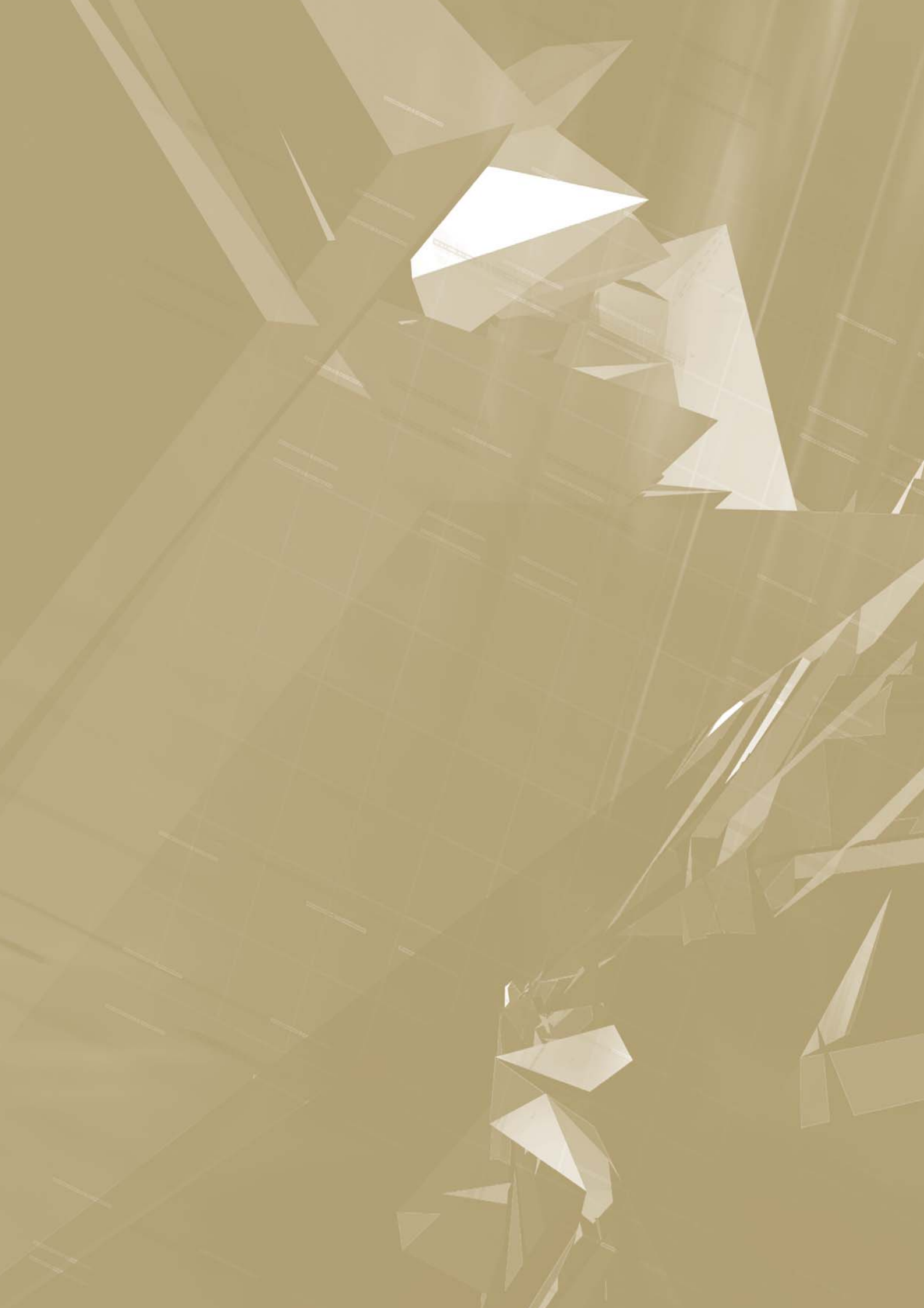




CONROY
DIAMONDS AND GOLD P.L.C.

ANNUAL REPORT AND FINANCIAL STATEMENTS 2004





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DIAMONDS AND GOLD P.L.C.

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CHAIRMAN'S STATEMENT



Dear Shareholder

I have great pleasure in presenting your Company's Annual Report and Financial Statements for the twelve months ended May 31, 2004, a period of considerable success during which exploration programmes in Ireland and Finland made solid progress. On the gold front, your Company has evolved from pure exploration to assessment and evaluation as a result of this progress.

A further fillip has been received since year-end with the positive findings by SRK Consulting in its report on your Company's Irish exploration licences. It says there is ample evidence to support your Company's belief in finding more than 1m oz of gold within its Irish licences, with one small, closely-drilled area alone having the potential to contain more than 100,000oz to a depth of less than 150m. Much larger anomalies covering 200 times the size of this drilled area are considered by SRK to have far better potential to contain deposits capable of supporting commercial mining operations.

