and interim report, and news releases on the Company's website www.kareliandiamondresources.com, which is regularly updated.

The Company encourages shareholders to attend the Annual General Meeting (AGM) to meet, exchange views and discuss the progress of the Company. The Directors are available after the conclusion of the formal business of the AGM to meet, listen to shareholders and discuss any relevant matters arising.

Political donations

There were no political donations during the financial year (31 May 2022: €Nil).

Accounting records

The Board of Directors are responsible for ensuring adequate accounting records, as outlined in Sections 281 to 285 of the Companies Act 2014, are kept by the Company. The Board of Directors, through the use of appropriate procedures and systems and the employment of competent persons have ensured that measures are in place to secure compliance with these requirements.

The accounting records are maintained at the Company's business address, 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

Directors' Report *(continued)*

Disclosure of information to auditor

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 auditor is unaware; and
- The Directors have taken all 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 auditor is aware of that information.

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

Auditor

Deloitte Ireland LLP will continue in office in accordance with Section 383 (2) of the Companies Act 2014. Shareholders will be asked to authorise the Directors to fix their remuneration.

On behalf of the Directors:

Professor Richard Conroy (Chairman)

Maureen T.A. Jones (Managing Director)

27 November 2023

Independent Auditor's Report

Independent auditor's report to the members of Karelían Diamonds Resources Plc

Report on the audit of the financial statements

Opinion on the financial statements of Karelían Diamond Resources Plc (the 'company')

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 2023 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.

The financial statements we have audited comprise:

- the Statement of profit or loss;
- the Statement of comprehensive income;
- the Statement of financial position;
- the Statement of changes in equity;
- the Statement of cash flows; and
- the related notes 1 to 18, including a summary of significant accounting policies as set out in note 1.

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 ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We draw attention to Note 1 in the financial statements, which indicates that as at 31 May 2023 the company had net current liabilities of €1,241,046.

As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

Independent Auditor's Report *(continued)*

- obtaining an understanding of the company's relevant controls over the preparation of cash flow forecasts and approval of the projections and assumptions used in cash flow forecasts to support the going concern assumption;
- assessing the design and determining the implementation of these relevant controls;
- evaluating directors' plans and their feasibility by agreeing the inputs used in the cash flow forecast to expenditure commitments and other supporting documentation;
- challenging the reasonableness of the assumptions applied by the directors in their going concern assessment;
- obtaining confirmations received by the company from the directors and former directors evidencing that they will not seek repayment of amounts owed to them by the company within 12 months of the date of approval of the financial statements, unless the company has sufficient funds to repay;
- assessing the mechanical accuracy of the cash flow forecast model; and
- assessing the adequacy of the disclosures made in the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Going concern (see material uncertainty related to going concern section); and • Valuation of Intangible Assets. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	The materiality that we used in the current year was €280,000 which was determined on the basis of approximately 2.8% of Shareholder's Equity.
Scoping	We determined the scope of our audit by obtaining an understanding of the company and its environment and assessing the risks of material misstatement.
Significant changes in our approach	There were no significant changes in our approach.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.



Valuation of Intangible Assets

Key audit matter description As at 31 May 2023, the carrying value of exploration and evaluation assets included in intangible assets in the statement of financial position amounted to €11,265,894.



We draw your attention to the disclosures made in notes 1 and 7 to the financial statements concerning the valuation of intangible assets held. The valuation of intangible assets by the company is dependent on the 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.

The valuation of intangible assets in the statement of financial position was assessed as a significant risk and given the balance constitutes the majority of the total assets in the statement of financial position, we considered it a key audit matter.

How the scope of our audit responded to the key audit matter



We performed the following procedures:

- We evaluated the design and determined the implementation of relevant controls in place over the capitalisation and subsequent valuation of intangible assets;
- We inspected documentation in respect of new and current licenses held (as relevant);
- We challenged the directors' assessment of indicators of impairment in relation to exploration and evaluation assets. We also performed a review of the proposed exploration programme in respect of the company's asset to consider indicators of impairment;
- We performed a review of Board of Directors meeting minutes and press releases issued by the company in relation to the status of exploration and evaluation assets;
- We performed a review of budgeted expenditure for the next 12 months from the date of approval of the financial statements; and
- We also considered the adequacy of the disclosure in the financial statements.

Key observations



A significant uncertainty exists in relation to the ability of the company to release the exploration and evaluation assets capitalised to intangible assets.

- As noted above, we draw your attention to the disclosures made in notes 1 and 7 to the financial statements concerning the valuation of intangible assets. The valuation of intangible assets by the company is dependant on the successful renewal of certain licenses, the 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. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot, at present, be determined. Our opinion is not modified in respect of this matter.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

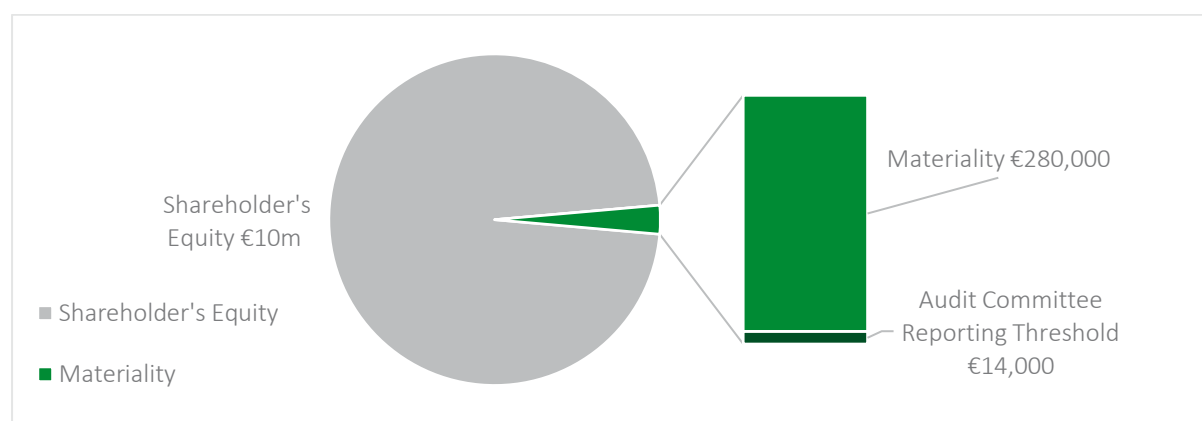
Independent Auditor's Report *(continued)*

