KARELIAN
DIAMOND RESOURCES

Annual Report & Financial Statements 2008

Front Cover: Seitaperä Diamonds.

KARELIAN
DIAMOND RESOURCES

Contents

Professor Richard Conroy
Chairman

Chairman's Statement

Dear Shareholder,

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

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

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

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

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

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

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

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

Kimberlite pipes tend to occur in clusters, the board is therefore encouraged by its success elsewhere in the Kuhmo area in identifying a number of promising magnetic targets for further investigation. These include one lying on the same trend as Seitaperä which was originally identified by an aeromagnetic survey and confirmed by a follow-up ground survey. It lies beneath a shallow lake and is earmarked for drilling from ice cover in the coming winter. Several other targets in the area await verification.

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

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

Financials

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

Auditors

I would like to take the opportunity of thanking the partners and staff of Deloitte & Touche for their services to your Company during the course of the year.

Directors, Consultants and Staff

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

Future Outlook

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

Richard Conroy

Professor Richard Conroy
Chairman

Company Information

Directors

Professor Richard Conroy
Chairman*

Roger I Chaplin
Non-Executive Director§

Seamus P FitzPatrick
Non-Executive Director+§

Maureen T.A Jones
Managing Director*

James P. Jones FCA
Finance Director*

Louis J. Maguire
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 FCA
10 Upper Pembroke Street
Dublin 2

Auditors

Deloitte & Touche
Chartered Accountants
Deloitte & Touche House
Charlotte Quay
Limerick

Registrars

Capita Registrars
Unit 5
Manor Street Business Park
Manor Street
Dublin 7
www.capitaregistrars.ie

Nominated Adviser

John East & Partners Ltd
10 Finsbury Square
London
EC2A 1AD

Principal Bankers

National Irish Bank
138 Lower Baggot Street
Dublin 2

Broker

City Capital Corporation Limited
Sion Hall
56 Victoria Embankment
London
EC4Y 0DZ

Legal Advisors

William Fry Solicitors
Fitzwilton House
Wilton Place
Dublin 2

Roschier-Holmberg
Keskuskatu 7A
00 100 Helsinki
Finland

Head Office

Karelian Diamond Resources PLC
10 Upper Pembroke Street
Tel: +353-1-661 8958
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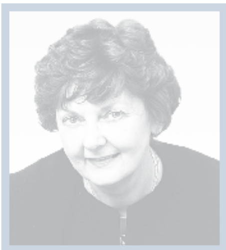
For further information visit the Company's website at
www.kareliandiamondresources.com

or contact:

Lothbury Financial
Triton Court
Finsbury Square
London EC2A 1BR
Tel: +44-20-7011-9411

Professor Richard Conroy
Chairman



Maureen Jones
Managing Director

Louis Maguire
Non-Executive Director

James Jones
Finance Director

Roger Chaplin
Non-Executive Director

Seamus FitzPatrick
Non-Executive Director

Directors' Report

For the year ended 31 May 2008

The Directors present their annual report, together with the audited financial statements of Karelian Diamond Resources Plc for the year ended 31 May 2008.

Principal Activities and Business Review

The Company is a London Stock Exchange AIM-listed natural resource company incorporated in Ireland, which is focused on the discovery of potential world-class diamond deposits in Finland. The Company is presently exploring for diamonds and evaluating an existing diamond prospect (diamondiferous kimberlite pipe) in the Karelian Craton of Finland. The Company has a number of projects throughout the diamond-prospective Karelian Craton, at various stages of development.

Future Development of the Business

It is the intention of the directors to continue to develop the activities of the Company, concentrating particularly on diamonds. Further strategic opportunities in mineral resources, both in Finland and elsewhere, will be sought by the Company.