Furthermore, SRK concurs with your Company's broad-based approach to exploration and recommends that it should continue. By adopting this regional approach your Company has been able to demonstrate the overall gold potential of the Longford-Down Massif and has moved well down the road towards identifying a new gold province there.

In preparing its report, which took six months to complete, SRK analysed and interpreted all available data on the Massif. One significant outcome was the identification of three major deep-seated lineaments traversing your Company's licences. Major economic gold deposits elsewhere in the world have been found on such lineaments.

The three areas are much larger than those already covered by your Company's geochemical sampling programmes, and two of the three have been subject to little exploration by your Company.

The area most favoured by SRK takes in the Armagh-Monaghan Gold Belt and includes the most closely drilled section, the small anomaly at Tullybuck-Lisglassan, where gold mineralisation remains open in all directions. The consultants emphasise, however, that this is just a tiny part of the overall picture, with much larger anomalies elsewhere yet to be drilled and considered to have much better potential for mineralisation. Another favoured area lies just west of the Slieve Glah project in Co Cavan and the third is on a portion of your Company's licences in Northern Ireland.

The SRK report marks a considerable step forward for your Company. Its positive conclusion is a boost to your Company's aim of establishing a new gold province. It also provides a solid base from which to progress, either alone or in joint venture.

De-merger of Diamond Interests

Since year end your Company's diamond interests in Finland have been de-merged into a separate entity, Karelian Diamond Resources plc. Your board were of the view, having consulted its nominated advisor Seymour Pierce Limited, that the terms of the transactions were fair and reasonable and were in the best interests of shareholders as a whole and the Company. The relevant proposals were duly approved by shareholders at an Extraordinary General Meeting.

High Court permission was sought and granted to enable the Company to effect the de-merger of the diamond interest through the distribution to the Company's shareholders of shares in the new diamond company, Karelian Diamond Resources Plc. The de-merger will be reflected in your Company's accounts by a reduction in the Share Premium Account.

Finance

During the year the Company raised €1,684,447, net of expenses, through the issue of 25,000,000 new ordinary shares, the details of which are set out in Note 10

to the accounts. Your directors are considering, in the light of the recent report from SRK, how your Company will be funded in the future. The potential and scale of the project, as signalled in the report, would suggest that the involvement of a major partner might be appropriate at this time.

Auditors

I would like to take the opportunity of thanking the partners and staff of KPMG for their services to your Company.

Directors, Consultants and Staff

I would like to welcome Mr Michael Power to your board. Mr Power is an engineer with over 30 years industry experience, much of it in gold including Vice President Corporate Development at Hemlo Gold (which is now part of Newmont Mining). At Hemlo Gold Mr Power was responsible for initiating, assessing and negotiating the acquisition of gold mining assets. He played an important part in the CAN\$2bn merger of Hemlo and Battle Mountain in 1996.

New director Michael Power on site with Chairman Professor Richard Conroy





Examining drill core in the coreshed at Cremartin

I would also like to express my continued appreciation of the support and dedication of the directors, consultants and staff.

Future Outlook

Your Company can look to the future with confidence. The SRK Report forms a crucial step in our plans. Your Company's broad based approach to exploration in the Longford-Down Massif with which SRK concurs has brought us well on the road to confirming a new gold province. This achievement has been noted in the industry and its significance in terms of potential value will, I am confident, become appreciated in the financial markets in due course and reflected in your Company's market capitalisation and share price.

Professor Richard Conroy
Chairman

REVIEW OF OPERATIONS 2004

Introduction

During the past year the Company has made very significant progress with its exploration programmes both in Ireland and Finland. Further significant gold discoveries were made in the Longford-Down Massif and the Company's diamond exploration programme in Finland, particularly in the Kuhmo area was highly encouraging.

Longford-Down Massif

The high prospectivity of the Longford-Down Massif for gold that has been recognised through the recent discoveries by Conroy has been further enhanced by fieldwork during the course of the year. This has been complemented by the exploration review completed by SRK Consulting.

The Longford-Down Massif is a major geological feature stretching from County Longford in the Republic of Ireland to County Down in Northern Ireland. It is an area of Ordovician and Silurian aged, mainly clastic rocks. Conroy has developed a genetic model for gold mineralisation in the Massif which is linked to the development of an accretionary clastic sedimentary prism, crustal subduction of the Iapetus Ocean floor, emplacement of granodioritic magmatic material and the development of regional strike-slip faulting.

The Armagh-Monaghan Gold Belt

Conroy has defined an area within the Massif measuring approximately 60km², which is termed the Armagh-Monaghan Gold Belt, and within which, to date, two gold deposits have been identified, namely Tullybuck-Lisglassan in County Monaghan and Cargalisgorran in County

Armagh. Further significant gold discoveries have been made at Corcaskea and Ballygreany, both in County Monaghan and at Tivnacree in County Armagh.