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	€280,000 (2022: €280,000)
Basis for determining materiality	2.8% of Shareholder's Equity (2022: 3% of Shareholder's Equity)
Rationale for the benchmark applied	We have considered the Shareholder's Equity to be the critical component for determining materiality as we determined the Shareholder's Equity position to be of most importance to the principal external users of the financial statements. Raising equity funding is of key importance to the company in continuing its current operations and is reflective of the current business life cycle of the company. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the company and reliability of control environment.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 64% of materiality for the 2023 audit. In determining performance materiality, we considered the following factors:

- our understanding of the company;
- the quality of the company's internal control environment and whether we were able to rely on controls;
- the nature and extent of misstatements (corrected and/or uncorrected) identified in previous audits; and
- our expectations in relation to misstatements in the current period.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of €14,000 (2022: €14,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our audit by obtaining an understanding of the company and its environment and assessing the risks of material misstatement within the company. We did not identify any significant changes in the company in the current year therefore there has been no change in audit scope compared with the prior year. The key audit matters we identified have remained consistent with prior year.

Other information

The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report and Financial Statements.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Report, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on IAASA's website at: <https://iaasa.ie/publications/description-of-the-auditors-responsibilities-for-the-audit-of-the-financial-statements/>. This description forms part of our auditor's report.

Independent Auditor's Report *(continued)*

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including valuation specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

In common with all audits under ISAs (Ireland), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act 2014, Alternative Investment Market Rules, Irish Tax legislation and Pension Regulations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included regulations as applicable to the environment, health and safety, and exploration and mining activities.

Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- 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 and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report

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.

Use of our report

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Butler

For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
No.6 Lapp's Quay
Cork
Date: 28 November 2023

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Karelian Diamond Resources P.L.C.

Statement of profit or loss as at 31 May 2023

	Note	2023 €	2022 €
Continuing operations			
Operating expenses	2	(297,386)	(369,019)
Movement in fair value of warrants	15	9,565	389,904
(Loss)/profit before finance costs and taxation	3	(287,821)	20,885
Interest expense	11	(3,646)	(7,292)
Net finance costs		(3,646)	(7,292)
(Loss)/profit before taxation		(291,467)	13,593
Income tax expense	5	-	-
(Loss)/profit for the financial year		(291,467)	13,593
(Loss)/ earnings per share			
Basic and diluted (loss)/earnings per share	6	(0.0038)	0.0002

The total (loss)/profit for the financial year is entirely attributable to equity holders of the Company.

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

Karelian Diamond Resources P.L.C.

Statement of comprehensive income as at 31 May 2023

	2023 €	2022 €
(Loss)/profit for the financial year	(291,467)	13,593
Income recognised in other comprehensive income	-	-
Total comprehensive (loss)/profit for the financial year	<u>(291,467)</u>	<u>13,593</u>

The total comprehensive (loss)/profit for the financial year is entirely attributable to equity holders of the Company.

Karelian Diamond Resources P.L.C.

Statement of financial position as at 31 May 2023

	Note	31 May 2023	31 May 2022
		€	€
Assets			
Non-current assets			
Intangible assets	7	11,265,894	10,910,931
Total non-current assets		11,265,894	10,910,931
Current assets			
Cash and cash equivalents	8	116,038	117,868
Other receivables	9	79,003	60,178
Total current assets		195,041	178,046
Total assets		11,460,935	11,088,977
Equity			
Capital and reserves			
Share capital presented as equity	12	3,200,882	3,191,807
Share premium	12	10,546,844	9,959,181
Share-based payments reserve	15	450,658	450,658
Retained deficit		(4,412,310)	(4,120,843)
Total equity		9,786,074	9,480,803
Liabilities			
Non-current liabilities			
Derivative liability	10	10,304	146
Convertible loan	10	119,246	-
Warrant liabilities	10	109,224	-
Total non-current liabilities		238,774	146
Current liabilities			
Trade and other payables	11	1,436,087	1,441,238
Convertible loan	10,11	-	166,790
Total current liabilities		1,436,087	1,608,028
Total liabilities		1,664,859	1,608,174
Total equity and liabilities		11,460,935	11,088,977

The financial statements were approved by the Board of Directors on 27 November 2023 and authorised for issue on 28 November 2023. They are signed on its behalf by:

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

Karelian Diamond Resources P.L.C.

Statement of changes in equity for the financial year ended 31 May 2023

		Share capital €	Share premium €	Share-based payment reserve €	Retained deficit €	Total equity €
	<i>Note</i>					
Balance at 1 June 2022		3,191,807	9,959,181	450,658	(4,120,843)	9,480,803
Share issue	12	9,075	610,824	-	-	619,899
Share issue costs		-	(23,161)	-	-	(23,161)
Share-based payments		-	-	-	-	-
(Loss) for the financial year		-	-	-	(291,467)	(291,467)
Balance at 31 May 2023		3,200,882	10,546,844	450,658	(4,412,310)	9,786,074
Balance at 1 June 2021		3,191,807	9,959,181	450,058	(4,105,780)	9,495,866
Share issue costs	12	-	-	-	(28,656)	(28,656)
Profit for the financial year		-	-	-	13,593	13,593
Balance at 31 May 2022		3,191,807	9,959,181	450,658	(4,120,843)	9,480,803

Share capital

The share capital comprises of the nominal value share capital issued for cash and non-cash consideration. The share capital also comprises deferred share capital. The deferred share capital arose through the restructuring of share capital which was approved at the Annual General Meeting held on 9 December 2016. A detailed breakdown of the share capital figure is included in Note 12.

