KARELIAN
DIAMOND RESOURCES

Annual Report and Financial Statements **2013**

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 2013. During the year further highly encouraging progress has been made towards achieving your Company's objective of discovering a world class diamond deposit in Finland comparable to those which have been found in similar geology in Russia. Further microdiamonds have been recovered at your Company's Seitaperä kimberlite pipe, excellent results have been achieved at your Company's exploration target Riihivaara, and positive results at Kuusamo have led to new claim applications.

Seitaperä

Your Company has shown that the diamondiferous kimberlite pipe located at Seitaperä is, at 6.9 hectares, the largest known diamondiferous kimberlite pipe in Finland. The identification during recent 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.

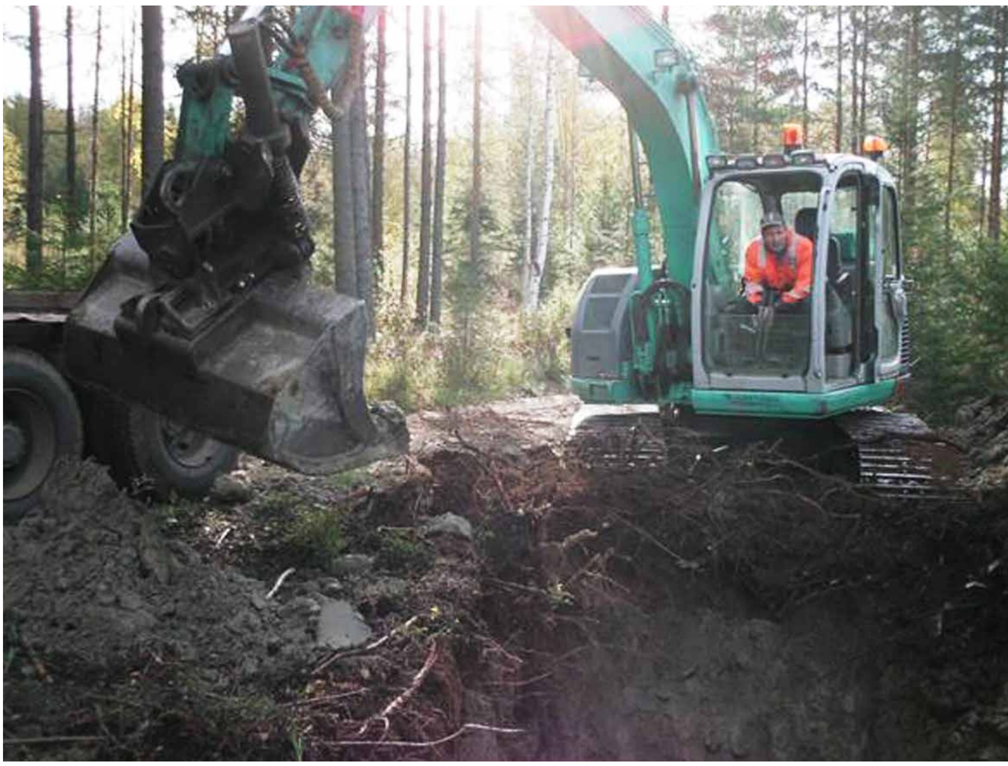
Riihivaara

At Riihivaara, a till sampling programme resulted in the discovery of G9 and G10 diamondiferous indicator minerals – so called because they are formed within the ultramafic rocks underlying the earth's crust at the same temperatures and pressures as diamonds. G3 and G4 garnets were also found, suggesting the presence of eclogitic mantle material which is significant as it tends to be associated with higher grades of diamonds.