More recently, high-grade gold mineralisation in bedrock has now been discovered in the Company's Glenish prospect in County Monaghan, some 7km south west of the Company's Tullybuck-Lisglassan deposits. This latest find means that significant occurrences of bedrock gold mineralisation have now been discovered by Conroy over a 13km section of the Armagh-Monaghan Gold Belt extending from Cargalisgorran in the north-east, through Tullybuck-Lisglassan, to Glenish in the south-west.

The initial exploration at Glenish concentrated on soil geochemistry around the intersection of the Orlock Bridge and the Glenish Faults. This programme resulted in the recognition of a +10ppb gold in soil anomaly measuring approximately 1.3 km². Deep overburden sampling over a very small part of this original anomaly this summer has outlined a NW-SE trending mineralised structure which returned gold values including 1,393 ppb and 834 ppb gold. This technique of deep overburden sampling has been employed at Glenish in order to optimise sampling at the interface between bedrock and glacial till.



Drill Rig in action

Subsequent in-situ bedrock sampling in a stream close to the deep overburden sampling grid returned a 1m channel sampling grading 9.40 g/t gold. Grab samples from the area have assayed up to 2.45 g/t gold. The style of mineralisation seen here is similar to that seen at other locations in the Armagh–Monaghan Gold Belt. As at other localities it would appear to be fault controlled and hosted by intensely sheared argillite with quartz-carbonate veining and pyrite.

The Company has been demonstrating, through its exploration programmes, the overall gold potential of the Longford–Down Massif. In particular, till geochemistry anomalies have generated a number of targets which warrant further exploration. The Glenish Prospect is one such anomaly, and the discovery of high grade gold in bedrock at this location is further evidence for the existence of several gold bearing deposits in the Longford–Down Massif.

Regional Exploration

As well as detailed investigation at Glenish, the field programme has also continued with the regional soil sampling programme in the Armagh–Monaghan Gold Belt. This has focussed on sample collection along the strike of the Orlock Bridge Fault between Tullybuck–Lisglassan and Glenish and has involved the collection of approximately 1,000 soil samples to date. Results from these samples continue to show areas of gold in soil anomalism which will warrant follow-up work in the future.

Some 45km to the south west of the Armagh–Monaghan Gold Belt at Slieve Glah in County Cavan, the company has identified a large (3.5km by 1.5km) gold in soil anomaly. Gold in bedrock has been confirmed by trenching across part of this anomaly. The trend of the Orlock Bridge Fault shows a marked deviation to the south at Slieve Glah. Such deviations can often lead to the formation zones with which large scale mineralisation is sometimes associated. The area is regarded by the Company as being highly prospective.



"The drilled area of some 50,000 square metres is but a tiny part of much larger anomalies which cover an area 200 times the size of the drilled area at Tullybuck-Lisglassan and are considered to have better potential for mineralisation" – SRK Report.



"SRK Report Positive and a boost to hopes of an emerging New Gold Province".



Exploration Status Report – SRK Consulting (UK)

In February of this year, SRK Consulting (UK) were commissioned to prepare an Exploration Status Report on the Company's 1,500 km² licence area in the Longford-Down Massif. This report was to incorporate a regional geological review of the Company's wider exploration effort, and focus on identifying the structural features that influence and control the location of favourable sites for mineralisation.

The report is extremely positive and gives increasing encouragement to the Company's objective of establishing a new gold province in the Longford-Down Massif. SRK believes that the Company's recent exploration activities advance its intention to find 1m+ ounces of gold in the Longford-Down Massif.

SRK, in their report, have outlined a structural interpretation which shows three deep seated lineaments passing through the Company's licence areas. They stress that major economic gold deposits elsewhere in the world have often been found on such lineaments. The

area most favoured by SRK contains the Armagh-Monaghan Gold Belt, another is just to the west of Slieve Glah, and the third is within the Company's licence area in Northern Ireland. SRK also concur with the Company's broad based approach to exploration, and say that this should continue, whilst concentrating on the three selected areas outlined. SRK have established that the geometry of high grade soil geochemistry anomalies reinforce the structural controls of the Orlock Bridge Fault and associated cross cutting structure on mineralisation.

In a detailed assessment of the Company's drilling and sampling results at Tullybuck-Lisglassan, SRK conclude that the deposit has the potential to host over 100,000 ounces of gold. They also point out that the drilled area at Tullybuck-Lisglassan is a tiny part of much larger anomalies which cover an area 200 times larger, and are considered to have better potential. The consultants consider that there is potential to find similar or bigger deposits than Tullybuck-Lisglassan in the Longford-Down Massif.

