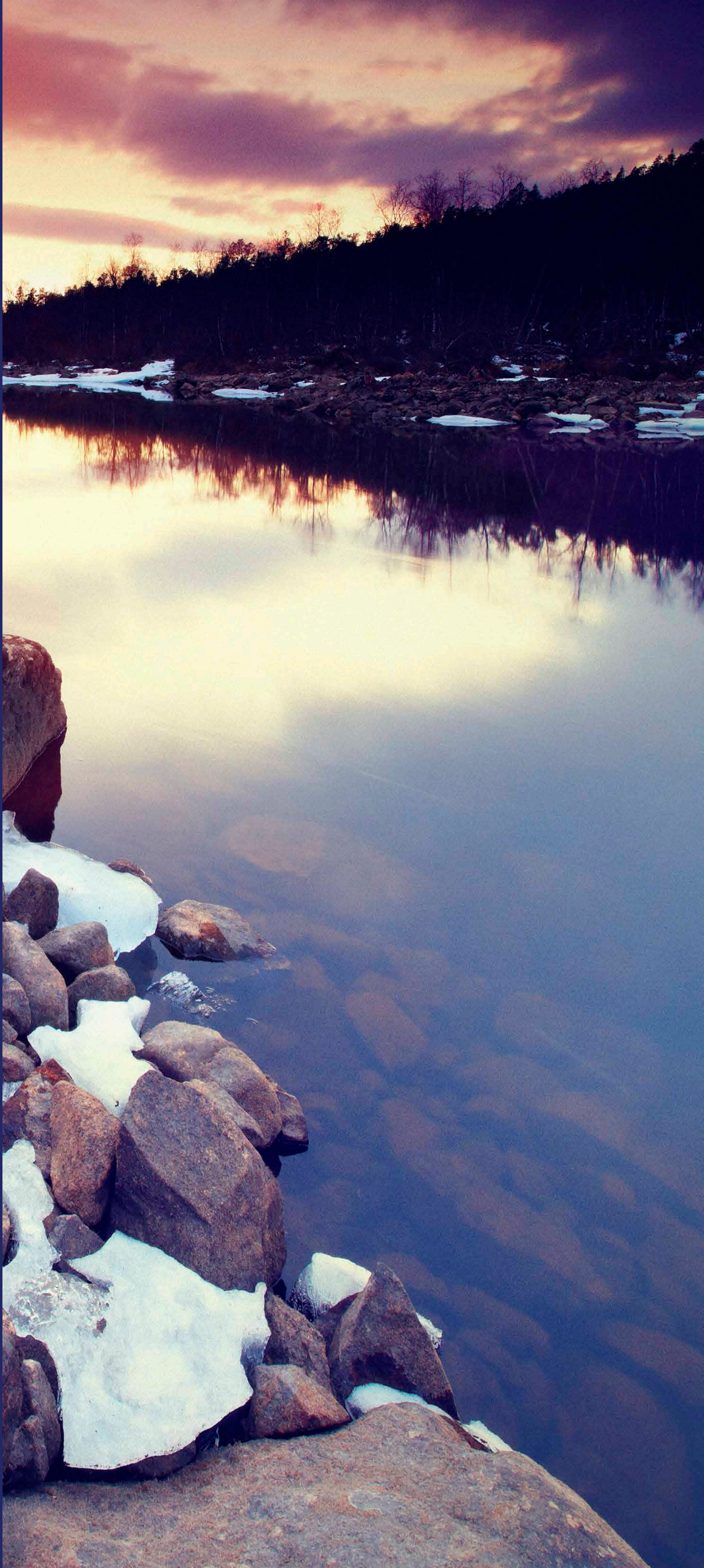
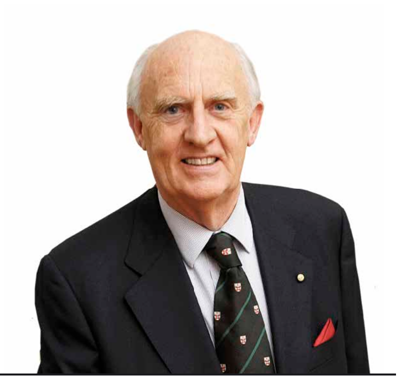
KARELIAN
DIAMOND RESOURCES

Annual Report and Financial Statements 2012

Contents



Chairman's Statement



Professor Richard Conroy
Chairman

I have pleasure in presenting your Company's Annual Report and Financial Statements for the year ended 31 May 2012. Your Company's exploration programme in Finland continued to show highly encouraging progress during the course of the year with a further new large zone of diamond bearing mantle xenoliths in kimberlite identified at Seitaperä, a positive till sampling programme at Riihavaara, additional licences applied for, and further integration and analysis of the results from over 53,000 till samples which Rio Tinto has made available to the Company under the terms of the confidentiality agreement entered into with your Company in July 2010.