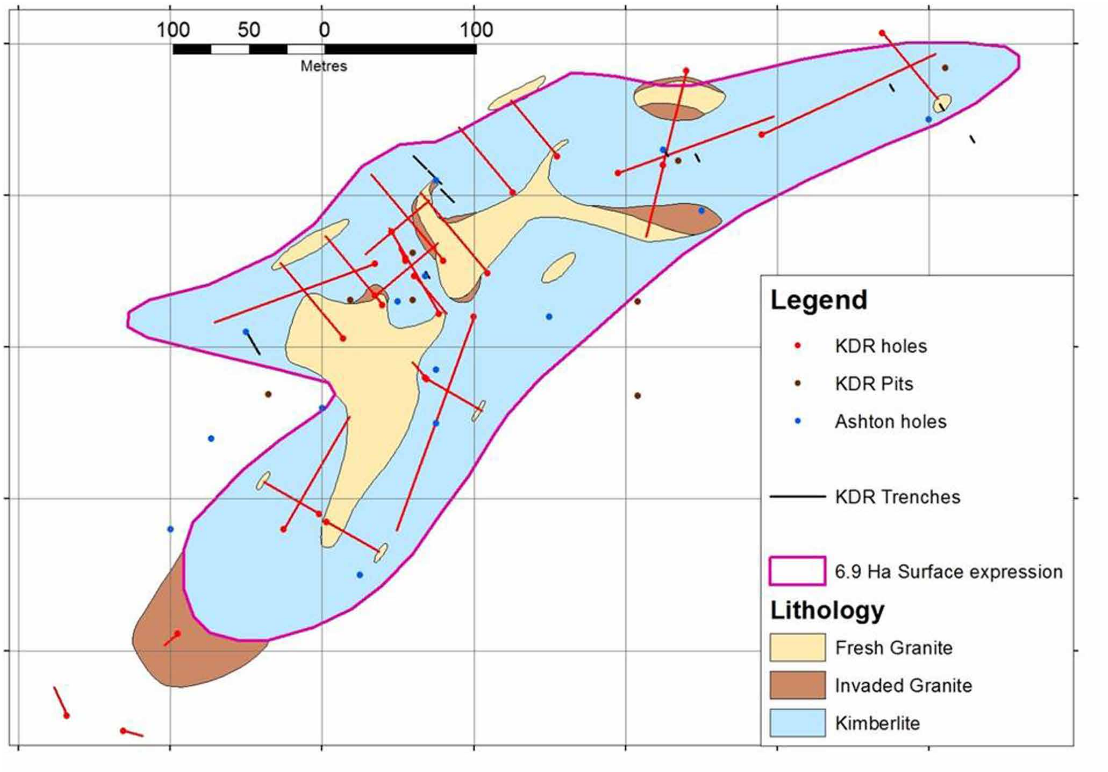
The Riihivaara claim reservation lies approximately 10km southeast of the Company's Seitaperä kimberlite target. A claim reservation gives exclusive rights to apply for exploration claims within the reservation area. Your Company's Riihivaara exploration target is in the Kuhmo municipality in Eastern Finland and is bordered to the east by Russia.

Kuusamo

Interrogation of airborne geophysics by the Company together with till sampling and integration of data made available to Karelian under its agreement with Rio Tinto Mining and Exploration has led to the decision to apply for claim reservations over two areas in the Kuusamo region. Kuusamo is located in the Northeast of Finland just south of the Arctic Circle and is also bordered to the East by Russia. In the first area



Kimberlite Indicator Sampling at Riihivaara



Seitaperä outline showing 6.9 Hectare diamondiferous kimberlite pipe

at Kuusamo, 121 kimberlitic indicator minerals were recovered, with 76 kimberlitic indicator minerals recovered in the second area, which are very positive. Further studies including microprobe analysis confirmed that the kimberlitic indicator minerals in both areas were also indicating diamondiferous potential.

The possibility of new discoveries in the Kuusamo area complements the positive results at your Company's Riihivaara target area and the confirmation of the diamondiferous nature of the Seitaperä kimberlite pipe. Other targets in the Kuhmo area include the Havukkasuo and Lentiira kimberlite pipes.

Agreement with Rio Tinto

The agreement with Rio Tinto has led to further highly encouraging progress. Under the agreement, Rio Tinto discloses to Karelian confidential information and physical geological samples relating to exploration in Finland for the purpose of Karelian considering that information in relation to Karelian's potential and existing exploration programmes in Finland.

In consideration of Rio Tinto disclosing the 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 by Rio Tinto paying the direct cash expenditures incurred in developing the project subject to the following conditions:

1. For diamond projects the option will be triggered if Karelian completes 10 tonnes 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.