Share premium

The share premium reserve comprises of the excess consideration received in respect of share capital over the nominal value of 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 or lapsed during the year, which are reclassified to retained deficit.

Retained deficit

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

Karelian Diamond Resources P.L.C.

Statement of cash flows

for the financial year ended 31 May 2023

		2023 €	2022 €
Cash flows from operating activities	<i>Note</i>		
(Loss)/profit for the financial year		(291,467)	13,593
<i>Adjustments for:</i>			
Movement in fair value of warrants	10	109,224	(389,904)
Interest expense		3,646	7,292
		(178,597)	(369,019)
 Increase in trade and other payables	11	1,361	75,340
(Increase) in other receivables	9	(18,825)	(11,872)
Advances/(repayment to) from Conroy Gold and Natural Resources P.L.C.		119,246	(70,000)
Net cash used in operating activities		(76,815)	(375,550)
 Cash flows from investing activities			
Investment in exploration and evaluation	7	(354,963)	(144,355)
Net cash used in investing activities		(354,963)	(144,355)
 Cash flows from financing activities			
Issue of share capital	12	453,109	604,651
Share issue costs	12	(23,161)	(28,656)
Net cash provided by financing activities		429,948	575,995
 (Decrease)/Increase in cash and cash equivalents		(1,830)	56,090
Cash and cash equivalents at beginning of financial year		117,868	61,778
Cash and cash equivalents at end of financial year		116,038	117,868

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023

1 Accounting policies

Reporting entity

Karelían Diamond Resources P.L.C. (the “Company”) is a company domiciled in Ireland. The Company is a public limited company incorporated in Ireland under registration number 382499. The registered office is located at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

The principal activity of the Company during the financial year is a mineral exploration and development company.

Basis of preparation

The financial statements are presented in euro (“€”). The € is the functional currency of the Company. The financial statements are prepared under the historical cost basis except for derivative financial instruments which, if any, are measured at fair value at each reporting date.

The preparation of 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 period in which the estimate is revised and in any future periods affected. Details of significant judgements are disclosed in the accounting policies.

The financial statements were authorised for issue by the Board of Directors on 28 November 2023.

Going concern

The Company recorded a loss of €291,467 (31 May 2022: profit of €13,593) for the financial year ended 31 May 2023. The Company had net assets of €9,786,074 (31 May 2022: €9,480,803) at that date. The Company had net current liabilities of €1,241,046 (31 May 2022: net current liabilities of €1,429,982) at the statement of financial position date.

The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorca Conroy, Brendan McMorro, Howard Bird and former Director James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €1,291,969 (31 May 2022: €1,106,970) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2024. As set out further in the Chairman’s statement, the Company expects to incur capital expenditure in 2023 and 2024, consistent with its strategy as an exploration company. The Directors recognise that net current liabilities of €1,241,046 (31 May 2022: €1,429,982) is a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. In reviewing the proposed work programme for exploration and evaluation assets and, 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.

The financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that would arise if the Company was unable to continue as going concern.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

1 Accounting policies (*continued*)

Statement of compliance

The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union ("EU") and the requirements of the Companies Act 2014.

Recent accounting pronouncements

(i) New and amended standards adopted by the Company

The Company has adopted the following amendments to standards for the first time for its annual reporting year commencing 1 June 2022:

- IFRS 4 amendments regarding the expiry date of the deferral approach – Effective date 1 January 2023;
- IAS 8 amendments regarding the definition of accounting estimates – Effective date 1 January 2023;
- IAS 1 amendments regarding the disclosure of accounting policies – Effective date 1 January 2023;
- IFRS 17 Insurance contracts – Effective date deferred to 1 January 2023.
- Amendment to IFRS 16 about providing lessees with an extension of one year to exemption from assessing whether a COVID-19-related rent concession is a lease modification – Effective date 1 April 2021;
- IFRS 3 amendments updating a reference to the Conceptual Framework – Effective date 1 January 2022;
- IAS 37 amendments regarding the costs to include when assessing whether a contract is onerous – Effective date 1 January 2022.
- IFRS 1 amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (subsidiary as a first-time adopter) – Effective date 1 January 2022; and
- IFRS 9 amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (fees in the "10 per cent" test for derecognition of financial liabilities) – Effective date 1 January 2022;

The adoption of the above amendments to standards had no significant impact on the financial statements of the Company either due to being not applicable or immaterial.

(ii) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 May 2023 reporting periods and have not been early adopted by the Company.

The following new standards 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 year. The Board of Directors is currently assessing whether these standards once endorsed by the EU will have any impact on the financial statements of the Company.

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture – Postponed indefinitely;
- Amendments to IFRS 16 Leases: Lease liability in a sale and leaseback – Effective date 1 January 2024; and
- Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current – Effective date 1 January 2024.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 *(continued)*

1 Accounting policies *(continued)*

(a) Intangible assets

The Company accounts for mineral expenditure in accordance with IFRS 6: *Exploration for and Evaluation of Mineral Resources*.

(i) Capitalisation

All costs related to acquiring the legal rights to explore will be capitalised. All other costs incurred prior to acquiring the rights to explore are charged directly to the consolidated statement of profit or loss. Exploration, appraisal and development expenditure incurred on exploring, and testing exploration prospects are accumulated and capitalised as intangible exploration and evaluation ("E&E") assets.

E&E 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, E&E capitalised costs include an allocation from operating expenses, including share-based payments. All such costs are necessary for exploration and evaluation activities.

E&E capitalised costs are not amortised prior to the conclusion of appraisal activities.