Risks and Uncertainties

The Company's activities are directed towards the discovery, evaluation and development of diamond and other mineral deposits. Exploration for and development of mineral deposits is speculative. Whilst the rewards can be substantial, there is no guarantee that exploration on the Company's properties will lead to the discovery of commercially extractable mineral deposits. The future net asset value is therefore, inter alia, dependent on the success or otherwise of the Company's exploration programmes. Whether a mineral deposit will be commercially viable in a mining operation depends on a number of factors, such as the grade of the deposit, prices of the commodities being exploited, currency fluctuations, proximity to infrastructure, financing costs and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, import and export regulations and environmental protection. The Company needs equity capital and financing for working capital and exploration and development of its properties. Due to continuing operating losses, the Company's continuance as a going concern is dependant upon its ability to obtain adequate financing and reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

Results for the Year and State of Affairs at 31 May 2008

The income statement for the year ended 31 May 2008 and the balance sheet at that date are set out on pages 14 and 15 respectively. The Company recorded a loss for the financial year of €268,638 (2007: €125,334). Taking account of the current year loss and the placing of shares the shareholders' funds increased to €3,865,379 at 31 May 2008 from €2,641,737 at 31 May 2007.

Going Concern

As explained in Note 2 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.

Directors

The Directors who served during the year are as follows:

R.T.W.L. Conroy
M.T.A. Jones
J.P. Jones
R.I. Chaplin
S.P. FitzPatrick
L.J. Maguire

In accordance with the Company's Articles of Association, Mr. Louis Maguire and Mr. Séamus FitzPatrick will retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Directors' Report

For the year ended 31 May 2008

Details of Directors

Professor Richard Conroy, Chairman of the Board, 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 p.l.c in 1979.

Professor Conroy founded Conroy Petroleum and Natural Resources P.l.c. that in 1986 made the very significant discovery of the Galmoy zinc deposit in Co Kilkenny, which is now in production as a major base metal mine. Conroy Petroleum was also a founding member of the Stoneboy consortium, an exploration group that discovered the POGO gold field in Alaska now in production as a major gold mine.

Conroy Petroleum acquired Atlantic Resources plc in 1992 and was renamed ARCON International Resources p.l.c. (ARCON). Professor Conroy was Chairman and Chief Executive of ARCON from 1980 to 1994.

Professor Richard Conroy is an Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. His research has included pioneering work on the effects of Circadian Rhythms including Jet Lag, Shift Working and Decision Taking in Business after Intercontinental Flights.

Professor Conroy served for two terms in the Irish Parliament as a member of the Senate. As a Senator he was at various times front bench spokesman for the Government party in the Upper House on Energy, Industry and Commerce, Foreign Affairs and Northern Ireland.

Mr James Jones, Finance Director, has been associated with the natural resources industry for over 20 years. He is a chartered accountant by profession and a lecturer in Accountancy at Limerick Institute of Technology. He served as finance director of Conroy Petroleum and Natural Resources from its formation until 1994, when he joined with Professor Conroy to create Conroy Diamonds and Gold. He has served as finance director and secretary of that company since its inception in 1995. He became Finance Director and Secretary of this Company upon its formation in 2004.

Miss Maureen Jones, Managing Director, has many years experience in natural resources. She also has a medical background, as a radiographer specialising in nuclear medicine. She became a manager with International Medical Corporation in 1977 and joined Professor Conroy at Conroy Petroleum and Natural Resources in 1980. She served as a director of the company from 1986 to 1994, when she joined Professor Conroy in the formation of Conroy Diamonds and Gold. She has been managing director of that Company since 1998.

Mr Roger Chaplin, Non-executive Director, has over twenty five years experience in mining analysis, gained initially in a major South African mining house and latterly in the City of London. He was Senior Vice President and Mining Analyst at T. Hoare and Co., which later became Canaccord Capital (Europe) Limited, in London from 1993 to 2003. Since 2003 he has worked as an independent analyst and as Head of Research for M. Horn & Co. He gained a particular interest in diamonds through following the development of the Canadian diamond mines over the past fifteen years.

Mr Séamus FitzPatrick, Non-executive Director, has worked in both corporate finance and private equity in London and New York with Morgan Stanley, J. P. Morgan and Bankers' Trust. In 1999 he co-founded CapVest, which advises funds with in excess of £2.0 billion of assets under management. He is chairman of Mater Private Hospital and a member of the supervisory board at Drie Mollen. He is also a member of the board of Conroy Diamonds and Gold P.l.c.