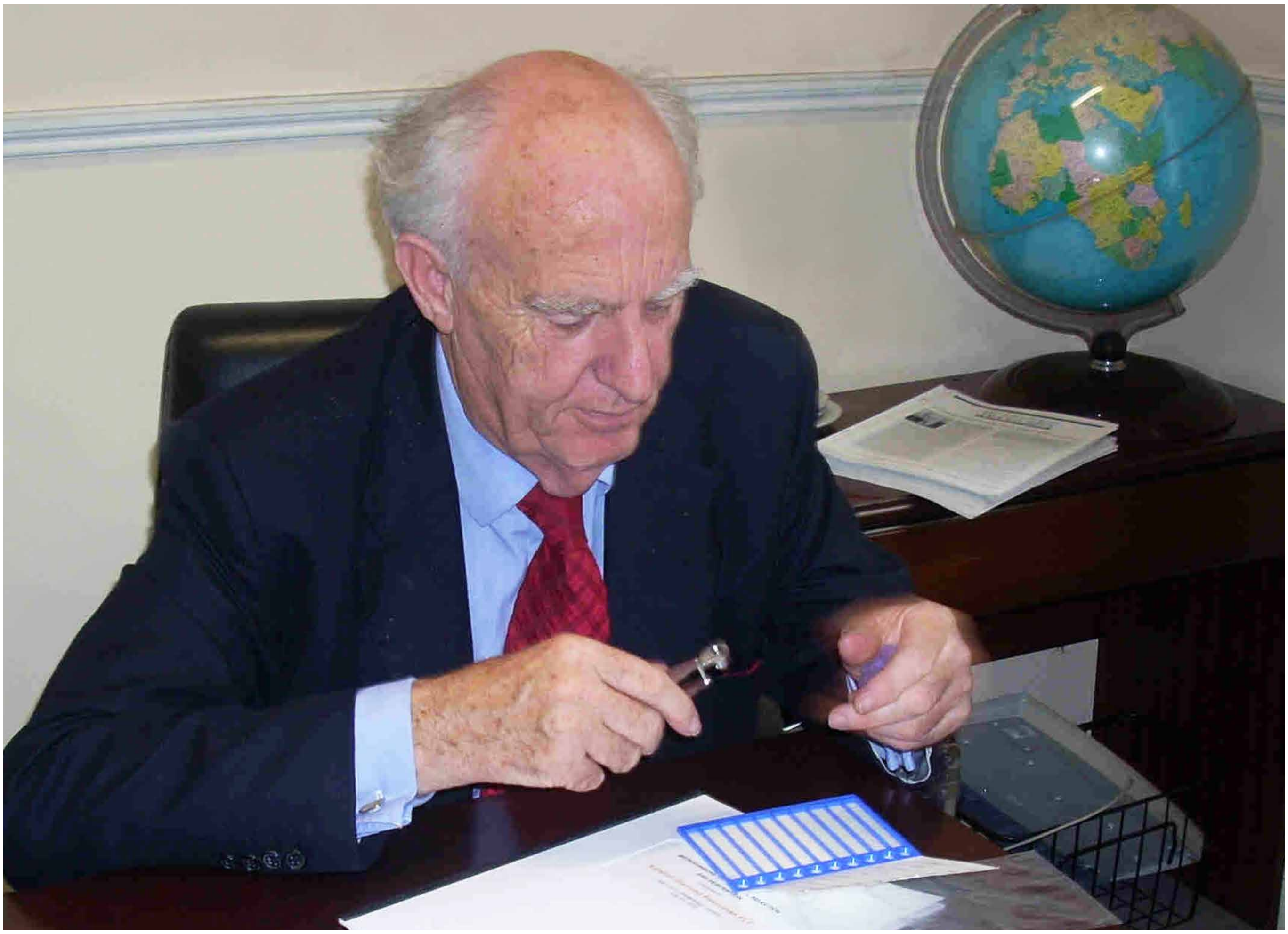
Finance

The loss after taxation for the year ended 31 May 2013 was €179,995 (2012: €207,980) and the net assets as at 31 May 2013 were €4,422,130 (2012: €4,526,967).

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 €1,221,975. 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.