At completion of appraisal activities if technical feasibility is demonstrated and commercial resources 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 are written off to the statement of profit or loss 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 in relation to E&E assets:

- The period for which the entity has the right to explore in the specific area has expired 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 exists 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.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 *(continued)*

1 Accounting policies *(continued)*

(a) Intangible assets *(continued)*

(ii) Impairment *(continued)*

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

(b) Income taxation expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive loss, in which case it is recognised in the statement of comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities on a net basis or their tax assets and liabilities will be settled simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(c) Share-based payments

The Company classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. When the warrants issued (see note 16 for details) have an exercise price in sterling, they are derivative in nature and are liability classified. They do not qualify for equity classification as any cash settlement on exercise of these warrants will be received in a foreign currency. Where warrants are issued in the functional currency of the Company and meet the other necessary conditions, they are recognised as equity instruments. The warrant liabilities are recognised at their fair value on initial recognition and subsequently are measured at fair value through statement of profit or loss. Any incremental direct costs associated with the issuance of warrants are taken as an immediate charge to finance costs through the statement of profit or loss. See note 11 for further details.

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 or Black Scholes Model).

(d) Trade and other receivables and payables

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

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

1 Accounting policies (*continued*)

(e) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares.

(f) 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.

(g) Pension costs

The Company provides for pensions for certain employees through a defined contribution pension scheme. The amount charged to the statement of profit or loss 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 in the statement of financial position.

(h) Foreign currencies

Transactions denominated in foreign currencies relating to costs and non-monetary assets are translated into € 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 € at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the statement of profit or loss.

(i) Directors' Loans

The Directors' loans are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on the effective interest rate method. The effective interest 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.

(j) Convertible loan

As the convertible loan is made up of both liability and derivative components, it is considered to be a compound financial instrument. At initial recognition, the carrying amount of a compound financial instrument is allocated to its liability and derivative components. The fair value of the liability, which is the difference between the transaction price and the fair value of the conversion feature, and derivative is recognised as a liability in the statement of financial position. The conversion feature is subsequently measured at fair value with changes recognised in profit or loss. The liability is subsequently measured at amortised cost. The Company accounts for the interest expense of the convertible loan note at the effective interest rate. The difference between the effective interest rate and interest rate attached to the convertible loan increases the carrying amount of the liability so that, on maturity, the carrying amount is equal to the capital cash repayment that the Company may be required to pay.

(k) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share warrants are recognised as a deduction from retained earnings, net of any tax effects. Effective 6 July 2022, share issue costs can be deducted from share premium.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

1 Accounting policies (*continued*)

(l) Impairment - financial assets are measured at amortised cost

Financial assets measured at amortised cost are reviewed for impairment loss at each reporting date. The Company applies the simplified approach in accordance with IFRS 9 as adopted by the European Union.

The Company measures the loss allowance at an amount equal to the lifetime expected credit losses as required under a simplified approach for trade receivables that do not contain a financing component.

The Company's approach to expected credit losses ("ECL") reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial re-organisation and default in payments are all considered indicators for increases in credit risks.

If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. Any contractual payment which is more than 90 days past due is considered credit impaired.

(m) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Subsequent measurement of financial assets

Financial assets held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at FVTPL. Further, irrespective of the business model used, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below). The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in XY Ltd and listed equity securities at FVOCI. The fair value was determined in line with the requirements of IFRS 13 'Fair Value Measurement'. Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 *(continued)*

1 Accounting policies *(continued)*

(m) Financial instruments *(continued)*

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(n) Significant accounting judgements and key sources of estimation uncertainty

Significant judgements in applying the Company's accounting policies

The preparation of the financial statements requires the Board of Directors to make judgements and estimates and form assumptions that affect the amounts of assets, liabilities, contingent liabilities, revenues and expenses reported in the financial statements. On an ongoing basis, the Board of Directors evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. The Board of Directors bases its judgements and estimates on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the reported amounts that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. In the process of applying the Company's accounting policies above, the Board of Directors have identified the judgemental areas that have the most significant impact on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with as follows:

Exploration and evaluation assets

The assessment of whether operating costs and salary costs are capitalised to exploration and evaluation costs or expensed involves judgement. The Board of Directors consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within exploration and evaluation assets. Given that the activity of management and the resultant administration and salary costs are primarily focused on the Company's diamond prospects, the Board of Directors consider it appropriate to capitalise a portion of such costs. These costs are reviewed on a line by line basis with the resultant calculation of the amount to be capitalised being specific to the activities of the Company in any given year.

Cash generating units

As outlined in the intangible assets accounting policy, the exploration and evaluation assets should be allocated to CGUs. The determination of what constitutes a CGU requires judgement.

The carrying value of each CGU 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.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

1 Accounting policies (*continued*)

(n) Significant accounting judgements and key sources of estimation uncertainty (*continued*)

Significant judgements in applying the Company's accounting policies (*continued*)

Going concern

The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the successful further development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability. The Board of Directors have reviewed the proposed programme for exploration and evaluation assets and, on the basis of the equity raised after the financial year, the results from the exploration programme and the prospects for raising additional funds as required, consider it appropriate to prepare the financial statements on the going concern basis. Refer to page 29 for further details.

Deferred tax

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

Key sources of estimation uncertainty

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.

Exploration and evaluation assets

The carrying value of exploration and evaluation assets was €11,265,894 (31 May 2022: €10,910,931) at 31 May 2023. The Board of Directors carried out an assessment, in accordance with IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to the remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities over specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount. Based on this assessment, the Board of Directors is satisfied as to the carrying value of these assets and is satisfied that these are recoverable, acknowledging however that their recoverability is dependent on future successful exploration efforts. While uncertainty exists, primarily due to the nature of the mining and exploration business, the Directors will continue to assess the carrying amounts of the exploration and evaluation assets. This assessment includes an assessment of the possible outcomes that can be reasonably expected in the forthcoming financial period.