Mr Louis Maguire, Non-executive Director, is an Auctioneer by profession and 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 P.l.c and Conroy P.l.c.

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 and warrants of the Company at 31 May 2007 and 31 May 2008 were as follows:

	At 31 May 2007		At 31 May 2008	
	Ordinary shares of €0.01 each	Warrants	Ordinary shares of €0.01 each	Warrants
R.T.W.L. Conroy	28,531,701*	1,000,000	37,031,701*	8,354,382
M.T.A. Jones	125,836	750,000	125,836	4,941,275
J.P. Jones	58,335	500,000	58,335	3,104,689
R. I. Chaplin	20,000	200,000	20,000	271,262
S.P. FitzPatrick	666	200,000	666	432,201
L.J. Maguire	51,668	200,000	51,668	432,201

*Of the 37,031,701 (2007: 28,531,701) Ordinary Shares beneficially held by Professor Richard Conroy, 30,815,030, (2007: 27,815,030) are held by Conroy P.l.c. a company in which Professor Conroy has a controlling interest.

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

Directors	At 31 May 2008	Granted During Year	At 31 May 2007	Price €	Expiry Date
R.T.W.L. Conroy	1,000,000		1,000,000	5p stg	1 September 2015
R.T.W.L. Conroy	5,521,049	5,521,049	-	€0.10	16 November 2017
R.T.W.L. Conroy	1,833,333	1,833,333	-	10p stg	17 July 2010
M.T.A. Jones	750,000		750,000	5p stg	1 September 2015
M.T.A. Jones	4,191,275	4,191,275		€0.10	16 November 2017
J.P. Jones	500,000		500,000	5p stg	1 September 2015
J.P. Jones	2,604,689	2,604,689		€0.10	16 November 2017
R.I. Chaplin	200,000		200,000	5p stg	1 September 2015
R.I. Chaplin	71,262	71,262		€0.10	16 November 2017
S.P. FitzPatrick	200,000		200,000	5p stg	1 September 2015
S.P. FitzPatrick	232,201	232,201		€0.10	16 November 2017
L.J. Maguire	200,000		200,000	5p stg	1 September 2015
L.J. Maguire	232,201	232,201		€0.10	16 November 2017

Apart from loans from shareholders (Note 12), there have been no contracts or arrangements during the financial year in which a director of the Company was materially interested and which were significant in relation to the Company's business.

Directors' Report

For the year ended 31 May 2008

Political Donations

The Company did not make any political donations during the year.

International Financial Reporting Standards

For all periods up to and including the year ended 31 May 2007, the Company prepared its financial statements in accordance with Irish Generally Accepted Accounting Policies (Irish GAAP). In line with the European Commission's development of a single European Capital Market, the application of International Financial Reporting Standards (IFRS) became mandatory for the financial statements of all listed European Union companies with effect from the beginning of 2005 and from 2007 for companies listed on AIM. Accordingly the Company has produced IFRS-compliant financial statements for the year ended 31 May 2008. These financial statements are the first annual statutory financial statements that the Company has prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted for use in the European Union. Details of the transition to IFRS are outlined in the Statement of Accounting Policies.

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.

Auditors

The auditors, Deloitte and Touche, Chartered Accountants, continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

On behalf of the Board

R.T.W.L. Conroy	**J.P. Jones**
Director	*Director*

12 November 2008

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements. AIM rules require the directors to prepare such financial statements in accordance with International Financial Reporting Standards. Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, and the Companies Act 1963 to 2006. International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on the going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of a directors' report and financial statements which comply with the requirements of the Companies Acts 1963 to 2006.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Corporate Governance

Introduction

As the Company is quoted on London's AIM market, the board bases its policies and practices in relation to corporate governance on the Combined Code on Corporate Governance, published by the UK Financial Reporting Council (the Code).