Chairman's Statement *continued*



Chairman, Richard Conroy examining Seitaperä Diamonds

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.

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 building on these achievements.

Richard Conroy

Professor Richard Conroy
Chairman

12 November 2013

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 Asset Services Shareholder solutions (Ireland)
2 Grand Canal Square
Dublin 2

www.capitaassetservices.ie

Nominated Adviser

Sanlam Securities UK Limited
10 King William Street
London, EC4N 7TW
UK

Principal Banker

Danske Bank
Airton Close
Tallaght
Dublin 24

ESM Adviser

IBI Corporate Finance
2 Burlington Plaza
Burlington Road
Dublin 2

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

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Fax: +353-1-662 1213

For further information visit the Company's website at:

www.kareliandiamondresources.com

or contact:

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36 Old Jewry
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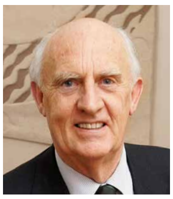
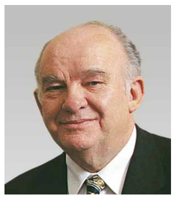
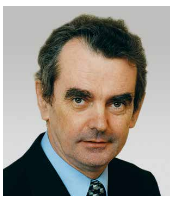
Tel: +44 20 3440 7620


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 2013.

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 €179,955 (2012: €207,980) during the year ended 31 May 2013 and has net current liabilities of €1,207,778 (2012: €857,018) at that date. The directors have confirmed that they will not seek repayment of amounts owed to them by the company of €1,074,264 (2012: €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 certain common shareholders and directors has confirmed that it will not seek repayment of amounts due by the company of €119,306 within 12 months of the date of approval of the financial statements unless the company has sufficient funds available to repay such amounts. The company has also received confirmation that its immediate funding requirements will continue to be met through increases in the shareholder loan as explained in Note 13 to enable the company to discharge its current liabilities as they fall due.

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects 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 2013

The statement of financial position as at 31 May 2013 and the income statement for the year are set out on pages 13 and 14 respectively. The company recorded a loss for the financial year of €179,955 (2012: €207,980). Taking account of the current year loss the equity decreased to €4,422,130 at 31 May 2013 from €4,526,967 at 31 May 2012.

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, Mr Séamus FitzPatrick and Mr Louis Maguire 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, which was primarily involved in Irish offshore oil exploration, and initiated the Deminex Consortium (which included Deminex, Mobil, Amoco and DSM). Trans-International Oil was merged with Aran Energy in 1979 (which was later acquired by Statoil).

Professor Conroy founded Conroy Petroleum and Natural Resources which (as well as being involved in oil production and exploration) in 1986 discovered the Galmoy zinc deposit in Ireland. Conroy Petroleum was also a founding member of the Stone Boy consortium, an exploration group which discovered the Pogo gold deposit in Alaska, now a major producing gold mine. Conroy Petroleum acquired Atlantic Resources in 1992 and was renamed ARCON International Resources.

Professor Conroy was Chairman and Chief Executive of Conroy Petroleum/ARCON from 1980 to 1994 before founding Conroy Gold and Natural Resources in 1995. An Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland, Professor Conroy served in the Irish Parliament as a Member of the Senate and 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 over 20 years' experience at senior level in the natural resource sector. She has been Managing Director of Conroy Gold and Natural Resources since 1998 and was a founding director of that company. She joined Conroy Petroleum and Natural Resources Plc on its foundation in 1980 and was a director and board member of Conroy Petroleum/ARCON from 1986 to 1994. Ms. Jones has a medical background and specialised in the radiographic aspects of Nuclear Medicine before becoming a manager with International Medical Corporation in 1977.

Mr. James Jones, Finance Director, has been associated with the natural resources industry for many years. A Chartered Accountant, he was Finance Director of Conroy Petroleum and Natural Resources/ARCON from its formation until 1994. He was a founding director of Conroy Gold and Natural Resources and has served as Finance Director and Secretary of that company.

