

## Regulatory Announcement

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Company	Karelian Diamond Res. PLC
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Karelian Diamond Resources Plc ('KDR')

Final Results for the year ended 31 May 2006

### Chairman's Statement

I have great pleasure in presenting your Company's Annual Report and Financial Statements for the year ended 31 May 2006, the first results since your Company's shares were admitted to trading on AIM in September 2005.

During the year encouraging progress has been made in the exploration of the Company's licences in the Karelian Craton of Finland.

The Company's licences cover part of a block of ancient crustal rocks occupying much of eastern and northern Finland, extending over the border into Russia where the Craton hosts a number of significant diamond deposits, including the world class Lomonosova and Grib discoveries.

Your directors believe 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.

In selecting exploration areas in Finland, your Company has made use of extensive aeromagnetic and electromagnetic data 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 have yielded kimberlitic and diamond indicator minerals, including G9 and G10 garnets that form at similar temperatures and pressures to diamonds.

Your Company now holds 58 diamond claims in Finland, mostly over targets that were identified using the above 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 diamond indicator mineral anomalies found by your Company as a result of till sampling.

The presence of the Seitaperä kimberlite pipe shows that the right geochemical conditions to host diamonds occur in the Kuhmo area. Furthermore, because your Company has identified other diamond indicator mineral 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 current year this programme will include further drilling of the Seitaperä pipe, which has a surface area of 4 hectares, and systematic evaluation of the other 16 known diamond indicator mineral anomalies to determine if they warrant drilling. Till sampling will also continue, as will work on your Company's three other highly prospective claim blocks.

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 excellent technical and laboratory services. Your Company employs GTK staff as local consultants and to undertake fieldwork, and it has benefited greatly from this relationship. Karelian 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.

Karelian's admission documents included an independent assessment of its diamond exploration properties and information portfolio prepared by The CSA Group, a worldwide exploration management consultancy. Amongst other things, this noted that Conroy Diamonds and Gold P.l.c, and Conroy P.l.c. (whose Finnish diamond interests were transferred into Karelian) had been active in diamond exploration in the Karelian Craton since 1994. CSA's assessment commented that '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 your Company will provide it with a significant advantage in its future operations'.

The Company has begun a follow up of its Kuhmo targets with a trenching programme designed to expose bedrock in an attempt to explain the observed magnetic anomalies

This work is also being carried out by the GTK. At the same time, additional basal till samples have been collected to further evaluate the diamond prospectivity of the potential drilling targets.

The first phase of the trenching programme is complete and results achieved to date are encouraging. One of the four trenches contains what is believed to be narrow anastomosing dikelets of kimberlitic material at the edges of an 8m wide 'hole' in the bedrock surface caused by differential glacial scouring of weathered, soft material. Two other trenches also revealed similar 'holes' in the bedrock which are further examples of preferential glacial removal of intensely altered rock types.

The bedrock surface in these 'holes' is too deep for the excavator to reach, but information gained from the trenching has considerably improved the selection of drill sites to test for the presence of wider kimberlite bodies.

#### Financials

The loss after taxation for the year ended 31 May 2006 was Euro135,952 (1 March 2004 to 31 May 2005: Euro98,941) and the net assets as at 31 May 2006 were Euro 2,742,471 (2005: Euro2,488,751).

#### Auditors

On 2 June 2006 Deloitte & Touche were appointed as auditors to the Company.

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 continued progress and success which your Company has achieved.

#### Future Outlook

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

Professor Richard Conroy  
Chairman  
15 November 2006

#### Profit and Loss Account For the year ended 31 May 2006

	Year ended 31 May 2006	15 month period ended 31 May 2005	
	Euro		Eur
Operating Expenses	(139,599)	(98,941)	
Other Income	3,647	-	
Loss for the Financial Year/Period	(135,952)	(98,941)	
Loss per ordinary share	Euro0.0032	Euro0.002	

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 2006

	2006	2005	
	Euro		Eur
Fixed Assets			
Mineral interests	3,541,406	2,885,831	
Tangible fixed assets	1,509	-	
Financial assets	4	4	
	3,542,919	2,885,835	
Current Assets			

Debtors	13,661	660
Cash at bank and in hand	112,791	3
	126,452	663
Creditors: Amounts falling due within one year	(442,117)	(397,747)
Net Current Liabilities	(315,665)	(397,084)
Total Assets less Current Liabilities	3,227,254	2,488,751
Creditors: Amounts falling due after more than one year	(484,783)	-
Net Assets	2,742,471	2,488,751
Capital and Reserves		
Called up share capital	447,716	347,716
Share premium account	2,529,648	2,239,976
Profit and loss account	(234,893)	(98,941)
Shareholders' Funds - all equity	2,742,471	2,488,751

## Cash Flow Statement

For the year ended 31 May 2006

	Year ended 31 May 2006	15 month period ended 31 May 2005	
	Euro		Eur
Net Cash Inflow from Operating Activities	53,753	139,978	
Capital Expenditure and Financial Investments	(657,252)	(225,835)	
Net cash Outflow before Financing	(603,499)	(85,857)	
Financing	716,287	85,860	
Increase in Cash	112,788	3	

## 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 2005 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 Euro0.0032 (2005 - Euro0.0028) is based on the loss for the financial year of Euro135,952 (2005 - Euro98,941) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 42,271,676 (2005 - 34,771,676). Share options and warrants are not included in the calculation of fully diluted shares since the Company incurred a loss in 2006 and 2005 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, 2006.

## 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.

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