



**Karelian Diamond Resources Plc  
("KDR" or the "Company")**

**Final results for the year ended 31 May 2012**

Karelian (AIM: KDR, ESM: KDRI), the diamond exploration company focused on Finland, announces its results for the year ended 31 May 2012, a year of significant progress with continued drilling success.

**Highlights:**

- Exploration programme in Finland continued to show highly encouraging progress
- Identification during the drilling of further potentially diamond bearing mantle xenolith, subsequently confirmed
- Basal till sampling programme at Riihivaara resulted in the recovery of 12 garnet indicator minerals
- Results add both to the potential of the Seitaperä pipe itself and to the overall diamond potential of the Kuhmo area
- Two further licences have been acquired and additional licences in the area are under application.
- The information arising from the extensive database made available by Rio Tinto has led to your Company also making applications for licences in locations outside the Kuhmo area
- The loss after taxation for the year ended 31 May 2012 was €207,980 (2011: €187,261) in line with expectations

**Professor Richard Conroy, Chairman, stated:**

*"During the course of the year the Company made encouraging progress; with a further new large zone of diamond bearing mantle xenoliths in kimberlite identified at Seitaperä, a positive till sampling programme at Riihivaara, additional licences applied for and excellent results from the Rio Tinto data we are integrating. We look forward to building on these achievements."*

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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 2012. Your Company's exploration programme in Finland continued to show highly encouraging progress during the course of the year with a further new large zone of diamond bearing mantle xenoliths in kimberlite identified at Seitaperä, a positive till sampling programme at Riihivaara, additional licences applied for, and further integration and analysis of the results from over 53,000 till samples which Rio Tinto has made available to the Company under the terms of the confidentiality agreement entered into with your Company in July 2010.

The Seitaperä diamondiferous kimberlite pipe is, at 6.9 hectares, the largest known kimberlite pipe in Finland. Drilling by your Company has confirmed the presence of diamonds in the pipe. The identification during this year's drilling of further potentially diamond bearing mantle xenolith subsequently confirmed as diamondiferous by the recovery of microdiamonds is highly encouraging. The micro-diamonds observed were white in colour, transparent and octahedral. Two of the micro-diamonds including the largest stone were greater than 60 per cent. broken indicating the possibility of larger stone sizes.

A basal till sampling programme at Riihivaara resulted in the recovery of 12 garnet indicator minerals, comprising three G10's, five G9's, one G4, one G3 and two G1's. Six of the positive results, including the G4 pyroxenitic garnet occurred within a single till sample. The adjacent sample had two positive results, including the eclogitic G3 garnet.

These garnets and other mantle-derived minerals are used to locate kimberlites and are referred to as kimberlite indicator minerals. Some of these garnets, the G10's and certain G9's, are created under similar conditions to diamonds within the ultramafic mantle rocks underlying the crust and are therefore used as predictors of the presence of diamonds. There is a strong statistical correlation between G10 and certain G9 garnets, like those found in Riihivaara, and the presence of diamonds.

The sampling programme was undertaken on Karelian's behalf by the Geological Survey of Finland ("GTK") in conjunction with the Company's technical staff. Sample analysis was undertaken in the GTK laboratories.

Eclogite mantle material is significant as it tends to be associated with a much higher grade of diamonds than peridotite mantle material.

These results add both to the Seitaperä pipe itself and to the overall diamond potential of the Kuhmo area in which Seitaperä is located and indicate that there is more than one source of diamonds in the area. Two further licences have therefore been acquired and additional licences in the area are under application.

The information arising from the continuing review and integration of the extensive database made available by Rio Tinto has led to your Company also making applications for licences in locations outside the Kuhmo area.

Under the terms of the agreement with Rio Tinto, in consideration of Rio Tinto disclosing confidential information to it, Karelian has agreed that Rio Tinto will have the option to earn a 51 per cent. interest in any project identified by Karelian in Finland, Rio Tinto will be expected to pay the direct cash expenditures incurred in developing an identified project subject to the following conditions:

1. For diamond projects the option will be triggered if Karelian completes 10 tons or more of bulk sampling for diamond exploration; and
2. For all other minerals the option will be triggered if Karelian discovers a resource with an in situ value that is equal to or greater than the in situ value of 3 million ounces of gold in a JORC compliant resource calculation.

Your Company's diamond exploration programme in Finland is directed towards making comparable discoveries in the Finnish sector of the Karelian Craton to the world class discoveries made in the Russian sector of the Karelian Craton.