The board supports standards in corporate governance and endeavours to implement the principles of the Combined Code constructively and in a sensible and pragmatic fashion with the objective of enhancing and protecting shareholder value. This is always harder in a small Company than in the larger organisations with which the Combined Code is chiefly concerned. It is particularly problematic for a company such as this, which is both small and engaged in mineral exploration and development rather than more routine trading operations.

Regular board meetings are scheduled to take place throughout the year. During the year eight meetings were held. All major policies are approved by the board.

Remuneration Committee

The remuneration committee comprises Mr. Louis Maguire and Mr. Séamus FitzPatrick. It is responsible for making recommendations to the board on the Company's executive remuneration. The committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive directors. The board itself determines the remuneration of the non-executive directors.

Audit Committee

The committee's terms of reference have been approved by the board and follow acceptable practice. The audit committee comprises Mr. Louis Maguire, Mr. Roger Chaplin and Mr. Séamus FitzPatrick. The audit committee reviews the interim and annual financial statements before they are presented to the board, focusing in particular on accounting policies and areas of management judgement and estimation. The committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The committee considers internal control issues and contributes to the board's review of the effectiveness of the Company's internal control and risk management systems. It also considers the need for an internal audit function, which it believes is not required at present due to the limited staff and operations of the Company. The members of the committee have agreed to make themselves available should any member of staff wish to make representations to them about the conduct of the affairs of the Company.

The committee advises the board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. It meets formally at least once a year with the Company's external auditors. An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in note 3 to the financial statements.

The audit committee also undertakes a formal assessment of the auditors' independence each year which includes: a review of any non-audit services provided to the Company; discussion with the auditors of all relationships with the Company and any other parties that could affect independence or the perception of independence; a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit including the regular rotation of the audit partner; and obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Internal Control

The board of directors is responsible for, and annually reviews, the Company's systems of internal control, financial and otherwise. Such systems provide reasonable, but not absolute, assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The board considers it inappropriate to establish an internal audit function at present because of the Company's limited operations; however, this decision is reviewed annually.

There are no significant issues disclosed in the report and financial statements for the year ended 31 May 2008 and up to the date of approval of the report and financial statements that have required the board to deal with any related material internal control issues. The directors confirm that the board has reviewed the effectiveness of the system of internal control as described during the year.

Risks and Uncertainties

In reviewing the risks facing the Company, the board considers it is reasonably close to the Company's operations and aware of its activities to be able to adequately monitor risk without the establishment of any formal process. The Company may become subject to risks against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. The board believes the significant risks facing the Company are adequately disclosed in these financial statements and that there are no other risks of comparable magnitude which need to be disclosed.

Communication with Shareholders

Extensive information about the Company and its activities is given in the annual report and financial statements, and the interim report, which are sent to shareholders. Further information is available on the Company's website, kareliandiamondresources.com, which is promptly updated whenever announcements or press releases are made.

Every effort is made to reply promptly and effectively to enquiries from shareholders on matters relating to their shareholdings and the business of the Company.

Independent Auditors' Report

to the Shareholders of Karelian Diamond Resources PLC

We have audited the financial statements of Karelian Diamond Resources Plc for the year ended 31 May 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

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 are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report including the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditors, is to audit the Annual Report including the preparation of the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs as adopted by European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's balance sheet and its income statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement. We are not required to consider whether the boards' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance statement.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to other information outside the annual report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of affairs of the company as at 31 May 2008 and of the loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

Emphasis of Matter

Without qualifying our opinion we draw your attention to the disclosures made in Notes 2 and 7 in the financial statements which indicate that the realisation of intangible assets of €4,212,520 included in the balance sheet is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring reserves to economic maturity and profitability.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet and income statement are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 May 2008 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.