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

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

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

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

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

Drilling in the woods - Seitaperä

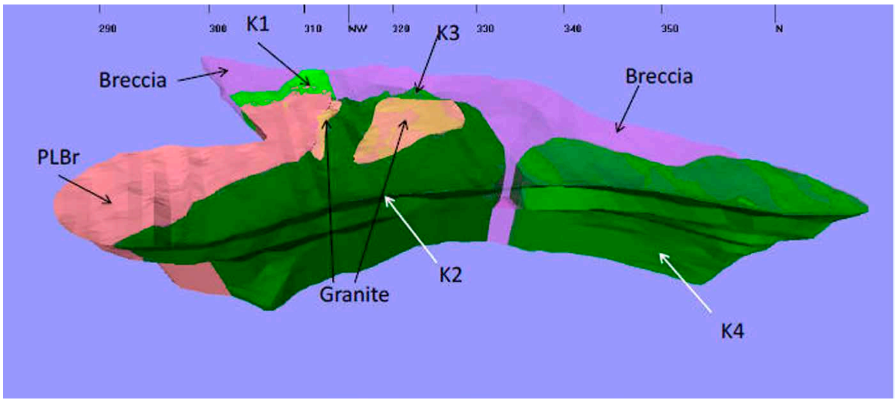
These results add both to the Seitaperä pipe itself and to the overall diamond potential of the Kuhmo area in which Seitaperä is located and indicate that there is more than one source of diamonds in the area. Two further licences have therefore been acquired and additional licences in the area are under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

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

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

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

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



Three dimensional computer model of Seitaperä showing primary kimberlite area, kimberlite breccias and polylithic breccias (PLBr)

Drilling Seitaperä on ice

Finance

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

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

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

Auditors

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

Chairman's Statement *continued*

Core from recent drilling at Seitaperä showing mantle xenoliths

Consultant Dr. Jukka Marmo GTK (Geological Survey of Finland), Kevin McNulty, Senior Geologist and Professor Richard Conroy, Chairman

Directors, Consultants and Staff

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

Future Outlook

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

Richard Conroy

Professor Richard Conroy
Chairman

30 November 2012

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

Statutory Audit Firm

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

Registrars

Capita Registrars (Ireland) Limited
Unit 5
Manor Street Business Park
Manor Street
Dublin 7

www.capitaregistrars.ie

Nominated Adviser

Merchant Securities Limited
51-55 Gresham Street
London EC2V 7HQ

Principal Banker

Danske Bank
Airton Close
Tallaght
Dublin 24

ESM Adviser

IBI Corporate Finance
40 Mespil Road
Dublin 4

Broker

XCap Securities
24 Cornhill
London EC3V 3ND
U.K.

Legal Advisers

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
Dublin 2

Tel: +353-1-661 8958
Fax: +353-1-662 1213

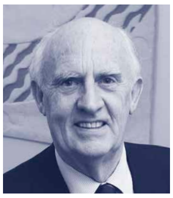
For further information visit
the Company's website at:

www.kareliandiamondresources.com

or contact:

Lothbury Financial
36 Old Jewry
London EC2R 8DD
U.K.

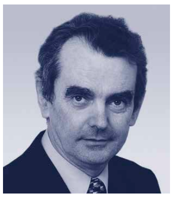
Tel: +44 20 3440 7620



Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

Louis J. Maguire
Non-Executive Director



James P. Jones
Finance Director

Seamus P. FitzPatrick
Non-Executive Director

Roger I. Chaplin
Non-Executive Director

Report of the Directors

The Directors present their annual report, together with the audited financial statements of Karelian Diamond Resources plc for the year ended 31 May 2012.

Principal Activities and Business Review

The company is a London Stock Exchange AIM-listed and an Irish Stock Exchange ESM-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 at various stages of development throughout the diamond-prospective Karelian Craton.

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.

Going Concern

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.

The company made a loss of €207,980 (2011: €187,261) for the year ended 31 May 2012 and has net current liabilities of €857,018 (2011: €561) at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €831,939 within 12 months of the date of approval of the financial statements, unless the company has sufficient funds available to repay such amounts.

Conroy Gold and Natural Resources Plc, which has common shareholders and directors, has confirmed that it will not seek repayment of amounts due by the company within 12 months of the date of approval of the financial statements unless the company has sufficient funds available to repay such amounts.

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospect for raising additional equity as required and taking into account the high potential of the acreage under licence, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

Key Performance Indicator

Currently the company's main KPI is in relation to the estimated resource potential on discovery and development of economic deposits of diamonds in Finland. In addition, the company reviews expenditure incurred on exploration projects together with an on-going review of operating costs.

Results for the Year and State of Affairs at 31 May 2012

The statement of financial position as at 31 May 2012 and the income statement for the year are set out on pages 14 and 15 respectively. The company recorded a loss for the financial year of €207,980 (2011: €187,261). Taking account of the current year loss the equity decreased to €4,526,967 at 31 May 2012 from €4,652,829 at 31 May 2011.

Important Events Since Year End

For important events which have occurred since year end, refer to Note 20 which accompanies these financial statements.

Directors

The Directors who served during the year are as follows:

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

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

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 Plc in 1979.

Professor Conroy founded Conroy Petroleum and Natural Resources P.l.c. which 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 which 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 Plc (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.

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 Plc 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 Plc. She has been managing director of that company since 1998.

Mr. James Jones, Finance Director, has been associated with the natural resources industry for over 20 years. He is a chartered accountant by profession. He served as finance director of Conroy Petroleum and Natural Resources Plc from its formation until 1994, when he joined with Professor Conroy to create Conroy Diamonds and Gold Plc. 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 on its formation.

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 Plc.