#### **Finance**

The loss after taxation for the year ended 31 May 2012 was €207,980 (2011: €187,261) and the net assets as at 31 May 2011 were €4,526,967 (2011: €4,652,829).

As in previous years, I have supported the working capital requirements of the Company and the balance of the loans due to me at the period end was €1,007,214. The loans have been made on normal commercial terms.

The other Directors consider, having consulted with the Company's Nominated Adviser and the Company's ESM Adviser, that the terms of these loans are fair and reasonable in so far as the Company's shareholders are concerned.

#### **Auditors**

I would like to take the opportunity to thank the partners and staff of Deloitte and 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 which your Company has achieved.

#### **Future Outlook**

Your Company has made significant progress in its diamond exploration programme in Finland and looks forward to build on these achievements.

**Professor Richard Conroy**  
*Chairman*

30 November 2012

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 MAY 2012**

	2012 €	2011 €
<b>OPERATING EXPENSES</b>	<b>(194,582)</b>	<b>(171,813)</b>
Finance income – bank interest receivable	97	-
Finance costs – Interest on shareholder loan	<u>(13,495)</u>	<u>(15,448)</u>
<b>Loss Before Taxation</b>	<b>(207,980)</b>	<b>(187,261)</b>
Taxation	<u>-</u>	<u>-</u>
<b>LOSS RETAINED FOR THE YEAR</b>	<b><u>(207,980)</u></b>	<b><u>(187,261)</u></b>
Loss per ordinary share	<b><u>(€0.0023)</u></b>	<b><u>(€0.0028)</u></b>

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MAY 2012**

	2012 €	2011 €
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Intangible assets	6,390,694	5,760,090
Investment in subsidiaries	4	4
Property, plant and equipment	501	669
	<u>6,391,199</u>	<u>5,760,763</u>
<b>Current Assets</b>		
Trade and other receivables	47,382	12,536
Cash and cash equivalents	10,054	745,908
	<u>57,436</u>	<u>758,444</u>
<b>Total assets</b>	<u>6,448,635</u>	<u>6,519,207</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Called up share capital	922,083	922,083
Share premium	4,621,158	4,621,158
Share based payments reserve	375,039	292,921
Retained earnings	(1,391,313)	(1,183,333)
<b>Total equity</b>	<u>4,526,967</u>	<u>4,652,829</u>
<b>Non-current liabilities</b>		
Financial liabilities	<u>1,007,214</u>	<u>1,107,373</u>
<b>Total non-current liabilities</b>	<u>1,007,214</u>	<u>1,107,373</u>
<b>Current liabilities</b>		
Trade and other payables	<u>914,454</u>	<u>759,005</u>
<b>Total Current Liabilities</b>	<u>914,454</u>	<u>759,005</u>
<b>Total Liabilities</b>	<u>1,921,668</u>	<u>1,866,378</u>
<b>Total Equity and Liabilities</b>	<u>6,448,635</u>	<u>6,519,207</u>

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MAY 2012**

	2012 €	2011 €
<b>Cash used in operations</b>	<b>(58,631)</b>	<b>(23,244)</b>
Tax paid	-	-
<b>Net cash used in operating activities</b>	<b>(58,631)</b>	<b>(23,244)</b>
<b>Cash flows from investing activities</b>		
Investment in exploration and evaluation assets	(509,687)	(381,343)
<b>Net cash used in investing activities</b>	<b>(509,687)</b>	<b>(381,343)</b>
<b>Cash flows from financing activities</b>		
Issue of share capital	-	1,136,623
(Repayment)/Advances of Shareholder loans	(125,000)	42,424
Interest paid	(42,633)	(46,259)
Interest received	97	-
<b>Net cash generated from financing activities</b>	<b>(167,536)</b>	<b>1,132,788</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(735,854)</b>	<b>728,201</b>
Cash and cash equivalents at beginning of year	745,908	17,707
<b>Cash and cash equivalents at end of year</b>	<b>10,054</b>	<b>745,908</b>

**Notes to the Financial Statements**

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

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

The financial information for the year ended 31 May 2012 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 share of €0.0023 (2010 - €0.0027) is based on the loss for the financial year of €207,980 (2011 – €187,261) and the weighted average number of ordinary shares in issue on a basic and fully diluted basis during the year of 92,308,242 (2011 – 68,805,565).

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

**3. Dividends**

No dividends were paid or are proposed in respect of the year ended 31 May 2012

**4. Copies 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. Notice of the Annual General Meeting to be held on 13 December 2012 and Proxy Form was sent to shareholders on 21 November 2012 and are also available on the website.