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The Company and the Directors, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

As AIM is not a regulated market within the meaning of the Investment Services Directive and as the Placing is to be made only in the UK and to less than 100 persons no prospectus is required to be published pursuant to the Irish Prospectus (Directive 2003/71/EC) Regulations 2005. Accordingly this document is not a prospectus within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 and therefore has not been approved by the Irish Financial Services Regulatory Authority being the competent authority for the purposes of Directive 2003/71/EC. Furthermore this document is not an offering document for the purposes of section 49 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005.

Application will be made for the Ordinary Shares, issued and to be issued, to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document. It is anticipated that trading in the Ordinary Shares will commence on AIM on 1 September, 2005.

Karelian Diamond Resources plc

(Incorporated and registered in the Republic of Ireland under the Companies Acts 1963 – 2005. Registered No.382499)

Placing of

**10,000,000 Ordinary Shares at 5 pence per share
and**

Admission to trading on AIM

**NOMINATED ADVISER
John East & Partners Limited**

**BROKER
City Capital Securities Limited**

SHARE CAPITAL

The following table shows the authorised and issued share capital of the Company immediately following the Placing.

Amount €	Authorised	Number	Amount €	Issued and fully paid
	Number			Number
5,000,000	500,000,000	Ordinary Shares of 1 cent each	447,716.76	44,771,676

The new shares will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

John East & Partners Limited which is authorised and regulated by the Financial Services Authority, is acting as Nominated Adviser to and City Capital Securities Limited is acting as broker to Karelian Diamond Resources plc. Neither John East & Partners Limited nor City Capital Securities Limited is acting for anyone else and neither will be responsible to anyone other than Karelian Diamond Resources plc for providing the protections afforded to customers of John East & Partners Limited or City Capital Securities Limited or for providing advice in relation to the contents of this document or the Placing and the admission of the Ordinary Shares to trading on AIM. In particular, John East & Partners Limited, as Nominated Adviser to the Company, owes certain responsibilities to the London Stock Exchange, which are not owed to the Company or the Directors or to any other person in respect of his or her decision to acquire Ordinary Shares in reliance on any part of this document. No liability is accepted by either John East & Partners Limited or City Capital Securities Limited for the accuracy of any information or opinions contained in or for the omission of any material information from this document, for which the Company and its Directors are solely responsible.

Prospective investors are advised to read, in particular, Part I “Information on the Company” and Part II “Risk Factors”, for a more complete discussion of the factors that could affect the Company’s future performance and the industry in which it operates.

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Directors, secretary and advisers

Board of Directors	Professor Richard Thomas Walter Lawrence Conroy, Chairman Maureen Theresa Anne Jones, Managing Director James Patrick Jones, Finance Director Louis Joseph Maguire, Non-Executive Director Seamus Philip FitzPatrick, Non-Executive Director Roger Ian Chaplin, Non-Executive Director all of: 10 Upper Pembroke Street, Dublin 2, Ireland
Company Secretary and Registered Office	James Patrick Jones, FCA 10 Upper Pembroke Street, Dublin 2, Ireland Telephone: (00 353) 1 661 8958
Nominated Adviser	John East & Partners Limited Crystal Gate 28-30 Worship Street London EC2A 2AH
Broker	City Capital Securities Limited 2 John Carpenter Street London EC4Y 0AP
Solicitors to the Company	William Fry Solicitors Fitzwilton House Wilton Place Dublin 2 Ireland
Solicitors to the Placing, John East & Partners Limited and City Capital Securities Limited	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB
Auditors and Reporting Accountants	KPMG 1 Stokes Place St Stephen's Green Dublin 2 Ireland
Registrars	Capita Corporate Registrars plc Unit 5 Manor Street Business Park Manor Street Dublin 7 Ireland
Receiving Agent	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

“£”	pound sterling, the lawful currency of the UK
“Act”	the Companies Act 1963 (as amended)
“Admission”	the effective admission of the issued and to be issued Ordinary Shares to trading on AIM in accordance with the AIM Rules
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the rules for AIM companies as published by the London Stock Exchange
“Board” or “Directors”	the directors of the Company whose names are set out on page 3 of this document
“Cents”	Eurocents
“Certificate of Incorporation”	the Certificate of Incorporation of the Company as amended and restated from time to time
“City Capital”	City Capital Securities Limited
“Combined Code”	The Code of Best Practice, including the principles of good governance, which is in force under the Listing Rules of the UKLA as at the date of this document
“the Company” or “Karelian”	Karelian Diamond Resources plc
“Companies Act 1990”	the Companies Act 1990 of Ireland
“Companies (Amendment) Act 1983” or “the 1983 Act”	The Companies (Amendment) Act, 1983 of Ireland
“Conroy”	Conroy plc, a company incorporated in Ireland with registered no. 205615
“Conroy Diamonds and Gold”	Conroy Diamonds and Gold plc a company incorporated in Ireland with registered no. 232059
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
“CREST Regulations”	the Companies Act 1990 (Uncertificated Securities) Regulations 1996 (S.I. 68 of 1996) of Ireland
“Enlarged Issued Share Capital”	the 44,771,676 Ordinary Shares in issue at Admission
“Euro” or “€”	the lawful currency of Ireland
“Group”	the Company and its subsidiary undertakings from time to time
“Ireland”	the Republic of Ireland
“Irish Companies Acts”	the Companies Acts 1963-2005

Definitions Continued

“John East & Partners”	John East & Partners Limited
“London Stock Exchange”	London Stock Exchange plc
“New Shares”	the 10,000,000 new Ordinary Shares to be issued by the Company pursuant to the Placing
“ Official List”	the Official List of the UKLA
“Options” or “Share Options”	options to subscribe for new Ordinary Shares under the Share Option Scheme
“Ordinary Shares”	Ordinary Shares of 1 cent each
“Placees”	the subscribers for, and purchasers of, Placing Shares
“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 18 August, 2005 between the Company, the Directors, John East & Partners and City Capital as described in paragraph 9.3 of Part V of this document
“Placing Price”	5 pence per Placing Share
“Shareholders”	the holders of Ordinary Shares
“Share Option Scheme”	the share option scheme operated by the Company for the Group’s Directors, employees, or other persons providing significant services to the Group, a summary of which is set out in paragraph 8 of Part V
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	The UK Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of the UK Financial Services and Markets Act, 2000

On 17 August 2005, the last practical date before printing this document, the rate of exchange was €1:68 pence

Glossary of Terms

The following definitions apply throughout this document unless the context requires otherwise:

ablation	The removal of rock debris by wind action.
aeromagnetic data	Data generated by a survey of the earth's magnetic field carried out from a helicopter or aeroplane.
Archaean	The oldest of the two divisions of the Precambrian Era; more than 2,500 million years old.
Baltic Shield	A large area of Archaean rocks exposed in Norway, Sweden, Finland and north-western Russia.
bi-lobate anomaly	Anomaly split into two sections or lobes.
carat	Unit of weight applied to precious stones (1 carat = 0.2 gram).
chromite	Chromium-rich spinel, FeCr_2O_4 , found in ultramafic rocks of mantle origin.
clinopyroxene	One of a group of high temperature rock-forming silicates.
cpht	Carats per hundred tonnes, the normal measurement of grade in diamond pipes.
craton	An area of ancient granitic crust.
diopside	A mineral of the pyroxene group, $\text{CaMgSi}_2\text{O}_6$, found in igneous rocks and metamorphosed impure dolomites.
dyke	A tabular intrusive rock cross-cutting the host strata at a high angle.
eclogitic	Pertaining to a metamorphic rock having a chemical composition similar to that of a basic igneous rock, but which has crystallised or recrystallised under conditions of high temperature and pressure.
electromagnetic data	Data generated by a geophysical exploration method employing the related electric and magnetic fields which can be set up in a conductive body by an artificial electric field at surface.
electron microprobe	An analytical device utilizing a beam of electrons which can be focussed on individual crystals.
garnet	A silicate mineral, commonly brown or red in colour, found in igneous and metamorphic rocks.
G9 garnet	Lherzolithic pyrope garnet, a diamond indicator mineral.
G10 garnet	Harzburgitic high chrome pyrope garnet, a diamond indicator mineral.
glacial drift	Sediments deposited in glacial environments, either directly from ice or from glacial meltwater.
granite	A medium to coarse grained granular acid intrusive rock.
granitoid	A field term for a coarse grained felsic rock resembling granite.

Glossary of Terms Continued

graphitic	Containing a naturally occurring crystal form of carbon.
greenschist	Low to moderate temperature metamorphic mineral assemblage which typically includes green minerals e.g. chlorite.
greenstone	A field term for altered mafic and ultramafic igneous rocks.
harzburgite	An ultrabasic rock composed of olivine and ortho-pyroxene.
ilmenite	Iron-titanium oxide mineral (FeTiO ₃).
indicator minerals	Minerals associated with kimberlites.
kimberlite	An igneous rock of mantle origin occurring in intrusive breccia pipes and dykes and the most common source of diamonds.
komatiite	Ultramafic volcanic rocks with distinctive growth of skeletal crystals of olivine or pyroxene.
lamproite	An igneous rock of similar composition and origin to kimberlite, but occurring in a range of settings from plutonic to volcanic.
lamprophyre	A basic igneous rock commonly containing biotite crystals in a matrix rich in alkali feldspar.
lherzolite	An ultrabasic rock composed of olivine and ortho- and clino-pyroxene.
lithosphere	The outer, rigid, part of the Earth's crust.
mafic	Descriptive of rocks composed predominantly of magnesium and iron rock-forming silicates.
magmatic	Of molten or semi-molten igneous rock.
mantle	The ultramafic layer of the Earth beneath the crust.
mega-crystic	Pertaining to a rock comprising large crystals.
metamorphosed	A rock that has been altered by physical and chemical process involving heat, pressure and derived fluids.
metavolcanic	A metamorphosed volcanic rock.
mobile belt	A long linear zone of the Earth's crust, originally the site of an ocean in which a thick wedge of sediment has been deposited, that has undergone intense deformation and metamorphism.
Palaeozoic	Epoch of Earth's history from 300 to 600 million years ago.
picroilmenite	Form of ilmenite, an iron-titanium rich spinel (FeTiO ₃), containing up to 7 per cent. MgO.
pipe	Vertical, cylindrical intrusive body.
plutonic	Describing a large body of igneous rock formed beneath the earth's surface.

Glossary of Terms Continued

Precambrian	Referring to the period in Earth's history before 570 million years ago.
Proterozoic	The youngest of the two divisions of the Precambrian era; 570-2,500 million years old.
pyrope	Magnesium-aluminium garnet formed at high pressures in the mantle.
Quaternary	The period in the Earth's history between 1.8 million years ago and the present, including the glacial and postglacial periods.
radiometric age	Age of a rock determined by dating radiometric elements in the rock.
radiometric survey	The measurement of radiation from radionuclides present at or near the earth's surface.
schist	A metamorphic rock with a platy or foliated texture.
sedimentary	Descriptive of rock formed by compaction and cementation of sediments.
serpentinite	A rock consisting almost entirely of the alteration products of basic minerals.
structural	Pertaining to geologic structure.
till	A glacial sediment composed of rounded fragments in a clay-rich matrix.
tonalitic	Pertaining to a rock of similar characteristics to diorite – a coarse-grained plutonic intermediate igneous rock.
transcurrent fracture	A structure where the rocks on either side have moved in a horizontal plane.

Expected Timetable of Principal Events

Admission and commencement of dealings in the Ordinary Shares on AIM	1 September 2005
CREST member accounts credited	1 September 2005
Despatch of definitive share certificates in respect of Placing Shares	8 September 2005

Placing statistics

Placing Price	5 pence
New Shares to be issued by the Company	10,000,000
Ordinary Shares in issue immediately following the Placing	44,771,676
Percentage of Enlarged Issued Share Capital being placed	22.3 per cent.
Amount being raised under the Placing	£500,000
Market capitalisation at the Placing Price following the Placing	£2.24 million
ISIN for the Ordinary Shares	IEOOBO1ZSK94

PART I

Information on the Company

INTRODUCTION

Karelian is the holding company of a diamond exploration group focused on the discovery of a potential world class diamond deposit on the Finnish side of the Karelian Craton.

The Karelian Craton, a block of ancient crustal rocks in North West Europe, shows all the characteristics of diamond producing cratons found elsewhere in the world. The potential of the Karelian Craton to host diamond deposits is indicated by major discoveries by other companies on the Russian side of the same Craton. These include two world class deposits, the Grib pipe which is estimated to contain a resource of 98 million tonnes at an average grade of 69 cpts with an estimated in situ value of US\$3.7 billion and the Lomonosova diamond deposit whose diamond reserves are estimated to be worth US\$ 12.0 billion.

The regional geology of Finland is also similar to that of Canada's Slave Lake Craton, where diamonds were first discovered in 1991. BHP Billiton's Ekati mine opened in 1998 and produced over 7 million carats in 2003, worth approximately US\$800 million. Rio Tinto's Diavik mine opened in early 2003 and produced some 3.8 million carats in its first year, worth around US\$380 million. Two further diamond mines (Jericho and Snap Lake) are planned to come into production in the region in the near future.

The Group holds a total of 58 diamond claims in Finland, 21 of which were acquired in July 2004 when the Company purchased Nordic Diamonds Limited from Conroy and Karelian Diamonds Limited from Conroy Diamonds and Gold, together with all intellectual property and confidential proprietary data relating to the diamond exploration programmes in Finland of those two companies. The shares that were issued to acquire the diamond interests of Conroy Diamonds and Gold were distributed to the shareholders of that company and as a result Karelian has approximately 1,900 shareholders. Following the Placing, Conroy will hold 62.1 per cent. of the issued share capital of Karelian.

Karelian has subsequently been awarded a further 37 claims under claim reservation exclusivity, including claims covering a diamondiferous kimberlite pipe at Seitaperä in the Kuhmo area.

The Group's licences in Finland are divided on a geographical basis into four separate claim blocks (Lapland, Western Finland, Kuhmo and South-eastern Finland) all four of which have been independently assessed as "highly prospective for diamonds."

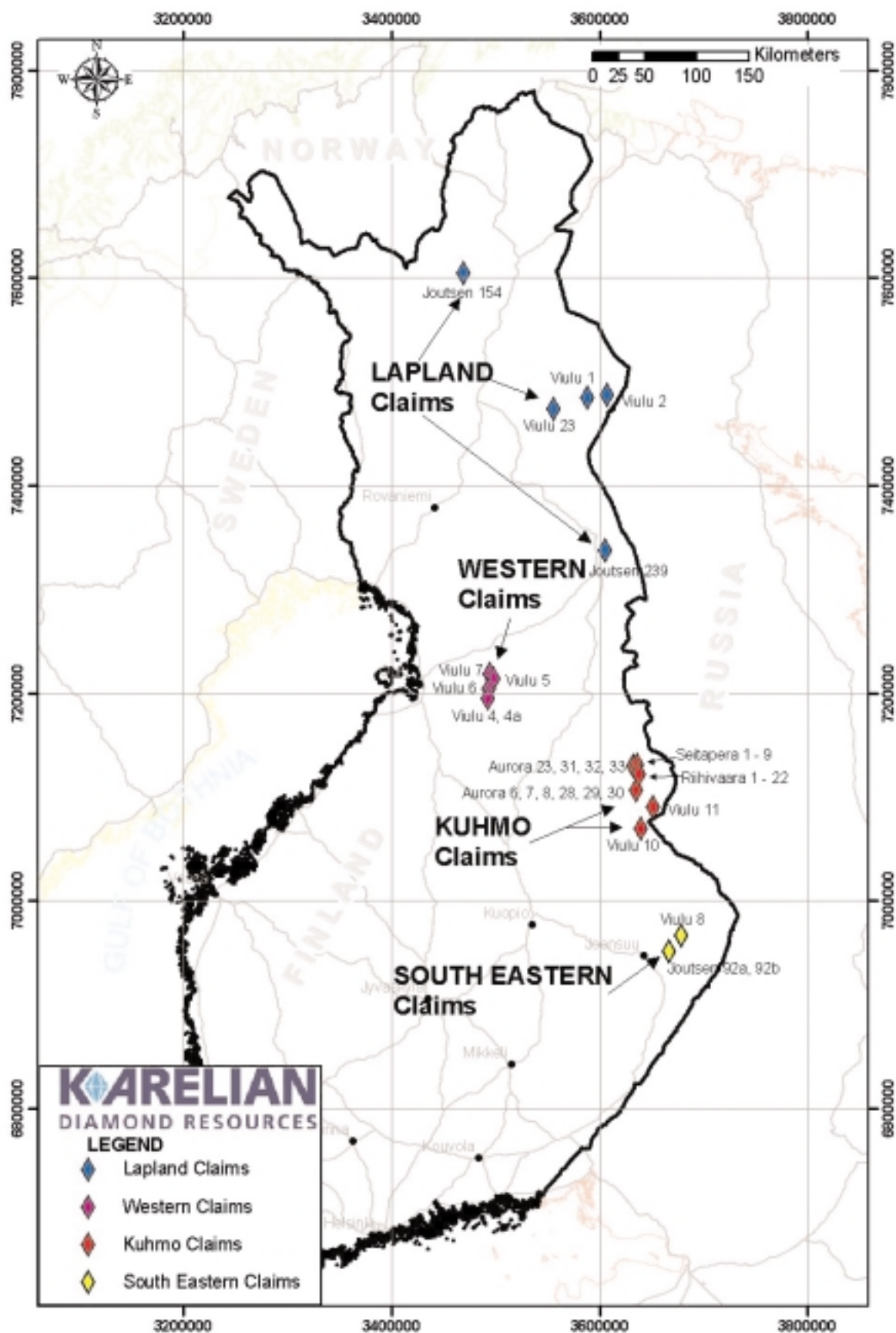
Diamondiferous kimberlites are largely confined to ancient stable cratons where the thickness of the earth's crust is sufficient to minimise heat loss and preserve the high temperatures necessary for diamond formation. The Kuhmo area is characterised by a particularly thick crustal zone.

Karelian management has developed a close working relationship with the Geological Survey of Finland ("GTK") and is able to draw on its expertise, its extensive knowledge of the geology of Finland and its excellent technical and laboratory services. Karelian employs GTK staff as local consultants and to carry out fieldwork and has benefited greatly from this relationship, which has extended over many years.

Karelian's exploration programme will include further drilling of the known diamondiferous pipe at Seitaperä in the Kuhmo block, ground geophysics in the adjacent area to select further drilling targets and till sampling up ice, followed where appropriate by ground geophysics and drilling. Work will also continue on the other three highly prospective blocks.

Karelian is undertaking its diamond exploration programme at a time of buoyant market conditions for diamonds due to the tightness of supply and growing demand. Diamond prices are now rising faster than at any time since the late 1980s.

The management of Karelian, together with its staff and consultants, have a track record of success in mineral exploration and look to enhance this record with a major commercial diamond discovery in Finland.



