

**Karelian Diamond Resources Plc  
(AIM: KDR)**

**Final results for the year ended 31 May 2008**

Karelian Diamond Resources plc (“the Company” or “Karelian”), the AIM listed diamond exploration company focussed on Finland, announces its final results for the year ended 31 May 2008.

**Highlights:**

- Seitaperä project proves to be diamondiferous
- Initial Diamond count is high
- All stones of good quality
- Additional promising targets in the Kuhmo area
- Further sampling on other sites in Finland

**Professor Richard Conroy, Chairman of Karelian, commented:**

*“Exploration work continued throughout the year and your Company’s progress was such that we conclusively proved that the Seitaperä project in the Kuhmo area of Finland is diamondiferous post period.*

*“During the year ahead it is intended that your Company will move forward with the delineation of its Seitaperä diamondiferous pipe and also continue diamond exploration at other potential sites. We look forward to a successful future.”*

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## **CHAIRMAN'S STATEMENT**

I have pleasure in presenting your Company's Annual Report and Financial Statements for the year ended 31 May 2008. This was a memorable year, following the end of which your Company conclusively proved that its Seitaperä project in the Kuhmo area of Finland is diamondiferous, as reported in our announcements of 8 July and 15 September.

Analysis of a 100kg composite sample of drill core from Seitaperä recovered 61 micro-diamonds and six macro-diamonds, the largest of which measured 0.63mm by 0.48mm by 0.38mm. All the stones showed good colour, clarity and preservation characteristics. Three of the diamonds recovered by your Company at Seitaperä are illustrated on the front cover of the Annual Report.

One of the industry-standard ways of expressing the preliminary diamond potential of a kimberlite is in terms of the number of micro-diamond crystals per kilogramme of sample. On this basis, the Seitaperä diamond count is high and compares well with many recent kimberlite discoveries. This is all the more encouraging given Seitaperä's favourable location, in terms of access and infrastructure, and its significant surface area of 6.9ha, the largest kimberlite pipe known in Finland.

Your Company's work programme at Seitaperä is now moving from the exploration phase into evaluation and, since the end of the financial year, further delineation drilling has been carried out by the GTK (Geological Survey of Finland) under the supervision of the Company.

This drilling concentrated on the central portion of the pipe which previously yielded the high diamond count. Overall, about 950m of core drilling was completed on a nominal 25m line spacing, intersecting over 550m of kimberlite. Eight holes across the central portion of the pipe intersected substantial zones of primary kimberlite containing abundant mantle xenoliths, similar in nature to the material that yielded the 67 micro and macro diamonds.

The drilling also enabled your Company to delineate the pipe more thoroughly, and it has now established the kimberlite/wall rock contact at 15 locations at vertical depths of 15-65m below surface.

Drill core from this programme is now being logged and approximately 500kg of kimberlite core will then be selected for micro-diamond analysis. It is expected that this will yield a large enough population of micro and macro diamonds to enable statistically reliable grade modelling to be undertaken from the diamond population size distribution statistics. The Board believes this work will confirm and expand on the positive results already achieved at Seitaperä.

In addition, lithological data from the drill core will be used to plan a large-diameter bulk sampling programme of at least 500 tonnes, if warranted by the modelled grade data.

Kimberlite pipes tend to occur in cluster and, the Board is therefore encouraged by its success elsewhere in the Kuhmo area in identifying a number of promising magnetic targets for further investigation. These include one lying on the same trend as Seitaperä, which was originally identified by an aeromagnetic survey and confirmed by a follow-

up ground survey. It lies beneath a shallow lake and is earmarked for drilling from ice cover in the coming winter. Several other targets in the area await verification.

Because of this progress, your Company has taken out or applied for the necessary licences to secure its land position in the area.

Till sampling for kimberlite indicator minerals (“KIM”) is underway for the nearby Riihivarra claims in order to quantify up-ice KIM density. Further till sampling is also underway on your Company’s claims in the Joensuu area of south-east Finland.