Mr. Séamus FitzPatrick, 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 has raised funds in excess of £2.0 billion. He is chairman of the Mater Private Hospital and Valeo Foods, and is a board member of Reno Norden. He is also a member of the board of Conroy Diamonds and Gold Plc.

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.

Report of the Directors *continued*

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 2012 and 31 May 2011 were as follows:

	At 31 May 2012		At 1 June 2011	
	Ordinary shares of €0.01 each	Warrants	Ordinary shares of €0.01 each	Warrants
R.T.W.L. Conroy	37,031,701*	8,354,382	37,031,701*	8,354,382
M.T.A. Jones	125,836	4,941,275	125,836	4,941,275
J.P. Jones	58,335	3,104,689	58,335	3,104,689
R.I. Chaplin	20,000	271,262	20,000	271,262
S.P. FitzPatrick	666	432,201	666	432,201
L.J. Maguire	51,668	432,201	51,668	432,201

* Of the 37,031,701 (2011: 37,031,701) Ordinary Shares beneficially held by Professor Richard Conroy, 30,815,030, (2011: 30,815,030) are held by Conroy Plc a company in which Professor Conroy has a controlling interest.

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

Directors	At 31 May 2012	Granted During Year	At 1 June 2011	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
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

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the company. Apart from loans from a shareholder, who is also a director (Note 13), 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.

Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed above and the shareholder's listed below, held 3% or more of the issued ordinary share capital of the company at 31 May 2012.

Name	Number of ordinary shares	%
Professor Conroy	37,031,701*	40.16
Gartmore Investments Limited	3,150,000	3.42

* Of the 37,031,701 (2011: 37,031,701) ordinary shares beneficially held by Professor Conroy, 30,815,080 (2011: 30,815,080) are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

Political Donations

No political donations were made during the year.

Books of Account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at the Company's registered office at 10 Upper Pembroke Street, Dublin 2.

Auditor

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

Signed on behalf of the Board

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

30 November 2012

Statement of Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial 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 period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- 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 books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2012. 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. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Statement

Introduction

The Board of Directors is accountable to the Company's shareholders for good corporate governance.

Board of Directors

The board supports standards in corporate governance and endeavours to implement such standards constructively and in a sensible and pragmatic fashion with the objective of enhancing and protecting shareholder value.

Regular board meetings are scheduled to take place throughout the year. During the year five meetings were held. All major policies are approved by the board. All directors are subject to re-election. A Statement of Directors' Responsibilities in relation to the annual financial statements is set out at page 10.

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. 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 because of the company's limited operations. 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 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 audit services during the year is set out in Note 5 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; and a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit.

Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Miss Maureen Jones, Mr. James P. Jones and Mr. Louis Maguire. Its purpose is to support the Managing Director in carrying out the duties delegated to her by the board. It also ensures that regular financial reports are presented to the board, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the company.

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.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable and not absolute assurance with respect to the preparation of financial information and the safeguarding of assets.

Communication with Shareholders

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

The company encourages communication with private shareholders throughout the year and welcomes their participation at general meetings. All Board members attend the Annual General Meeting and are available to answer questions. Separate resolutions are proposed on substantially different issues and the agenda of business to be conducted at the Annual General Meeting includes a resolution to receive and consider the Annual Report and financial statements. The chairmen of the Board's committees will also be available at the Annual General Meeting. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, directors and management to meet and exchange views.

Independent Auditor's Report

To the Members of Karelian Diamond Resources plc

We have audited the financial statements of Karelian Diamond Resources plc for the year ended 31 May 2012 which comprise the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 22. 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 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 auditor's 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 for preparing the Annual Report including as set out in the Statement of Directors Responsibilities, 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 auditor, is to audit 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 the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2012. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the statement of financial position date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the company's statement of financial position 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.

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

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 the affairs of the company as at 31 May 2012 and of the loss for the year then ended;

  and

- have been properly prepared in accordance with the Companies Acts, 1963 to 2012.

Emphasis of Matter – Realisation of Intangible Assets and Going Concern

Without qualifying our opinion, we draw your attention to:

- The disclosures made in Notes 2 and 8 to the financial statements concerning the realisation of exploration and evaluation assets included as intangible assets in the Statement of Financial Position. The realisation of these assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of adequate finance. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot at present be determined.

- The disclosures in notes 2 and 12 to the financial statements which indicate that the company incurred a loss of €207,980 during the year and had net current liabilities of €857,018 at the Statement of Financial Position date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €831,939 within 12 months of the date of approval of the financial statements unless the company has sufficient funds to repay such amounts. In addition the company has received confirmation from a related company that it will not seek repayment of amounts owed to it by the company of €30,106 within 12 months of the date approval of the financial statements unless the company has sufficient funds to repay such amounts. The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospect for raising additional equity as required and taking into account the high potential of the acreage under licence, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

We have obtained all the information and explanations we consider necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's statement of financial position 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 statement of financial position 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 2012 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.