Drilling in progress in the
Armagh-Monaghan Gold Belt



COMPANY INFORMATION

Directors

Professor Richard Conroy
*Chairman**

Maureen T.A. Jones
*Managing Director**

James P. Jones FCA
*Finance Director**†*

Louis J. Maguire
Non-Executive Director+§*

Michael E. Power
Non-Executive Director§

Dr. Pamela Conroy
Non-Executive Director§

Henry H. Rennison
Non-Executive Director+§

* Member of the Executive Committee

+ Member of the Remuneration Committee

§ Member of the Audit Committee

Company Secretary and Registered Office

James P. Jones
10 Upper Pembroke Street
Dublin 2
Ireland

Auditors

KPMG
Chartered Accountants
1 Stokes Place
St. Stephen's Green
Dublin 2

Registrars

Capita Corporate Registrars P.l.c.
Unit 5
Manor Street Business Park
Manor Street
Dublin 7
www.capitacorporateregistrars.ie

Nominated Adviser

Seymour Pierce Limited
Head Office
Bucklersbury House
3 Queen Victoria Street
London EC4N 8EL

Nominated Broker

Seymour Pierce Ellis Limited
Talisman House
Jubilee Walk
Three Bridges, Crawley
West Sussex RH10 1LQ

Dublin Stockbrokers

Dolmen Butler Briscoe
Dolmen House
4 Earlsfort Terrace
Dublin 2

Legal Advisers

William Fry Solicitors
Fitzwilton House
Wilton Place, Dublin 2

Roschier-Holmberg
Keskuskatu 7A
00 100 Helsinki
Finland

Head Office

Conroy Diamonds and Gold P.l.c.
10 Upper Pembroke Street
Dublin 2
Tel: 353-1-661 8958
Fax: 353-1-662 1213

For further information visit the Company's website at:
www.conroydiamondsandgold.com

or contact:
City of London PR
Triton Court, Finsbury Square
London EC2A 1BR
Tel: 44-20-7628-5518



Left to Right: Henry H. Rennison, James P. Jones, Dr. Pamela Conroy, Professor Richard Conroy, Louis J. Maguire, Michael E. Power, Maureen T.A. Jones

DIRECTORS' REPORT

for the Year Ended 31 May 2004

The Directors present their annual report, together with the audited financial statements of Conroy Diamonds and Gold Plc for the year ended 31 May 2004.

Principal Activities and Business Review

The current focus of the Company's activities is on a major geological structure in Ireland known as the Longford-Down Massif. The Company has acquired prospecting licences over an area of almost 1,500 square kilometres. On one small portion of this licence area, at Clontibret in County Monaghan, the Company has intersected high grades and mineable widths of gold mineralisation in the Tullybuck/Lisglassan deposit, which, the Directors believe, has the potential to become the first major gold mine in Britain or Ireland in recent times. Recent drilling of the Tullybuck/Lisglassan deposit has yielded further promising results.

Exploration within the Company's licence area has demonstrated, in addition to the Tullybuck/Lisglassan gold deposit, an extensive gold belt which extends over a distance of up to 18km from County Armagh into County Monaghan. Geochemical surveys within this gold belt point to the existence of lookalike units to Tullybuck/Lisglassan, with the potential to host further similar mineral deposits. In the prior year a new gold deposit was discovered at Cargalisgorran in County Armagh on one of the anomalies identified in the geochemical survey.

The Company had also acquired claim reservations in Finland which have diamond prospects and has carried out an exploration programme there. It has now been decided to de-merge the diamond interests into another company, Karelian Diamond Resources plc.

Future Development of the Business

It is the intention of the Directors to continue to develop the activities of the Company, concentrating particularly on gold. Further strategic opportunities in mineral resources, both in Ireland and abroad, will be sought by the Company.

Results for the Year and State of Affairs at 31 May 2004

The profit and loss account for the year ended 31 May 2004 and the balance sheet at that date are set out on pages 15 and 16 respectively. The Company recorded a loss for the financial year of €325,726 (2003 – €341,502). Having accounted for the loss and the net proceeds of the share issues to raise €1,681,447, the shareholders' funds increased to €5,791,118 at 31 May 2004 from €4,435,397 at 31 May 2003.

No dividends or transfers to reserves are recommended by the Directors.

Important Events since the Year End

In June the Company decided to transfer its diamond interests to a newly incorporated company, Karelian Diamond Resources plc ("Karelian"). The de-merger was effected by means of a Scheme of Arrangement, whereby the diamond interests were transferred to Karelian in consideration of the issue by Karelian of one fully paid ordinary share to the Company's shareholders for every six shares held. The Scheme of Arrangement was approved by shareholders on 8 July 2004 at a meeting convened by an Order of the High Court. At an Extraordinary General Meeting of the Company also held on 8 July 2004, approval was given, subject to sanction by the High Court, for the share premium account to be reduced by €1,025,000, being the book value of the diamond interests transferred. On 26 July 2004 the High Court sanctioned the Scheme of Arrangement and confirmed the reduction of the share premium account.

Health and Safety at Work

The well-being of the Company's employees is safeguarded through adherence to health and safety standards in accordance with the requirements of the Safety, Health and Welfare at Work Act, 1989.