### **Financials**

The loss after taxation for the year ended 31 May 2008 was €268,638 (2007: €125,334) and the net assets as at 31 May 2008 were €3,865,379 (2007: €2,641,737). Cash at bank as at 31 May 2008 was €35,430 (2007: €115,402). As your Company moves into the delineation phase, in the light of the discovery of diamonds at Seitaperä, the Board is considering how best to fund your Company's activities. Options being studied include joint ventures and farm-outs, as well as such other arrangements which may be appropriate for advancing the interests of your Company. The immediate funding requirements will be financed by advances from the principal shareholder.

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

### **Future Outlook**

During the year ahead it is intended that your Company will move forward with the delineation of its Seitaperä diamondiferous pipe and also continue diamond exploration, in that area and elsewhere in Finland, in order to advance its diamond interests and generate shareholder value. We look forward with confidence to a successful future.

**Professor Richard Conroy**  
**Chairman**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 MAY 2008**

	<b>2008</b>	<b>2007</b>
	<b>€</b>	<b>€</b>
<b>OPERATING EXPENSES</b>	(280,720)	(125,404)
Other Income	12,082	70
<b>LOSS BEFORE TAXATION</b>	(268,638)	(125,334)
Taxation	-	-
<b>LOSS RETAINED FOR THE YEAR</b>	(268,638)	(125,334)
Loss per ordinary share – Basic and diluted	(€0.0046)	(€0.0028)

**BALANCE SHEET  
AS AT 31 MAY 2008**

	<b>2008</b>	<b>2007</b>
	€	€
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Intangible assets	4,221,785	3,617,723
Financial assets	4	4
Property, plant and equipment	1,173	1,341
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	4,222,962	3,619,068
<b>Current Assets</b>		
Trade and other receivables	50,441	2,324
Cash and cash equivalents	35,430	115,402
	85,871	117,726
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<b>Total Assets</b>	4,308,833	3,736,794
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<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Called up share capital	605,416	447,716
Share premium	3,801,202	2,529,648
Share based payments reserve	87,626	24,600
Retained earnings	(628,865)	(360,227)
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<b>Total Equity</b>	3,865,379	2,641,737
<b>Non-current Liabilities</b>		
<b>Trade and other payables:</b> Amounts falling due after more than one year	271,135	1,031,298
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<b>Total non-current liabilities</b>	271,135	1,031,298
<b>Current Liabilities</b>		
<b>Trade and other payables:</b> Amounts falling due within one year	172,319	63,759
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<b>Total Current Liabilities</b>	172,319	63,759
<b>Total Liabilities</b>		
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	443,454	1,095,057
<b>Total Equity and Liabilities</b>		
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	4,308,833	3,736,794

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MAY 2008**

	<b>2008</b>	<b>2007</b>
	€	€
<b>Cash used by operations</b>	(196,010)	(280,858)
Tax paid	-	-
<b>Net cash used in operating activities</b>	<u>(196,010)</u>	<u>(280,858)</u>
<b>Cash flows from investing activities</b>		
Investment in mineral interest	<u>(553,053)</u>	<u>(263,046)</u>
<b>Net cash used in investing activities</b>	<u>(553,053)</u>	<u>(263,046)</u>
<b>Cash flows from financing activities</b>		
Shareholder loan advances	(760,163)	546,515
Issue of share capital	<u>1,429,254</u>	-
<b>Net cash from financing activities</b>	<u>669,091</u>	<u>546,515</u>
<b>(Decrease)/Increase in cash and cash equivalents</b>	(79,972)	2,611
<b>Cash and cash equivalents at beginning of year</b>	<u>115,402</u>	<u>112,791</u>
<b>Cash and cash equivalent at year end</b>	<u>35,430</u>	<u>115,402</u>

## **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 2008 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. Earnings per share**

The calculation of the loss per ordinary share of €0.0046 (2007 - €0.0028) is based on the loss for the financial year of €268,638 (2007 – €125,334) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 57,913,343 (2007 – 44,771,676). Share options and warrants are not included in the calculation of fully diluted shares since the Company incurred a loss in 2008 and 2007 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, 2008.

### **4. Copy of Accounts**

A copy of the Annual Report and Financial Statements will be available on the Company's website [www.kareliandiamondresources.com](http://www.kareliandiamondresources.com) and will be available from the Company's registered office, 10 Upper Pembroke Street, Dublin 2. It will also be forwarded to shareholders who requested a hard copy.