Cathal Treacy

For and on behalf of
Deloitte & Touche

Chartered Accountants
and Registered Auditors

Limerick

30 November 2012

Statement of Financial Position

At 31 May 2012

	Note	2012 €	2011 €
ASSETS			
Non-current Assets			
Intangible assets	8	**6,390,694**	5,760,090
Financial assets	9	**4**	4
Property, plant and equipment	10	**501**	669
		6,391,199	5,760,763
Current Assets			
Trade and other receivables	11	**47,382**	12,536
Cash and cash equivalents		**10,054**	745,908
		57,436	758,444
Total Assets		**6,448,635**	6,519,207
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	14	**922,083**	922,083
Share premium	14	**4,621,158**	4,621,158
Share based payments reserve		**375,039**	292,921
Retained earnings		**(1,391,313)**	(1,183,333)
Total Equity		**4,526,967**	4,652,829
Non-current Liabilities			
Trade and other payables: Amounts falling due after more than one year	13	**1,007,214**	1,107,373
Total non-current liabilities		**1,007,214**	1,107,373
Current Liabilities			
Trade and other payables: Amounts falling due within one year	12	**914,454**	759,005
Total Current Liabilities		**914,454**	759,005
Total Liabilities		**1,921,668**	1,866,378
Total Equity and Liabilities		**6,448,635**	6,519,207

The financial statements were approved by the Board of Directors on 30 November 2012 and signed on its behalf by:

R.T.W.L. Conroy
Director

J.P. Jones
Director

Income Statement

For the year ended 31 May 2012

	Note	2012 €	2011 €
Operating Expenses	4	**(194,582)**	(171,813)
Finance income – bank interest receivable		**97**	–
Finance costs – interest on shareholder loan	13	**(13,495)**	(15,448)
Loss Before Tax	5	**(207,980)**	(187,261)
Taxation	6	**–**	–
Loss Retained for the Year		**(207,980)**	(187,261)
Basic and diluted loss per share	7	**(€0.0023)**	(€0.0028)

Statement of Comprehensive Income

For the year ended 31 May 2012

	2012 €	2011 €
Loss for the Year	**(207,980)**	(187,261)
Total income and expense recognised in other comprehensive income	**–**	–
Total comprehensive income for the year	**(207,980)**	(187,261)

Signed on behalf of the Board

R.T.W.L. Conroy
Director

J.P. Jones
Director

Statement of Changes in Equity

For the year ended 31 May 2012

	Share Capital €	Share Premium €	Share-based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2010	605,416	3,801,202	210,803	(996,072)	3,621,349
Share issue	316,667	–	–	–	316,667
Share premium	–	893,650	–	–	893,650
Shares issue expenses	–	(73,694)	–	–	(73,694)
Share-based payments	–	–	82,118	–	82,118
Loss for the year	–	–	–	(187,261)	(187,261)
At 31 May 2011	**922,083**	**4,621,158**	**292,921**	**(1,183,333)**	**4,652,829**
At 1 June 2011	922,083	4,621,158	292,921	(1,183,333)	4,652,829
Share-based payments	–	–	82,118	–	82,118
Loss for the year	–	–	–	(207,980)	(207,980)
At 31 May 2012	**922,083**	**4,621,158**	**375,039**	**(1,391,313)**	**4,526,967**

These annexed notes form an integral part of these financial statements.

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 and the amount capitalised as part of intangible assets of share-based payments granted which are not yet exercised and issued as shares.

Retained Earnings (Deficit)

This reserve represents the accumulated losses absorbed by the company to the Statement of Financial Position date.

Cash Flow Statement

For the year ended 31 May 2012

	Note	2012 €	2011 €
Cash flows from operating activities			
Cash used in operations	15	**(58,631)**	(23,244)
Tax paid		**–**	–
Net cash used in operating activities		**(58,631)**	(23,244)
Cash flows from investing activities			
Investment in exploration and evaluation		**(509,687)**	(381,343)
Net cash used in investing activities		**(509,687)**	(381,343)
Cash flows from financing activities			
Issue of share capital		**–**	1,136,623
(Repayment)/Advances of Shareholder's loans		**(125,000)**	42,424
Interest paid on shareholder loans		**(42,633)**	(46,259)
Interest received		**97**	–
Net cash (used in)/generated from financing activities		**(167,536)**	1,132,788
(Decrease)/increase in cash and cash equivalents		**(735,854)**	728,201
Cash and cash equivalents at beginning of year		**745,908**	17,707
Cash and cash equivalents at end of year		**10,054**	745,908

Notes to the Financial Statements

For the year ended 31 May 2012

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations adopted by the International Accounting Standards Board.

These financial statements have also been prepared in accordance with the Companies Acts, 1963 to 2012. The financial statements are prepared under the historical cost convention.

Adoption of New and Revised Standards

The following standards and interpretations are effective for the current period. These are:

IAS 24 (revised November 2009)	Related Party Disclosures

Standards and Interpretations in Issue Not Yet Adopted

The following standards and interpretations are in issue but not yet effective for the current period. These are:

Amendments to IFRS 10, IFRS 12 and IAS 27 (October 2012)	Investment Entities
Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012)	Annual Improvements to IFRSs: 2009-2011 Cycle
Amendments to IFRS 1 (March 2012)	Government Loans
Amendments to IAS 32 (December 2011)	Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 7 (December 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income
IAS 19 (revised June 2011)	Employee Benefits
IFRS 13	Fair Value Measurement
IFRS 12	Disclosure of Interests in Other Entities
IFRS 11	Joint Arrangements
IFRS 10	Consolidated Financial Statements
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures
IAS 27 (revised May 2011)	Separate Financial Statements
Amendments to IAS 12 (December 2010)	Deferred Tax: Recovery of Underlying Assets
Amendments to IFRS 1 (December 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
Amendments to IFRS 7 (December 2010)	Disclosures – Transfers of Financial Assets

1. ACCOUNTING POLICIES *continued*

A. Intangible Assets

The Company accounts for mineral expenditure in accordance with International Financial Reporting Standard 6 – Exploration For and Evaluation of Mineral Resources.