FINLAND AND DIAMONDS

Finland has a long mining history, principally as a base metals producer providing raw materials for the nation's smelting industry. Prior to joining the EU on 1 January 1995, the industry was largely State-controlled and exploration and mining was restricted to Finnish companies. On joining the EU, Finland opened its borders to explorers and miners of other nationalities, but the country is still relatively under-explored compared to other diamond producing countries, though its potential for diamond recovery is becoming increasingly recognised. Finland is a mining friendly country with a well-developed infrastructure, a high standard of education and a high level of industrial development. The climate and terrain are suitable for year round mining and exploration.

The diamond prospective area in Finland is defined as the area where the rocks are Archaean in age, the heat flow is very low and the lithospheric mantle is thick – greater than 200km. (This area is almost the same size as, and has a similar geology to, the Slave Craton in Canada, where two diamond mines are currently operating and a third is under development). The Archaean terrain that comprises much of eastern and northern Finland is contiguous with the Karelian and Kola cratons in Russia. These cratons in Russia contain the Arkhangelsk kimberlite province with substantial diamond deposits, at the easternmost edge of the shield, and the diamond-bearing lamproites at Kostamuksha, near the Finnish border. The Karelian craton in Finland is under-explored, given its size and potential, and by analogy with other shield areas has the possibility for significant diamond discoveries.

Kimberlite was first discovered in Finland in 1964, although it was not identified as kimberlite at the time. It was not until 1984, when Ashton Mining Limited of Australia began working with Malmikaivos Oy, a small Finnish mining company and discoverer of Pipe 1, that intensive exploration for diamonds in Finland began. Malmikaivos Oy and Ashton Mining Limited ("M/A") were quite successful, and of the 20 kimberlite-related intrusions they discovered in the Kaavi-Kuopio area, all are Group 1 kimberlites and nearly all of these are diamondiferous. DiaMet Minerals Limited, Finnsearch Oy (De Beers Group) and RTZ Mining Exploration Limited are the other big diamond companies which operated in Finland before 2000, but none has been as successful as M/A.

Other companies exploring for diamonds in Finland include European Diamonds plc at Lentiira to the northeast of Karelian's diamond exploration acreage, Nordic Diamonds Limited at Kuopio Kaavi to the southwest and Sunrise Diamonds at Kuusamo to the north.

STRATEGY AND PROSPECTS

The Company's strategy is to apply up-to-date diamond exploration techniques in the Finnish Karelian Craton with a view to the discovery in Finland of major diamond deposits similar to those which have been found in the same Craton across the border in Russia. The Company has developed a model for diamond prospectivity in Finland. Key elements in the model include:

- the identification of thick Archaean crust (45km to 240km);
- the identification of favourable structural zones for emplacement of kimberlites, including activation zones and broad zones of deep seismic activity indicating the presence of these zones; and
- the identification of diamondiferous rocks in target areas of the craton, e.g. kimberlites, lamproites and various hybrids.

The extensive aeromagnetic and electromagnetic data available in Finland has therefore been useful in Karelian's regional exploration. Kimberlite pipes, because of their geological composition, may exhibit a geophysical signature different to that of the surrounding rock, however, similar geophysical anomalies may arise from other causes. The interpretation of the geophysical data has, therefore, been followed by extensive regional deep till sampling in the course of which over a thousand samples were collected and analysed. A number of these samples yielded both kimberlitic and diamond indicator minerals, including G9 and G10 garnets. These garnets are particularly important as they are formed at similar temperatures and pressures to diamonds.

A number of potential diamond targets have been identified using this strategy. This led to the selection of four blocks of licences grouped geographically and referred to as the Lapland, Kuhmo, Western Finland and South-eastern Finland licence blocks. All four blocks are highly prospective for diamonds.

The Kuhmo block is known to contain a diamondiferous kimberlite body with a reported grade of 1.09 cpht (the Seitaperä pipe). Karelian's exploration programme will include follow up drilling of the Seitaperä pipe. This pipe has a surface area of four hectares and to date has been the subject of only a limited drilling programme.

Diamond indicator minerals have been discovered by Karelian elsewhere in the Kuhmo block, leading to the conclusion that multiple sources for diamonds may exist in this area. Ground geophysics and deep till sampling will be used to search for and drill other kimberlite pipes in the Kuhmo area.

A follow-up exploration programme will also be carried out on the other highly prospective blocks with a view to the location and drilling of potential diamondiferous kimberlite pipes.

CLAIMS

The Company's claims are divided into four blocks.

Kuhmo Block

The Kuhmo block in eastern Finland, which contains a known diamondiferous pipe at Seitaperä, comprises 49 claims, which are believed to be highly prospective for diamondiferous kimberlites.

An extensive reconnaissance till sampling programme has been completed in the area, with samples from approximately 200 sites, on three north-south traverses, initially collected and processed and subsequently followed up by further localised traverses.

Some 28 diamond indicator pyrope garnets (including G9s and G10s) have been recovered as well as 15 chrome diopsides of kimberlitic composition. Sixteen separate indicator mineral anomalies have been identified. Coupled with the presence of the known diamondiferous kimberlite pipe at Seitaperä, these findings suggest that multiple sources for diamonds may exist in the area. Karelian's claims cover all of the highest priority targets so far identified in the area.

Western Block

A group of five claims in an area of west-central Finland that is characterised by aeromagnetic anomalies. Preliminary basal till sampling from 34 sites located down-ice from selected anomalies has resulted in the identification of a number of kimberlitic indicator minerals, including a G9 garnet.

Lapland Block

Five claims have been taken out in this area in the Kola portion of the Karelian Craton following a detailed examination of the aeromagnetic database and an extensive till sampling programme. Initial results have been encouraging with a kimberlite indicator mineral (chrome diopside) recovered from one claim following preliminary deep till sampling.

Southeastern Block

This block comprises three claims to the south-east of the Kuhmo block in an area of strong aeromagnetic anomalies.

Five of the Group's licences expire in August and the Group may seek additional licences in adjacent areas.

LICENCE REGULATIONS

The basic exploration permit under Finnish mining law is the claim reservation, which covers a maximum of 9km². This gives the holder up to one year to delineate an area, or areas, of interest within the claim reservation and to prepare an application for a claim, or exploration licence, over that area. Although each claim covers a maximum area of only 1km², the whole of a claim reservation can be covered by individual claims.

The claim reservation holder enjoys priority in applying for a claim within the reserved area, but this does not prevent others from prospecting the area. Individual claims are valid for up to five years and the holder pays a fee to both the landowner and the Ministry of Trade and Industry.

When a mineral deposit is found, a mining concession is granted to the claim holder, under certain conditions, if the deposit is shown to be technically and economically exploitable. The application must be made while the claims are still valid. The conditions for granting the mining concession are flexible and payment is made on an annual basis to the Ministry of Trade and Industry and the landowner.

THE DIAMOND MARKET

Diamond mines can be highly profitable operations, with annual revenues currently exceeding US\$1 billion and gross profit margins of 50 per cent. or more. Many of the mines also have long lives and some South African mines have been operating for over 50 years.

The total value of rough diamond production is estimated to have been US\$9.4 billion in 2003 and the market grew further in 2004, with both production increases in Canada and stronger diamond prices. The diamond market has traditionally been dominated by De Beers Group (“De Beers”) through the Central Selling Organisation / Diamond Trading Company (“DTC”) although in recent years non-De Beers companies have played an increasingly significant role. In 2003 De Beers’ share of mine production was estimated to be 41 per cent. by value, with sales through the DTC, including diamonds sold under contract from Russia, at around 48 per cent. of the total rough diamond market.

Demand for diamonds has been strong in the past few years and rough (uncut) diamond prices increased by around 10 per cent. in 2003, and have increased by a further 20 per cent. from January 2004 to mid-2005. De Beers met some of the rising demand from its stockpile, but its stocks are now reported to be at low levels. The Russian stockpile of diamonds is also believed to be exhausted. Supplies of uncut diamonds are now struggling to keep pace with rising demand and, with little new supply coming on stream, most analysts forecast a growing supply shortage.

CURRENT TRADING AND PROSPECTS

The Company has not traded and continues its exploration activities in accordance with its strategy outlined above.

TREND INFORMATION

There are no known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Group’s prospects for at least the current financial year.

DIRECTORS

Professor Richard Conroy, aged 71, Executive Chairman

Richard Conroy has been involved in natural resources for many years. He established Trans-International Oil in 1974, which was primarily involved in Irish offshore oil exploration, and initiated the Deminex Consortium which included Deminex, Mobil, Amoco & DSM. Trans-International Oil was merged with Aran Energy plc in 1979. He also founded Conroy Petroleum and Natural Resources Plc (“Conroy Petroleum”), which in 1986 discovered the Galmoy zinc deposit in Co. Kilkenny, Ireland, which is now in production as a major base metals mine. Conroy Petroleum was also a founding member of the Stoneboy consortium, an exploration group that discovered the POGO gold field in Alaska. Conroy Petroleum acquired Atlantic Resources plc in 1992 and was renamed ARCON International Resources plc (“ARCON”). Richard Conroy was Chairman and Chief Executive of ARCON from 1980 to 1994. He is Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland and has also served for two terms in the Irish Parliament as a member of the Senate. As Senator he was, inter alia, front bench spokesman for the Government party in the Upper House on Energy, and Industry and Commerce. Richard Conroy is also chairman of Conroy Diamonds and Gold, an AIM listed company, which has outlined a potential new gold mining province in the Longford – Down Massif in Ireland.

Maureen Jones, aged 62, Managing Director

Maureen Jones qualified as a radiographer and subsequently specialised in nuclear medicine. In 1977 she became an executive with the International Medical Corporation. She joined Conroy Petroleum in 1980 and was a member of the Board of ARCON from 1986 until 1994. Maureen Jones was one of the founders of Conroy Diamonds and Gold and remains Managing Director of that company.

James Jones, aged 57, Finance Director

James Jones became Secretary of Conroy Petroleum at its foundation and subsequently finance director from 1980 to 1994. He was also a founder director of Conroy Diamonds and Gold and remains finance director of that company. He is a Chartered Accountant and a lecturer in Accountancy at Limerick Institute of Technology.

Roger Chaplin, aged 58, Non Executive Director

Roger Chaplin has some 25 years experience in mining analysis, gained initially in a major South African mining house and latterly in the City of London. Mr Chaplin was Senior Vice President and Mining Analyst at T. Hoare and Co/Canaccord Capital (Europe) Limited in London from 1993-2003 and has a particular interest in precious metals and diamonds.

Seamus FitzPatrick, aged 38, Non Executive Director

Seamus FitzPatrick has worked in both corporate finance and private equity in London and New York with Morgan Stanley, JP Morgan and Banker’s Trust. In 1999 he co-founded Cap Vest Ltd which has over €1.2 billion of assets under management. He is chairman of Young’s Bluecrest Limited and Vaasan & Vaasan OY in Finland.

Louis Maguire, aged 73, Non Executive Director

Louis Maguire is an auctioneer by profession and a land valuation expert with particular expertise in the purchase of mineral rights and in land acquisition for mining. He is also a director of Conroy Diamonds and Gold.

The executive Directors have extensive experience of the mining industry and various aspects of the operation are outsourced to consultants and other third parties. The Group currently has no employees, however, the Group intends to build up a team of suitably qualified and experienced technical staff as and when required. In the meantime, Conroy and Conroy Diamonds and Gold have agreed to provide technical, administrative and management services to the Company.

CONSULTANTS

David Furlong, PGeo B.Sc. (Hons), aged 34

David Furlong, Senior Geologist to Conroy Diamonds and Gold who has been supervising the diamond exploration programmes of Conroy Diamonds and Gold, will continue to supervise diamond exploration programmes for Karelian. He has international experience particularly in the design and implementation of exploration programmes and extensive practical mining experience. Previously he spent 4½ years in Ghana at the Wassa Gold Mine, which produces 100,000 ounces of gold annually, where he held the positions of both Exploration Geologist and Mine Geologist, with responsibility for both near-mine and grass roots exploration. David Furlong also has experience in diamond exploration, and spent some time with CRA as Project Geologist at their diamond exploration programme in the Kimberley Ranges, Western Australia.

Dr Egbert Gerryts, M.Sc. PhD., aged 82

Egbert Gerryts is an internationally respected diamond geologist with a long record of proven success. He was Senior Geologist with Selection Trust and Chief Geologist to Williamson Diamonds Ltd in Tanzania during which time he developed heavy mineral techniques for diamond exploration, which led to the discovery of over 50 kimberlitic pipes. He has worldwide experience in designing diamond exploration programmes and in the evaluation of diamond deposits.

Dr Michael Smith, FIMMM, Eur.Eng, C.Eng, aged 61

Michael Smith is a widely experienced consulting geologist who has worldwide experience of economic geology. He has worked in diamond exploration in Finland, Angola, Lesotho, Botswana, South Africa, Zimbabwe, Brazil and West Africa, as well as coloured stone gemstone exploration in Zimbabwe, Madagascar, USA, Norway, Pakistan, Mozambique, Malawi, Zambia and Afghanistan. His special focus is on mineral economics from exploration stage to mine and corporate development.

The Geological Survey of Finland

The geological survey of Finland ("GTK") is under contract to Karelian for consultancy, field exploration, processing, analytical and laboratory facilities. The GTK has invaluable expertise and experience in the geology of Finland as well as highly qualified technical staff and well equipped diamond laboratories.

DETAILS OF, AND REASONS FOR, THE PLACING

The Company is proposing to raise approximately £268,000 (net of expenses) by the placing of 10,000,000 new Ordinary Shares with institutional and other investors at the Placing Price, representing approximately 22.3 per cent. of the issued share capital of the Company at Admission. City Capital Securities has agreed, pursuant to the Placing Agreement and conditional, inter alia, on Admission, to use its reasonable endeavours to find subscribers for the Placing Shares.

Application has been made for the existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. The New Shares will be allotted and issued prior to Admission credited as fully paid subject only to Admission. Such allotment and issue will become wholly unconditional on Admission. It is expected that Admission will take place and that dealings in the existing Ordinary Shares and the Placing Shares will commence on 1 September 2005.

The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared, paid or made after the date of issue on the ordinary share capital of the Company.

Further details of the Placing Agreement are set out in paragraph 9.3 of Part V of this document.

The Directors intend to use the net proceeds of the Placing primarily to further the exploration programmes, with the balance of any funds to be used as working capital and for future acquisition and development opportunities. Work will be focused on the Kuhmo project with particular emphasis on the known diamondiferous pipe at Seitaperä and on the delineation and drilling of other potentially diamond bearing structures in the area.

In particular, Karelian intends to use the proceeds of the Placing to undertake:

- sampling, processing and analysis, including microdiamond analysis and indicator mineral geochemistry at an estimated cost of €30,000 ;
- aerial and ground geophysics at an estimated cost of €30,000; and
- drilling at an estimated cost of €136,000.

The Directors believe that Admission to AIM will have a number of benefits, including the following:

- raising the profile of the Company, both amongst the investment community and within the mining industry;
- facilitating the raising of further equity capital should it become required or desirable, thereby assisting the Company's ability to grow;
- the Company will be better able to enter into negotiations with vendors of target businesses or assets, to whom the issue of publicly traded shares as consideration is potentially more attractive than shares in a private company;
- the provision of share based incentive schemes involving quoted shares should assist in the recruitment, incentivisation, reward and retention of high calibre employees; and
- an AIM listing will provide liquidity for current and future Shareholders.

DEALING RESTRICTIONS

On Admission, the Directors will be interested in 28,768,206 Ordinary Shares, representing approximately 64.3 per cent. of the Enlarged Issued Share Capital, and 2,850,000 Warrants which, on a fully diluted basis, would represent 66.4 per cent. of the then issued Ordinary Share Capital of the Company following exercise. Details of these interests are set out in paragraph 7.1 of Part V of this document.

In accordance with Rule 7 of the AIM Rules, the Directors on behalf of themselves, their families and other persons deemed to be connected with them and Conroy have undertaken to City Capital, John East & Partners and the Company, not to dispose of such interests (subject to certain limited exceptions) until 12 months after Admission and thereafter for a further period of 12 months without the prior written consent of City Capital and John East & Partners, such consent not to be unreasonably withheld or delayed. Further details of these arrangements are set out in paragraph 9.4 of Part V of this document.

SHARE OPTION SCHEME

The Directors believe that Karelian's success will be highly dependent on the quality and loyalty of its Directors, employees and consultants and other persons providing significant services to the Company. To assist in the recruitment, retention and motivation of high quality employees and other non-employee service providers, as necessary, the Company must have an effective remuneration strategy. The Directors consider that an important part of the Company's remuneration strategy will be the ability to award equity incentives and, in particular, share options. Consequently the Company has adopted the Share Option Scheme. Under the Share Option Scheme, options may be granted at an exercise price not less than market value at the date of the grant.

The Share Option Scheme is to be administered by the Company's remuneration committee. At the date of this document, no options have been granted under the Share Option Scheme.

Further details of the Share Option Scheme are set out in paragraph 8 of Part V of this document.

WARRANTS

The Company has agreed to issue Warrants to subscribe for up to 4,000,000 Ordinary Shares at the Placing Price at any time up to the 10th anniversary of Admission. The Warrants will be constituted by an instrument, further details of which are contained in paragraph 8 of Part V of this document.

TAXATION

Details of certain taxation implications, which may be relevant to holding or dealing in the Ordinary Shares, are set out in paragraph 10 of Part V of this document. If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.

CREST

The New Shares and the Ordinary Shares are in registered form.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. In accordance with standard practice the Enlarged Share Capital will be made eligible for settlement in CREST as contemplated by the CREST Regulations. The Company's articles of association permit the holding of Ordinary Shares in CREST. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

CORPORATE GOVERNANCE

The Directors intend, in so far as is practicable given the Company's size, to comply with the main provisions of the Combined Code on Corporate Governance.

The Directors have established an audit committee and a remuneration committee. The audit committee, consisting of Seamus FitzPatrick as chairman, Louis Maguire, Maureen Jones and Roger Chaplin, has primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounting and internal controls, in all cases having due regard to the interests of Shareholders. The remuneration committee, consisting of Louis Maguire as chairman, Seamus FitzPatrick, and James Jones, will review the scale and structure of the executive Directors' remuneration and the terms of their employment.

The Directors will comply with Rule 21 of the AIM Rules relating to directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Company's applicable employees.

DIVIDEND POLICY

Under Irish law the Company may not pay dividends save from distributable profits available for the purpose. To date the Company has not paid any dividends. As the Company is involved in exploration activities it is not currently revenue earning and therefore will not be in a position to pay dividends in the foreseeable future. The Company is seeking primarily to achieve capital growth for Shareholders.

ENVIRONMENTAL ISSUES

The Group recognises the importance of environmental issues and observes environmental requirements in accordance with Finnish law.

IRISH DOMICILE

As the Company is domiciled in Ireland, it will not be subject to the City Code on Takeovers and Mergers. It will, however, be subject to the Irish Takeover Code (the "Code").

Pursuant to the Rule 9 of the Code, when any person, or group of persons acting in concert, acquires shares which, when taken together with shares already held by such person or persons, carry 30 per cent. or more of the voting rights of a company which is subject to the Code, such person or persons, is or are normally required to make a general offer to all remaining shareholders in that company to acquire their shares.

Further, when any person, or group of persons acting in concert, holds shares which carry not less than 30 per cent., but not more than 50 per cent. of the voting rights of a company which is subject to the Code, such person or persons, may not normally acquire further shares without making a general offer to all shareholders in that company to acquire their shares.