Mr. Séamus Fitzpatrick, Deputy Chairman, has worked in both corporate finance and private equity in London and New York with Morgan Stanley, JP Morgan and Banker's Trust. In 1999 he co-founded CapVest of which he is Managing Partner (which has raised funds in excess of £2.0 billion). He is Chairman of the Mater Private Hospital and of Valeo Foods and is a board member of Reno Norden. He is also a director of Conroy Gold and Natural Resources 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.

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 a founding director of the Company.

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 2013 and 31 May 2012 were as follows:

	At 31 May 2013		At 1 June 2012	
	Ordinary shares of €0.01 each	**Warrants**	**Ordinary shares of €0.01 each**	**Warrants**
R.T.W.L. Conroy	37,031,701*	6,521,049	37,031,701*	6,521,049
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 (2012: 37,031,701) Ordinary Shares beneficially held by Professor Richard Conroy, 30,815,030 (2012: 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 2013	Granted During Year	At 1 June 2012	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 (see Note 13 to the financial statements), 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 2013.

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

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*

12 November 2013

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 he 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.

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 8.

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 2013 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. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2013 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

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of:

- 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 made in notes 2, 12 and 13 to the financial statements which indicate that the company incurred a loss of €179,955 during the year ended 31 May 2013 and had net current liabilities of €1,207,778 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 €1,074,264 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 €119,306 within 12 months of the date approval of the financial statements unless the company has sufficient funds to repay such amounts, and has also received confirmation that its immediate funding requirements will continue to be met through increases in the shareholder loan, as explained in Note 13, to enable the company

to discharge its current liabilities as they fall due. The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects 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.

Matters on which we are required to report by the Companies Acts, 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the financial statements.
- The net assets of the company, as stated in the Statement of Financial Positions are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 May 2013 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts, 1963 to 2012 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Cathal Treacy

For and on behalf
of Deloitte & Touche

Chartered Accountants
and Statutory Audit Firm

Limerick

12 November 2013

Statement of Financial Position

At 31 May 2013

	Note	2013 €	2012 €
ASSETS			
Non-current Assets			
Intangible assets	8	**6,801,539**	6,390,694
Financial assets	9	**4**	4
Property, plant and equipment	10	**333**	501
		6,801,876	6,391,199
Current Assets			
Trade and other receivables	11	**11,691**	47,382
Cash and cash equivalents		**2,506**	10,054
		14,197	57,436
Total Assets		**6,816,073**	6,448,635
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		**450,157**	375,039
Retained earnings		**(1,571,268)**	(1,391,313)
Total Equity		**4,422,130**	4,526,967
Non-current Liabilities			
Trade and other payables: Amounts falling due after more than one year	13	**1,171,968**	1,007,214
Total non-current liabilities		**1,171,968**	1,007,214
Current Liabilities			
Trade and other payables: Amounts falling due within one year	12	**1,221,975**	914,454
Total Current Liabilities		**1,221,975**	914,454
Total Liabilities		**2,393,943**	1,921,668
Total Equity and Liabilities		**6,816,073**	6,448,635

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

R.T.W.L. Conroy
Director

J.P. Jones
Director

Income Statement

For the year ended 31 May 2013

	Note	2013 €	2012 €
OPERATING EXPENSES	4	(165,604)	(194,582)
Finance income – bank interest receivable		–	97
Finance costs – interest on shareholder loan	13	(14,351)	(13,495)
LOSS BEFORE TAX	5	(179,955)	(207,980)
Taxation	6	–	–
LOSS RETAINED FOR THE YEAR		(179,955)	(207,980)
Basic and diluted loss per share	7	(€0.0019)	(€0.0023)

Statement of Comprehensive Income

For the year ended 31 May 2013

	2013 €	2012 €
LOSS FOR THE YEAR	(179,955)	(207,980)
Total income and expense recognised in other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(179,955)	(207,980)

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 2013

	Share Capital €	Share Premium €	Share-based Payment Reserve €	Retained Earnings/ (Deficit) €	Total Equity €
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**
At 1 June 2012	922,083	4,621,158	375,039	(1,391,313)	4,526,967
Share-based payments	–	–	75,118	–	75,118
Loss for the year	–	–	–	(179,955)	(179,955)
At 31 May 2013	**922,083**	**4,621,158**	**450,157**	**(1,571,268)**	**4,422,130**