Directors

The Directors who served during the year are as follows:

R.T.W.L. Conroy	P. Conroy
J.P. Jones	L.J. Maguire
M.T.A. Jones	M. E. Power (appointed 29 March 2004)
H.H. Rennison	

In accordance with the Company's Articles of Association, Miss Maureen Jones and Mr Henry Rennison will retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Since the last Annual General Meeting Mr Michael Power has been appointed director. Mr Power now retires in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

Directors' and Secretary's Shareholdings and Other Interests

The interests of the Directors and Secretary, all of which were beneficially held, in the ordinary share capital of the Company at 31 May 2003 and 31 May 2004 were as follows:

	At 31 May 2004		At 31 May 2003	
	Ordinary Shares of €0.03 Each	Options	Ordinary Shares of €0.03 Each	Options
R.T.W.L. Conroy	3,800,010	2,100,000	3,800,010	1,500,000
M.T.A. Jones	755,010	1,150,000	755,010	700,000
J.P. Jones	350,010	825,000	350,010	550,000
H.H. Rennison	330,010	50,000	330,010	50,000
P. Conroy	500,010	125,000	500,010	125,000
L.J. Maguire	310,010	50,000	310,010	50,000

Details of the options, all of which are exercisable currently, are as follows:

Directors	At 31 May 2004	Granted During Year	At 31 May 2003	Price €	Expiry Date
R.T.W.L. Conroy	1,000,000	-	1,000,000	0.2539	4 December 2010
R.T.W.L. Conroy	500,000	-	500,000	0.08	14 March 2013
R.T.W.L. Conroy	600,000	600,000	-	0.10	26 November 2013
M.T.A. Jones	325,000	-	325,000	0.2539	4 December 2010
M.T.A. Jones	375,000	-	375,000	0.08	14 March 2013
M.T.A. Jones	450,000	450,000	-	0.10	26 November 2013
J.P. Jones	275,000	-	275,000	0.2539	4 December 2010
J.P. Jones	275,000	-	275,000	0.08	14 March 2013
J.P. Jones	275,000	275,000	-	0.10	26 November 2013
H.H. Rennison	50,000	-	50,000	0.2539	4 December 2010
P. Conroy	125,000	-	125,000	0.2539	4 December 2010
L.J. Maguire	50,000	-	50,000	0.2539	4 December 2010

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the Company. There have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest and which were significant in relation to the Company's business.

Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed above and the shareholder listed below, held 3% or more of the issued ordinary share capital of the Company at 31 May 2004

Name	Number of Shares	%
Gartmore Fund Managers Limited	4,454,000	7.24

Political Donations

There were no political donations during the year.

Books of Account

The measures which the Directors have taken to ensure that proper books of account are kept are the adoption of suitable policies for recording transactions, assets and liabilities, the employment of appropriately qualified staff and the use of computer and documentary systems. The Company's books of account are kept at 10 Upper Pembroke Street, Dublin 2.

Directors' Responsibility Statement

Company law requires the Directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing the financial statements, the Directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- comply with applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2003. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As explained in Note 1 to the financial statements, the Directors have reviewed cashflow projections and other relevant information and are satisfied that the Company will be able to continue in operation for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

Companies (Auditing and Accounting) Act, 2003

The Directors note that the Companies (Auditing and Accounting) Act, 2003 has been issued and are assessing its implications for the Company.

Auditors

The auditors, KPMG, Chartered Accountants have expressed their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

On behalf of the Board

R.T.W.L. Conroy
Director

J.P. Jones
Director

17 November 2004

INDEPENDENT AUDITORS' REPORT

to the Shareholders of Conroy Diamonds and Gold Plc

We have audited the financial statements on pages 15 to 25.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and Irish Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibilities, as independent auditors, are established by statute, the Auditing Practice Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations that we require for our audit, whether the Company's balance sheet is in agreement with the books of account and report to you our opinion as to whether

- the Company has kept proper books of account;
- the Directors' Report is consistent with the financial statements;

- at the balance sheet date a financial situation existed that may require the Company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

We report to the shareholders if, in our opinion, any information required by law regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Mineral Interests

In forming our opinion, we considered the adequacy of the disclosures made in the financial statements, particularly in Note 6 in relation to the Directors' assessment of the carrying value of the Company's mineral interests held outside the cost pools of €6,202,068. In view of the significance of this uncertainty, we consider that this should be drawn to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company at 31 May 2004 and of its loss and cashflows for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company's financial statements are in agreement with the books of account. In our opinion, the information given in the Directors' report on pages 10 to 12 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 16 are more than half of the amount of its called up share capital and, in our opinion on that basis there did not exist at 31 May 2004, a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG

*Chartered Accountants
Registered Auditors
Dublin*

17 November 2004

PROFIT AND LOSS ACCOUNT

For the Year Ended 31 May 2004

	Notes	2004 €	2003 €
Operating Expenses	2	(331,321)	(342,656)
Other Income		5,595	1,154
Loss for the Year	3	(325,726)	(341,502)
Profit and Loss Account at 1 June		(1,433,158)	(1,091,656)
Profit and Loss Account at 31 May		(1,758,884)	(1,433,158)
Loss per ordinary share – Basic and fully diluted	5	(€0.006)	(€0.013)