A general offer under Rule 9 of the Code must be in cash and at the highest price paid within the preceding twelve months for any shares in the Company by the person required to make the offer or any person acting in concert with him. If an offeror receives acceptances under such an offer in respect of, and/or otherwise acquires, 80 per cent. or more of the shares to which the Offer relates, the offeror will be entitled to exercise its rights pursuant to the provisions of section 204 of the Companies Act 1963 to acquire compulsorily the remaining shares on the same terms as the offer.

PART II

Risk Factors

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. **If you are in any doubt about the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

There are various risk factors which are specific to the Group, the industry in which it operates and the securities being offered, as follows:

- The operations of the Company are subject to all of the hazards and risks normally associated with the exploration and development of mineral properties. Any one of these risks and hazards could result in damage to life or property, environmental damage and possible legal liability for any or all damage. Hazards, such as unusual or unexpected formations, rock bursts, pressures, cave-ins, flooding or other conditions may be encountered in drilling and other exploration and development activity. While the Company may obtain insurance against certain risks the nature of these risks are such that liabilities could exceed policy limits or be excluded from coverage. The potential costs associated with any liabilities or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting the future earnings and competitive position of the Company and its financial position.
- The activities of the Company may be subject to prolonged disruptions due to weather conditions depending on the location of the properties in which the Company has interests. Any such delays may adversely affect the operations of the Company and cause the Company to incur substantial unexpected costs.
- Whether a mineral deposit becomes commercially viable depends on a number of factors, including the particular attributes of the deposit, such as its size and grade and proximity to infrastructure, financing costs and government regulations including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted and any one of these factors or the combination of any of these factors may make any mining operation uneconomic.
- The operations of the Company are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings and disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties or shutdown of operations. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and enforcement, fines and penalties for non-compliance. The cost of compliance with changes in governmental regulations will likely reduce the profitability of operations.
- The operations of the Company require licences and permits from various government authorities. Such licences and permits are subject to change in regulations and in various operating circumstances. There can be no assurance that the Company will be able to obtain all necessary licences and permits required to carry out exploration, development and mining operations. In particular, in the event of a commercial diamond discovery the Company must apply for and obtain a mining concession licence from the applicable government authorities.
- There is no assurance that the interests of the Company in its properties will not be challenged or impugned.
- Factors beyond the control of the Company may affect the marketability of any diamonds discovered. Prices of diamonds fluctuate and are affected by numerous factors beyond the control of the Company. The effect of these factors and future price fluctuations on the Company and the viability of its operations cannot be predicted.
- The Company will require substantial additional funding in order to maintain its interests and to continue with ongoing exploration and development work on those interests. In addition, in the event that the Company acquires additional interests it will likely be necessary for the Company to obtain additional funding to finance such acquisitions or exploration and development work on such interests. Failure to obtain such additional financing could result in delay or postponement of further exploration and development on the Company's current interests or any interests which the Company may acquire.

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- It may be necessary or desirable for the Company to enter into a joint venture, operating or other form of partnership arrangement with an established and experienced mine operator in order to fully exploit any mineral deposit which may be ultimately developed at its properties or any other property which the Company acquires. There is no assurance that the Company will be able to enter into such an arrangement or whether any such arrangement will be on favourable terms to the Company or whether such arrangement will not result in significant dilution to the Company.
 - The Directors and officers of the Company may serve as directors or officers of other resource companies or have significant shareholdings in other resource companies. Situations may arise in connection with potential acquisitions and investments where the other interests of these directors or officers may conflict with the interests of the Company. The Directors will primarily consider the degree of risk to which the Company may be exposed and its financial position and resources at that time in determining whether the Company will participate in a particular programme or acquisition and the interest to be acquired by it.
 - The Company's success will depend on its management team. Whilst it has entered into contractual arrangements with the aim of securing the executive and non-executive Directors (details of which are set out in paragraph 6 of Part V of this document) the retention of their services cannot be guaranteed.
 - Although the Company has a clearly defined strategy, there can be no guarantee that its objectives will be achieved. Furthermore, the Company may decide to change aspects of its strategy described in this document. The Company's ability to implement its business strategy successfully may be adversely impacted by factors that the Group cannot currently foresee, such as unanticipated costs and expenses or technological changes.
 - AIM is not the Official List of the UKLA. Consequently, it may be more difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the amount paid.
 - The market for shares in smaller public companies is less liquid than for larger public companies. Consequently the Company's share price may be subject to greater fluctuation and the shares may be difficult to buy and sell.
 - The Company's growth plans may place a significant strain on the Company's management and operational, financial and personnel resources. Therefore the Company's future growth and prospects will depend on its ability to manage this expansion.

PART III

INDEPENDENT GEOLOGISTS' REPORT



*John East & Partners Limited
Crystal Gate
28-30 Worship Street
London EC2A 2AH
England*

*The Directors
Karelian Diamond Resources plc
10 Upper Pembroke Street
Dublin 2
Ireland*

CSA House
Dundrum Business Park
7 Windy Arbour
Dublin 14, Ireland

29 July 2005

Dear Sirs,

The CSA Group ('CSA') has prepared this independent report ('The CSA Report') at the request of Karelian Diamond Resources plc ('Karelian') and John East & Partners Limited ("John East & Partners"). The CSA Report has been prepared to provide an independent assessment of Karelian's diamond exploration properties and information portfolio in Finland in preparation for the listing of the company on the AIM market in the UK.

The CSA Report was prepared by Mr. E. (Ed) Slowey BSc, PGeo (No.023), EurGeol (No. 057). Mr Slowey is a Senior Geologist responsible for project management within the CSA Group, including Independent Review, Valuation and Due Diligence, and has over 30 years experience in gold and base metal exploration in Europe, Africa, Asia and North America. CSA has previously completed Independent Reports and Valuations for listings on the London, Dublin, Vancouver, Copenhagen, Luxembourg and Australian Stock Exchanges.

The CSA Report is signed on behalf of the CSA Group by Mr. Viv Byrne, Managing Director. Mr Byrne is a Member of the Irish Association for Economic Geology and the Irish Mining and Exploration Group. He has over 35 years experience in the mineral exploration industry, primarily as European Administration Manager for exploration operations with the Rio Tinto Group. Since joining CSA in 1991, he has played a major role in management and has been Managing Director since 1998.

The CSA Report is based on reports from previous field visits and appraisal of diamond exploration targets in Finland undertaken by CSA, the in-house data set of Karelian and associated companies, and also public domain data. CSA has relied on the accuracy of reports and data supplied by Karelian in the preparation of The CSA Report. Copies of the claim (licence) documents were viewed by CSA, although full legal verification of the documents was not undertaken. At no time during the course of preparation of The CSA Report did CSA become aware of either withholding of information or of the changing of records to influence the conclusion of The CSA Report. CSA has endeavoured to ensure that no error of fact is contained within The CSA Report. Any such error is not intentional and is not a deliberate effort to mislead.

Other than for the purposes of completing The CSA Report described in this document, neither CSA nor any CSA staff involved in its preparation have any commercial interest in Karelian or any associated companies. Neither CSA nor any CSA staff will receive any interest in Karelian or any associated companies as a result of undertaking The CSA Report. CSA will be paid normal professional rates as set out in Assignment Sheet No. 3227 for completing The CSA Report for Karelian.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Viv Byrne', written over a light blue horizontal line.

Viv Byrne
Managing Director

Directors: J. Barnett, V. Byrne, J. Cole-Baker, R. Crowe, J. Gowen, P. O'Connor, N. O'Neill, T. Paul
Secretary: R. O'Dowd
CSA Group Limited, Registered in Ireland, Number 253332

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INDEPENDENT GEOLOGICAL REPORT ON DIAMOND PROPERTIES IN FINLAND, JULY 2005

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1. INTRODUCTION

At the request of the Directors of Karelian Diamond Resources plc ('Karelian'), the CSA Group ('CSA') has prepared the following technical due diligence report on diamond exploration work undertaken by Karelian on the licensed acreage in Finland. The licensed acreage and intellectual property has been transferred by Conroy plc ('Conroy') and Conroy Diamonds and Gold plc ('Conroy Diamonds and Gold') to 'Karelian' and this report will form part of the document for a proposed listing of Karelian on the Alternative Investment Market (AIM) of the London Stock Exchange. CSA staff have previously visited Finland on behalf of Conroy and have examined recent exploration data supplied by Karelian. Conroy has been active in diamond exploration in Finland since 1994, and during this time has engaged the Geological Survey of Finland (GSF) on a consultancy basis to carry out field work and process data, under the supervision of Conroy staff. The GSF has a strong reputation for the quality and competence of its personnel and standards of field work.

2. FINLAND – BACKGROUND AND MINERAL LEGISLATION

Finland is a member of the European Union and is a modern country with a well developed infrastructure and communications network. It is politically stable with a high level of education and industrial development.

The country has a long mining history, principally as a base metals producer, although in recent years there has been an upsurge in interest in gold and diamond exploration. The economy was traditionally focussed on primary production – mining, forestry and farming, although manufacturing and engineering are now part of a thriving economy.

For the mineral explorer, the mining law and operating environment in Finland is seen to be favourable for exploration and mine development. Mining law in Finland is governed by three instruments:

- The Mining Act
- The Mining Decree
- Amendments to the Mining Law.

Rights under the Mining Law can be granted to any Finnish citizen or corporate body or any resident of the European Economic Area. The act of prospecting is considered to be everyone's right - a special Nordic tradition. Geological surveys and limited sampling can be carried out almost everywhere, providing no damage is done to the landowner's property or the environment. The landowner or the local registry office must be informed of the sampling beforehand. A few locations, e.g. roads, cemeteries, military areas etc. are excluded.

The primary right under Finnish mining law is the *Claim Reservation*. This gives the applicant a reasonable period to delimit an area of interest and to prepare the application for a Claim. A claim reservation covers an area of up to 9km² and the person filing the notice of reservation enjoys priority in applying for a claim (exploration licence) within the reserved area for a period of one year from filing. The reservation does not prevent others from prospecting in the area.

A Claim or *Exploration Licence* entitles the holder (whether individual or company) to carry out exploration activities within the claim area with or without the consent of the landowner. The maximum area of a claim is 1km² and certain areas are excluded. The application is addressed to the Ministry of Trade and Industry and is valid for a period of up to five years. Each year, the claim holder must pay a claim fee to the landowners and the Ministry of Trade and Industry.

When a mineral deposit is found, a mining concession is granted to the claim holder, under certain conditions, if the deposit is shown to be technically and economically exploitable. The application must be made while the claims are still valid. The conditions for granting the mining concession are flexible and payment is made on an annual basis to the Ministry and the Landowner.

3. TOPOGRAPHY, CLIMATE AND ACCESS

The majority of Finland is relatively low-lying with undulating glacial moraines and drumlins separated by swampy ground. There are many lakes throughout the country, and these tend to follow the trend of the most recent glaciation which is a general west-northwest to northwest orientation. The country is primarily covered by low density coniferous forests. The local regional centres are accessible by daily flights from Helsinki. All claim and claim reservation areas are within easy reach of tarmac roads and generally have graded forest track roads running through them.

The annual mean temperature is 1 degree Celcius with a January average of -11 degrees Celcius and a July average of 15 degrees Celcius (minimum -36 degrees, maximum 29 degrees). Precipitation amounts to about 650mm rainfall equivalent. Snow cover lasts until late spring/early summer and may be up to 80cm. In areas that are snow free in winter, frost penetration of the ground is approximately 180cm. Winter is frequently a good time of year for certain exploration work, e.g. drilling or geophysics, due to the freezing over of the ground.

4. PROPERTY LOCATION

The claims held by Karelian are summarised in Table 1 and their locations shown in Figure 1.

They fall into 4 groups based on their geographical location. These groups are:

1. Lapland Claims
2. Western Claims
3. Southeastern Claims
4. Kuhmo Claims

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7464/16	Aurora 23	22/08/02	09/09/08	99.11
7464/21	Aurora 28	22/08/02	14/05/08	101.48
7464/22	Aurora 29	22/08/02	31/12/07	60.17
7464/23	Aurora 30	22/08/02	31/12/07	24.75
7464/24	Aurora 31	22/08/02	14/05/08	99.33
7464/25	Aurora 32	22/08/02	14/05/08	69.41
7464/26	Aurora 33	22/08/02	14/05/08	65.56
7459/1	Aurora 6	31/07/02	14/10/07	99.26
7459/2	Aurora 7	31/07/02	14/10/07	100.02
7459/3	Aurora 8	31/07/02	14/10/07	101.69
6211/1	Joutsen 154	26/10/95	05/08/05	48.61
6514/1	Joutsen 239	24/03/97	05/08/05	62.1
5751/1	Joutsen 92A	13/03/95	05/08/05	48.69
5752/1	Joutsen 92B	13/03/95	05/08/05	29.61
7327/1	Viulu 1	30/10/01	31/12/06	98.89
7335/1	Viulu 10	30/10/01	31/12/06	46.45
7339/1	Viulu 11	30/10/01	31/12/06	65.23
7327/2	Viulu 2	30/10/01	31/12/06	98.33
7332/1	Viulu 23	05/11/01	31/12/06	97.86
7329/4	Viulu 4	30/10/01	31/12/06	84.81
7329/5	Viulu 4a	05/11/01	31/12/06	7.67
7329/3	Viulu 5	30/10/01	31/12/06	15.07
7329/2	Viulu 6	30/10/01	31/12/06	5.89
7329/1	Viulu 7	30/10/01	31/12/06	15.23
7328/1	Viulu 8	30/10/01	31/12/06	4.12
7951/1	Seitapera 1	02/06/05	02/06/10	75.4
7951/4	Seitapera 1a	02/06/05	02/06/10	7.1
7951/2	Seitapera 2	02/06/05	02/06/10	95.6
7951/3	Seitapera 3	02/06/05	02/06/10	99.2
7956/1	Seitapera 4	02/06/05	02/06/10	97.8
7956/2	Seitapera 5	02/06/05	02/06/10	97

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7956/3	Seitapera 6	02/06/05	02/06/10	97
7956/4	Seitapera 7	02/06/05	02/06/10	87.4
7956/5	Seitapera 8	02/06/05	02/06/10	17.3
7956/7	Seitapera 8a	02/06/05	02/06/10	68.9
7956/6	Seitapera 9	02/06/05	02/06/10	100
7971/1	Riihivaara 1	10/06/05	10/06/10	9.4
7971/23	Riihivaara 1a	10/06/05	10/06/10	71.5
7971/2	Riihivaara 2	10/06/05	10/06/10	17.45
7971/24	Riihivaara 2a	10/06/05	10/06/10	52.5
7971/3	Riihivaara 3	10/06/05	10/06/10	90.5
7971/4	Riihivaara 4	10/06/05	10/06/10	70.8
7971/5	Riihivaara 5	10/06/05	10/06/10	69
7971/6	Riihivaara 6	10/06/05	10/06/10	73.7
7971/25	Riihivaara 6a	10/06/05	10/06/10	7.5
7971/7	Riihivaara 7	10/06/05	10/06/10	73.25
7971/8	Riihivaara 8	10/06/05	10/06/10	98.6
7971/9	Riihivaara 9	10/06/05	10/06/10	48.7
7971/10	Riihivaara 10	10/06/05	10/06/10	100
7971/11	Riihivaara 11	10/06/05	10/06/10	61.1
7971/26	Riihivaara 11a	10/06/05	10/06/10	15
7971/12	Riihivaara 12	10/06/05	10/06/10	91.9
7971/13	Riihivaara 13	10/06/05	10/06/10	44.4
7971/14	Riihivaara 14	10/06/05	10/06/10	29.1
7971/15	Riihivaara 15	10/06/05	10/06/10	100
7971/16	Riihivaara 16	10/06/05	10/06/10	99.2
7971/17	Riihivaara 17	10/06/05	10/06/10	31.6
7971/27	Riihivaara 17a	10/06/05	10/06/10	40
7971/18	Riihivaara 18	10/06/05	10/06/10	58.2
7971/19	Riihivaara 20	10/06/05	10/06/10	100
7971/20	Riihivaara 21	10/06/05	10/06/10	100
7971/21	Riihivaara 22	10/06/05	10/06/10	73.6

Table 1 – Diamond Claims held by Karelian in Finland

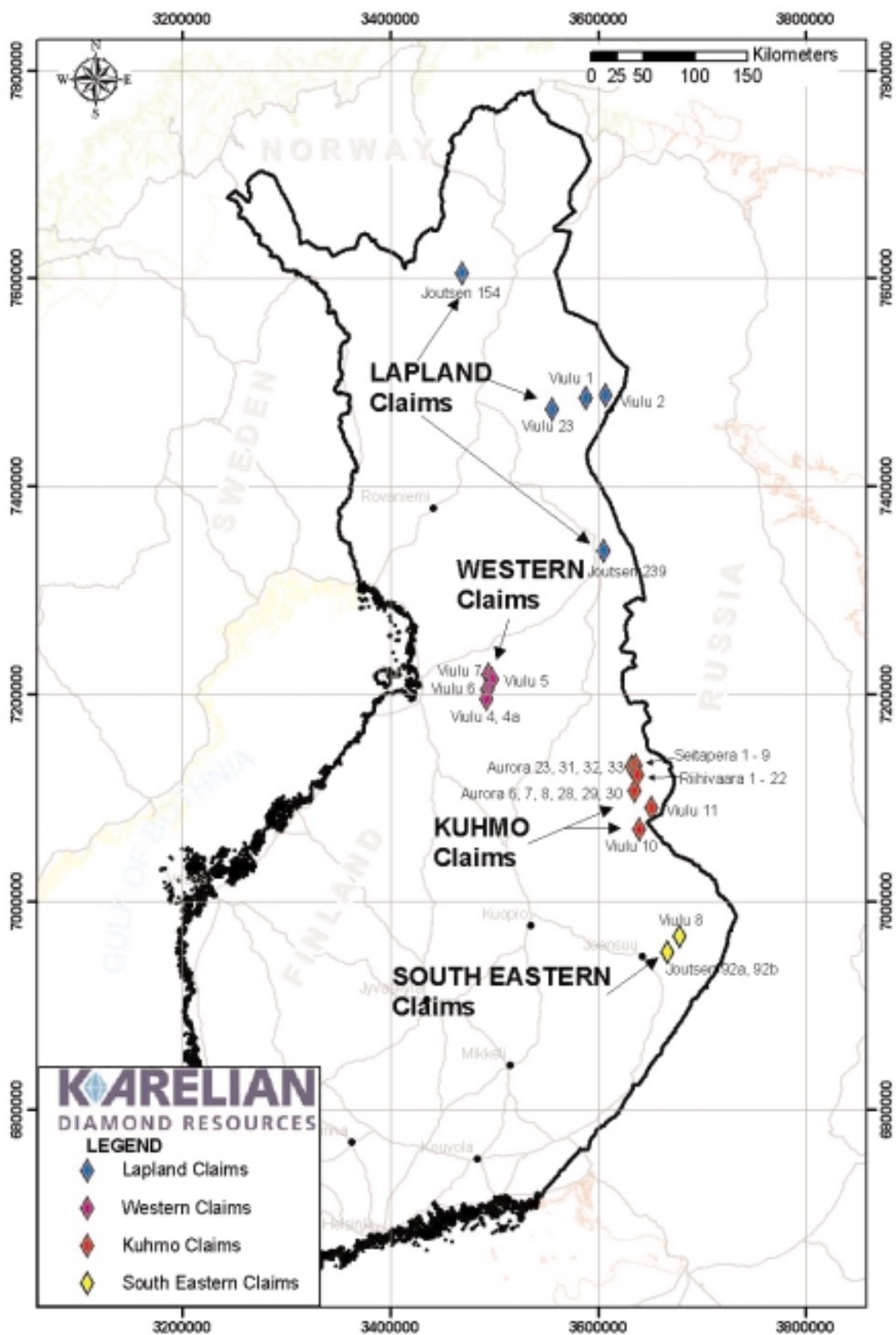


Figure 1 – Location of Claim Areas

5. REGIONAL GEOLOGICAL SETTING AND DIAMOND OCCURRENCES

5.1 *Introduction*

Finland is largely underlain by Precambrian rocks that form part of the Baltic Shield. The two exposed Archaean cratons of the Baltic Shield, with which diamonds are associated in Russia, extend into Finland. The Kola Craton extends through Norwegian Lapland into Finnish Lapland and the Karelian Craton extends into Finnish Karelia (see Figure 2). Both Cratons contain rocks with radiometric ages greater than 3,100 million years. The two cratons are separated by a mobile belt of highly metamorphosed Archaean rocks. The Finnish parts of both cratons exhibit characteristics associated with diamond occurrence and there are indications of diamond occurrences just across the international border in Russian Karelia and Norwegian Lapland.