(i) Capitalisation

Certain costs (other than payments to acquire the legal rights to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. Exploration, appraisal and development expenditure incurred on exploring, and testing exploration prospects are accumulated and capitalised as intangible exploration and evaluation (E&E) assets. Capitalised costs include geological and geophysical costs, and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities). In addition, capitalised costs includes an allocation from operating expenses, including share based payments, all such costs are directly related to exploration and evaluation activities.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying amount of the relevant E&E asset will be reclassified as a development and production asset, once the carrying value of the asset has been assessed for impairment.

If following completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability, or if the right to explore expires, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period in which the event occurred.

(i) Impairment

If facts and circumstances indicate that the carrying value of an E&E asset may exceed its recoverable amount, an impairment review is performed. The following are indicators of impairment.

- The right to explore in an area has expired, or will expire in the near future, without renewal.
- No further exploration or evaluation is planned or budgeted for.
- A decision has been made to discontinue exploration and evaluation in an area, because of the absence of commercial reserves.
- Sufficient data exists to indicate that the carrying amount will not be fully recovered from future development and production.

For E&E assets, where the above indicators exist, an impairment test is carried out. The E&E assets are categorised into Cash Generating Units ("CGU"). The carrying value of the CGU is compared to its recoverable amount and the resulting impairment loss is written off to the income statement. The recoverable amount of the CGU is assessed as the higher of its fair value, less costs to sell, and its value in use.

B. Issue Expenses

Issue expenses arising on the issue of equity securities are accounted for as a deduction from equity against the share premium account net of any income tax benefit.

C. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. 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

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

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 statement of financial position 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 base used in the computation of taxable profit and is accounted for using the statement of financial position 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 warrants will be received over the vesting period, which is assessed as the grant date.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of equity instruments that will eventually vest. The amount expensed to the income statement excludes the amount capitalised as part of intangible assets.

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 statement of financial position 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 at the statement of financial position.

1. ACCOUNTING POLICIES *continued*

J. Foreign Currencies

Transactions denominated in foreign currencies relating to revenues, costs and non-monetary assets are translated into Euro at the rates of exchange ruling on the dates on which the transactions occurred.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the income statements.

K. Shareholder's Loan

Shareholder's loans are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

L. Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying the company's accounting policies

In the process of applying the company's accounting policies above, management has identified the judgmental 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 indicator of impairment exists (as outlined in the Intangible Assets accounting policy), the exploration and evaluation assets need to be allocated into Cash Generating Units. The determination of what constitutes a cash generating unit requires judgment. Once this is decided, the carrying value of each cash generating unit is compared to its recoverable amount. The recoverable amount of the CGU is assessed as the higher of its fair value, less costs to sell, and its value in use.

The determination of value in use requires the following judgments:

- Estimation of future cash flows expected to be derived from the asset.
- Expectation about possible variations in the amount or timing of the future cash flows.
- The determination of an appropriate discount rate.

Going concern

The preparation of the 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 financial support received to date from the shareholders, and their financial commitment to continue to support the company for a period of at least twelve months from the date of approval of these financial statements, the directors believe that the going concern basis is appropriate for these financial statements. 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.

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

Key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position 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. In addition, the directors consider that 80% of their activity is primarily focused on the company's diamond prospects and therefore, the directors consider it appropriate to capitalise 80% of such costs to exploration and evaluation assets.

Deferred tax

No deferred tax asset has been recognised in respect of tax losses as it cannot be considered probable that future taxable profits will be available against which the related temporary differences can be utilised.

2. GOING CONCERN

Mineral exploration and evaluation costs capitalised as intangible assets amounted to €6,390,694 (2011: €5,760,090) (Note 8) at the statement of financial position date.

The directors recognise that the future realisation of intangible assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability.

The company made a loss of €207,980 (2011: €187,261) for the year ended 31 May 2012 and had net current liabilities of €857,018 (2011: €561) at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €831,939 within 12 months of the date of approval of the financial statements, unless the company has sufficient funds available to repay such amounts.

Conroy Gold and Natural Resources Plc has confirmed that it will not seek repayment of amounts due by the company within 12 months of the date of approval of the financial statements unless the company has sufficient funds available to repay such amounts.

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospect for raising additional equity as required and taking into account the high potential of the acreage under licence, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

3. SEGMENTAL REPORTING

Operating segments have been identified on the basis of internal reports about components of the Company that are regularly reviewed by the Chief Operating Decision Maker, being the Board of Directors, in order to allocate resources to segments and to assess their performance. The Company has one class of business, diamond exploration, and operates within one geographical market, Finland. Accordingly, the income statement and statement of financial position represents the activity of the Company's sole business segment.

4. OPERATING EXPENSES

	2012 €	2011 €
Operating expenses	**494,603**	488,653
Transfer to intangible assets (Note 8)	**(300,021)**	(316,840)
	194,582	171,813

Operating expenses are analysed as follows:	2012 €	2011 €
Wages and salaries	**247,731**	252,999
Share based payments	**82,118**	82,118
Depreciation	**168**	168
Auditors remuneration	**10,000**	10,000
Other operating expenses	**154,586**	143,368
	494,603	488,653

Of the above costs, a total of €300,021 (2011: €316,840) is allocated to intangible assets, based on a review of the nature and quantum of the underlying costs.