Employee benefits – Share-based payment transactions

The Company operates equity-settled share-based payment arrangements with non-market performance conditions which fall within the scope of and are accounted for under the provisions of IFRS 2: *Share-based Payment*. Accordingly, the grant date fair value of the options under these schemes is recognised as an operating expense with a corresponding increase in the "Share-based payment reserve", within equity, where the exercise price is granted in EUR or recognised as a liability where a different currency is quoted as the exercise price over the vesting period. 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 Black Scholes Model. The fair value of these options is measured using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

2 Operating expenses

	2023	2022
	€	€
Analysis of operating expenses		
Operating expenses	383,035	503,260
Transfer to intangible assets	(85,649)	(134,241)
	297,386	369,019
<i>Operating expenses are analysed as follows:</i>		
Professional fees	113,408	151,043
Wages and salaries	140,558	187,469
Personnel costs	79,244	77,722
Other operating expenses	9,826	68,026
Auditor's remuneration	40,000	19,000
	383,035	503,260

Of the above costs, a total of €85,649 (31 May 2022: €134,241) is capitalised to intangible assets based on a review of the nature and quantum of the underlying costs. Refer to Note 1(a)(i) for further details. The costs capitalised to intangible assets mainly relate to the costs of geological and on-site personnel together with an appropriate portion of executive management salaries. €57,500 (31 May 2022: €57,500) is charged to the Statement of profit or loss in relation to Directors' salaries.

	2023	2022
	€	€
Wages, salaries and personnel costs as disclosed above is analysed as follows:		
Wages and salaries and personnel costs	216,978	258,044
Social insurance costs	2,824	7,147
	219,802	265,191

The amount of wages, salaries and related costs capitalised to intangible assets during the financial year was €83,058 (31 May 2022: €129,969).

The average number of persons employed during the year (including executive Directors) by activity was as follows:

	2023	2022
Corporate management and administration	2	2
Exploration and evaluation	-	-
	2	2

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

2 Operating expenses (*continued*)

An analysis of remuneration for each Director of the Company in the current financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	Salary €	Share-based payment €	Pension contributions €	Total €
Professor Richard Conroy	20,000	65,000	-	-	85,000
Maureen T.A. Jones	10,000	50,000	-	-	60,000
Brendan McMorrow	10,000	-	-	-	10,000
Séamus P. FitzPatrick	10,000	-	-	-	10,000
Dr. Sorca Conroy	10,000	-	-	-	10,000
Howard Bird	10,000	-	-	-	10,000
	70,000	115,000	-	-	185,000

An analysis of remuneration for each Director of the Company in the prior financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	Salary €	Share-based payment €	Pension contributions €	Total €
Professor Richard Conroy	20,000	65,000	-	-	85,000
Maureen T.A. Jones	10,000	50,000	-	-	60,000
Brendan McMorrow	10,000	-	-	-	10,000
Séamus P. FitzPatrick	10,000	-	-	-	10,000
Dr. Sorca Conroy	10,000	-	-	-	10,000
Howard Bird	10,000	-	-	-	10,000
	70,000	115,000	-	-	185,000

3 (Loss)/profit before taxation

The (loss)/profit before taxation is arrived at after charging the following items:

	2023 €	2022 €
Auditor's remuneration		
The analysis of the auditor's remuneration is as follows:		
• Audit of financial statements	40,000	19,000

No fees were incurred for other assurance; tax advisory or other non-audit services in respect of the current or prior financial years.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

4 Directors' remuneration

	2023 €	2022 €
Aggregate emoluments paid to or receivable by Directors in respect of qualifying services	<u>185,000</u>	<u>185,000</u>

During the year ended 31 May 2023 and 31 May 2022, one Director was a member of a defined contribution scheme but no amounts were paid and accordingly, no other disclosures are required by Section 305 of the Companies Act 2014.

No compensation has been paid or is payable for the loss of office or other termination benefit in respect of the loss of office of Director or other offices (31 May 2022: €Nil).

5 Income tax expense

No taxation charge arose in the current or prior financial year due to losses incurred in prior years and this year.

Factors affecting the tax charge for the financial year:

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

	2023 €	2022 €
(Loss)/profit on ordinary activities before taxation	(291,467)	13,593
Irish standard tax rate	<u>12.50%</u>	<u>12.50%</u>
Tax credit at the Irish standard rate	<u>(36,433)</u>	<u>1,699</u>
Effects of:		
Losses carried forward utilised	-	(1,699)
Losses carried forward for future utilisation	<u>36,433</u>	<u>-</u>
Tax charge for the financial year	<u>-</u>	<u>-</u>

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.

Unutilised losses may be carried forward from the date of the origination of the losses but may only be offset against taxable profits earned from the same trade. Unutilised losses carried forward amounted to €12,567,676 at 31 May 2023 and €12,859,143 at 31 May 2022.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

6 (Loss)/profit per share

Basic (loss)/profit per share

	2023	2022
	€	€
(Loss)/profit for the year attributable to equity holders of the Company	(291,467)	13,593
Number of ordinary shares at start of the financial year	68,542,749	68,542,749
Number of ordinary shares issued during the financial year	25,950,000	
Number of ordinary shares at end of the financial year	94,492,749	68,542,749
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	76,460,146	68,542,749
Basic and diluted (loss)/profit per ordinary share	(0.0038)	0.0002

Diluted (loss)/profit per share

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

7 Intangible assets

Exploration and evaluation assets

	31 May 2023	31 May 2022
Cost	€	€
<i>At 1 June</i>	10,910,931	10,766,576
Expenditure during the financial year:		
• Licence and appraisal costs	269,314	10,114
• Other operating expenses (Note 2)	85,649	134,241
<i>At 31 May</i>	11,265,894	10,910,931

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.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

8 Cash and cash equivalents

	31 May 2023	31 May 2022
	€	€
Cash held in bank accounts	116,038	117,868
	116,038	117,868

During the year ended 31 May 2022, four new Nordea Bank accounts were opened for the purpose of holding collateral deposits related to the Finnish licenses. As at 31 May 2023, a total amount of €24,500 (31 May 2022: €24,500) relates to these collateral deposits and are treated as restricted cash balances.