5.2 *The Kola Craton*

Two suites of rocks are recognised in the Kola Craton. Greenstone belts, in which basic and intermediate metavolcanics make up 60 - 70% of the sequence, are highly metamorphosed. The greenstones are considered to lie on a basement of granitoids of tonalitic composition and all are early Archaean in age.

The Kola Craton hosts the rich diamond deposits of the Zolotitsa/Verkhotina kimberlite fields of Russia, located about 100km north of Archangelsk on the southeast side of the White Sea. The Grib pipe, which was first discovered in 1996 within the Verkhotina licence in the Archangelsk Oblast, has an estimated resource of 98 million tonnes containing 67 million carats of recoverable +1mm diamonds at an average mining grade of 69 carats per hundred tonnes. The Lomonsov deposit in the Archangelsk Oblast, consisting of six diamondiferous kimberlite pipes, was discovered pre-1986. No resources have been estimated to western standards for this deposit series. Further kimberlite fields are located in the central part of the Kola Peninsula and on the north shore of the White Sea. Close to the Finnish border, in Norwegian Lapland, a diamond of several carats was reported from glacial drift.

5.3 *The Karelian Craton*

Like the Kola Craton, the Karelian Craton consists of greenstone belts but these are structurally more evolved and resemble the classic greenstone belts of Canada, Western Australia and elsewhere. They are generally late Archaean in age and lie on a basement of granitoid rocks.

Diamonds have been discovered on the Finnish Karelian Craton and the work of Ashton Mining Ltd. of Australia at Kuopio and Kaavi is well chronicled.

Diamondiferous kimberlite is also reported in Russia at Kemozero, about 200km east of the border with Finland, and diamond-bearing lamproites have been located at Kostamuksha, near the Finnish border. Within Russia, diamonds are also reported to have been recovered from graphitic schists while, further to the east and closer to the boundary with Palaeozoic rocks, diamonds have been reported in recent sediments.

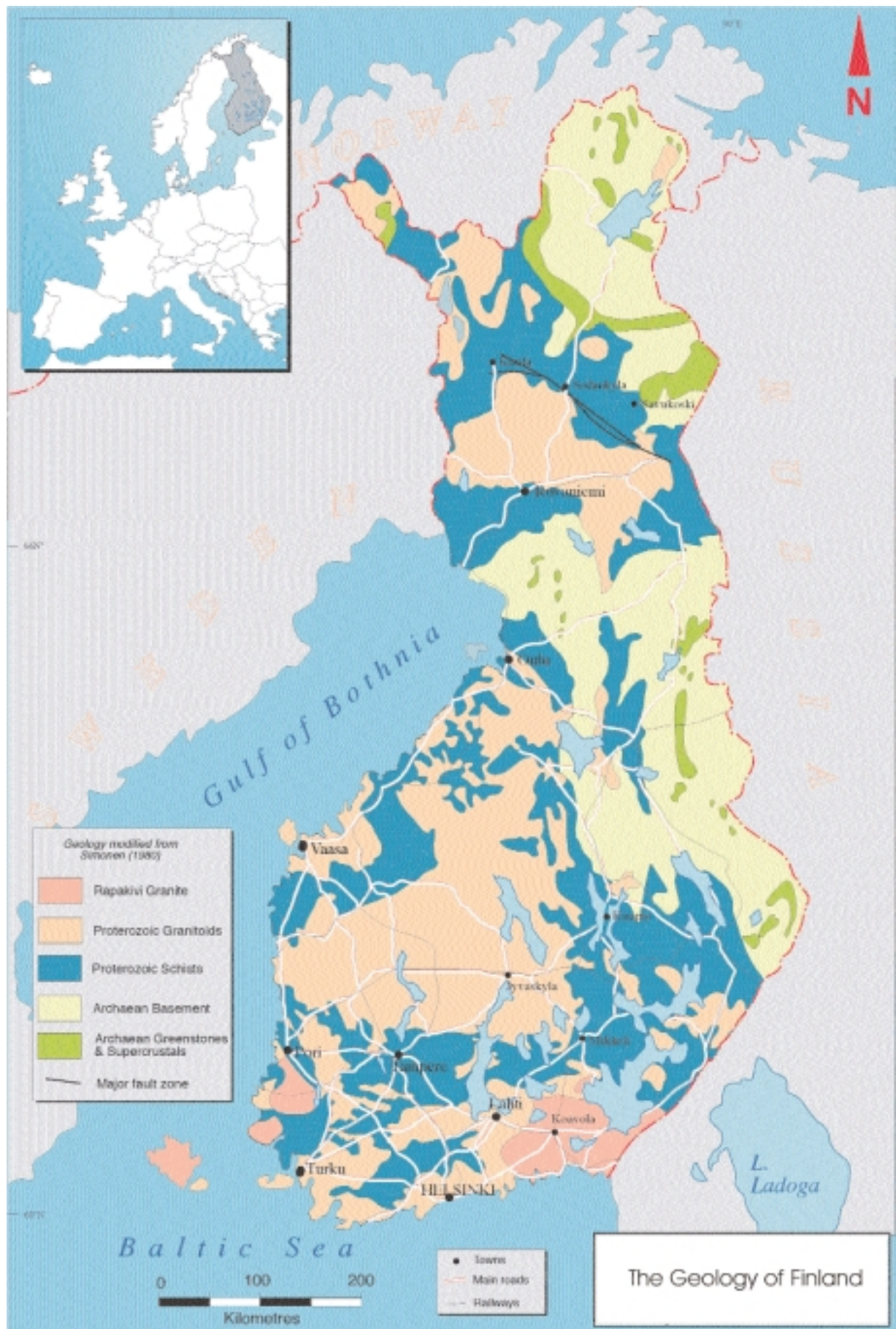


Figure 2 – The Geology of Finland

6. HISTORY OF DIAMOND EXPLORATION IN FINLAND

Finland was closed to non-Finnish exploration companies until the beginning of 1994, when entry to the European Union and changes in mining legislation granted the right to foreign mining companies to acquire claims in Finland.

The first diamondiferous kimberlite was discovered in Finland in the early 1960's by Malmikaivos Oy, a small Finnish base metal explorer, near to the town of Kuopio in eastern Finland. The rock was first identified as a lamprophyre but further investigation proved it to be a magmatic kimberlite. No further work was conducted at that time. In the same region in the late 1970's the company found boulder trains of unusual rocks, subsequently identified as kimberlites. Malmikaivos recovered micro-diamonds from both samples. In 1984, a second kimberlite was discovered up-ice from the boulders and subsequently a third, some 500m away. At the time, Malmikaivos Oy had limited diamond expertise and for this reason Ashton Mining Limited of Australia were brought in as partners in 1986. When the mining law changed in 1994, Ashton acquired full control of Malmikaivos Oy.

The subsequent Malmikaivos Oy/Ashton work programme resulted in the discovery of more than 24 kimberlite bodies in two significant clusters. 16 have proved to be diamondiferous and at least 2 have produced clear, colourless diamonds. In one of the clusters, seven of the 11 pipes yielded diamonds. Their No. 7 pipe yielded 21.4-45.3 carats/100 tonnes, averaging 25.7 carats/100 tonnes from a total sample size of 23.3 tonnes. Elsewhere, a pipe measuring 1 hectare in surface area yielded 13-26 carats/100 tonnes from a 9.4 tonne composite sample. Ashton considered that three of the pipes discovered were of possible commercial significance.

The Ashton programme was subsequently continued as a joint venture with DiaMet Minerals Limited and the ground is now held by North Star Diamonds AB.

A number of other companies have been active in diamond exploration in Finland since 1994. One of the first was Conroy, working from that year up to the present time. Other companies include:

- RTZ Mining and Exploration Limited.
- Finnsearch Oy (De Beers)
- Baltic Minerals Finland Oy
- Archangel Diamond Corporation
- European Diamonds plc

Of particular interest is the work by European Diamonds plc which has located 14 separate kimberlites within the Lentiira area of eastern Finland, close to the Kuhmo claims held by Karelian. Diamonds have not yet been located within the kimberlites, but diamond indicator minerals (see Appendix I) have been identified and active exploration is continuing.

A common denominator in the development of diamond exploration in Finland is the Geological Survey of Finland. It has acted as exploration contractor and consultant to most of the above named companies, and has continued an open programme of regional studies that have helped define the diamond geology of Finland. It provides a large public database as well as services including sampling, mineral processing and geophysical surveying to diamond explorers. Karelian has contracted the GSF to conduct elements of its diamond exploration programme on its behalf.

7. KARELIAN EXPLORATION STRATEGY

The Karelian technical group has developed a model for diamond prospectivity in Finland which has been used to guide diamond exploration carried out to date. Key elements in the model include:

- The identification of thick Archaean Crust. (45 to 240km). This has been demonstrated by heat flow studies and more recently, deep seismic techniques. Thick crust is essential for the preservation of diamonds at the Lherzolite-Harzburgite transition zone in the upper mantle.
- Identification of favourable structural zones for emplacement of kimberlites, including activation zones and broad zones of deep seismic activity indicating the presence of these zones. The Kola and Karelian Cratons are crossed by fundamental and deep seated west-northwest to northwest trending transcurrent fractures with associated east-west and orthogonal northeast fracture zones. These have been active since Proterozoic times and sometimes are associated with deep crustal rocks, e.g. komatiites.
- The identification of diamondiferous rocks in target areas of the craton, e.g. kimberlites, lamproites and various hybrids. The ages of the diamondiferous rocks vary from 1120 to 1320 million years (Kostamuksha) to 430 to 590 million years (Kuopio and Kaavi).

The elements of the model identified in the Karelian and Kola Cratons are analogous to those encountered on other diamondiferous cratons elsewhere in the world. The regional geological setting of the diamondiferous part of the Kola and Karelian Cratons is illustrated in Figure 3, summarising the work of the Finnish Geological Survey.

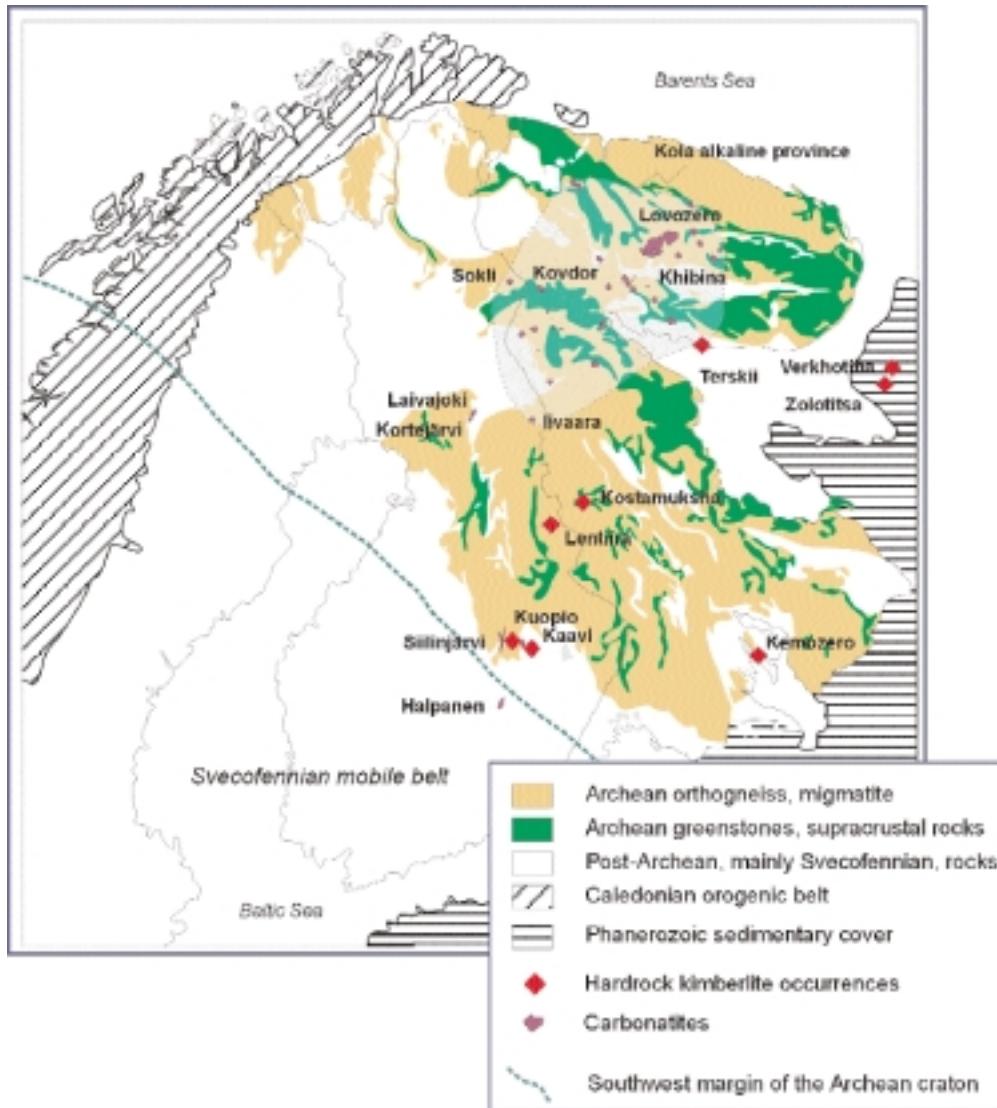


Figure 3 – Geological Setting of Diamond Occurrences in the Kola and Karelian Cratons

8. KARELIAN EXPLORATION PROGRAMME

8.1 Target Definition

Conroy has been engaged in diamond exploration in Finland since 1994. Initially this consisted of regional data acquisition and evaluation of preliminary targets using:

- Aeromagnetic data interpretation
- Electromagnetic data interpretation
- Geological overview
- Structural and ground geophysical data overview
- Development of a geological model and exploration strategy based on the above (as outlined in Section 7 above)

The exploration programmes have been focussed on primary target selection using aeromagnetic data interpretation. Where appropriate, these targets have then been followed up by an extensive till sampling programme.

The GSF holds a high quality database comprising airborne magnetic, electromagnetic and radiometric surveys flown in 1987 at 200m line spacing and 30 to 50m elevation. This dataset covers the majority of the land area of Finland. The data are available from the GSF in both digital and hard copy format, and Conroy was amongst the first to view these data. Since 1995, Conroy's technical staff have made a detailed analysis of this dataset from two perspectives. Firstly, the aeromagnetic database has been examined with a view to identifying large regional structures which could be important with regard to the emplacement of kimberlites and lamproites. Secondly, the aeromagnetic and electromagnetic datasets were examined in detail, in what were considered to be prospective areas based on the above criteria, for the presence of anomalies which could themselves be interpreted as kimberlite pipes. At these northern latitudes, kimberlites would normally be seen as bi-lobate anomalies orientated in a north-south direction, so a particular emphasis was placed on the identification of such anomalies. Initially, over 200 such anomalies were identified as preliminary targets, and worthy of follow up with till sampling.

An extensive till sampling programme, involving the collection of over 1,000 samples was undertaken on the preliminary targets mentioned above. These samples were taken from basal till, with 4 samples being taken parallel to the direction of glacial flow in each instance. Approximately 15kg of sample was collected from each sample location. The samples were then processed to remove the magnetic fraction, and the non-magnetic fraction was examined for the presence of kimberlitic indicator minerals. These were then in turn analysed by electron microprobe. All field work and the majority of laboratory work was carried out by the GSF under the supervision of Conroy staff.

In cases where favourable indications were reported from this first stage till sampling programme, and/or strong aeromagnetic anomalies indicative of possible kimberlites were recognised, claim reservations, and subsequently claims, were applied for, and subsequently granted. The claims are now held by Karelian in 4 separate blocks. These are:

1. **Lapland claims**
2. **Western claims**
3. **Kuhmo claims**
4. **Southeastern claims**

Work carried out to date in these areas is outlined below.

8.2 Geology of the Target Areas

In the Lapland and Western claim blocks, bedrock consists primarily of Archaean plutonic material (granite, tonalite, etc). with fragments of greenschist material. The geology is obscured by glacial drift and, especially in the low lying areas, swampy areas with peat and silts predominating.

In the Kuhmo and Southeastern blocks, the bedrock consists mainly of Late Archaean plutonic rocks with minor remnants of greenschist. The Kuhmo Greenschist belt, which hosts extensive serpentinite bodies, is located some 20km west of the Kuhmo Licence block area. Southeast and southwest trending major fracture zones and similarly directed Paleo- to Mid-Proterozoic mafic dyke swarms feature in the bedrock. The early Proterozoic Kainuu Schist Belt is situated approximately 60km west of Kuhmo. The bedrock belongs to the Karelian Craton, which extends far to the east into Russia, where it is partly sealed under younger sedimentary rocks.

The Quaternary geology of the Kuhmo area dates back to de-glaciation 11,000-12,000 years ago. Basal till was deposited under an actively flowing glacier as indicated by ubiquitous drumlin fields. Ice-lake sediments (clay and silt), outwash deposits (sand and gravel) and ablation till are abundant and were deposited during the same de-glaciation event. The ice flow direction is N293°E, which has been concluded from a study of bedrock striations by the GSF. The thickness of the till is less than 4m on topographic highs, but variable in the intervening swamps and lakes. Quaternary research indicates that transport distances are fairly short, ranging from 1 to 2 km in the till blanket, but up to 5km in drumlins.