Share Capital

The share capital comprises of the nominal value 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 2013

	Note	2013 €	2012 €
Cash flows from operating activities			
Cash used in operations	15	**(50,768)**	(58,631)
Net cash used in operating activities		**(50,768)**	(58,631)
Cash flows from investing activities			
Investment in exploration and evaluation		**(292,105)**	(509,687)
Net cash used in investing activities		**(292,105)**	(509,687)
Cash flows from financing activities			
Increase in accrued director's remuneration		**242,325**	–
Advances/(repayment) of shareholder loans		**93,000**	(125,000)
Interest paid on shareholder loans		**–**	(42,633)
Interest received		**–**	97
Net cash generated from/(used in) financing activities		**335,325**	(167,536)
Decrease in cash and cash equivalents		**(7,548)**	(735,854)
Cash and cash equivalents at beginning of year		**10,054**	745,908
Cash and cash equivalents at end of year		**2,506**	10,054

Notes to the Financial Statements

For the year ended 31 May 2013

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

Standards and Interpretations not affecting the reported results nor the financial position

In the current year, the following new and revised Standards have been adopted. Their adoption has not had any material impact on the amounts reported in these financial statements but they may affect the accounting for future transactions and arrangements.

IFRS 1 (amended) *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective for accounting periods beginning on or after 1 July 2011) This amendment addresses how an entity should resume presenting financial statements in accordance with IFRS after a period when an entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

IFRS 7 (amended) *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective for accounting periods beginning on or after 1 July 2011) The amendments to this Standard will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets.

IAS 12 *Deferred Tax: Recovery of Underlying Assets* (effective for accounting periods beginning on or after 1 January 2012) The amendment to this Standard introduces a presumption that when measuring deferred tax relating to an asset the recovery of the carrying amount of an asset will normally be through sale of the asset.

The adoption of these Standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of these financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Standards were in issue but not yet effective and in some cases had not been adopted by the European Union:

IFRS 7 (amended) *Financial Instruments: Disclosures* (effective for accounting periods beginning on or after 1 January 2013) The amendment to the Standard requires disclosures of information about all recognised financial instruments that are set-off in accordance with IAS 32 Financial Instruments: Presentation.

IFRS 9 *Financial Instruments* (effective for accounting periods beginning on or after 1 January 2013) The amendments to this Standard help to improve the usefulness of financial statements for users by simplifying the classification and measurement requirements for financial instruments.

IAS 1 *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 July 2012) The amendments to the Standard revise the way other comprehensive income is presented.

Annual Improvements 2009-2011 Cycle (effective for accounting periods beginning on or after 1 January 2013)

The Directors anticipate that all of the above Standards will be adopted in the Group's financial statements in future periods and that these Standards will have no material impact on the financial statements of the Group in the period of initial application.

1. ACCOUNTING POLICIES *continued*

In addition, the Directors are currently considering the impact the following will have on the Group's financial statements.

IFRS 10 *Consolidated Financial Statements* (effective for accounting periods beginning on or after 1 January 2013)

IFRS 11 *Joint Arrangements* (effective for accounting periods beginning on or after 1 January 2013)

IFRS 12 *Disclosure of Interest on Other Entities* (effective for accounting periods beginning on or after 1 January 2013)

IFRS 13 *Fair Value Measurement* (effective for accounting periods beginning on or after 1 January 2013)

IAS 19 *Employee Benefits* (effective for accounting periods beginning on or after 1 January 2013)

IAS 27 *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 January 2013)

IAS 27 *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 January 2013)

IAS 28 *Investments in Associates and Joint Ventures* (effective for accounting periods beginning on or after 1 January 2013)

IAS 32 *Financial Instruments: Presentation* (effective for accounting periods beginning on or after 1 January 2014)

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.

(ii) 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 considered to be key 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 any 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.

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

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.

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

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

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.

1. ACCOUNTING POLICIES *continued*

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.

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 Loan

Shareholder loan is initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate 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 considers 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 economically 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 ("CGU"). 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.