9 Other receivables

	31 May 2023	31 May 2022
	€	€
VAT receivable	35,341	43,664
Other receivables	43,662	16,514
	79,003	60,178

10 Non-current liabilities

Warrant liabilities

During the year ended 31 May 2023, 18,500,000 warrants were issued with a sterling exercise price and expiry of between 18 and 24 months. No new warrants were issued in the prior year. The fair value amount at grant date was valued using the Black Scholes Model and recorded as warrant liabilities. At 31 May 2023, the warrants in issue were fair valued with the movement in fair value being recorded in the statement of profit or loss. See Note 15 for further details.

Convertible loan

On 26 May 2023, the Company entered into a convertible loan note agreement for a total amount of €129,550 (£112,500) with Conroy Gold and Natural Resources P.L.C. which is both a shareholder in the company and has a number of other connections as noted in Note 15. The convertible loan note is unsecured, has a term of 18 months and attracts interest at a rate of 5% per annum which is payable on the maturity or conversion of the convertible loan. The conversion price is 5 pence. The shareholder has the right to seek conversion of the principal amount outstanding on the convertible loan note and all interest accrued at any time during the term.

The amount of €10,304 relates to derivative liability attached to the total convertible loan note above and the net amount of €119,246 is recorded as the value of the convertible loan at 31 May 2023. As the loan note was entered close to the year end, no interest was accrued due to it being immaterial.

The convertible loan amounted to €129,550 at 31 May 2023 and is classified as a non-current liability.

	31 May 2023	31 May 2022
	€	€
Opening Balance	-	-
Interest payable	-	-
Derivative liability	10,304	-
Convertible loan	119,246	-
	129,550	-

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

11 Current liabilities

Trade and other payables

	31 May 2023 €	31 May 2022 €
Accrued Directors' remuneration		
Fees and other emoluments	1,028,718	843,720
Pension contributions	263,250	263,250
Amount due to related party (see note 14 (b))	5,023	199,806
Other creditors and accruals	139,096	134,462
	<u>1,436,087</u>	<u>1,441,238</u>

As at 31 May 2023, director fees amounting to €44,167 (31 May 2022: €34,167) due to Brendan McMorrow are included in Fees and other emoluments. As at 31 May 2023, an amount of €NIL (31 May 2022: €2,500) payable to Brendan McMorrow for other services rendered by him is included in other creditors and accruals.

It is the Company's practice to agree terms of transactions, including payment terms with suppliers. It is the Company's policy that payment is made according to the agreed terms. The carrying value of the trade and other payables approximates to their fair value.

Convertible loan

On 10 December 2019, the Company entered into a convertible loan note agreement for a total amount of €145,829 (£120,000) with one of its shareholders. The total amount outstanding as at 31 May 2022 including accrued interest was €166,790. This agreement was varied in December 2022 and the loan note holder exercised their conversion rights to convert the loan and all accrued interest (totalling £138,000) into 3,450,000 new ordinary shares in the company on 20 December 2022.

	31 May 2023 €	31 May 2022 €
Opening Balance	166,790	159,498
Interest payable	3,646	7,292
Conversion to ordinary equity	(170,436)	-
	<u>-</u>	<u>166,790</u>

12 Called up share capital and share premium

Authorised:

	31 May 2023 €	31 May 2022 €
182,532,751,034 ordinary shares of €0.00001 each	-	-
7,301,310,041 consolidated ordinary shares of €0.00025 each	1,825,328	1,825,328
317,785,034 deferred shares of €0.00999 each	3,174,672	3,174,672
	<u>5,000,000</u>	<u>5,000,000</u>

The deferred shares do not entitle the holder to receive a dividend or other distribution. Furthermore, the deferred shares do not entitle the shareholder to receive notice of or vote at any general meeting of the Company, and do not entitle the shareholder to any proceeds on a return of capital or winding up of the Company.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

12 Called up share capital and share premium (*continued*)

Issued and fully paid – Current financial year

	Number of ordinary shares	Called up share capital €	Called up deferred share capital €	Share premium €
<i>Start of current financial year – shares of €0.00025 each</i>	68,542,749	17,135	3,174,672	9,959,181
Share issue (a)	12,500,000	3,125	-	269,254
Share issue (b)	10,000,000	2,500	-	280,182
Warrants issued (see note 15)	-	-	-	(118,789)
Loan conversion into shares (c)	3,450,000	3,450	-	157,016
<i>End of current financial year</i>	94,492,749	26,210	3,174,672	10,546,844

Issued and fully paid – Prior financial year

	Number of ordinary shares	Called up share capital €	Called up deferred share capital €	Share premium €
<i>Start of prior financial year – shares of €0.00025 each</i>	68,542,749	17,135	3,174,672	9,959,181
<i>End of prior financial year</i>	68,542,749	17,135	3,174,672	9,959,181

(a) On 29 November 2022, the Company raised €286,639 (£250,000) before share issue costs of €17,385 through the issue of 12,500,000 ordinary shares of €0.00025 in the capital of the Company at a price of £0.02 per Subscription Share.

(b) On 19 May 2023, the Company raised €285,958 (£250,000), before share issue costs of €5,776 through the issue of 10,000,000 ordinary shares of €0.00025 in the capital of the Company at a price of £0.25 per Subscription Share.

(c) As set out in more detail in Note 10, on 20 December 2022, a loan holder exercised their conversion rights to convert their loan and all accrued interest (totalling £138,000) into 3,450,000 new ordinary shares in the company.

Warrants: At 31 May 2023, warrants over 34,750,000 shares exercisable at prices varying from £0.04 to £0.08 and £0.10 at any time up to 5 December 2024 were outstanding. 18,500,000 new warrants were issued during the year ended 31 May 2023 (31 May 2022: no warrants were issued).

Options: At 31 May 2022 and 31 May 2021, there are no options outstanding.

Share price: The share price at 31 May 2023 was £0.027 (31 May 2022: £0.025). The share price ranged from £0.0235 to £0.0285 (31 May 2022: £0.0205 to £0.0475) during the year under review.

13 Commitments and contingencies

At 31 May 2023, there were no capital commitments or contingent liabilities (31 May 2022: €Nil) recognised at the balance sheet date. Should the Company decide to further develop the Lahtojoki project, an amount of €40,000 is payable by the Company to the vendors of the Lahtojoki mining concession.