8.3 Summaries of Claims

8.3.1 Lapland Claims

The claims held in Lapland are located in three sub-areas (Table 2, Figure 4). The claims are primarily over strong aeromagnetic anomalies. Some preliminary till sampling has been carried out around these anomalies, and chrome diopside has been recovered from near licence Joutsen 154.

Claim No	Claim Name	Application date	Expiry date	Area (Ha)
6211/1	Joutsen 154	26/10/1995	05/08/2005	48.61
6514/1	Joutsen 239	24/03/1997	05/08/2005	62.10
7327/1	Viulu 1	30/10/01	31/12/06	98.89
7327/2	Viulu 2	30/10/2001	31/12/2006	98.33
7332/1	Viulu 23	05/11/2001	31/12/2006	97.86

Table 2 – Lapland Claims held by Karelian



Figure 4 – Lapland Claims

8.3.2 Western Claims

The claims and claim reservations held in the Western Area are summarised in Table 3, and shown in Figure 5.

The area is characterised by aeromagnetic anomalism. Preliminary till sampling in this area, involving the collection of 34 basal till samples down-ice from selected anomalies has resulted in the identification of a number of kimberlitic indicator minerals, including a G9 garnet.

Claim No	Claim Name	Application date	Expiry date	Area (Ha)
7329/4	Viulu 4	30/10/2001	31/12/2006	84.81
7329/5	Viulu 4a	05/11/2001	31/12/2006	7.67
7329/3	Viulu 5	30/10/2001	31/12/2006	15.07
7329/2	Viulu 6	30/10/2001	31/12/2006	5.89
7329/1	Viulu 7	30/10/2001	31/12/2006	15.23

Table 3 – Western Claims held by Karelian

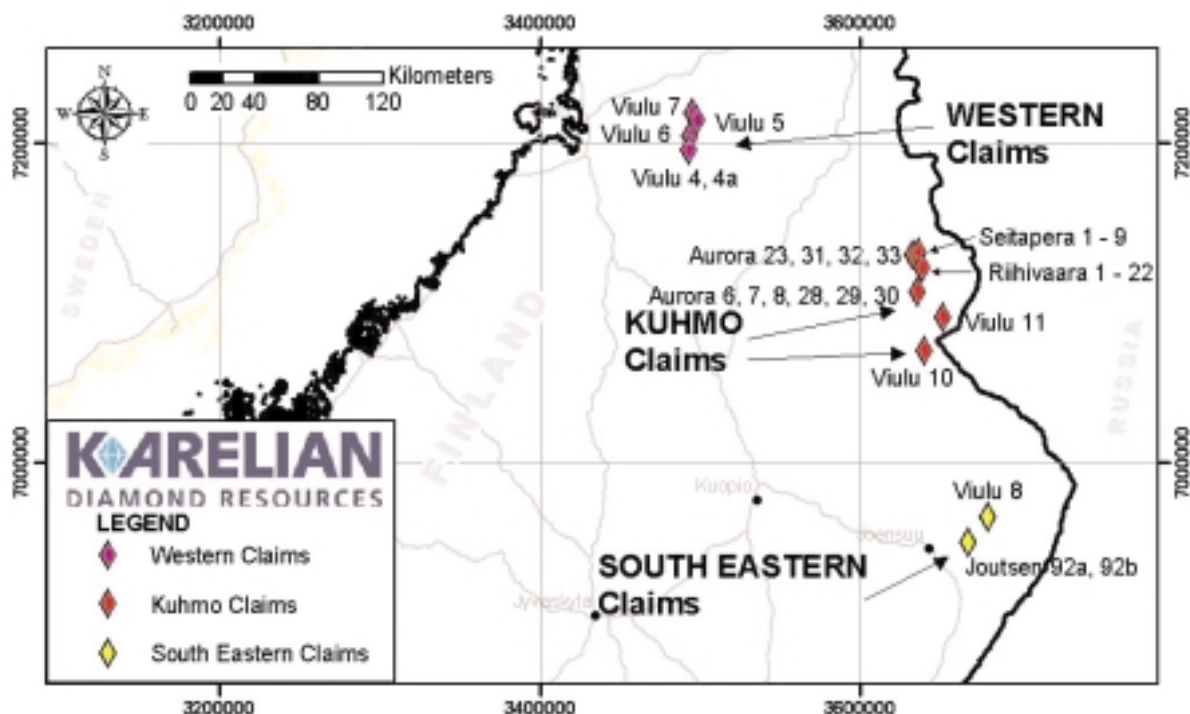


Figure 5 – Western, Kuhmo and Southeastern Claims

8.3.3 Southeastern Claims

The claims held in the Southeastern Area are summarised in Table 4, and are shown in Figure 5.

They are located in an area of strong aeromagnetic anomalism. Results from preliminary till sampling have identified chrome diopside from near to claim Joutsen 92a.

Claim No	Claim Name	Application date	Expiry date	Area (Ha)
5751/1	Joutsen 92A	13/03/1995	05/08/2005	48.69
5752/1	Joutsen 92B	13/03/1995	05/08/2005	29.61
7328/1	Viulu 8	30/10/2001	31/12/2006	4.12

Table 4 – Southeastern Claims held by Karelian

8.3.4 Kuhmo Claims

The claims held in the Kuhmo block are in the eastern Karelian Craton (see Table 5, Figure 5), in what is considered to be one of the most prospective terranes in Finland for diamonds.

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7464/16	Aurora 23	22/08/02	09/09/08	99.11
7464/21	Aurora 28	22/08/02	14/05/08	101.48
7464/22	Aurora 29	22/08/02	31/12/07	60.17
7464/23	Aurora 30	22/08/02	31/12/07	24.75
7464/24	Aurora 31	22/08/02	14/05/08	99.33
7464/25	Aurora 32	22/08/02	14/05/08	69.41
7464/26	Aurora 33	22/08/02	14/05/08	65.56
7459/1	Aurora 6	31/07/02	14/10/07	99.26
7459/2	Aurora 7	31/07/02	14/10/07	100.02
7459/3	Aurora 8	31/07/02	14/10/07	101.69
7335/1	Viulu 10	30/10/01	31/12/06	46.45

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7339/1	Viulu 11	30/10/01	31/12/06	65.23
7951/1	Seitapera 1	02/06/05	02/06/10	75.4
7951/4	Seitapera 1a	02/06/05	02/06/10	7.1
7951/2	Seitapera 2	02/06/05	02/06/10	95.6
7951/3	Seitapera 3	02/06/05	02/06/10	99.2
7956/1	Seitapera 4	02/06/05	02/06/10	97.8
7956/2	Seitapera 5	02/06/05	02/06/10	97
7956/3	Seitapera 6	02/06/05	02/06/10	97
7956/4	Seitapera 7	02/06/05	02/06/10	87.4
7956/5	Seitapera 8	02/06/05	02/06/10	17.3
7956/7	Seitapera 8a	02/06/05	02/06/10	68.9
7956/6	Seitapera 9	02/06/05	02/06/10	100
7971/1	Riihivaara 1	10/06/05	10/06/10	9.4
7971/23	Riihivaara 1a	10/06/05	10/06/10	71.5
7971/2	Riihivaara 2	10/06/05	10/06/10	17.45
7971/24	Riihivaara 2a	10/06/05	10/06/10	52.5
7971/3	Riihivaara 3	10/06/05	10/06/10	90.5
7971/4	Riihivaara 4	10/06/05	10/06/10	70.8
7971/5	Riihivaara 5	10/06/05	10/06/10	69
7971/6	Riihivaara 6	10/06/05	10/06/10	73.7
7971/25	Riihivaara 6a	10/06/05	10/06/10	7.5
7971/7	Riihivaara 7	10/06/05	10/06/10	73.25
7971/8	Riihivaara 8	10/06/05	10/06/10	98.6
7971/9	Riihivaara 9	10/06/05	10/06/10	48.7
7971/10	Riihivaara 10	10/06/05	10/06/10	100
7971/11	Riihivaara 11	10/06/05	10/06/10	61.1
7971/26	Riihivaara 11a	10/06/05	10/06/10	15
7971/12	Riihivaara 12	10/06/05	10/06/10	91.9
7971/13	Riihivaara 13	10/06/05	10/06/10	44.4
7971/14	Riihivaara 14	10/06/05	10/06/10	29.1
7971/15	Riihivaara 15	10/06/05	10/06/10	100
7971/16	Riihivaara 16	10/06/05	10/06/10	99.2
7971/17	Riihivaara 17	10/06/05	10/06/10	31.6
7971/27	Riihivaara 17a	10/06/05	10/06/10	40
7971/18	Riihivaara 18	10/06/05	10/06/10	58.2
7971/19	Riihivaara 20	10/06/05	10/06/10	100
7971/20	Riihivaara 21	10/06/05	10/06/10	100
7971/21	Riihivaara 22	10/06/05	10/06/10	73.6

Table 5 – Kuhmo Claims held by Karelian

In the Kuhmo area, a large reconnaissance till sampling programme has been undertaken by Karelian, and samples have been recovered and processed from approximately 200 sample sites. Reconnaissance sampling was carried out by taking till samples by shovel from roadside locations on 3 north-south traverses, approximately 10km apart. The samples were spaced approximately 1km apart in a north-south direction.

Samples were pre-concentrated at the GSF Knelson station in Kuhmo. Pre-concentrates were then shipped to the GSF research laboratory in Espoo for further concentration (heavy liquid and magnetic separation). The samples were then microscopically examined.

The microscopic examination was focussed on potential diamond and kimberlitic/lamproitic indicator minerals. Any chrome pyrope and chrome diopside was further analysed using electron microprobe in order to quantitatively determine its chemical composition.

The results of this sampling programme were highly encouraging. 28 diamond indicator pyrope garnets were recovered from the area, as well as 15 chrome diopsides of kimberlitic composition. In general, the indicator mineral pattern is characterised by broad anomalies, perpendicular to ice flow. 16 separate indicator anomalies have been identified which may relate to multiple kimberlite sources.

In the Kuhmo Claim area, microdiamonds have been located in a kimberlite body by a previous operator and important diamondiferous indicator minerals have been discovered by Karelian, leading to the conclusion that multiple sources for diamonds may exist in the area.

Karelian has also been granted 11 claims over, and in the vicinity of, this established diamondiferous kimberlite which is known as the Seitapera Pipe. This kimberlite body is known to be an irregular dyke with a surface area of approximately 4 ha. The body was discovered through a combination of indicator mineral sampling and ground magnetics in 1993 by Malmikaivos Oy. Malmikaivos Oy subsequently collected a 13.3t sample from percussion drilling which was reported to have returned a grade of 1.09ct /100t.. In addition, Karelian has been granted a further 26 claims over other anomalies in the Kuhmo area.

8.4 Proposed Exploration Programme

Karelian proposes to carry out a phased work programme, incrementally building on the work of Conroy and Conroy Diamonds and Gold. This will involve further evaluation of all claims held, with emphasis on the Kuhmo area and application for new claim reservations and claims. Actions will include:

- Consolidation of existing data and all available open file data relating to Finnish diamond exploration, including data relating to the Seitapera Pipe.
- Completion of a follow up programme focussing initially on the Kuhmo area, comprising:
 - Delineation of indicator fans;
 - Ground geophysics;
 - Large sample recovery;
 - Mineral studies;
 - Diamond provenance evaluation (see above);
 - Bedrock sampling (trial pitting and drilling).
- Drilling and sampling of the Seitapera Pipe
- Acquisition of new geophysical data and re-processing of older data;
- Acquisition and evaluation of new acreage.

9. SUMMARY AND CONCLUSIONS

- The Archaean Cratons (Kola and Karelia) of Finland are an area of thick lithosphere and low heat flow. Structural zones (activation zones) exist that provide pathways for kimberlite emplacement. Significant and world class diamond occurrences have been found within the craton, e.g. Archangel Kimberlite Fields in Russia. Diamonds have also been found in the Karelian Craton, e.g. the Kuopio-Kaavi kimberlite clusters. The area has proven prospectivity for diamonds.
- Conroy and Conroy Diamonds and Gold have been active in diamond exploration in the Kola and Karelian Cratons starting in 1994. They have carried out a large amount of work and gained extensive experience of exploration in the region. Their comprehensive data package, exclusive survey results and a significant portfolio of claims have been transferred into Karelian and will provide Karelian with a significant advantage in its future operations.
- The portfolio of claims transferred into Karelian comprises four blocks. All four blocks are highly prospective for diamonds in their own right.
- In the Kuhmo Claim area, microdiamonds have been located in a kimberlite body by a previous operator and important diamondiferous indicator minerals have been discovered by Karelian, leading to the conclusion that multiple sources for diamonds may exist in the area. Follow-up work in this area is a priority for Karelian, including the further investigation of the diamond-bearing Seitapera Pipe.

The results obtained to date indicate that an ongoing programme of field work, data acquisition and claim acquisition has the potential to locate diamond-bearing kimberlites, with particular encouragement in the Kuhmo area.

APPENDIX I

Use Of Indicator Minerals In Diamond Exploration

The identification of heavy minerals is widely used as an exploration tool in the search for diamonds. In glaciated terrains, Quaternary till is an important medium for the transport of heavy minerals.

Kimberlitic and diamond indicator minerals are high temperature and high pressure modifications of ordinary crustal and upper mantle heavy minerals e.g. chromite, ilmenite, garnet and clinopyroxene. The important indicator minerals include chrome pyrope (garnet), orange pyrope (eclogitic and megacrystic), high-Cr, high-Mg chromite, high-Ti chromite, picroilmenite (high-Mg ilmenite) and chrome diopside. Chrome pyrope and chrome diopside are perhaps the most important indicators because their trace-element composition can be applied to determine the pressure-temperature conditions from which they have been derived. This in turn can be compared to the diamond formation 'window'.

The indicator minerals in kimberlites are normally many times more common in a diamondiferous rock mass than actual diamonds. Despite the fact that kimberlitic material is usually significantly diluted during glacial transport, indicator minerals, if present in a till sample, can be concentrated using very sensitive and high quality processing methods.

Regional sampling in a prospective area will usually include shovel till sampling profiles perpendicular to the main ice flow. Sample spacing may vary, but will be dense enough to expose possible indicator mineral anomalies. As few as one or two grains in an original 80kg till sample can be considered anomalous. Resampling on positive sites may be undertaken to confirm and delineate potential. Further follow-up work in critical areas will usually involve low altitude airborne or ground geophysical surveying to pinpoint possible kimberlite bodies.

PART IV
ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL
INFORMATION FOR THE PERIOD FROM INCORPORATION
BEING 1 MARCH 2004 TO 31 MAY 2005



The Directors
Karelian Diamond Resources plc
10 Upper Pembroke Street,
Dublin 2
Ireland

The Directors
John East & Partners Limited
Crystal Gate
28-30 Worship Street
London EC2A 2AH
United Kingdom

18 August 2005

Dear Sirs

Karelian Diamond Resources plc (the 'Company')

We report on the financial information set out in Part IV of the Admission Document. This financial information has been prepared for inclusion in the Admission Document dated 18 August 2005 of Karelian Diamond Resources plc on the basis of the accounting policies set out in the statement of accounting policies to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with applicable Irish law and accounting standards.

It is our responsibility to compile the financial information set out in our report from the audited, statutory financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 18 August 2005, a true and fair view of the state of affairs of Karelian Diamond Resources plc as at the dates stated and of its loss, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 to the financial information and in accordance with applicable Irish law and accounting standards.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

KPMG
Dublin, Ireland

**HISTORICAL FINANCIAL INFORMATION FOR THE PERIOD FROM
INCORPORATION BEING 1 MARCH 2004 TO 31 MAY 2005
EXTRACTED FROM THE AUDITED ACCOUNTS.**

Karelian Diamond Resources Plc

Profit and Loss Account

For the period from date of incorporation, 1 March 2004 to 31 May 2005

	Notes	€
Operating Expenses	3	(98,941)
Loss for the Financial Period	4	(98,941)
Profit and Loss Account at beginning of period		-
Profit and Loss Account at end of period		(98,941)
Loss per share		€0.0028

There are no recognised gains or losses other than the loss for the period.

The accompanying notes form an integral part of this profit and loss account.

Karelian Diamond Resources Plc
Balance Sheet - 31 May 2005

	Notes	€
Fixed Assets		
Mineral interests	6	2,885,831
Financial assets	7	4
		<u>2,885,835</u>
Current Assets		
Debtors	8	660
Cash at bank and in hand		3
		<u>663</u>
Creditors: Amounts falling due within one year	9	(397,747)
		<u>(397,084)</u>
Net Current Liabilities		<u>(397,084)</u>
Net Assets		<u>2,488,751</u>
Capital and Reserves		
Called up share capital	10	347,716
Share premium account	10	2,239,976
Profit and loss account		(98,941)
		<u>2,488,751</u>
Shareholders' Funds	11	<u>2,488,751</u>

The accompanying notes and statement of accounting policies form an integral part of this balance sheet.

Karelian Diamond Resources Plc

Cash Flow Statement

For the period from date of incorporation, 1 March 2004 to 31 May 2005

	Notes	€
Net Cash Inflow from Operating Activities	12A	139,978
Capital Expenditure and Financial Investments	12B	(225,835)
		<u>(85,857)</u>
Net Cash Outflow before Financing		<u>(85,857)</u>
Financing	12B	85,860
		<u>3</u>
Increase in Cash	12C	<u>3</u>

The accompanying notes and statement of accounting policies form an integral part of this statement.

Karelian Diamond Resources Plc
Statement of Accounting Policies

The financial statements have been prepared under the historical cost convention. The Company's principal accounting policies are set out below. All of these policies have been applied consistently throughout the period.

A. Mineral Interests

(i) *Exploration, appraisal and development expenditure*

The Company accounts for mineral expenditure under the 'full cost' method of accounting.

Exploration, appraisal and development expenditure is incurred on acquiring, exploring or testing exploration prospects. All lease, licence and property acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised. The amount capitalised includes other operating expenses directly related to these activities.

(ii) *Cost Pools*

Costs relating to the exploration and appraisal of mineral interests which the Directors consider to be unevaluated are initially held outside the cost pool. Costs held outside the cost pool are reassessed at each period end. When a decision to develop these interests is taken, or if there is evidence of impairment, the related costs will be transferred to the cost pool or amortised to the profit and loss account as necessary. Costs will be capitalised within geographic cost pools which initially comprise Finland and the rest of the world.

Proceeds from any disposal of part or all of an interest which is outside the cost pool will be credited to that interest with any excess being credited to the cost pool.

(iii) *Ceiling Test*

When a decision to develop mineral interests is taken, and the related costs are transferred to the cost pool a ceiling test will be carried out at each balance sheet date to assess whether the net book value of capitalised costs in the pool, together with the future costs of development of undeveloped reserves, is covered by the discounted future net revenues from the reserves within the pool, calculated at prices prevailing at the period end. Any deficiency arising will be provided for to the extent that, in the opinion of the Directors, it is considered to represent a permanent diminution in the value of the related asset, and where arising, will be dealt within the profit and loss account as additional depreciation.

(iv) *Depreciation*

Expenditure within the cost pool will be depreciated using the unit of production method based on commercial reserves. Costs used in the unit of production calculation will comprise the net book value of capitalised costs plus the anticipated future costs of development of the undeveloped reserves at current year end unescalated prices. Changes in cost and reserve estimates are dealt with prospectively.

