

## **Karelian Diamond Resources Plc (“KDR”)**

### **Final Results for the year ended 31 May 2007**

#### **Chairman’s Statement**

I have great pleasure in presenting your Company’s Annual Report and Financial Statements for the year ended 31 May 2007.

Your Company was established with the objective of finding commercial diamond deposits in Finland, a country that is a relative newcomer to diamond exploration. Finland hosts the same geological structure in which two world-class diamond deposits have been found over the border in Russia. Since geology recognises no country or political boundary, the logic for seeking similar diamond deposits in Finland is very clear.

Successful diamond exploration requires a systematic approach and painstaking attention to detail. It also requires expertise, energy and enthusiasm, all of which your Company has in abundance. We hold the largest diamondiferous kimberlite pipe found so far in Finland and will continue our drilling and evaluation programme on it this winter. We are also in the process of following up numerous kimberlite indicator mineral (“KIM”) trains which are bringing us closer to the kimberlites which are the primary source of those minerals.

Clearly, our diamond search is now entering an advanced and exciting stage.

As your Company continues to advance its search for world-class diamond deposits in Finland, I think that it is opportune for me to use this year’s annual report to appraise shareholders of the reason we are exploring in Finland, as well as commenting on the progress achieved to date and outlining our plans and expectations for the year ahead.

One of the rarest of minerals, diamonds are formed under conditions of great pressure and temperature which occur beneath thick blocks (+200km) of ancient crustal rocks or cratons that are found only in certain parts of the world. Diamonds are brought to the surface in volcanic rocks, predominantly kimberlites, that erupt from those great depths.

Having the “right geological address” is therefore all important for a diamond explorer and it is for this reason that your Company is focussing its efforts on Finland, a politically stable country with a long mining tradition. A large part of Finland is comprised of the ancient Karelian craton. This craton extends across the border into Russia where it hosts two of the world’s largest and richest diamond discoveries – the Grib and Arkhangelskaya kimberlite pipes.

Though larger than Canada’s Slave Craton in which the rich Ekati and Diavik diamond mines are located, the Finnish section of the Karelian Craton remains relatively under-explored for diamonds.

The availability of high-quality basic geoscientific data and technical services in Finland and the country’s excellent infrastructure have enabled your Company’s diamond exploration programme to proceed somewhat more expeditiously than would be the case in other regions. Despite Finland’s relatively short diamond exploration history, more than 20 kimberlites have been discovered there to date. A very high proportion of these are diamondiferous, including your Company’s Seitaperä pipe in the Kuhmo area.

With a surface area of 4.2ha, Seitaperä is the largest known kimberlite pipe in Finland. We have recently exposed fresh kimberlite just beneath the surface in a number of trenches excavated across the pipe. Over two tonnes of kimberlite have been collected, and several 100kg samples have been sent for micro-diamond analysis at SGS Lakefield Laboratories in Canada. Results are expected by the end of the year.

We have successfully outlined the surface expression of the pipe and selected a number of sites for drill-testing during the coming winter. Our work to date has also indicated a possible south-west extension to the pipe which could increase its overall size, and this will be further investigated in the coming year.

Elsewhere in Finland, your Company has continued its exploration on several locations where previously identified KIM trains are now known to converge with a series of aeromagnetic anomalies. This convergence is particularly exciting as it suggests possible multiple kimberlite sources in the area.

Demand for diamonds continues to rise, but mine production is declining, few new diamond mines are in the pipeline and world inventories of mined diamonds are depleted. Clearly a major new discovery by your Company would be welcomed by the world diamond markets.

Your Company's diamond exploration programme in Finland has, by world standards, made great progress in a very short period. We have an exciting year ahead of us, with further significant progress expected at Seitaperä. With regard to other exploration activities, we look forward to our ongoing work bringing us closer to new kimberlite sources, of which there could be several. Your Company is steadily progressing towards meeting its objective of finding one or more major diamond deposits.

### **Financials**

The loss after taxation for the year ended 31 May 2007 was €125,334 (31 May 2006: €135,952) and the net assets as at 31 May 2007 were €2,641,737 (31 May 2006: €2,742,471).

Subsequent to year end the Company raised £1,050,000 (€1.5m) through the issue of 15,770,000 ordinary shares of €0.01 each at 6.5p sterling together with one warrant, exercisable at 10p sterling during the three years following admission of the Placing Shares, for every three shares allotted.

The directors have also considered the build-up of current liabilities. These liabilities arise mainly from the accrual of unpaid directors' fees and remuneration since incorporation. By foregoing payment of their fees and remuneration, the directors effectively allowed the Company's exploration work on the ground to proceed on a greater and more effective scale with the funds available to the Company.