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

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

R.T.W.L. Conroy
Director

J.P. Jones
Director

Approved by the Directors on 17 November 2004

BALANCE SHEET

31 May 2004

	Notes	2004 €	2003 €
Fixed Assets			
Mineral interests	6	6,202,068	5,198,758
Tangible assets	7	54,482	56,814
Financial assets	8	2	-
		6,256,552	5,255,572
Current Assets			
Debtors	9	45,046	4,919
Cash at bank and in hand		517,862	302,835
		562,908	307,754
Creditors: Amounts falling due within one year	10	(1,028,342)	(1,127,929)
Net Current Liabilities		(465,434)	(820,175)
Net Assets		5,791,118	4,435,397
Capital and Reserves			
Called up share capital	11	1,846,320	1,096,320
Capital Conversion Reserve Fund	11	30,617	30,617
Share premium account	11	5,673,065	4,741,618
Profit and loss account		(1,758,884)	(1,433,158)
Shareholders' Funds – all equity	12	5,791,118	4,435,397

The accompanying notes form an integral part of this balance sheet.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Approved by the Directors on 17 November, 2004

CASH FLOW STATEMENT

For the Year Ended 31 May 2004

	Notes	2004 €	2003 €
Net Cash Outflow from Operating Activities	13A	(444,490)	(239,552)
Capital Expenditure and Financial Investments	13B	(1,026,190)	(957,466)
Net Cash Outflow before Financing		(1,470,680)	(1,197,018)
Financing	13B	1,685,707	1,291,304
Increase in Cash	13C	215,027	94,286

The accompanying notes form an integral part of this cash flow statement.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Approved by the Directors on 17 November, 2004

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 year.

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 year 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 Ireland 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 year 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. Issue Expenses and Share Premium Account

Issue expenses arising on the issue of equity securities are written off, in the first instance, against the share premium account, with any issue expenses in excess of the balance on the share premium account being written off to the profit and loss account.

C. Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of the assets over their estimated useful lives as follows:

Motor vehicles	5 years
Office equipment	8 years

D. 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.

E. Consolidation

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

NOTES TO THE FINANCIAL STATEMENTS

31 May 2004

1. Operations and Going Concern

The Company is an exploration company and is currently involved in the development of mineral exploration opportunities, principally in the Longford-Down Massif.

During the year €1,681,447, net of expenses, was raised by the issue of new share capital.

On the basis of their review of projected cash flow information, existing commitments and taking into account the above funding together with the very encouraging results obtained from the exploration programme, the Directors consider it appropriate to prepare the financial statements on the going concern basis.

2. Operating Expenses

	2004 €	2003 €
Operating expenses (a)	909,976	918,069
Transfer to Mineral Interests (Note 6)	(578,655)	(575,413)
	331,321	342,656

- (a) The Company had nine employees during the period (2003 – eleven). The remuneration charged during the period comprised salaries of € 475,630, social welfare costs of €28,352 and pension costs of €90,764 (2003 – €551,576, €29,056 and €90,764 respectively).

3. 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:

	2004 €	2003 €
Auditors' remuneration	15,500	15,500
Directors' emoluments		
• fees	69,835	79,359
• other including pension contributions	403,412	403,647

Included in Director's emoluments is an amount of €90,764 (2003 – €90,764) which relates to pension costs accrued at the year end. This amount will be transferred to a defined contribution pension scheme, which is currently being established.

All losses arose from continuing operations.

4. Tax on loss on Ordinary Activities

No taxation charge arises in the financial year due to losses incurred.
There was no unprovided deferred taxation at 31 May 2004 (2003 – €Nil).

5. Loss per ordinary share

The calculation of the loss per ordinary share of €0.006 (2003 – €0.013) is based on the loss for the financial year of €325,726 (2003 – €341,502) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 53,210,678 (2003 – 26,512,148). Share options are not included in the calculation of fully diluted shares since the Company incurred a loss in 2004 and 2003 which resulted in these shares being anti-dilutive.

6. Mineral Interests

Costs held outside cost pool:

	Gold €	Diamonds €	Total €
Cost			
At 31 May 2003	4,356,230	842,528	5,198,758
Expenditure during the period			
• licences and appraisal	357,840	66,815	424,655
• other operating costs (Note 2)	462,924	115,731	578,655
At 31 May 2004	5,176,994	1,025,074	6,202,068

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.

Subsequent to the year end, the diamond interests were de-merged to Karelian Diamond Resources plc (Note 16).

NOTES TO THE FINANCIAL STATEMENTS

7. Tangible Fixed Assets

	Office Equipment €	Motor Vehicles €	Total €
Cost			
31 May 2003	55,638	60,112	115,750
Additions	10,068	12,810	22,878
Disposals	-	(12,062)	(12,062)
31 May 2004	65,706	60,860	126,566
Accumulated Depreciation			
31 May 2003	20,856	38,080	58,936
Depreciation charge	8,212	12,172	20,384
Disposals	-	(7,236)	(7,236)
31 May 2004	29,068	43,016	72,084
Net Book Value			
31 May 2003	34,782	22,031	56,814
31 May 2004	36,638	17,844	54,482

8. Financial assets

	2004 €	2003 €
Investment in subsidiary	2	-

The company owned 100% of the of the ordinary share capital of Karelian Diamonds Limited, which has its registered office at 10 Upper Pembroke Street, Dublin 2. The Company did not trade during the year.