Deloitte & Touche
Chartered Accountants
and Registered Auditors
Limerick

12 November 2008

Income Statement

For the year ended 31 May 2008

	Note	2008 €	2007 €
OPERATING EXPENSES	**3**	**(280,720)**	(125,404)
Other Income		**12,082**	70
LOSS BEFORE TAXATON	**4**	**(268,638)**	(125,334)
Taxation	**5**	-	-
LOSS RETAINED FOR THE YEAR		**(268,638)**	(125,334)
Loss per ordinary share – Basic and diluted	**6**	**(€0.0046)**	(€0.0028)

Approved by the Directors on 12 November 2008.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Balance Sheet

For the year ended 31 May 2008

	Note	2008 €	2007 €
ASSETS			
Non-current Assets			
Intangible assets	**7**	**4,221,785**	3,617,723
Financial assets	**8**	**4**	4
Property, plant and equipment	**9**	**1,173**	1,341
		4,222,962	3,619,068
Current Assets			
Trade and other receivables	**10**	**50,441**	2,324
Cash and cash equivalents		**35,430**	115,402
		85,871	117,726
Total Assets		**4,308,833**	3,736,794
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	**13**	**605,416**	447,716
Share premium	**13**	**3,801,202**	2,529,648
Share based payment reserve		**87,626**	24,600
Retained earnings		**(628,865)**	(360,227)
Total Equity		**3,865,379**	2,641,737
Non-current Liabilities			
Trade and other payables: Amounts falling due after more than one year	**12**	**271,135**	1,031,298
Total non-current liabilities		**271,135**	1,031,298
Current Liabilities			
Trade and other payables: Amounts falling due within one year	**11**	**172,319**	63,759
Total Current Liabilities		**172,319**	63,759
Total Liabilities		**443,454**	1,095,057
Total Equity and Liabilities		**4,308,833**	3,736,794

Approved by the Directors on 12 November 2008.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Cash Flow Statement

For the year ended 31 May 2008

	Note	2008 €	2007 €
Cash used by operations	**14A**	**(196,010)**	(280,858)
Tax paid		**-**	-
Net cash used in operating activities		**(196,010)**	(280,858)
Cash flows from investing activities			
Investment in mineral interest		**(553,053)**	(263,046)
Net cash used in investing activities		**(553,053)**	(263,046)
Cash flows from financing activities			
Shareholder loan advances		**(760,163)**	546,515
Issue of share capital		**1,429,254**	-
Net cash from financing activities		**669,091**	546,515
(Decrease)/increase in cash and cash equivalents		**(79,972)**	2,611
Cash and cash equivalents at beginning of year		**115,402**	112,791
Cash and cash equivalent at year end		**35,430**	115,402

Statement of Changes in Equity

For the year ended 31 May 2008

	Share Capital €	Share Premium €	Share-based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2006	447,716	2,529,648	-	(234,893)	(2,742,471)
Share-based payments	-	-	24,600	-	24,600
Loss for the year	-	-	-	(125,334)	(125,334)
At 31 May 2007	**447,716**	**2,529,648**	**24,600**	**(360,227)**	**2,641,737**
At 1 June 2007	447,716	2,529,648	24,600	(360,227)	2,641,737
Issue of shares	157,700	1,271,554	-	-	1,429,254
Share-based payments	-	-	63,026	-	63,026
Loss for the year	-	-	-	(268,638)	(268,638)
At 31 May 2008	**605,416**	**3,801,202**	**87,626**	**(628,865)**	**3,865,379**

SHARE CAPITAL

The share capital comprises of share capital issued for cash and non-cash consideration.

SHARE PREMIUM

The share premium reserve comprises of the excess consideration received in respect of share capital over the nominal value of share issued.

SHARE-BASED PAYMENT RESERVE

The share-based payment reserve represents the amount expensed to the income statement of share-based payments granted which are not yet exercised and issued as shares.

Notes to the Financial Statements
For the year ended 31 May 2008

1. ACCOUNTING POLICIES

For all periods up to and including the year ended 31 May 2007, the Company prepared its financial statements in accordance with Irish Generally Accepted Accounting Practice (Irish GAAP). The financial statements, for the year ended 31 May 2008, are the first that the Company have prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations.

These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and in accordance with the Companies Acts, 1963 to 2006. The financial statements are prepared under the historical cost convention.

The financial statements in respect of the year ended 31 May 2007 were prepared under Irish GAAP. Apart from presentational changes, the comparative figures for the immediately preceding financial year have not been effected by the adoption of IFRS.