The directors have agreed to waive their entitlement to all fees accrued up to 31 August 2005 amounting to €83,183. Since 1 September 2005, the date of Admission to AIM, the non-executive directors fees have been paid on a current basis. The executive directors have not taken their salary entitlements or fees and have agreed to waive the amounts accruing up to 30 November 2007. The amount due for the period to 30 November 2007 would be €518,750 making the total amount waived €601,933 (£416,779).

After careful consideration, and discussions with the Company's advisors, the Board has decided, subject to ratification by the shareholders at the Annual General Meeting, to issue a total of 12,852,377 warrants to the individual directors for nil consideration exercisable over 10 years at a subscription price of €0.10 (Stg7p per share). A resolution to this effect has therefore been included in the agenda for the AGM.

The number of warrants proposed to be issued to each director is as follows:

<b><i>Name of Warrant Holder</i></b>	<b><i>Number of Warrants</i></b>
R T W L Conroy	5,521,049
M T A Jones	4,191,275
J P Jones	2,604,389
S P FitzPatrick	232,201
L J Maguire	232,201
R I Chaplin	71,262

I welcome this action by the directors as it represents a strong vote of confidence in your Company and its prospects.

In the light of the excellent exploration results achieved to date, your directors are considering how best to fund your Company's activities going forward. Options being studied include joint venture and farm-out, as well as other arrangements as may be appropriate for advancing the interests of your Company.

**Electronic Communication**

An amendment to the Articles of Association is proposed to enable electronic communication to become another method of communication for the Company in so far as the law permits. Shareholders will continue to be entitled to ask the Company to provide a paper copy of any information which has been provided electronically.

**Auditors**

I would like to take the opportunity of thanking the partners and staff of Deloitte & Touche for their services to your Company during the course of the year.

**Directors, Consultants and Staff**

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

**Future Outlook**

The Company will continue with its exploration programme with a view to developing its diamond interests in Finland in order to generate shareholder value.

**Professor Richard Conroy**

Chairman

19 November 2007

**Profit and Loss Account**  
**For the year ended 31 May 2007**

	Year ended 31 May 2007 €	Year ended 31 May 2006 €
Operating Expenses	(125,404)	(139,599)
Other Income	70	3,647
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Loss for the Financial Year/Period	(125,334)	(135,952)
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Loss per ordinary share	€0.0028	€0.0032

There are no recognised gains or losses other than the loss for the year. The above all result from continuing operations.

**Balance Sheet**  
**As at 31 May 2007**

	2007 €	2006 €
<b>Fixed Assets</b>		
Mineral interests	3,617,723	3,541,406
Tangible fixed assets	1,341	1,509
Financial assets	4	4
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	3,619,068	3,542,919
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<b>Current Assets</b>		
Debtors	2,324	13,661
Cash at bank and in hand	115,402	112,791
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	117,726	126,452
Creditors: Amounts falling due within one year	(63,759)	(442,117)
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Net Current Assets/(Liabilities)	53,967	(315,665)
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Total Assets less Current Liabilities	3,673,035	3,227,254
Creditors: Amounts falling due after more than one year	(1,031,298)	(484,783)
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Net Assets	2,641,737	2,742,471
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<b>Capital and Reserves</b>		
Called up share capital	447,716	447,716
Share premium account	2,529,648	2,529,648
Share based payments reserve	24,600	-
Profit and loss account	(360,227)	(234,893)
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Shareholders' Funds – all equity	2,641,737	2,742,471
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**Cash Flow Statement**  
**For the year ended 31 May 2007**

	<b>Year ended 31 May 2007 €</b>	<b>Year ended 31 May 2006 €</b>
Net Cash Inflow from Operating Activities	(305,458)	53,753
Capital Expenditure and Financial Investments	(263,046)	(657,252)
Net cash Outflow before Financing	(568,504)	(603,499)
Financing	571,115	716,287
Increase in Cash	2,611	112,788

**Notes to the Financial Statements**

**1. Publication of non-statutory accounts**

The financial information set out in this preliminary announcement are abbreviated accounts as defined in Section 19 of the Companies (Amendment) Act 1986.

The financial information for the period ended 31 May 2007 have been extracted from the Company's financial statements to that date which have received an unqualified auditors' report but have not yet been delivered to the Registrar of Companies.

**2. Loss per share**

The calculation of the loss per ordinary share of €0.0028 (2006 - €0.0032) is based on the loss for the financial year of €125,334 (2005 – €135,952) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 44,771,676 (2006 – 42,271,676). Share options and warrants are not included in the calculation of fully diluted shares since the Company incurred a loss in 2007 and 2006 which results in these potential shares being anti-dilutive.

**3. Dividends**

No dividends were paid or are proposed in respect of the period ended 31 May 2007.

**4. Copy of Accounts**

A copy of the Annual Report and Accounts will be sent to all shareholders shortly and will be available from the Company's registered office, 10 Upper Pembroke Street, Dublin 2.

**Further enquiries:**

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