B. Other Tangible Fixed Assets

Other tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on a straight line basis to write off the cost (net of estimated residual value) over the expected useful economic lives.

C. Financial Fixed Assets

Financial fixed assets are stated at cost, less provision for any permanent diminution in value.

D. Foreign Currency

Transactions denominated in foreign currencies are recorded at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange prevailing at the balance sheet date.

E. Issue Expenses and Share Premium Account

Issue expenses arising on the issue of equity securities are written off against the share premium account.

F. Taxation

Current tax is provided on the Company's taxable profits at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which future reversal of underlying timing differences can be deducted.

G. Consolidation

These financial statements present information about the Company as an individual undertaking and not about its group. The subsidiary undertakings have not been consolidated as their inclusion is not material for the purpose of giving a true and fair view.

Karelian Diamond Resources Plc

Notes to the Financial Statements - 31 May 2005

1. Operations and Going Concern

The Company, which was incorporated on 1 March 2004, is currently involved in the development of mineral exploration opportunities principally in Finland.

On the basis of their review of projected cash flow information including in particular the assumptions regarding the proceeds from the funding, existing commitments, taking into account the high potential of the acreage under licence and the continued support of the major shareholder, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

2. Related Party Transactions

The Company shares accommodation with Conroy Diamonds and Gold Plc., which has certain common shareholders and directors. The Company bears its appropriate share of the related costs directly.

In July 2004, under a Scheme of Arrangement approved by the High Court of Ireland on 26 July 2004, the Company acquired the diamond interests of Conroy Diamonds and Gold Plc, which held a number of claims (licence areas) in Finland which have potential diamond prospects. The purchase consideration of €784,661 was satisfied by the issue of 10,256,639 ordinary shares of €0.01 each.

In July 2004 the Company also acquired the diamond interests of Conroy Plc, which held a number of claims in Finland which have potential diamond prospects. The purchase consideration of €1,875,339 was satisfied by the issue of 24,515,030 ordinary shares of €0.01 each.

The Company has been financed during the period by advances from its principal shareholder, Conroy Pl.c. (Note 9).

3. Operating Expenses

	€
Management services and operating expenses	182,246
Transfer to Mineral Interests (Note 6)	(83,305)
	<hr/>
	98,941
	<hr/> <hr/>

4. Loss on Ordinary Activities before Taxation

The loss on ordinary activities before taxation is arrived at after charging the following items, which are stated at amounts prior to the re-allocation to mineral interests:

	€
Auditors' remuneration	8,500
Directors' emoluments	
- fees	65,683
	<hr/> <hr/>

All losses arose from continuing operations.

5. Tax on profit on Ordinary Activities

No taxation charge arises in the financial period due to tax losses forward. There was no unprovided deferred taxation at 31 May 2005.

6. Mineral Interests

Costs held outside cost pool:

	€
Cost	
Diamond interests acquired (Note 2)	2,660,000
Expenditure during the period	
- licences and appraisal	142,526
- other operating costs (Note 3)	83,305
	<hr/>
At 31 May 2005	2,885,831
	<hr/> <hr/>

The Directors have considered the proposed work programmes for these mineral interests, presently held outside the cost pools. They are satisfied that there are no indications of impairment, but recognise that future realisation of the mineral interests, held outside the cost pools, is dependent on further successful exploration and appraisal activities and the subsequent economic production of the mineral reserves.

7. Financial Fixed Assets

	Investments
	€
At 31 May 2005	4
	<hr/> <hr/>

Financial fixed assets represent investments of €2 in each of the Company's wholly owned subsidiary undertakings, Karelian Diamonds Limited and Nordic Diamonds Limited. The net assets of each entity is €2. Certain diamond claims in Finland are held in the name of the Company's subsidiaries.

8. Debtors

	€
VAT recoverable	660
	<hr/>
	660
	<hr/> <hr/>

9. Creditors: Amounts falling due within one year

	€
Trade creditors and accruals	239,579
Due to Conroy P.l.c.	158,168
	<hr/>
	397,747
	<hr/> <hr/>

Pending the flotation of the Company on the AIM market, the immediate funding requirements of the Company have been financed by short term advances from the principal shareholder, Conroy P.l.c.

10. Called up Share Capital and Share Premium

Authorised:

	€
500,000,000 ordinary shares of €0.01 each	5,000,000

Issued and Fully Paid:

	Number	Share Capital €	Share Premium €
At incorporation	7	—	—
Share issue (a)	24,515,030	245,150	1,630,189
Share issue (b)	10,256,639	102,566	682,095
Issue expenses			(72,308)
	<u>34,771,676</u>	<u>347,716</u>	<u>2,239,976</u>

Share issue (a)

Under the terms of an agreement dated 9 July 2004 between Conroy P.l.c. and the Company, Conroy P.l.c. transferred the entire issued share capital of Nordic Diamonds Limited which held exploration licences in Finland, together with all related information and exploration data and results to the Company in consideration for the issue by the Company of 24,515,030 Ordinary Shares.

Share issue (b)

Pursuant to the terms of the Scheme of Arrangement, which was sanctioned by the High Court of Ireland on the 26 July 2004 and pursuant to the terms of a share purchase agreement dated 30 July 2004, the entire issued share capital of Karelian Diamonds Limited which held exploration licences in Finland, together with all related information and exploration data and results were transferred by Conroy Diamonds and Gold P.l.c. to the Company in consideration for the issue by the Company of 10,256,639 Ordinary Shares to the shareholders of Conroy Diamonds and Gold P.l.c. on the basis that for every six ordinary shares held by a member of Conroy Diamonds and Gold P.l.c. that member received one Ordinary Share. The Scheme also provided for the Admission of the Company's shares on the AIM market in due course.

11. Reconciliation of Movement in Shareholders' Funds

	€
Shares issued, net	2,587,692
Loss for period	(98,941)
At 31 May 2005	<u>2,488,751</u>

12. Notes to the Cash Flow Statement

A. Reconciliation of Profit to Net Cash Inflow from Operating Activities:

	€
Operating Loss	(98,941)
Increase in Creditors	239,579
Increase in Debtors	(660)
Net Cash Inflow from Operating Activities	<u>139,978</u>

B. Analysis of Cash Flows:

	€
Capital expenditure and Financial Investment	
Investment in mineral interests	(225,835)
	<u>(225,835)</u>

	€
Financing	
Shareholder's loan	158,168
Share issue expenses	(72,308)
	<u>85,860</u>

C. Analysis and Reconciliation of Net Funds:

	1 March 2004	Cash Flow	31 May 2005
	€	€	€
Cash at bank	—	3	3
	<u>—</u>	<u>3</u>	<u>3</u>

13. Commitments and Contingencies

At 31 May 2005 there were no capital commitments or contingent liabilities.

PART V

Additional information

1. THE COMPANY AND THE APPLICABLE LAW

The Company was incorporated as Nordic Diamond Resources plc in Ireland under the Companies Acts 1963-2005 as a public limited company on 1 March 2004 with registered number 382499. The Company's name was changed on 26 May 2004 to Karelian Diamond Resources plc. The Company's registered office and principal place of business is at 10 Upper Pembroke Street, Dublin 2, Ireland. The principal legislation under which the Company operates are the Acts and the regulations made thereunder. The liability of the members of the Company is limited. On 3 August 2004, the Registrar of Companies in Ireland issued the Company with a certificate of entitlement to commence business and to borrow under Section 6 of the Companies (Amendment) Act 1983.

2. SHARE CAPITAL

2.1 Details of the share capital of the Company are set out below:

	Authorised		Issued and fully paid	
	Number	€	Number	€
Ordinary Shares-at date of this document	500,000,000	5,000,000	34,771,676	347,716.76
Ordinary Shares-at Admission	500,000,000	5,000,000	44,771,676	447,716.76

2.2 The following alterations in, and matters affecting, the share capital of the Company have occurred since 1 March 2004.

2.2.1. Scheme

Pursuant to the terms of the Scheme, which was sanctioned by the High Court of Ireland on the 26 July 2004 and pursuant to the terms of a share purchase agreement dated 30 July 2004, the entire issued share capital of Karelian Diamonds Limited was transferred by Conroy Diamonds and Gold to the Company in consideration of the issue by the Company of 10,256,639 Ordinary Shares to the shareholders of Conroy Diamonds and Gold on the basis that for every six ordinary shares held by a member of Conroy Diamonds and Gold that member received one Ordinary Share.

2.2.2 Acquisition of the entire issued share capital of Nordic Diamonds Limited

Under the terms of an agreement under seal dated 9 July 2004 and made between Conroy and the Company, and in accordance with the terms of a share purchase agreement dated 3 August 2004 and made between Conroy and the Company, Conroy transferred the entire issued share capital of Nordic Diamonds Limited to the Company in consideration for the issue by the Company of 24,515,030 Ordinary Shares to Conroy.

2.2.3 On 9 July 2004 Shareholders passed the following resolutions:

As a new article 10 in replacement to the existing article 10 of the Articles of Association

(a) That, subject to the provisions of Section 20 of the Companies (Amendment) Act, 1983, the Directors are generally and unconditionally authorised to allot relevant securities as defined by Section 20 of the said Act up to a maximum of 100 per cent. of the issued share capital of the Company on the date that the Company's shares are admitted to trading on the AIM Market of the London Stock Exchange plc. This authority shall expire five years after the date of the passing of this resolution but may be previously revoked or varied by the Company in general meeting and may be renewed by the Company in general meeting for a further period not exceeding five years from the date of such renewal. The Company may make any offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after this authority has expired and the Directors may allot relevant securities in pursuance of any such offer or agreement.

(b) As a new article 11 in replacement of the existing article 11:

Section 24 Authority, subject to the Directors being generally authorised pursuant to Section 20 of the 1983 Act and to the passing of a special resolution of the Company empowering the Directors so to do, the Directors, pursuant to and on and subject to the provisions of

Section 24 of the 1983 Act, may (for so long as any such empowerment shall remain in full force and effect) allot equity securities (as defined by Section 23 of the 1983 Act) for cash pursuant to authority conferred by the said Section 20 as if sub-section (1) of the said Section 23 did not apply to any such allotment provided that such powers shall be limited to:-

- (i) the allotment of equity securities (including, without limitation any shares purchased by the Company pursuant to the provisions of the 1990 Act and held as Treasury Shares) in connection with any offer of securities, open for a period fixed by the Directors, by way of rights, open offer or otherwise in favour of ordinary shareholders and/or any persons having a right to subscribe for or convert securities into ordinary shares in the capital of the Company (including, without limitation, any person entitled to options under any of the Company's share option schemes for the time being) and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws of, or the requirements of any recognised body or stock exchange in, any territory; and
- (ii) (in addition to the authority conferred by paragraph (a)), the allotment of equity securities (including, without limitation, any shares purchased by the Company pursuant to the provisions of the Companies Act, 1990 and held as Treasury Shares) up to a maximum aggregate nominal value of fifty per cent of the adoption of these Articles or, in respect of any renewal of this authority, at the close of business on the date on which such renewal shall be granted.”
- (iii) As a new article 82(a) in replacement in its entirety of the existing article 82(a):

“The authority of the Directors to exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property, assets, and uncalled capital or any part thereof subject to Part III of the Companies (Amendment) Act, 1983 and to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, is to be exercised subject to the condition that such borrowings shall not, except with the sanction of the Company at general meeting, exceed an amount equal to six times the aggregate of (1) the amount paid up or credited as paid on the share capital of the Company; (2) the amount standing to the credit of the consolidated capital revenue reserve (including share premium account and plus or minus any balance of the consolidated profit and loss account) all as shown in the latest published audited consolidated balance sheet of the Company but subject to certain adjustments as stated in the Articles.”

2.2.4 In the event the resolutions mentioned in paragraph 2.2.3 above had not been passed, the pre-emption rights contained in section 24 of the 1983 Act would apply to shares issued by the Company. That section provides that where the company proposes to allot equity securities for cash it shall not do so unless it has made an offer to each person holding relevant shares to allot to him on at least the same terms a proportion of those securities which is as nearly as practicable equal to the proportion in nominal value held by him of the aggregate of relevant shares

3. SUBSIDIARY UNDERTAKINGS AND INVESTMENTS

The Company is the ultimate holding company of the Group. The principal subsidiary undertakings (directly or indirectly held) and associated undertakings of the Company are as follows:

Name	Registered Office	Principal Activities	Issued and fully paid capital (€)
Nordic Diamonds Limited	10 Upper Pembroke Street, Dublin 2	Diamond Exploration	€2
Karelian Diamonds Limited	10 Upper Pembroke Street, Dublin 2	Diamond Exploration	€2

3.1 The principal investments made by the Company since 1 March 2004 are as follows:

- (i) the acquisition of the share capital of Nordic Diamonds Limited; and
- (ii) the acquisition of the share capital of Karelian Diamonds Limited.

3.2 At the date of this document there are no other investments on which the Directors have already made firm commitments.

4. MINING LICENCES/RIGHTS

Nordic Diamonds Limited and Karelian Diamonds Limited (which are wholly owned subsidiaries of the Company) hold 25 claim licences in Finland located in the municipalities of Salla, Kuhmo, Savukoski, Lieksa, Utajärvi, Kiihtelysvaara, Eno, Inari and Kuusamo. In addition, the Company has been awarded a further 37 claims under claim reservation exclusivity, including claims covering a diamondiferous kimberlite pipe at Seitapera in the Kuhmo area. Currently, no mining concessions have been established on any of the claims in question, and such claims only entitle to sampling and exploration drilling activities. A list of the claims is detailed below:

4.1 Diamond Claims held by Karelian in Finland

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7464/16	Aurora 23	22/08/02	09/09/08	99.11
7464/21	Aurora 28	22/08/02	14/05/08	101.48
7464/22	Aurora 29	22/08/02	31/12/07	60.17
7464/23	Aurora 30	22/08/02	31/12/07	24.75
7464/24	Aurora 31	22/08/02	14/05/08	99.33
7464/25	Aurora 32	22/08/02	14/05/08	69.41
7464/26	Aurora 33	22/08/02	14/05/08	65.56
7459/1	Aurora 6	31/07/02	14/10/07	99.26
7459/2	Aurora 7	31/07/02	14/10/07	100.02
7459/3	Aurora 8	31/07/02	14/10/07	101.69
6211/1	Joutsen 154	26/10/95	05/08/05	48.61
6514/1	Joutsen 239	24/03/97	05/08/05	62.1
5751/1	Joutsen 92A	13/03/95	05/08/05	48.69
5752/1	Joutsen 92B	13/03/95	05/08/05	29.61
7327/1	Viulu 1	30/10/01	31/12/06	98.89
7335/1	Viulu 10	30/10/01	31/12/06	46.45
7339/1	Viulu 11	30/10/01	31/12/06	65.23
7327/2	Viulu 2	30/10/01	31/12/06	98.33
7332/1	Viulu 23	05/11/01	31/12/06	97.86
7329/4	Viulu 4	30/10/01	31/12/06	84.81
7329/5	Viulu 4a	05/11/01	31/12/06	7.67
7329/3	Viulu 5	30/10/01	31/12/06	15.07
7329/2	Viulu 6	30/10/01	31/12/06	5.89
7329/1	Viulu 7	30/10/01	31/12/06	15.23
7328/1	Viulu 8	30/10/01	31/12/06	4.12
7951/1	Seitapera 1	02/06/05	02/06/10	75.4
7951/4	Seitapera 1a	02/06/05	02/06/10	7.1
7951/2	Seitapera 2	02/06/05	02/06/10	95.6
7951/3	Seitapera 3	02/06/05	02/06/10	99.2
7956/1	Seitapera 4	02/06/05	02/06/10	97.8
7956/2	Seitapera 5	02/06/05	02/06/10	97
7956/3	Seitapera 6	02/06/05	02/06/10	97
7956/4	Seitapera 7	02/06/05	02/06/10	87.4
7956/5	Seitapera 8	02/06/05	02/06/10	17.3
7956/7	Seitapera 8a	02/06/05	02/06/10	68.9
7956/6	Seitapera 9	02/06/05	02/06/10	100
7971/1	Riihivaara 1	10/06/05	10/06/10	9.4
7971/23	Riihivaara 1a	10/06/05	10/06/10	71.5
7971/2	Riihivaara 2	10/06/05	10/06/10	17.45
7971/24	Riihivaara 2a	10/06/05	10/06/10	52.5

Claim No.	Claim Name	Application date	Expiry date	Area (Ha)
7971/3	Riihivaara 3	10/06/05	10/06/10	90.5
7971/4	Riihivaara 4	10/06/05	10/06/10	70.8
7971/5	Riihivaara 5	10/06/05	10/06/10	69
7971/6	Riihivaara 6	10/06/05	10/06/10	73.7
7971/25	Riihivaara 6a	10/06/05	10/06/10	7.5
7971/7	Riihivaara 7	10/06/05	10/06/10	73.25
7971/8	Riihivaara 8	10/06/05	10/06/10	98.6
7971/9	Riihivaara 9	10/06/05	10/06/10	48.7
7971/10	Riihivaara 10	10/06/05	10/06/10	100
7971/11	Riihivaara 11	10/06/05	10/06/10	61.1
7971/26	Riihivaara 11a	10/06/05	10/06/10	15
7971/12	Riihivaara 12	10/06/05	10/06/10	91.9
7971/13	Riihivaara 13	10/06/05	10/06/10	44.4
7971/14	Riihivaara 14	10/06/05	10/06/10	29.1
7971/15	Riihivaara 15	10/06/05	10/06/10	100
7971/16	Riihivaara 16	10/06/05	10/06/10	99.2
7971/17	Riihivaara 17	10/06/05	10/06/10	31.6
7971/27	Riihivaara 17a	10/06/05	10/06/10	40
7971/18	Riihivaara 18	10/06/05	10/06/10	58.2
7971/19	Riihivaara 20	10/06/05	10/06/10	100
7971/20	Riihivaara 21	10/06/05	10/06/10	100
7971/21	Riihivaara 22	10/06/05	10/06/10	73.6

Due to the limited nature of the exploration activities allowed on the property on the basis of the claim licence prior to establishing a mining concession and commencing the actual mining activities, there are generally no major environmental liability risks involved with the permissible activities on the claim areas.

Pursuant to Sections 15 and 16 of the Finnish Mining Act, a claim holder shall pay a claim compensation to the landowner(s) and a claim fee to the Finnish Ministry of Trade and Industry (“the Ministry”). The acreage-based claim fees and claim compensations are payable each calendar year by 15 March. Pursuant to the Finnish Mining Decree, the amount of the yearly claim fee payable to the Ministry is €6.75 per hectare, subject to a minimum claim fee of €67.50, and the amount of the yearly claim compensation payable to the landowners is €10 per hectare, both of which are calculated on the basis of the acreage set forth in the respective claim licence. The fee for a claim reservation is €170 per annum per claim reservation area (which may be up to 9km²) the claim holder shall within one year from the issuance of the claim licence submit to the Ministry a proof of the first claim compensation payment made to the landowner(s), failing which the Ministry may declare that the claim holder shall have lost the claim licence. As to the claim compensation for the following years, should the claim holder fail to pay the yearly claim compensation to the landowner(s) by 15 March in the respective year, the Ministry may, at the request of the landowner and after having heard the claim holder, declare that the claim holder shall have lost the claim licence. The claim holder is not allowed to conduct any exploration work within the claim area until the yearly claim compensation has been paid.