9. Debtors:

	2004 €	2003 €
VAT receivable	1,306	4,919
Other	43,740	-
	45,046	4,919

All amounts fall due within one year, except for prepayments included in other debtors of €38,880 which fall due after one year.

10. Creditors: Amounts falling due within one year

	2004 €	2003 €
Accruals	1,013,481	996,488
Due to related undertaking (Note 15)	14,861	131,441
	1,028,342	1,127,929

Included in accruals are amounts due to the directors in respect of unpaid fees and salaries of €514,950 (2003 – €572,815) and pension contributions of €359,269 (2003 – €268,505).

11. Called up Share Capital and Premium

Authorised:

	2004 €	2003 €
400,000,000 ordinary shares of €0.03 each	12,000,000	12,000,000

Issued and Fully Paid:

	Number	Share Capital €	Capital Conversion Reserve Fund €	Share Premium €
Start of year	36,544,011	1,096,320	30,617	4,741,618
Share issues (a)	25,000,000	750,000	-	1,023,553
Issue expenses	-	-	-	(92,106)
End of year	61,544,011	1,846,320	30,617	5,673,065

- (a) In September 2003, 25,000,000 ordinary shares of €0.03 were issued for a consideration of 5p sterling per share to fund further mineral exploration. This realised €0.0709 per share resulting in a premium of €0.0409 per share.

12. Reconciliation of Movement in Shareholders' Funds

	2004 €	2003 €
At 31 May 2003	4,435,397	3,485,595
Loss for the financial year	(325,726)	(341,502)
Shares issued, net	1,681,447	1,291,304
At 31 May 2004	5,791,118	4,435,397

13. Notes to the Cash Flow Statement

A. Reconciliation of Loss to Net Cash Outflow from Operating Activities:

	2004 €	2003 €
Operating Loss	(325,726)	(341,502)
Depreciation	20,384	18,977
Loss on disposal of fixed assets	566	-
(Decrease)/Increase in Creditors	(99,587)	68,443
(Increase)/Decrease in Debtors	(40,127)	14,530
Net Cash Outflow from Operating Activities	(444,490)	(239,552)

B. Analysis of Cash Flows:

Capital Expenditure and Financial Investment

	2004 €	2003 €
Investment in mineral interests	(1,003,310)	(948,421)
Investment in subsidiary	(2)	-
Purchase of tangible fixed assets	(22,878)	(9,045)
	(1,026,190)	(957,466)

Financing

Issue of share capital, net	1,681,447	1,291,304
Proceeds of disposal of fixed assets	4,260	-
	1,685,707	1,291,304

C. Analysis and Reconciliation of Net Funds

	31 May 2003	Cash Inflow	31 May 2004
Cash at bank and in hand	302,835	215,027	517,862

14. Commitments and Contingencies

Obligations under Mineral Interests

The Company has received prospecting licences under the Republic of Ireland Mineral Development Acts 1940 to 1995 for areas in Monaghan and Cavan. It has also received licences in Northern Ireland for areas in Armagh and Down in accordance with the Mineral Development Act (Northern Ireland) 1969.

The Company has certain obligations in respect of these licences at year end which comprise total expenditure commitments as follows:

	2004 €	2003 €
Commitments on expenditure:		
• due within one year	200,000	125,000
• due between two and five years	275,000	200,000
	475,000	325,000

15. Related Party Transactions

In 2001, the Company acquired information, knowledge and expertise from Conroy Plc, a company which has common shareholders and Directors and in which one of the Directors and shareholders of the Company has a controlling interest. The balance of the purchase consideration of €114,250 was payable at 31 May 2003 (Note 10), and was paid during the current year. The amount of €14,861 (Note 10) relates to VAT reclaimed by the Company on behalf of Conroy Plc, which is now repayable to Conroy Plc.

The Company also shares accommodation with Conroy Plc. The Company bears its appropriate share of the related costs directly.

16. Subsequent Event

In June the Company decided to transfer its diamond interests to a newly incorporated company, Karelian Diamond Resources plc ("Karelian"). The de-merger was effected by means of a Scheme of Arrangement, whereby the diamond interests were transferred to Karelian in consideration of the issue by Karelian of one fully paid ordinary share to the Company's shareholders for every six shares held. The Scheme of Arrangement was approved by shareholders on 8 July 2004 at a meeting convened by an Order of the High Court. At an Extraordinary General Meeting of the Company also held on 8 July 2004, approval was given, subject to sanction by the High Court, for the share premium account to be reduced by €1,025,000, being the book value of the diamond interests transferred. On 26 July 2004 the High Court sanctioned the Scheme of Arrangement and confirmed the reduction of the share premium account.