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the current year, the Company has adopted the new and revised Standards and Interpretations issued by the IASB. The adoption of IFRSs and IFRICs has not resulted in any change to the reported position, results or cashflows of the Company in respect of prior years. The implementation of IFRS has resulted in changes in presentation and disclosures only.

Deferred development expenditure is now referred to as Exploration and Evaluation Assets. The Company has accounted for these in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources', under which the Company continued to adopt the accounting policy used previously in respect of such expenditure. The adoption of IFRS 2 Share-based payment did not result in any change to the reported figures in previous years, as the Company had previously adopted FRS 20.

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 1	(Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);
IAS 23	(Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
IAS 27	(Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
IAS 32	(Revised) Puttable Financial instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009);
IAS 39	(Revised) Eligible Hedge Items (effective for accounting periods beginning on or after 1 July 2009);

STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

IFRS 1	(Revised) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009);
IFRS 2	(Revised) Share Based Payment (effective for accounting periods beginning on or after 1 January 2009);
IFRS 3	(Revised) Business Combinations (effective for acquisitions made in accounting periods beginning on or after 1 July 2008);
IFRS 7	(Revised) Financial Instruments effective for accounting periods beginning on or after 1 January 2009);
IFRS 8	Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
IFRIC 12	Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);
IFRIC 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
IFRIC 14	IAS 19: The Limit on a Defined Benefit Asset - Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008).

IFRIC 15	Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009) and
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).

The directors have completed an initial assessment of the impact in relation to the adoption of these Standards and Interpretations for future periods of the Company. Given the current Company operations, in the opinion of the Directors, the above will have no material impact on the financial statements of the Company in the period of initial application.

A. Mineral Interests

(i) Exploration and evaluation

The Company accounts for mineral expenditure under the 'full cost' method of accounting in accordance with International Financial Reporting Standard 6 – Exploration For and Evaluation of Mineral Resources.

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, including share-based payments, 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 income statement 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 with in the income statement 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 amount 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 accounted for as a deduction from equity, 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 income statement.

C. Property, Plant and Equipment

Property, plant and equipment is 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:

Plant and office equipment	10 years

D. Taxation

The tax expense represents the sum of the current and deferred tax charge.

The tax currently payable is based on taxable profits for the year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liabilities method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

E. Share Based Payments

The Company has applied the requirements of IFRS 2 "Share-Based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 June 2006.

For equity-settled share based payment transactions (i.e. the granting of share options and share warrants), the Company measures the services and the corresponding increase in equity at fair value at the measurement date (which is the grant date) using a recognised valuation methodology for the pricing of financial instruments (Binomial Lattice Model). Given that the share options, and warrants granted do not vest until the completion of a specified period of service the fair value is determined on the basis that the services to be rendered by employees as consideration for the granting of share options and warranties will be received over the vesting period, which is assessed as the grant date.

The expense in the income statement in relation to the share options and warrants represents the product of the total number of options and warrants expected to vest and the fair value of those options and warrants. The resulting amount is allocated to accounting periods over the vesting period.

F. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

G. Trade and other receivables and payables

Trade and other receivables and payables are measured at initial recognition at fair value, and subsequently measured at amortised cost.

H. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank held by the company and short term bank deposits with a maturity of three months or less. Cash and cash equivalents are held for the purpose of meeting short term cash commitments.

I. Pension costs

The company provides for certain employees through defined contribution pension schemes. The amounts charged to the income statement and balance sheet is the contribution payable in that year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables in the balance sheet.

J. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

Exploration and evaluation

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. In addition there is uncertainty as to whether the exploration activity will yield any economical viable discovery.

Impairment of intangible assets

If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

Going concern

The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on finance being available for the continuing working capital requirements of the Company and finance for the development of the Company's projects becoming available. Based on the assumptions that such finance will become available, the directors believe that the going concern basis is appropriate for these accounts. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the Company's assets, in particular the intangible fixed assets, to their realisable values.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Binomial Lattice Model.

2. OPERATIONS AND GOING CONCERN

The Company is involved in the development of mineral exploration opportunities, principally in Finland.