(a) Wages and salaries as disclosed above is analysed as follows:

	2012 €	2011 €
Wages and salaries	**217,345**	222,680
Social welfare costs	**6,386**	4,819
Pension costs	**24,000**	25,500
	247,731	252,999

Notes to the Financial Statements *continued*

4. OPERATING EXPENSES *continued*

An analysis of remuneration for each director (prior to amounts capitalised as part of intangible assets) of the company in the current financial year is as follows:

	Fees €	Salary €	Share based Payments €	Pension Contributions €	Total €
Prof. R.T.W.L. Conroy	20,000	65,000	28,687	–	113,687
M.T.A. Jones	10,000	50,000	21,730	15,000	96,730
J.P. Jones	10,000	30,000	13,679	9,000	62,679
L.J. Maguire	10,000	–	2,019	–	12,019
S.P. FitzPatrick	10,000	–	2,019	–	12,019
R.I. Chaplin	10,000	–	1,333	–	11,333
	70,000	**145,000**	**69,467**	**24,000**	**308,467**

An Analysis of remuneration for each director (prior to amounts capitalised as part of intangible assets) of the company in the prior financial year is as follows:

	Fees €	Salary €	Share based Payments €	Pension Contributions €	Total €
Prof. R.T.W.L. Conroy	20,000	65,000	28,687	–	113,687
M.T.A. Jones	10,000	50,000	21,730	15,000	96,730
J.P. Jones	10,000	30,000	13,679	9,000	62,679
L.J. Maguire	10,000	–	2,019	–	12,019
S.P. FitzPatrick	10,000	–	2,019	–	12,019
R.I. Chaplin	10,000	–	1,333	–	11,333
	70,000	**145,000**	**69,467**	**24,000**	**308,467**

The total share based payment charge of €82,118 (2011: €82,118) is accounted for as shown below:

	2012 €	2011 €
Share based payment charge expensed to income statement	**15,180**	15,180
Share based payment charge transferred to intangible assets	**66,938**	66,938
	82,118	82,118

In the opinion of the directors, approximately eighty per cent of the share based payment charge is directly related to exploration and evaluation activities, and has been capitalised within intangible assets.

5. LOSS BEFORE TAX

The loss before tax is arrived at after charging the following items, which are stated at amounts prior to the transfer to intangible assets:

	2012 €	2011 €
Directors' remuneration		
– Fees for services as directors	**70,000**	70,000
– Remuneration for management services	**169,000**	169,000
– Share based payments	**69,467**	69,467
Depreciation	**168**	168
Auditor's remuneration		
– Audit of individual accounts	**10,000**	10,000
– Other assurance services	**–**	–
– Tax advisory services	**–**	–
– Other non-audit services	**–**	–

6. TAXATION

(a) Analysis of the taxation charge for the year

	2012 €	2011 €
Irish corporation tax	**–**	–
Total current tax	**–**	–

No taxation charge arises in the current or prior financial year due to losses being incurred.

(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:

	2012 €	2011 €
Loss on ordinary activities before tax	**(207,980)**	(187,261)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12.5% (2011: 12.5%)	**(25,998)**	(23,407)
Effects of:		
Losses carried forward for future utilisation	**25,998**	23,407
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 deferred tax asset can be utilised. The amount not recognised amounts to €606,990 (2011: €502,167).

Notes to the Financial Statements *continued*

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share of €0.0023 (2011: €0.0027) is based on the loss for the financial year of €207,980 (2011: €187,261) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 92,308,242 (2011: 68,805,565).

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

8. INTANGIBLE ASSETS

Exploration and evaluation:	2012 €	2011 €
Cost		
At 1 June	**5,760,090**	5,250,016
Expenditure during the year		
– licence and appraisal costs	**276,604**	131,441
– other operating costs (Note 4)	**233,083**	249,902
– equity settled share based payments (Note 4)	**66,938**	66,938
– loan interest (Note 13)	**53,979**	61,793
At 31 May	**6,390,694**	5,760,090

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities.

The directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation, and, consequently, in relation to the carrying value of capitalised exploration and evaluation assets.

The directors have considered the proposed work programmes for these mineral reserves. They are satisfied that there are no indications of impairment, but nonetheless 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 and the availability of sufficient finance to bring the resources to economic maturity and profitability.

9. FINANCIAL ASSETS

	2012 €	2011 €
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.

10. PROPERTY, PLANT AND EQUIPMENT

Plant & Office Equipment	2012 €	2011 €
Cost		
At 1 June	**1,677**	1,677
Additions	**–**	–
At 31 May	**1,677**	1,677
Accumulated Depreciation		
At 1 June	**1,008**	840
Charge for the year	**168**	168
At 31 May	**1,176**	1008
At 31 May	**501**	669

11. TRADE AND OTHER RECEIVABLES

	2012 €	2011 €
VAT receivable	**44,540**	5,517
Prepayments	**2,842**	7,019
	47,382	12,536

12. TRADE AND OTHER PAYABLES

(Amounts falling due within one year)	2012 €	2011 €
Accrued directors' remuneration		
– fees and other emoluments	**723,939**	600,050
– pension contributions	**108,000**	84,000
Amounts owed to Conroy Gold and Natural Resources Plc	**30,106**	–
Accruals	**52,409**	28,061
PAYE/PRSI	**–**	46,894
	914,454	759,005

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.