17. Approval of Financial Statements.

These financial statements were approved by the board on 17 November, 2004.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Conroy Diamonds and Gold P.l.c. (the "Company") will be held at the The Conrad Hotel, Earlsfort Terrace, Dublin 2 on Tuesday 14 December 2004 at 3.00p.m. for the purposes of transacting the following business:

1. To receive and consider the Financial Statements for the year ended 31 May 2004 together with the Directors' and Auditors' Reports thereon (Resolution No. 1).

2. To re-elect as Directors the following persons:

Miss Maureen Jones (Resolution No.2 (a))

Mr Henry Rennison (Resolution No.2 (b))

Mr Michael Power (Resolution No.2 (c))

3. To authorise the Directors to fix the remuneration of the Auditors (Resolution No.3).

4. To consider and, if thought fit, pass the following resolution as a Special Resolution (Resolution No.4):

"That, for the purposes of Section 24 of the Companies (Amendment) Act, 1983 and subject to the Directors being authorised pursuant to Article 10 of the Articles of Association of the Company, the Directors be empowered to allot equity securities for cash pursuant to and in accordance with Article 11 of the Articles of Association of the Company. The authority hereby conferred shall expire at the close of business on the date of the next Annual General Meeting of the Company unless previously revoked or renewed in accordance with the provisions of the Companies (Amendment) Act, 1983."

5. To transact any other business.

By Order of the Board

Dated this 17 day of November 2004

James P. Jones

Secretary

Registered Office

10 Upper Pembroke Street

Dublin 2

Notes

1. *The holders of the Ordinary Shares are entitled to attend and vote at the above General Meeting of the Company. A holder of Ordinary Shares may appoint a proxy or proxies to attend, speak and vote instead of him/her. A proxy need not be a member of the Company.*
2. *A Form of Proxy is enclosed for use by shareholders unable to attend the meeting. Proxies to be valid must be lodged with the Company's Registrars, Capita Corporate Registrars Plc, Unit 5, Manor Street Business Park, Manor Street, Dublin 7 not less than 48 hours before the time appointed for the holding of the meeting.*

CONROY DIAMONDS AND GOLD P.L.C.

FORM OF PROXY

I/We (see note below) _____ of _____,

being a member of the above named Company, hereby appoint (see note B below):

a the Chairman of the meeting; or

b _____ of _____

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 14th December, 2004 at The Conrad Hotel, Earlsfort Terrace, Dublin 2 and at any adjournment thereof.

Please indicate with an "X" in the space below how you wish your votes to be cast in respect of each of the resolutions detailed in the notice convening the meeting. If no specific direction as to voting is given the proxy will vote or abstain from voting at his/her discretion.

Resolution	For	Against
1 To receive and consider the Financial Statements and Directors' and Auditors' Reports for the year ended 31 May 2004.	<input type="checkbox"/>	<input type="checkbox"/>
2 a To re-elect Miss Maureen Jones as a Director	<input type="checkbox"/>	<input type="checkbox"/>
b To re-elect Mr. Henry Rennison as a Director	<input type="checkbox"/>	<input type="checkbox"/>
c To re-elect Mr. Michael Power as a Director	<input type="checkbox"/>	<input type="checkbox"/>
3 To authorise the Directors to fix the remuneration of the Auditors	<input type="checkbox"/>	<input type="checkbox"/>
4 To authorise the Directors to issue securities pursuant to Section 24 of the Companies (Amendment), Act, 1983.	<input type="checkbox"/>	<input type="checkbox"/>

Dated this _____ day of _____ 2004.

Signature _____ or other execution by the Member (See note C).

Notes

- A** A shareholder must insert his/her full name and registered address in type or block letters. In the case of joint accounts the names of all holders must be stated.
- B** If you desire to appoint a proxy other than the Chairman of the meeting please insert his/her name and address and delete the words "the Chairman of the meeting or".
- C** The proxy form must:
- (i) in the case of an individual member be signed by the member or his/her attorney; and
 - (ii) in the case of a corporate member be given either under its common seal or signed on its behalf by an attorney or by a duly authorised officer of the corporate member.
- D** In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- E** To be valid this proxy form and any power of attorney under which it is signed must reach the Company's Registrars, Capita Corporate Registrars Plc, Unit 5, Manor Street Business Park, Manor Street, Dublin 7 not less than 48 hours before the time appointed for the holding of the meeting.
- F** A proxy need not be a member of the Company but must attend the meeting to represent you.



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Capita Corporate Registrars P.l.c.
P.O. Box 7117
BUSINESS REPLY
Dublin 2

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Conroy Diamonds and Gold P.l.c.

10 Upper Pembroke Street
Dublin 2

Tel: 353-1-661 8958

Fax: 353-1-662 1213

For further information visit the Company's website at:
www.conroydiamondsandgold.com