The claim compensations to the landowners of Aurora, Joutsen and Viulu claim areas remain partly unpaid for the years 1997 – 2004. There is an ongoing process of identifying and paying landowners. The Company estimates that the total amounts outstanding are in the region of €47,000 (plus interest).

Reports on exploration work

Pursuant to the Finnish Mining Act, a claim holder may relinquish its claim right to the claim area or a part thereof by giving a written notice thereof to the Ministry. The claim holder shall within one year from having relinquished the claim right or having lost his claim right, submit to the Ministry a detailed report on the exploration work conducted in the claim area and the results thereof, enclosing the pertinent maps. Further, a representative portion of the drill cores and the drill core reports enclosed shall be preserved and delivered to the national drill core archives of the GSF no later than within five years from the expiry of the claim, or any longer period approved by the GSF. The GSF selects the drill cores to be preserved. If the exploration work continues in the same formation or the area is designated a “mining district”, the drill cores may be delivered, correspondingly, after the expiry of these rights. The Ministry may, on special grounds, and on terms set forth by the Ministry, grant, for a time period, a relief or an exemption from the obligation to deliver the report and the drill cores.

5. MEMORANDUM AND ARTICLES OF ASSOCIATION

5.1 Memorandum

The memorandum of association of the Company (the "Memorandum") provides that the Company's principal objects are to act as an investment, estate and trust company and inter alia to explore, survey, prospect, search for, develop, turn to account, work, refine and deal in minerals, ores, stones and other natural resources; and to carry on any other business or activity which the directors consider is, or may be, capable of being carried on directly or indirectly for the benefit of the Company. The objects of the Company are set out in full in clause 3 of its memorandum, which is available for inspection at the address specified in paragraph 15 below.

5.2 Articles of Association

The articles of association of the Company (the "Articles") contain, amongst other things, provisions to the following effects:

(a) Voting

When a shareholder is entitled to attend a general meeting of the Company and vote, he has only one vote on a show of hands. A proxy cannot vote on a show of hands. Where there is a poll, a shareholder who is present in person or by proxy and entitled to vote has one vote for every share which he holds. This is subject to any special rights or restrictions which are given to any class of shares by, or in accordance with, the Articles.

Unless the Articles say otherwise, the only people who can attend or vote at general meetings of the Company are shareholders who have paid the Company all calls, and all other sums, relating to their shares which are due to be paid at the time of the meeting. This applies both to attending a general meeting personally and to attending by proxy or corporate representative. A corporation may execute a form of proxy under the hand of a duly authorised officer. A proxy need not be a member of the Company.

(b) Dividends

The Company may by ordinary resolution declare dividends in accordance with the Acts and the respective rights of members but no dividend shall exceed the amount recommended by the Directors. All dividends shall be apportioned and paid proportionally to the amounts paid or credited as paid on shares during any portion or portions of the period in respect of which the dividend is declared. There is no fixed date for dividend entitlement.

(c) Transfer of Ordinary Shares

- (i) Any shareholder may by instrument in writing in the usual form or in any other form transfer all or any of the shares registered in his/her name.
- (ii) The Directors may in their absolute discretion and without giving any reason, refuse to register:
 - (A) any transfer of a share, or any renunciation of any allotment made in respect of a share, which is not fully paid; and
 - (B) any transfer by a minor or person of unsound mind or any renunciation of a share to any such person.
- (iii) The Directors may also refuse to register any share (whether or not it is in respect of a fully paid share) unless it is:-
 - (A) lodged at the registered office of the Company and is accompanied by the certificate for the shares to which it relates;
 - (B) in respect of only one class of shares; and
 - (C) in favour of not more than four transferees.

(d) Variation of Rights

Whenever the share capital is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of three-quarters of the nominal value of the issued shares of that class or the sanction of a special resolution passed at a general meeting of the holders of that class.

(e) **Alteration of Share Capital**

The Company may from time to time by ordinary resolution:-

- (i) increase its share capital;
- (ii) consolidate and divide all or any share capital into shares of a larger amount;
- (iii) sub-divide its shares into shares of a smaller amount;
- (iv) cancel shares which have not been taken up or agreed to be taken up.

(f) **General Meetings**

The Company shall hold in each year a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it. Pursuant to the Acts, at least twenty-one clear days prior to each annual general meeting, a printed copy of the Directors' and Auditors' reports, shall be sent to every member of the Company. All general meetings other than annual general meetings shall be called extraordinary general meetings.

The Directors may convene general meetings and extraordinary general meetings may also be convened on such requisition, or in default may be convened by such requisitionists, and in such manner as may be provided by the Acts.

(g) **Directors' Interests**

Save as otherwise provided by the Articles a Director shall not vote at a meeting of the Directors on any proposal in which he has any material interest (otherwise than by virtue of his interest in the Company). A Director shall not count in the quorum at a meeting in relation to a resolution on which he is not entitled to vote.

A Director shall (in the absence of some other material interest that is indicated below), be entitled to vote (and be counted in the quorum) in respect of any resolutions concerning any of the following matters:

- (A) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of, or for the benefit of, the Company or any of its subsidiaries;
- (B) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (C) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (D) any proposal concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (any such interest being deemed for those purposes to be a material interest); or
- (E) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit.

(h) **Borrowing Powers**

Subject to the provisions of the Articles the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking property assets and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as collateral security from any debt, liability or obligation of the Company of any third party which amount shall not, except with the sanction of the Company at the general meeting, exceed an amount equal to six times the aggregate of (1) the amount paid up or credited as paid on the share capital of the Company; (2) the amount standing to the credit of the consolidated capital revenue

reserve (including share premium account and plus or minus any balance of the consolidated profit and loss account) all as shown in the latest published audited consolidated balance sheet of the Company but subject to certain adjustments as stated in the Articles.

(i) Directors' Remuneration

The Directors are entitled by way of ordinary resolution to such sum (if any) as shall from time to time be voted to them by the Company by ordinary resolution and any such sum (unless otherwise determined by the resolution) shall be divided among the Directors as they shall agree (or failing agreement equally). The Directors are entitled to be paid all travelling, hotel and other expenses properly incurred by them respectively in and about the performance of their duties as directors. Any Director who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission, participation in profits or otherwise as the Directors may determine.

(j) Age

A Director is not required to retire at any time on account of age.

(k) Share Qualification

There is no share qualification for Directors.

(l) Retirement of Directors

At each annual general meeting of the Company, one third of the Directors who are subject to retirement by rotation or, if their number is not three nor a multiple of three, then the number nearest to one third shall retire from office, but, if there is only one Director who is subject to retirement by rotation, then he shall retire.

(m) Notice to Shareholders resident abroad

Shareholders with registered addresses outside of the Republic of Ireland, Great Britain or Northern Ireland are not entitled to receive notices from the Company unless they have given the Company an address within the Republic of Ireland, Great Britain or Northern Ireland at which notices may be served.

(n) Redemption

Subject to the provisions of the Acts, any shares may be issued on the terms that they are, or, at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner as the Company may determine.

6. DIRECTORS' TERMS AND CONDITIONS

- 6.1 Agreement dated 17 August 2005 between the Company and Professor Richard Conroy whereby Professor Conroy was appointed an executive Director with effect from Admission and Chairman of the Company conditional on Admission. The agreement is for an initial term of three years and may be terminated by either party giving not less than one year's notice of termination expiring at any time thereafter, subject to certain provisions for earlier termination by the Company. The agreement provides for the payment to Professor Conroy of a salary of €65,000 per annum.
- 6.2 Agreement dated 17 August 2005 between the Company and Miss Maureen Jones whereby Miss Jones was appointed an executive Director of the Company with effect from Admission and conditional on Admission. The agreement is for an initial term of three years and may be terminated by either party giving not less than one year's notice of termination expiring at any time thereafter, subject to certain provisions for earlier termination by the Company. The agreement provides for the payment to Miss Jones of a salary of €50,000 per annum.
- 6.3 Agreement dated 17 August 2005 between the Company and Mr. James Jones whereby Mr Jones was appointed an executive Director of the Company with effect from Admission and conditional on Admission. The agreement is for an initial term of three years and may be terminated by either party giving not less than one year's notice of termination expiring at any time thereafter, subject to certain provisions for earlier termination by the Company. The agreement provides for the payment to Mr. Jones of a salary of €30,000 per annum.

- 6.4 Mr Louis Maguire, Mr. Seamus FitzPatrick and Mr. Roger Chaplin have each agreed to act as non-executive Directors of the Company with effect from 15 July 2004, 15 July 2004 and 29 April 2005 respectively. The term of the engagement for the non-executive Directors is not fixed and each continues in office until required to retire by rotation in accordance with the Articles of Association.

The annual fees payable to each Director are as follows:

Director	Annual Fee €
Professor Richard Conroy (Chairman)	20,000
Miss Maureen Jones	10,000
Mr James Jones	10,000
Mr. Louis Maguire	10,000
Mr. Seamus FitzPatrick	10,000
Mr Roger Chaplin	10,000

The non-executive Directors are also entitled to reimbursement of reasonable out-of-pocket expenses.

- 6.5 Save as disclosed, there are no service agreements with any of the Directors that cannot be terminated by the Company without compensation (other than statutory compensation) within one year.
- 6.6 The aggregate remuneration and benefits in kind paid to Directors by the Company in respect of the financial period ended 31 May 2005 was €65,683. It is estimated that, under arrangements currently in force, the aggregate remuneration and benefits in kind for the financial year ending 31 May 2006 will be approximately €215,000.

7. DIRECTORS' AND OTHER INTERESTS

- 7.1 On Admission, the interests of each Director and the Secretary and those of any person connected with that Director, within the meaning of Section 26 of the Companies Act 1990 ("Connected Persons") in the share capital of the Company which (i) are required to be notified to the Company pursuant to Section 53 and 64 of the Irish Companies Act 1990 or (ii) are required pursuant to Section 59 of the Irish Companies Act, 1990 to be entered in the register referred to therein or (iii) are interests of a Connected Person which would, if the Connected Person were a Director, be required to be disclosed under (i) or (ii) above and the existence of which is known or could be with reasonable diligence to be ascertained by that Director, all of which are or will be beneficial, are as follows:

Director	No. of Ordinary Shares	Percentage of issued share capital per cent.	No. of Warrants
Professor Richard Conroy	28,531,701	63.7	1,000,000
Maureen Jones	125,836	0.28	750,000
James Jones	58,335	0.13	500,000
Louis Maguire	51,668	0.12	200,000
Roger Chaplin	nil	nil	200,000
Seamus FitzPatrick	666	0.00	200,000

* of the 28,531,701 Ordinary Shares beneficially held by Professor Richard Conroy, 27,815,030 are held by Conroy, a company in which Professor Conroy has a controlling interest and 83,336 are held in the name of his wife Dr Pamela Conroy.

- 7.2 Save as disclosed in paragraph 7.1 above, no interest in the share capital of the Company is held by any of the Directors and no such interest, the existence of which is known or could with reasonable diligence be ascertained by the relevant Director, is held by any connected person
- 7.3 Other than the interests of Directors disclosed in 7.1 above and the interests of the Shareholders of which the Company has been notified under Section 97 of the Companies Act 1990 Act (the legislation governing the ownership threshold above which shareholder ownership must be disclosed) set out in this paragraph

7.3, the Directors are not aware of any other person, who immediately on Admission will be interested, directly or indirectly, in 3 per cent. or more of the Company's enlarged issued share capital

Shareholder	No. of Ordinary Shares as at 18 August 2005	No. of Ordinary Shares following Admission	Percentage of issued share capital following Admission
Conroy	24,515,030	27,815,030	62.1

7.4 So far as the Directors are aware, save as disclosed above, there are no persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

7.5 The Company's major shareholders do not have different voting rights to those exercisable by other holders of the Ordinary Shares.

7.6 Other than in respect of the Company and its subsidiaries, the Directors currently hold the following directorships and have held the following directorships within the five years prior to the publication of this document and are or were partners in the following firms within the five years prior to publication of this document:

Director	Current directorships and partnerships	Former directorships and partnerships
Richard Conroy	Archaeon Gold plc Armagh Gold Limited Conroy plc Conroy Diamonds and Gold plc Conroy Gold Limited Harlequin Healthcare Holdings Limited National Energy and Petroleum Company of Ireland Ltd Trans International Mineral Exploration Limited Trans International Oil Exploration Limited The Joint Arab-Irish Chamber of Commerce Limited The Meath Foundation Limited	None

Director	Current directorships and partnerships	Former directorships and partnerships
Maureen Jones	Archaeon Gold plc Armagh Gold Limited Conroy plc Conroy Diamonds and Gold plc Conroy Gold Limited Harlequin Healthcare Holdings Limited National Energy and Petroleum Company of Ireland Ltd Trans International Mineral Exploration Limited Trans International Oil Exploration Limited	None

James Jones	Archaeon Gold plc Armagh Gold Limited Conroy plc Conroy Diamonds and Gold plc Conroy Gold Limited National Energy and Petroleum Company of Ireland Ltd Trans International Oil Exploration Limited Trans International Mineral Exploration Limited	None
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Roger Chaplin	None	None
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Director	Current directorships and partnerships	Former directorships and partnerships
Seamus FitzPatrick	CapVest Limited Clear Money Limited Clear Bills Limited FinnVass Acquisitions OY FinnVass Swedeco AB FinnVass TopCo OY Vaseq Executive OY Vaasan & Vaasan OY Young's Bluecrest Seafood Limited Young's Bluecrest Limited	Riva AG
Louis Maguire	Conroy plc Conroy Diamonds and Gold plc Purely Irish Spring Water United Entertainment Partners Limited	None

No Director:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has become bankrupt or entered into any individual voluntary arrangement;
- (c) has been a director of any company or a partner of any firm which, at that time or within 12 months after his ceasing to be a director or a partner (as the case may be), had a receiver appointed or went into compulsory liquidation, or creditors voluntary liquidation or went into administration, or entered into company or partnership voluntary arrangements or made any composition or arrangement with its creditors;
- (d) has owned or been interested in any assets which have been placed in receivership or been a partner in any partnership at the time of or in the twelve months preceding any assets of such partnership being placed in receivership; or
- (e) has had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies) or has been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

8. OPTIONS AND WARRANTS

8.1 Options

- (a) **The Karelian Diamonds Resources plc Share Option Scheme ("the Share Option Scheme")**
 The Share Option Scheme is neither approved nor to be submitted to the Inland Revenue for approval under the income and corporation taxes legislation of the United Kingdom and Ireland.

The Share Option Scheme provides for options to be granted over unissued shares.

- (b) **Eligibility**
 The Remuneration Committee has discretion as to the selection of Directors, employees and consultants to whom options to acquire Ordinary Shares may be granted.
- (c) **Grants of Options**
 Grants of options may only be made within 42 days following the commencement of the Share Option Scheme, within 42 days following the announcement of the Company's annual or half yearly results, within 14 days of an eligible employee commencing employment or at anytime at which the Board resolves that exceptional circumstances exist which justify the grant of options. Options are granted for no consideration. No option may be granted under the Share Option Scheme later than 10 years after the date the Share Option Scheme commenced.

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- (d) **Exercise Price**
The exercise price of an option shall normally be the market value of an Ordinary Share on the date of grant meaning its middle market quotation on the last dealing day before the date of grant or, if higher, the average of the middle market quotations for the three dealing days immediately preceding the date of grant.
- The exercise price may be adjusted by the Board in the event of a rights issue, capitalisation issue, subdivision or consolidation of shares, reduction of share capital or other variation of ordinary share capital of the Company subject to the written confirmation of the auditors that such adjustment is fair and reasonable.
- (e) **Overall Limits**
The aggregate number of Ordinary Shares issued or issuable pursuant to grants made within the preceding 10 years under the Share Option Scheme and all other Company share schemes (including non-approved, savings related and profit sharing schemes) shall not exceed 10 per cent. of the issued ordinary share capital of the Company at the date of grant of an option. There is no limit on the number of options which may be granted to any participant.
- (f) **Exercise of Options**
In normal circumstances, options will be capable of exercise at any time between the first and tenth anniversaries of the date of grant subject to any performance conditions to which they are subject being fulfilled or the decision of the Board to vary or waive any such performance conditions. Options may also be exercised within a period of 12 months following the death of a participant or on his ceasing to be an employee by reason of injury, disability, redundancy, retirement, the member of the Group employing the participant leaving the Group, the transfer of the business to which the participant's employment relates outside the Group and at the discretion of the Board.
- (g) **Voting, Dividend, Transfer and Other Rights**
Until options are exercised, option holders have no voting or other rights in respect of the Ordinary Shares covered by their options.
- Ordinary Shares issued pursuant to the Share Option Scheme shall rank *pari passu* in all respects with the Ordinary Shares already in issue except that they will not rank for any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the option. Benefits obtained under the Share Option Scheme shall not be pensionable.
- (h) **Options are not Assignable or Transferable**
On a change in control or reconstruction of the Company, options may, with the consent of the Company acquiring control of the Company, be released in consideration for the grant of equivalent rights over the shares of the acquiring company or a company associated with it. The rights are equivalent if, broadly speaking, the aggregate market value of the shares under both the old and new options and the aggregate exercise price of each option are, on the date of exchange, equal.
- (i) **Administration and Amendment**
The Share Option Scheme will be administered by the Remuneration Committee which may amend the same by resolution provided that (A) prior approval of the Company in general meeting will be required for any amendment to the advantage of participants and (B) no amendment may be made which would alter to the disadvantage of a participant any rights already acquired by him under the Share Option Scheme without the prior approval of the majority of affected participants.
- (j) **Termination**
The Share Option Scheme may be terminated at any time by a resolution of the Board or by the Company in general meeting and shall in any event terminate on the tenth anniversary of the date of Admission. Termination shall not affect outstanding rights of participants.

8.2 A summary of the Warrant Instrument is as follows:-

The Warrants are constituted by a Warrant Instrument dated 18 August 2005. Each Warrant entitles the holder to subscribe in cash at the placing price for one Ordinary Share. The Warrants will not be listed or dealt in on AIM, the market known as OFEX or any recognised investment exchange (as defined in the Financial Services and Markets Act 2000 of the United Kingdom). The Warrants are exercisable in whole or in part at any time until the 10th anniversary of Admission.

Ordinary Shares allotted on the exercise of Warrants will rank for all dividends and distributions declared on any date on or after the date on which the relevant notice of exercise is lodged and otherwise shall have the rights and privileges prescribed in the Articles in relation to Ordinary Shares.

If, at the time of issue of Ordinary Shares pursuant to the exercise of Warrants, the Ordinary Shares are quoted on the Official List or are traded on AIM or permission has been granted for dealings therein on any other recognised investment exchange in any part of the world, the Company will apply to such body for permission to deal in or for quotation or admission of such Ordinary Shares (as the case may be) and shall use its reasonable endeavours to secure such permission, quotation or admission, as the case may be.