On the basis of the capital funding achieved to date and existing commitments for further capital funding, together with their review of projected cash flow information and 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.

3. OPERATING EXPENSES

	2008	2007
	€	€
Management services and operating expenses	**493,006**	211,583
Transfer to mineral interests (Note 7)	**(212,286)**	(86,179)
	280,720	125,404

4. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging the following items, which are stated at amounts prior to the transfer to mineral interests:

	2008	2007
	€	€
Directors' emoluments		
- fees	**50,538**	71,075
- other remuneration	**139,569**	112,500
Auditors' remuneration – audit services	**13,500**	8,500
Depreciation	**168**	168

The directors' remuneration charged during the year included stock option costs of €42,069 (2007: €17,528).

During the year, the directors agreed that unpaid directors' fees due at 31 August 2005 (date of admission to AIM) and directors' fees and other actual remuneration due to the executive directors to 30 November 2007 be waived. The amount due at 31 May 2007 was €484,777 of which €233,411 had been accrued in the previous year. This is reflected in the 2007 figures. Fees and other actual remuneration for the six months from 1 December 2007 have been accrued in the current year.

5. TAXATION

(a) Analysis of the taxation charge for the year

	2008	2007
	€	€
Irish corporation tax	**-**	**-**
Based on adjusted loss for the year	**-**	**-**
Total current tax	**-**	**-**

No taxation charge arises in the financial year due to a loss being incurred in the current year.

(b) Factors affecting the tax charge for the year:

The tax due for the year is different to the standard rate of Irish corporation tax. This is due to the following:

	2008	2007
	€	€
Loss on ordinary activities before tax	**(268,638)**	(125,334)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12.5% (2007: 12.5%)	**(33,580)**	(15,667)
Effects of:		
Losses carried forward	**33,580**	15,667
Tax charge for the year	**-**	-

No deferred tax asset has been recognised on accumulated tax losses as it cannot be considered probable that future taxable profit will be available against which the unused tax losses can be utilised. The amount not recognised amounts to €359,891 (2007: €234,725).

6. LOSS PER ORDINARY SHARE

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

7. INTANGIBLE ASSETS

	2008	2007
	€	€
Exploration and evaluation:		
Cost		
At 31 May	**3,617,723**	3,541,406
Expenditure during the year		
- licence and appraisal costs	**391,776**	176,867
- other operating costs (Note 3)	**161,277**	86,179
- equity settled share based payments (Note 3)	**51,009**	-
- waiver of directors remuneration accrual	**-**	(186,729)
At 31 May	**4,221,785**	3,617,723

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

8. FINANCIAL ASSETS

	2008	2007
	€	€
Investment in subsidiaries	**4**	4

Financial 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. The registered office of both non-trading subsidiaries is 10 Upper Pembroke Street, Dublin 2.

The above subsidiaries have not been consolidated on the basis that they are not trading, and the net assets of each entity is €2.

9. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
Plant & Equipment	**€**	€
Cost		
At 1 June	**1,677**	1,677
Additions	**-**	-
At 31 May	**1,677**	1,677
Accumulated Depreciation		
At 1 June	**336**	168
Charge for the year	**168**	168
At 31 May	**504**	336
Net Book Amount at 31 May	**1,173**	1,341

10. TRADE AND OTHER RECEIVABLES

	2008 €	2007 €
VAT receivable	**50,441**	2,324
	50,441	2,324

11. TRADE AND OTHER PAYABLES: (Amounts falling due within one year)

	2008 €	2007 €
Accrued directors' remuneration		
- fees and salaries	**110,000**	-
- pension contributions	**22,500**	-
Other accruals	**39,819**	63,759
	172,319	63,759

It is the Company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the Company's policy that payment is made according to the agreed terms. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying value of the trade and other payables approximates to their fair value.

During the year the directors agreed to waive their entitlement to all actual remuneration accruing up to 30 November 2007, amounting to €601,933, of which €484,777 was due at 31 May 2007.

