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KARELIAN FOLLOWS SUCCESSFUL AIM LISTING WITH FIRST DRILLING TARGETS IN FINNISH DIAMON SEARCH

- **Company's Initial Exploration Programme Will Focus on Kuhmo Claim Block**
 - **Significance of Seitaperä Pipe Enhanced By Other Untested Mineral Anomalies**
 - **Evidence Suggests Multiple Sources of Diamonds May Be Present at Kuhmo**
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Since its shares were admitted to trading on AIM, Karelian Diamond Resources plc (KDR) has made encouraging progress in its Finnish diamond search, recently announcing that several drilling targets have been identified on its Kuhmo claim block in eastern Finland. These targets were picked out following a ground magnetic survey over one of 16 diamond indicator mineral (DIM) anomalies that KDR previously outlined by till sampling.

Trading on AIM commenced at the beginning of September when 10m shares were placed at 5p each to raise £500,000 (before expenses) for diamond exploration on its claims in the Finnish sector of the Karelian Craton. This block of ancient crustal rocks occupies much of eastern and northern Finland, extending over the border into Russia where it hosts a number of significant diamond-deposits, including the world-class Lomonosova and Grib discoveries.

In the annual report for the 14 months ended May 31, 2005 KDR chairman, Professor Richard Conroy, says that the company believes that the Finnish sector of the Craton has the potential to host similar world-class deposits and, given its size and potential, it is under-explored by comparison with other diamond producing regions of the world. He also points out that Finland's climate and terrain are amenable to year-round mining and exploration.

In selecting exploration areas, KDR has made use of the extensive aeromagnetic and electromagnetic data publicly available in Finland to identify geophysical anomalies that might represent kimberlite pipes. Interpretation of the geophysical data has been followed by regional till sampling in the target areas, some of which yielded kimberlitic and diamond indicator minerals, including G9 and G10 garnets which form at similar temperatures and pressures to diamonds.

KDR now holds 58 diamond claims in Finland, mostly overtarget which were identified using this strategy. The claims are grouped geographically into four blocks, each of which has been independently assessed as “highly prospective for diamonds”. The Kuhmo block is the largest with 49 claims, including those covering a known diamondiferous pipe at Seitaperä and the 16 other DIM anomalies found by KDR following till sampling.

The presence of the Seitaperä kimberlite pipe shows that the right geochemical conditions to hold diamonds occur in the Kuhmo area. Furthermore, because Karelian has identified other DIM anomalies elsewhere on the claim block, the significance of this pipe is now much greater than at the time of its discovery. When linked to the fact that kimberlite pipes typically occur in clusters, it suggests that multiple sources of diamonds may be present at Kuhmo. For this reason, it is the focus of your company’s initial exploration programme.

In the coming year this programme will include further drilling of the Seitaperä pipe which has a surface area of 4 hectares, and systematic evaluation of the 15 other known DIM anomalies to determine if they warrant drilling. Till sampling will also continue, as will work on KDR’s three other highly prospective claim blocks, the company states.

Your Company’s management has established a close working relationship with the Geological Survey of Finland (GTK) and is able to draw on its expertise, extensive knowledge of the country’s geology and its excellent technical and laboratory services. Karelian employs GTK staff as local consultants and to undertake fieldwork, and it has benefited greatly from this relationship. KDR can also call on its senior consultant, Dr Bert Gerryts, an internationally respected diamond geologist who pioneered the use of indicator minerals and geophysics in diamond exploration.

“SIGNIFICANT ADVANTAGE” SAYS INDEPENDENT REPORT

Karelian’s admission documents included an independent assessment of its diamond exploration properties and information portfolio prepared by the CSA Group. Amongst other things, this noted that Conroy Diamonds and Gold Plc and Conroy Plc (whose Finnish diamond interests were transferred into KDR) has been active in diamond exploration in the Karelian Craton since 1994. These companies had carried out a large amount of work and gained extensive exploration experience in the region, and the comprehensive data package, exclusive survey results and significant portfolio of claims transferred into Karelian “will provide it with a significant advantage in its future operations”, CSA commented.

Annual Meeting: Dublin, November 14.

COPIES OF THE ANNUAL REPORT ARE AVAILABLE ON REQUEST

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