The Warrant Instrument contains provisions to adjust the subscription price and/or the number and/or nominal amount of Ordinary Shares to be subscribed following a capitalisation of profits or reserves or a sub-division or consolidation of the Ordinary Shares and to allow warrant holders to participate in any offer or invitation made to the holders of Ordinary Shares as if the subscription rights had been exercised before the record date of such offer or invitation or, in the case of a takeover offer, to exercise the Warrants.

If, prior to the end of the Subscription Period, an order is made or an effective resolution is passed for winding up the Company and there is a surplus available for distribution to the holders of Ordinary Shares exceeding the subscription price, the Warrantheolders will be treated as if they had exercised their subscription rights in full (less an amount equal to the subscription price in respect of the relevant Ordinary Shares arising).

Prior to the end of the Subscription Period the Company shall not, without the prior sanction of a resolution passed by a majority of not less than three-fourths of the Warrantheolders voting, modify the rights attached to the Ordinary Shares in any way which has a material, adverse effect on the rights of the Warrantheolders or the holder of Ordinary Shares or the respective abilities of such persons to enjoy such rights (but so that such restriction shall not be a restriction or prohibition on sub-division or consolidation of shares) or amend any provision of its Articles (or pass any resolution, whether by way of temporary or permanent relaxation or disapplication of any provision of its Articles having a like or similar effect) which will have a material, adverse effect on the rights of the Warrantheolders or the holder of Ordinary Shares or the respective abilities of such persons to enjoy such rights

The Warrants may be freely transferred in whole or in part at any time.

The Company shall send to Warrantheolders a copy of its Annual Report together with all documents required by law to be annexed thereto and copies of every statement, notice or circular issued to the members of the Company concurrently with the issue of the same to its members. Warrantheolders shall have the right to attend and speak (but not to vote) at all meetings of members of the Company at which any business is to be moved which has any effect (actually or reasonably foreseeable) on the value of the Warrants or the rights attaching thereto or the enjoyment thereof.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries either within the two years immediately preceding the date of this document and are or may be material or more than two years prior to the date of this document but contain a provision under which the Company or one of its subsidiaries has an obligation or entitlement which is material:

9.1 Nominated Adviser Agreement

A letter of engagement dated 22 June 2005 between (1) the Company and (2) John East & Partners pursuant to which the Company has appointed John East & Partners to act as Nominated Adviser to the Company for the purpose of the AIM Rules. The Company has agreed to pay a fee of £20,000 per annum for its services as Nominated Adviser, together with all reasonable expenses and VAT. The agreement contains certain undertakings and indemnities given by the Company in respect of, amongst other things, compliance with all applicable laws and regulations. The agreement continues for a fixed period of two years from Admission and thereafter is subject to termination on six months' notice.

9.2 Broker Agreement

A letter of engagement dated 4 April 2005 between (1) the Company and (2) City Capital pursuant to which the Company has appointed City Capital to act as broker to the Company for the purpose of the AIM Rules. The Company has agreed to pay City Capital Securities Ltd a fee of £10,000 per annum for

its services as broker, together with all reasonable expenses and VAT. The agreement contains certain undertakings and indemnities given by the Company in respect of, amongst other things, compliance with all applicable laws and regulations. The agreement continues for a fixed period of one year from Admission and thereafter is subject to termination on three months' notice.

9.3 Placing Agreement

A Placing Agreement dated 18 August 2005 between (1) John East & Partners (2) City Capital (3) the Directors and (4) the Company pursuant to which conditional upon, amongst other things, Admission having occurred not later than 8.00am on 1 September 2005 or such later date as the Company and City Capital may agree, but in any event not later than 8.00am on 30 September 2005, City Capital has agreed to use reasonable endeavours to procure subscribers for all the Placing Shares at the Placing Price.

The agreement contains warranties from the Company and each of its Directors in favour of City Capital and John East & Partners and indemnities from the Company in favour of City Capital and John East & Partners. It also contains provisions which enable City Capital to terminate the agreement before Admission including where the warranties are found not to be true and accurate in any material respect. In addition the Directors have agreed that they will not dispose of any shares held by them for a period of one year following Admission and in the following twelve months have agreed not to dispose of any shares held by them without first consulting with City Capital and John East & Partners and subject to such shares being disposed of through City Capital in such a manner as City Capital (or the Company's brokers from time to time) may require with a view to maintaining an orderly market in the shares of the Company.

The Company has agreed to pay a fee to John East & Partners of £60,000, to City Capital a broking fee of £10,000 and a commission of 5 per cent. on the aggregate value, at the Placing Price, of the Placing Shares placed by City Capital. In addition, John East & Partners will be issued with warrants to subscribe for up to 250,000 Ordinary Shares at the Placing Price, such warrants to be exercisable at any time prior to the 10th anniversary of Admission.

9.4 Lock-In Agreement

By a Lock-In Agreement dated 18 August 2005 between (1) the Company and (2) Conroy, Conroy have agreed not to dispose of any Ordinary Shares held by them for a period of one year following Admission and for a further period of twelve months thereafter Conroy has agreed not to dispose of those shares other than after first consulting with City Capital and John East & Partners in relation to any such disposal and subject to such disposal being effected through City Capital or the Company's broker from time to time.

The agreement provides that these requirements will not apply on a sale by way of acceptance of a take-over offer made to all shareholders of the Company or in the event of an intervening court order.

9.5 The Scheme

Pursuant to the terms of the Scheme and pursuant to the terms of a share purchase agreement dated 3 August 2004 the entire issued share capital of Karelian Diamonds Limited was transferred by Conroy Diamonds and Gold to the Company in consideration of the issue by the Company of 10,256,639 Ordinary Shares to the shareholders of Conroy Diamonds and Gold on the basis that for every six ordinary shares held by a member of Conroy Diamonds and Gold that member received one Ordinary Share credited as fully paid up.

9.6 The Share Purchase Agreement

Under the terms of an agreement under seal dated 9 July 2004 between Conroy and the Company and under an agreement dated 3 August 2004 made between Conroy and the Company under which the Company acquired the entire issued share capital of Nordic Diamonds Limited in consideration of the issue by the Company of 24,515,030 Ordinary Shares to Conroy credited as fully paid.

10. TAXATION

10.1 United Kingdom Taxation Implications

The following is a summary of certain material UK tax consequences arising for investors regarding the ownership and disposition of Ordinary Shares, where those Ordinary Shares are held as capital assets. It is based on current UK tax laws and Inland Revenue practice and rates of taxation in force at the date of this document, which may be subject to change, perhaps with retrospective effect. This summary does not address all possible tax consequences relating to an investment in Ordinary Shares. In particular, it does not purport

to address the tax consequences for special classes of investors, such as dealers in securities, of owning shares in the Company or investors that hold the Company's shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency, in the case of a corporate investor, a permanent establishment, or otherwise). Neither does it consider in any detail the impact which a double tax agreement may have on liability to tax. All potential investors should satisfy themselves as to the tax consequences of the ownership or disposition of Ordinary Shares by consulting with their own tax advisers.

(a) Taxation of dividends on Ordinary Shares

UK tax resident individual shareholders will generally be liable to income tax on the gross amount of any dividends paid by the Company before deduction of any Irish tax withheld. UK tax resident corporate shareholders will generally be liable to corporation tax on dividends paid by the Company before deduction of any Irish tax withheld. Shareholders who carry on a trade, profession or vocation in the United Kingdom through a branch or agency or permanent establishment in connection with which the Ordinary Shares are held will generally be subject to UK income tax or corporation tax, as the case may be, on the gross amount of dividends paid by the Company before deduction of any Irish tax withheld. Irish withholding tax withheld from the payment of a dividend (and not recoverable from the Irish tax authorities) will generally be available as a credit against the income tax or corporation tax payable by the shareholder in respect of the dividend.

The income tax charge in respect of dividends for UK tax resident individual shareholders, other than higher rate taxpayers, will be at the rate of 10 per cent. A higher rate taxpayer will be liable to income tax on dividends paid by the Company (to the extent that, taking the dividend as the top slice of his income, it falls above the threshold for the higher rate of income tax) at the rate of 32.5 per cent. UK tax resident individual shareholders who are not liable to income tax on their income will not be subject to tax on dividends paid by the Company, unless the dividends paid by the company take the individual's income over the threshold for the higher rate of income tax.

An individual shareholder who is resident, but not domiciled, in the United Kingdom or a Commonwealth citizen or citizen of the Republic of Ireland who is resident, but not ordinarily resident, in the United Kingdom, will be liable to United Kingdom income tax whether or not dividends paid by the Company are remitted or deemed to be remitted to the United Kingdom.

(b) Capital gains tax

Any disposal by UK tax resident or ordinarily resident holders of the Ordinary Shares may, depending on their individual circumstances, give rise to a chargeable gain or allowable loss for the purposes of UK taxation of capital gains. Shares traded on the Alternative Investment Market are treated as 'unlisted' for the purposes of capital gains tax taper relief and consequently the Ordinary Shares may qualify as 'business assets' in the hands of individual shareholders.

- (c)** An individual shareholder who is resident or ordinarily resident in the United Kingdom but not domiciled in the United Kingdom, and whose shares are not situated in the United Kingdom, will be liable to United Kingdom capital gains tax only to the extent that chargeable gains made on the disposal of shares are remitted or deemed to be remitted to the United Kingdom. As the Company's principal share register is situated in the Republic of Ireland, the Ordinary Shares are considered to be located abroad for capital gains tax purposes, but dealings in the shares on AIM may give rise to remitted profits which would therefore be taxable.

Shareholders who are temporarily non-resident for a period of less than 5 years may be subject to UK tax on capital gains on disposals of their shares as if, broadly, the disposal was made in such shareholders' years of return to the UK.

(d) Stamp duty and stamp duty reserve tax

The following comments are intended as a guide to the general stamp duty and stamp duty reserve tax position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with voluntary arrangements or clearance services, to whom special rules apply.

As the Company is incorporated outside the UK and its share register will be kept outside the UK, no charge to UK stamp duty reserve tax should arise on the issue or transfer of the Ordinary Shares. Although it is possible that in certain circumstances a technical liability to UK stamp duty could

arise, in practice there should not be any UK stamp duty on the issue or transfer of the Ordinary Shares. In the event that a liability to UK stamp duty did arise, special provisions for relief against double stamp duty between the UK and the Republic of Ireland may apply. Under those provisions, a transfer of Ordinary Shares which has been stamped in the Republic of Ireland is deemed also to be stamped in the UK up to the amount of duty it bears, but must be stamped for any excess. The current rates of stamp duty on transfer of shares in the Republic of Ireland and the UK are 1 per cent. and 0.5 per cent. respectively.

10.2 Irish Taxation Implications

The following summary outlines certain aspects of Irish tax law and practice regarding ownership and disposition of Ordinary Shares. This summary deals only with Ordinary Shares held as capital assets and does not address special classes of shareholders such as dealers in securities.

This summary relates only to the position of shareholders who are resident or ordinarily resident in Ireland for tax purposes. Shareholders should understand that future legislative, administrative and case law developments could modify the tax consequences described below.

This summary is not exhaustive and shareholders are advised to consult their own tax advisers as to the tax consequences in Ireland, or in other jurisdictions, if shareholders are resident in other jurisdictions, of the purchase, ownership and disposition of Ordinary Shares. The summary is based on current Irish taxation legislation.

(a) Income Tax on Dividends

(i) Irish Taxation – Dividends on Ordinary Shares

Dividends paid by an Irish resident company will be subject to Irish withholding tax at the standard rate of income tax (currently 20 per cent), except where the shareholder is:

- Irish resident companies;
- Irish approved pension schemes, approved retirement funds, qualifying employee share ownership trusts, special portfolio investment accounts and special savings incentive accounts;
- certain Irish resident incapacitated individuals;
- Irish tax exempt charities, sporting bodies and collective investment undertakings;
- a person, other than a company that is non resident / ordinarily resident in Ireland and tax resident in another member state of the European Union or in a country with which Ireland has a double taxation agreement;
- a company that is not resident in Ireland and is ultimately controlled by shareholders resident in another member state of the European Union or in a country with which Ireland has a double taxation agreement, (and not under the control of persons who are not so resident);
- a company that is not resident in Ireland and resident in another member state of the European Union or country with which Ireland has a double taxation agreement and which is not ultimately controlled by Irish residents;
- a company that is not resident in Ireland, which is wholly owned by one or more companies the principal class of shares of which is substantially and regularly traded on one or more recognised stock exchanges in another member state of the European Union or country with which Ireland has a double taxation agreement. This exemption will also apply where the company is not resident in Ireland and the principal class of shares of that company, or where that company is a 75 per cent. subsidiary of another company, the principal class of shares of that company, is substantially and regularly traded on one, or more than one recognised stock exchange in an member state of the European Union or a country with which Ireland has a double taxation agreement; and
- a company not resident in Ireland and resident in another member state of the European Union which holds 5 per cent. or more of the Company's issued share capital subject to satisfaction of a bona fide test.

To qualify for the exemption, the shareholder must make a declaration on a prescribed form to the Company in advance of the Company paying the dividend.

In the case of a person not resident in Ireland, other than companies, the declaration must be supported by a certificate of residence from the tax authorities of the country in which the shareholder is resident for tax purposes. In the case of companies not resident in Ireland, the declaration must be supported by a tax certificate from the company's auditors and in certain cases by a certificate of residence from the tax authorities of the country in which the company is resident for tax purposes.

No declaration is required where the shareholder is a company and holds 5 per cent. or more of the Company's issued share capital and is resident in another member state of the European Union subject to the satisfaction of a bona fide test.

Individual shareholders resident or ordinarily resident in the Republic of Ireland will be liable to Irish income tax on the aggregate of the dividend received and the withholding tax deducted. The withholding tax deducted may be offset against the individual's income tax liability. A shareholder may claim a refund of the withholding tax to the extent it exceeds his income tax liability.

Irish resident corporate shareholders will not be subject to Irish corporation tax on dividends received from the Company and as noted above tax will not be withheld by the Company. However, closely held Irish resident companies may be subject to a corporation tax surcharge of 20 per cent. on such dividend income to the extent that it is not distributed within certain time limits.

Non-Irish residents who are exempt from dividend withholding tax (see above conditions) will be exempt from Irish income tax on the dividend received.

Non-Irish resident or ordinarily resident individual or corporate shareholders who do not qualify for exemption from withholding tax will be liable to Irish income tax on the dividend, but that liability will be satisfied by the withholding tax on the dividend. However, such persons have an obligation to submit an Irish income tax return under the self-assessment system, which operates in Ireland.

A shareholder resident in a treaty country and who is not within one of the categories of shareholders as outlined above that is exempt from dividend withholding tax may be able to make a reclaim subsequently from the Irish Revenue Commissioners in respect of all or part of the tax withheld, pursuant to the terms of the applicable tax treaty.

(b) Capital Gains Tax

Irish Taxation – Sale of Ordinary Shares

A disposal of Ordinary Shares will constitute a disposal by Irish resident or Irish ordinarily resident shareholders for the purposes of Irish capital gains tax and accordingly may give rise to a liability depending on the circumstances of the shareholder and the usual relief's and allowances which may be available. Capital gains are currently taxed at a rate of 20 per cent.

Shareholders in the Company who are not resident or ordinarily resident in Ireland and who do not hold the shares as part of the assets of a business carried on in Ireland are not subject to Irish capital gains tax on gains arising on the disposal of Ordinary Shares.

An Irish resident individual who is a shareholder and who ceases to be resident in Ireland for a period of less than five years of assessment and who disposes of the Ordinary Shares during that period may be liable, on a return to Ireland, to capital gains tax on any capital gain realised, subject to any available exemption or relief.

(c) Irish Capital Acquisitions Tax

Irish capital acquisitions tax ("CAT") is chargeable on gifts and inheritances where the subject matter of the gift or inheritance is Irish situate property. As the Company is required to maintain its share register in Ireland the Ordinary Shares will be regarded as Irish situate property for CAT purposes.

11. LITIGATION

No member of the Group is or has been involved in government, legal or arbitration proceedings, which may have or have had in the recent past (during the twelve months prior to the date of this document) significant effects on the Company's and/or the Group's financial position or profitability nor is the Company aware of any such proceedings which are pending or threatened.

12. WORKING CAPITAL

In the opinion of the Company and the Directors, having made due and careful enquiry and having regard to the net proceeds of the Placing receivable by the Company, following Admission the working capital available to the Karelian Group will be sufficient for its present requirements, that is, for at least twelve months from the date of Admission.

13. SIGNIFICANT CHANGE

Save as disclosed in Part I of this document there has been no significant change in the financial or trading position of any member of the Karelian Group since 31 May 2005, the date to which the latest audited accounts were drawn up.

14. MISCELLANEOUS

14.1 Except for fees payable to the professional advisers whose names are set out on page 3 of this document, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more whether directly or indirectly, from the Company within the twelve months preceding the application for Admission or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefits on or after Admission.

14.2 The total proceeds expected to be raised by the Placing are £500,000, and the expected net proceeds, raised by the Placing, after deduction of expenses of £232,000 (including irrecoverable VAT) payable by the Company, are estimated at £268,000.

14.3 For the purposes set out in Annex III Rule 3.4 of the AIM Prospectus Directive the net proceeds of the Placing will be applied as follows:

Drilling	€136,000
Sampling, processing and analysis	€30,000
Aerial and ground geophysics	€30,000
Claim fees	€85,000
Working Capital	€113,000

14.4 The Placing has not been underwritten.

14.5 The Placing Price represents a premium of approximately €0.064 over the nominal value of €0.01 per Ordinary Share.

14.6 John East & Partners, which is authorised and regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the issue of this document, with the reference to its name in the form and context in which it is included.

14.7 City Capital, which is authorised and regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the issue of this document, with the reference to its name in the form and context in which it is included.

14.8 CSA Group Limited accepts responsibility for its report dated 29 July 2005 and has given and has not withdrawn its written consent to the inclusion of its report in Part III of this document, in the form and context in which it appears.

14.9 There are no significant investments by the Group under active consideration.

14.10 Save for the claim licenses and claim reservations held by the Company's subsidiaries, details of which are set out in paragraph 4 above, there are no patents or other intellectual property rights, licenses or particular contracts which are or may be of fundamental importance to the business of the Group.

14.11 The arrangements for payment for the Placing Shares are set out in the placing letters referred to in the Placing Agreement. All monies received from applicants will be held by City Capital prior to delivery of the Ordinary Shares.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of John East & Partners up to and including Admission and until the expiry of one month from the date of Admission:

- (a) the Memorandum and Articles of Association referred to in paragraph 5 of this Part V;
- (b) the reports from the financial information set out in Part IV of this document;
- (c) the agreements referred to in paragraph 6 of this Part V;
- (d) the Share Option Scheme referred to in paragraph 8 of this Part V;
- (e) the Warrant Instrument referred to in paragraph 8 of this Part V;
- (f) the material contracts referred to in paragraph 9 of this Part V; and
- (g) the consent letters referred to in paragraph 14 of this Part V.

Copies of this document will be available to the public free of charge from the Company's registered office in Dublin and from City Capital and John East & Partners during normal office hours, Saturdays and Sundays excepted, for at least one month from Admission.

18 August, 2005