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

14 Related party transactions

(a) The Company shares office accommodation with Conroy Gold and Natural Resources P.L.C. which has certain common Directors and shareholders. For the financial year ended 31 May 2023, Conroy Gold and Natural Resources P.L.C. incurred costs totalling €46,178 (31 May 2022: €100,313) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources P.L.C.

These costs are analysed as follows:

	2023	2022
	€	€
Office salaries	25,558	72,469
Rent and rates	10,145	15,850
Other operating expenses	10,475	11,994
	46,178	100,313

(b) At 31 May 2023, the Company owed €5,023 to Conroy Gold and Natural Resources P.L.C. (31 May 2022: €199,806 owed to). Amounts owed to Conroy Gold and Natural Resources P.L.C. were included within trade and other payables during the current year. During the financial year ended 31 May 2023, the Company received €32,500 from (31 May 2022: €70,000 was paid to) Conroy Gold and Natural Resources P.L.C. During the financial year ended 31 May 2023, the Company was charged €46,178 (31 May 2022: €100,313) by Conroy Gold and Natural Resources P.L.C. in respect of the allocation of certain costs as detailed in Note 15(a). In May 2023, Conroy Gold and Natural Resources P.L.C. converted amounts owing to it equivalent to €143,943 (£125,000) into ordinary equity as detailed as part of the “share issue (b)” detailed in Note 12 and a further €129,550 (£112,500) into a convertible loan instrument as detailed in Note 10.

(c) At 31 May 2023, Brendan McMorro was owed €44,167 (31 May 2022: €34,167) in respect of his services as a director. He invoiced the company an amount of €9,000 (31 May 2022: €2,500) during the year for other services rendered of which €Nil (31 May 2022: €2,500) was outstanding at 31 May 2023. These amounts are included in the trade and other payables balance in the statement of financial position.

(d) Key management personnel are considered to be the Board of Directors and other key management. The compensation of all key management personnel during the year was €199,824 (2022: €185,000). Further analysis of remuneration for each Director of the Company is set out in note 2.

(e) Details of share capital transactions with the Directors are disclosed in the Directors’ Report.

(f) Apart from Directors’ remuneration (detailed in Note 2 and Note 4), convertible loan from a shareholder (which is detailed in Note 11) and share capital transactions (which are detailed within the Directors’ Report), there have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest.

15 Share-based payments

Warrants granted generally have a vesting period of one and half or two years. Details of the warrants outstanding during the financial year are as follows:

	2023	2023	2022	2022
	No. of Share	Weighted	No. of Share	Weighted
	Warrants	Average	Warrants	Average
		Exercise Price		Exercise Price
		€		€
At 1 June	17,286,250	0.0918	17,286,250	0.0918
Granted during the financial year	18,500,000	0.04173	-	-
Lapsed during the financial year	(1,036,250)	1.1057	-	-
At 31 May	34,750,000	0.05963	17,286,250	0.0918

Karelían Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

15 Share based payments (*continued*)

The company issued 18,500,000 sterling based warrants during the year, with an estimated fair value at date of grant of €118,789. As a result of the valuation performed at year end, the fair value of the sterling based warrants was €109,224 at 31 May 2023 (31 May 2022: €Nil) and accordingly €9,565 credited to the Statement of profit or loss as a movement in the fair value of warrants.

The Company estimated the fair value of warrants awards using the Black Scholes Model. The determination of the fair value of share-based payment awards on the date of grant and on revaluation at each year end using the Black Scholes Model is affected by Karelían Diamond Resources P.L.C. stock price, share price volatility as well as assumptions regarding a number of subjective variables. These variables include the expected term of the awards, the stock price volatility, the risk-free interest rate and the expected dividends.

The following key input assumptions were used to calculate the fair value of the sterling based warrants:

	2023	2022
	Warrants	Warrants
Dividend yield	0%	0%
Share price volatility	66.395%	61%
Risk free interest rate	4.183%	1.24%
Expected life (in years)	1.5 or 2.0	2.0

During the prior year, no warrants were granted or lapsed and an amount of €389,904 was recognised in the statement of profit or loss based on the fair value of these warrants at grant date. While 1,036,250 share warrants lapsed during the current year, as they have no value at 31 May 2022 no adjustment was required to be made to retained deficit.

16 Financial instruments

Financial risk management objectives, policies and processes

The Company has exposure to the following risks from its use of financial instruments:

- (a) Inflation;
- (b) Interest rate risk;
- (c) Foreign currency risk;
- (d) Liquidity risk; and
- (e) Credit risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and framework in relation to the risks faced.

(a) Inflation

The Company is exposed to the risk associated with inflation such as the impact of increased operating expenses including rent, light & heat and wages and salaries. The Chairman and Managing Director monitor costs on an ongoing basis.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 *(continued)*

16 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(b) Interest rate risk

The Company currently finances its operations through shareholders' funds and loan finance. The loan finance at 31 May 2023 relates to a convertible loan therefore any fluctuations in interest rates will not have an impact on the results of the Company and no sensitivity analysis has been performed. The Company did not enter into any hedging transactions with respect to interest rate risk.

(c) Foreign currency risk

The Company is exposed to currency risk on purchases, loans and bank deposits that are denominated in a currency other than the functional currency of the Company. The Company is further exposed to foreign currency risk through the warrants denominated in sterling which is not the Company's functional currency.

It is the Company's policy to ensure that foreign currency risk is managed wherever possible by matching foreign currency income and expenditure. During the years ended 31 May 2023 and 31 May 2022, the Company did not utilise foreign currency forward contracts or other derivatives to manage foreign currency risk.