12. TRADE AND OTHER PAYABLES: (Amounts falling due after more than one year)

	2008 €	2007 €
Due to Conroy P.l.c.	**-**	354,518
Shareholders' loans	**271,135**	676,780
	271,135	1,031,298

The immediate funding requirements of the Company have been financed by advances from the principal shareholder.

13. CALLED UP SHARE CAPITAL AND PREMIUM

Authorised:	2008 €	2007 €
500,000,000 ordinary shares of €0.01 each	**5,000,000**	5,000,000

Issued and Fully Paid:

	Number	Share Capital €	Share Premium €
At start of year	44,771,676	447,716	2,529,648
Issued during the year	15,770,000	157,700	1,271,554
	60,541,676	**605,416**	**3,801,202**

13. CALLED UP SHARE CAPITAL AND PREMIUM continued

(a) At 31 May 2007 and 31 May 2008 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding. During the year further warrants were issued as follows:

i. 12,852,677 shares exercisable at €0.10 at any time up to 16 November 2017 were issued and outstanding at 31 May 2008.
ii. 1,833,333 shares exercisable at £0.10 at any time up to 17 July 2010 were issued and outstanding at 31 May 2008.

(b) At 31 May 2008, options had been issued over 2,000,000 shares (2007 – 400,000). These options are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.

(c) The share price at 31 May 2008 was 5p sterling. During the year the price ranged from 4p to 9.5p sterling.

14. NOTE TO THE CASHFLOW STATEMENT

A. Reconciliation of operating loss to Net Cash used by Operations:	**2008** **€**	2007 €
Operating loss	**(268,638)**	(125,334)
Depreciation	**168**	168
Expense recognised in income statement in respect of equity settled share based payments	**12,017**	24,600
Waiver of directors' remuneration accrual	-	186,729
Increase/(decrease) in creditors	**108,560**	(378,358)
(Increase)/decrease in debtors	**(48,117)**	11,337
Net cash used by operations	**(196,010)**	(280,858)

15. COMMITMENTS AND CONTINGENCIES

At 31 May 2008 there were no capital commitments or contingent liabilities.

16. 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.

17. SHARE-BASED PAYMENTS

The Company operates a share option scheme for employees who devote a substantial amount of their time to the business of the company.

Options granted generally have a vesting period of up to ten years. Details of the share options outstanding during the year are as follows:

	2008		2007	
	No. of Share Options	**Weighted Average Exercise Price €**	No. of Share Options	Weighted Average Exercise Price €
1 June	**400,000**	**0.0975**	-	-
Granted during year	**1,600,000**	**0.0761**	400,000	0.0975
Exercised during year	**-**	**-**	-	-
Lapsed during year	-	-	-	-
31 May	**2,000,000**	**0.0803**	400,000	0.0975

Warrants granted generally have a vesting period of up to ten years. Details of the warrants outstanding during the year are as follows:

	2008		2007	
	No. of Share Warrants	**Weighted Average Exercise Price €**	No. of Share Warrants	Weighted Average Exercise Price €
1 June	**4,000,000**	**0.0735**	4,000,000	0.0735
Granted during year	**14,686,010**	**0.100**	-	-
Exercised during year	**-**	**-**	-	-
Lapsed during year	**-**	**-**	-	-
31 May	**18,686,010**	**0.0872**	4,000,000	0.0735

The Company estimated the fair value of employee stock options and warrants awards using the Binomial Lattice Model. The determination of the fair value of share based payment awards on the date of grant using the Binomial Lattice Model is affected by Karelian Diamond Resources Plc stock price as well as assumptions regarding a number of subjective variables. These variables include the expected term of the awards, the expected stock price volatility over the term of the awards, the risk free interest rate associated with the expected term of the awards and the expected dividends.

In 2008, the Company's Binomial Lattice model included the following weighted average assumptions for the Company's employee stock option and warrants.

	Stock options	**Stock warrants**
Dividend yield	0%	0%
Expected volatility	70%	70%
Risk free interest rate	4.2%	4.1%
Expected life (in years)	10%	10%

This calculation results in a share based payments reserve movement of €63,026 (2007: €24,600).

18. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board on 12 November 2008.

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