The directors have confirmed that they will not seek repayment of amounts owed to them by the company within 12 months of the date of approval of the financial statements unless the company has sufficient funds available to repay such amounts.

Conroy Gold and Natural Resources Plc has confirmed that it will not seek repayment of amounts due by the company within 12 months of the date of the approval of the financial statements of the company unless the company has sufficient funds available to repay such amounts.

Notes to the Financial Statements *continued*

13. NON-CURRENT FINANCIAL LIABILITIES

(Amounts falling due after more than one year)	2012 €	2011 €
Shareholder loans		
Opening balance	**1,107,373**	1,033,967
Funds (repaid)/advanced	**(125,000)**	42,424
Interest charge for the year	**67,474**	77,241
Interest paid	**(42,633)**	(46,259)
	1,007,214	1,107,373

The immediate funding requirements of the company have been financed by advances from Professor R.T.W.L. Conroy (executive chairman and major shareholder). Interest at a rate of 8.25% per annum is accrued on the outstanding principal. The accrued interest at 31 May 2012 is €194,549 (2011: €169,708). The accrued interest is included within shareholder loans above. The company has received confirmation that repayment of the loan will not be demanded for a period of 12 months from the date of approval of the financial statements. Of the €67,474 interest charge for the year (2011: €77,241), €13,495 (2011: €15,448) has been expensed to the income statement, with the remaining charge of €53,979 (2011: €61,793 being transferred to intangible assets (Note 8).

14. CALLED UP SHARE CAPITAL AND PREMIUM

	2012 €	2011 €
Authorised:		
500,000,000 ordinary shares of €0.01 each	5,000,000	5,000,000

Issued and Fully Paid – current financial year

	Number	Share Capital €	Share Premium €
At start of year and end of year	92,208,342	922,083	4,621,158

(a) On 16 December 2010 warrants to subscribe for 3,888,888 shares were granted. The warrants are exercisable at 5p at any time up to 23 December 2012 and all were outstanding at 31 May 2012.

(b) On 6 April 2011 warrants to subscribe for 6,666,666 shares were granted. The warrants are exercisable at 6p at any time up to 13 April 2013 and all were outstanding at 31 May 2012.

(c) At 31 May 2011 and 31 May 2012 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding.

(d) At 31 May 2011 and 31 May 2012, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2017 were outstanding.

(e) At 31 May 2011, warrants over 1,833,333 shares exercisable at 10p sterling at any time up to 17 July 2011 were outstanding. Those warrants lapsed.

(f) At 31 May 2011 and 31 May 2012, 1,000,000 options were outstanding and are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.

(g) The share price at 31 May 2012 was 0.825p sterling. During the year the price ranged from 0.80p to 3.25p sterling.

14. CALLED UP SHARE CAPITAL AND PREMIUM *continued*

Issued and Fully Paid – previous financial year

	Number	Share Capital €	Share Premium €
At start of year	60,541,676	605,416	3,801,202
Share issues (a)	31,666,666	316,667	893,650
Issue expenses	–	–	(73,694)
End of year	92,208,342	922,083	4,621,158

(a) On 16 December 2010, 16,666,666 shares were issued at 3p sterling realising €0.03517 per share resulting in a premium of €0.02517 per share and on 6 April 2011, 20,000,000 shares were issued at 3.5p sterling realising €0.04 per share resulting in a premium of €0.03 per share.

(b) On 16 December 2010 warrants to subscribe for 3,888,888 shares were granted. The warrants are exercisable at 5p at any time up to 23 December 2012.

(c) On 6h April 2011 warrants to subscribe for 6,666,666 shares were granted. The warrants are exercisable at 6p at any time up to 13 April 2013.

(d) At 31 May 2010 and 31 May 2011 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding.

(e) At 31 May 2010 and 31 May 2011, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2017 were outstanding.

(f) At 31 May 2010, warrants over 1,833,333 shares exercisable at 10p sterling at any time up to 17 July 2010 were outstanding. Those warrants lapsed.

(g) At 31 May 2010 options had been issued over 2,000,000 shares of which 1,000,000 lapsed during the year. At 31 May 2011 1,000,000 options were outstanding and are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.

(h) The share price at 31 May 2011 was 3.125p sterling. During the year the price ranged from 1.05p to 5.75p sterling.

15. NOTE TO THE CASHFLOW STATEMENT

Reconciliation of operating loss to Net

Cash generated (used in) Operations:	**2012 €**	**2011 €**
Operating (loss)	**(194,582)**	(171,813)
Depreciation	**168**	168
Expense recognised in income statement in respect of equity settled share based payments	**15,180**	15,180
Increase in creditors	**155,449**	120,882
(Increase)/decrease in debtors	**(34,846)**	12,339
Net cash used in by operations	**(58,631)**	(23,244)

Notes to the Financial Statements *continued*

16. COMMITMENTS AND CONTINGENCIES

At 31 May 2012 there were no capital commitments or contingent liabilities (2011: €Nil).