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2023:

	Sterling exposure denominated in €	Not at risk €	Total €
Cash and cash equivalents	89,936	26,053	115,989
Derivative liability	(10,304)	-	(10,304)
Convertible loan	(109,224)	-	(109,224)
Trade and other payables	-	1,436,087	1,426,087
Other receivables	-	36,613	36,613
Amount due to related party	-	(5,023)	(5,023)
Total exposure	(29,592)	1,493,730	1,454,138

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2022:

	Sterling exposure denominated in €	Not at risk €	Total €
Cash and cash equivalents	67,138	50,730	117,868
Amount due to related party	-	(199,806)	(199,806)
Other receivables	-	16,514	16,514
Convertible loan	(166,790)	-	(166,790)
Derivative liability	(146)	-	(146)
Trade and other payables	(7,046)	(1,434,192)	(1,441,238)
Total exposure	(106,844)	(1,566,754)	(1,673,598)

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

16 Financial instruments (*continued*)

Financial risk management objectives, policies and processes (continued)

(c) Foreign currency risk (*continued*)

The following are the significant exchange rates that applied against €1 during the financial year:

	Average Rate 2023	Average Rate 2022	Spot Rate 31 May 2023	Spot Rate 31 May 2022
GBP	0.869	0.844	0.865	0.851

Sensitivity analysis

A 10% strengthening of the Euro against Sterling, based on outstanding financial assets and liabilities at 31 May 2022 would have decreased the reported loss by €9,713 (31 May 2022 decreased by: €10,684) as a consequence of the retranslation of foreign currency denominated financial assets at those dates. A weakening of 10% of the Euro against Sterling would have had an equal and opposite effect.

It is assumed that all other variables, especially interest rates, remain constant in the analysis.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by regularly monitoring cash flow projections. The nature of the Company's exploration and appraisal activities can result in significant differences between expected and actual cash flows. Contractual maturities of financial liabilities as at 31 May 2023 were as follows:

	Carrying amount €	Contractual cash flows €	6 months or less €	6-12 months €	1-2 years €	2-5 years €
Trade and other payables (including amounts owed to related party)	1,426,087	1,426,087	134,118*	1,291,969**	-	-
Derivative liability	10,304	10,304	-	-	10,304***	-
Convertible loan	119,246	119,246	-	-	119,246***	-
	1,555,637	1,555,637	134,118*	1,291,969**	129,550***	-

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

16 Financial instruments (*continued*)

Financial risk management objectives, policies and processes (continued)

(d) Liquidity risk (*continued*)

Contractual maturities of financial liabilities as at 31 May 2022 were as follows:

	Carrying amount €	Contractual cash flows €	6 months or less €	6-12 months €	1-2 years €	2-5 years €
Trade and other payables (including related party loans)	1,441,238	1,441,238	334,268*	-	1,106,970**	-
Derivative liability	146	146	-	-	-	146
Convertible loan	166,790	166,790	-	-	-	166,790
	1,608,174	1,608,174	334,268*	-	1,106,970**	166,936

*The amount of €134,118 (31 May 2022: €334,268) relates to other creditors and accruals (including amounts owed to Conroy Gold and Natural Resources P.L.C.).

**The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorca Conroy, Howard Bird and Brendan McMorrow, and former Director James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €1,291,969 (31 May 2022: €1,106,970) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay. There were no related party loans in existence at 31 May 2023 and 31 May 2022 relating to monies owed to any of the Directors.

***On 26 May 2023, the Company has entered into a convertible loan note agreement for a total amount of €129,550 (£112,500) with one of its shareholders. Please refer to Note 10 for further details.

The Company had cash and cash equivalents of €116,038 at 31 May 2023 (31 May 2022: €117,868).

(e) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation.

Credit risk is the risk of financial loss to the Company if a cash deposit is not recovered. Company deposits are placed only with banks with appropriate credit ratings.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was as follows:

	2023 €	2022 €
Cash and cash equivalents	116,038	117,868
Other receivables	36,613	16,514
	152,651	134,382

The Company's cash and cash equivalents are held at AIB Bank which has a credit rating of "BBB" (31 May 2022: "BBB") as determined by Fitch.

Karelian Diamond Resources P.L.C.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2023 (*continued*)

16 Financial instruments (*continued*)

Financial risk management objectives, policies and processes (continued)

Expected credit loss

The Company measures credit risk and expected credit losses on financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward-looking information in determining any expected credit loss. At 31 May 2023 and 31 May 2022, all cash is accessible on demand and held with counterparties with a credit rating of BBB or higher. Having considered the credit rating of the counterparties and the outstanding balances, management have determined that for both financial years presented, the amount of ECL is immaterial.

(f) Fair values versus carrying amounts

Due to the short-term nature of the majority of the Company's financial assets and liabilities held at amortised cost at 31 May 2023 and 31 May 2022, the fair value equals the carrying amount in each case. The carrying value of non-current financial assets and liabilities is a reasonable approximation of fair value.

(g) Capital management

The principal activities of the Company are concentrating particularly on diamond exploration and evaluation.

The Company has historically funded its activities through share issues and placings and loans. The Company's capital structure is kept under review by the Board of Directors and it is committed to capital discipline and continues to maintain flexibility for future growth.

The capital structure of the Company consists of equity of the Company (refer to the statement of changes in equity and Note 13). The Company is not subject to any externally imposed capital requirements.

17 Post balance sheet events

Post year end the Company announced the completion of a stream sampling programme in Northern Ireland where subsequent indicator mineral and microprobe analysis results confirmed the prospectivity of the Company's licence area for nickel, copper and platinum group metals.

The Company also announced that it has completed a pitting programme over a series of more than twenty kimberlite target locations in the Kuhmo region of Finland. The resulting glacial till samples have been sent for kimberlite indicator mineral testing.

The Company also raised funds of £250,000 in October 2023 (including £100,000 from Board members) with a view to carrying out follow up exploration in Northern Ireland and to continue its ongoing work in Finland.

There were no further important events to note post year end.

18 Approval of the audited financial statements for the financial year ended 31 May 2023

These audited financial statements were approved by the Board of Directors on 27 November 2023 and authorised for issue on 28 November 2023. A copy of the audited financial statements will be available on the Company's website www.kareliandiamondresources.com and will be available from the Company's registered office at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