17. RELATED PARTY TRANSACTIONS

(a) Details as to shareholder loans and share capital transactions and transactions with Professor R.T.W.L Conroy are outlined in Notes 13 and 14 to the financial statements.

(b) The company shares accommodation with Conroy Gold and Natural Resources plc which has certain common shareholders and directors. For the year ended 31 May 2012, Conroy Gold and Natural Resources plc, incurred costs totalling €104,103 (2011: €166,139) on behalf of the company. These costs are recharged to the company by Conroy Gold and Natural Resources plc. Part of the costs were funded by advances in shareholder's loan.

The costs are analysed as follows:

	2012 €	2011 €
Wages and salaries	**39,767**	72,652
Rent and rates	**9,525**	8,910
Travel and subsistence	**10,036**	21,374
Legal and professional	**26,623**	19,599
Other operating expenses	**18,152**	23,608
Exploration costs	**–**	19,996
	104,103	166,139

At 31 May 2012, €30,108 was outstanding between the related parties.

(c) Details of key management compensation which comprises directors remuneration including short term employee benefits €215,000 (2011: €215,000), post employment benefits €24,000 (2011: €24,000), other long term benefits €Nil (2011: €Nil), share based payment €69,467 (2011: €69,467) and termination benefits €Nil (2011: €Nil) are outlined in Note 4 to the financial statements.

18. 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 ten years. Details of the share options outstanding during the year are as follows:

	2012		2011	
	No. of Share Options	Weighted Average Exercise Price €	No. of Share Options	Weighted Average Exercise Price €
1 June	**1,000,000**	**0.0803**	2,000,000	0.0803
Granted during year	**–**	**–**	–	–
Exercised during year	**–**	**–**	–	–
Lapsed during year	**–**	**–**	(1,000,000)	–
31 May	**1,000,000**	**0.0803**	1,000,000	0.0803

18. SHARE BASED PAYMENTS *continued*

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

	2012		2011	
	No. of Share Warrants	Weighted Average Exercise Price €	No. of Share Warrants	Weighted Average Exercise Price €
1 June	**18,686,010**	**0.872**	18,686,010	0.0872
Granted during year	**–**	**–**	–	–
Exercised during year	**–**	**–**	–	–
Lapsed during year	**–**	**–**	–	–
31 May	**18,686,010**	**0.872**	18,686,010	0.0872

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.

The company's Binomial Lattice Model included the following weighted average assumptions for the company's employee stock option and warrants.

	2012 Stock options	2012 Stock warrants	2011 Stock options	2011 Stock warrants
Dividend yield	**0%**	**0%**	0%	0%
Expected volatility	**70%**	**70%**	70%	70%
Risk free interest rate	**4.2%**	**4.1%**	4.2%	4.1%
Expected life (in years)	**10**	**10**	10	10

This calculation results in a share based payments reserve movement of €82,118(2011: €82,118).

19. SUBSTANTIAL SHAREHOLDINGS

Substantial shareholding in Karelian Diamond Resources plc is held by the following shareholder:

Name	Number of ordinary shares	%
Professor Conroy	37,031,701*	40.16%

* Of the 37,031,701 ordinary shares held by Professor Conroy, 30,815,080 are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

20. SUBSEQUENT EVENTS

There are no important events since year end which need to be disclosed within these financial statements.

Notes to the Financial Statements *continued*

21. FINANCIAL INSTRUMENTS

The company's financial assets and liabilities stated at carrying amount and fair value are as follows at 31 May 2012:

	Carrying Amount 2012 €	Fair Value 2012 €	Carrying Amount/ Fair Value 2011 €
Trade and other receivables	**47,382**	**47,382**	12,536
Cash and cash equivalents	**10,054**	**10,054**	745,908
Trade and other payables and financial liabilities	**1,921,668**	**1,921,668**	1,866,378

The following sets out the methods and assumptions used in estimating the fair value of financial assets and liabilities.

Trade and Other Receivables/Payables and Financial Liabilities

As both receivables and payables have a remaining life of less than one year, the carrying value is deemed to reflect fair value. The company has received confirmation that payment of the shareholder loan will not be demanded for a period of 12 months from the date of approval of the financial statements. The directors consider that its carrying value reflects its fair value as no fixed repayment arrangements attached to same.

Cash and Cash Equivalents

As cash and cash equivalents have a remaining maturity of less than three months, the nominal amount is deemed to reflect the fair value.

Risk Management

The company is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including interest rate risk).

Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company has a policy of dealing only with credit warranty counterparties. The company's exposure to credit risk relates to the carrying value of cash and cash equivalents and trade and other receivables which at 31 May 2012 amounted to €57,436 (2011: €758,444).

At 31 May 2012 and 31 May 2011 all trade receivables were not past due.

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its obligations as they fall due. The company's policy is to monitor cash flow and consider whether available cash resources are sufficient to meet its ongoing exploration programme.

The nature of the company's activities can result in differences between actual and expected cash flows. This risk was managed by the directors during the year by way of raising sufficient finance so that the company has sufficient resources to carry out its forthcoming work programme.

Market Risk – Interest Rate Risk

The company's exposure to changes in interest rates relates primarily to the shareholder loan balance. If the interest rate rose by 1%, the company's loss would increase by €9,937. A decrease in the interest rate would result in a corresponding decrease in the same amount.

22. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board on 30 November 2012.