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

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 directors, and their commitment to continue to support the company for a period of at least 12 months from the date of approval of these financial statements, and the confirmation from Conroy Gold and Natural Resources Plc, 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 to repay such amounts, and the confirmation received that its immediate funding requirements will continue to be met through increases in the shareholder loan to enable the company to discharge its current liabilities as they fall due, 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.

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 €6,801,539 (2012: €6,390,694) (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 €179,955 (2012: €207,980) during the year ended 31 May 2013 and had net current liabilities of €1,207,778 (2012: €857,018) at that date. As stated in Note 12, the directors have confirmed that they will not seek repayment of amounts owed to them by the company of €1,074,264 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 (Note 12) has confirmed that it will not seek repayment of amounts due by the company of €119,306 within 12 months of the date of approval of the financial statements unless the company has sufficient funds available to repay such amounts. The company has also received confirmation that its immediate funding requirements will continue to be met through increases in the shareholder loan, as explained in Note 13, to enable the company to discharge its current liabilities as they fall due.

2. GOING CONCERN *continued*

The directors have reviewed the projected cash flows for the company and on the basis of the projected cash flow information, the prospects 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

	2013 €	2012 €
Operating expenses	**456,047**	494,603
Transfer to intangible assets (Note 8)	**(290,443)**	(300,021)
	165,604	194,582

Operating expenses are analysed as follows:	2013 €	2012 €
Wages and salaries	**251,771**	247,731
Share based payments	**75,118**	82,118
Depreciation	**168**	168
Auditor's remuneration	**10,000**	10,000
Other operating expenses	**118,990**	154,586
	456,047	494,603

Of the above costs, a total of €290,443 (2012: €300,021) 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:

	2013 €	2012 €
Wages and salaries	**227,171**	217,345
Social welfare costs	**–**	6,386
Pension costs	**24,000**	24,000
	251,771	247,731

Notes to the Financial Statements *continued*

4. OPERATING EXPENSES *continued*

(b) 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 €75,118 (2012: €82,118) is accounted for as shown below:

	2013 €	2012 €
Share based payment charge expensed to income statement	**13,781**	15,180
Share based payment charge transferred to intangible assets	**61,337**	66,938
	75,118	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:

	2013 €	2012 €
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

	2013 €	2012 €
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:

	2013 €	2012 €
Loss on ordinary activities before tax	**(179,955)**	(207,980)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12.5% (2012: 12.5%)	**(22,494)**	(25,998)
Effects of:		
Losses carried forward for future utilisation	**22,494**	25,998
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 €629,484 (2012: €606,990).

Notes to the Financial Statements *continued*

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share of €0.0019 (2012: €0.0023) is based on the loss for the financial year of €179,955 (2012: €207,980) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 92,308,242 (2012: 92,308,242).

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

8. INTANGIBLE ASSETS

Exploration and evaluation:	2013 €	2012 €
Cost		
At 1 June	**6,390,694**	5,760,090
Expenditure during the year		
– licence and appraisal costs	**62,099**	276,604
– other operating costs (Note 4)	**229,106**	233,083
– equity settled share based payments (Note 4)	**61,337**	66,938
– loan interest (Note 13)	**57,403**	53,979
At 31 May	**6,801,539**	6,390,694

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

	2013 €	2012 €
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	2013 €	2012 €
Cost		
At 1 June	**1,677**	1,677
Additions	**–**	–
At 31 May	**1,677**	1,677
Accumulated Depreciation		
At 1 June	**1,176**	1,008
Charge for the year	**168**	168
At 31 May	**1,344**	1,176
At 31 May	**333**	501

11. TRADE AND OTHER RECEIVABLES

	2013 €	2012 €
VAT receivable	**8,505**	44,540
Prepayments	**3,186**	2,842
	11,691	47,382

12. TRADE AND OTHER PAYABLES

(Amounts falling due within one year)	2013 €	2012 €
Accrued directors' remuneration		
– fees and other emoluments	**942,264**	723,939
– pension contributions	**132,000**	108,000
Amounts owed to Conroy Gold and Natural Resources plc	**119,306**	30,106
Accruals	**28,405**	52,409
PAYE/PRSI	**–**	–
	1,221,975	914,454

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)	2013 €	2012 €
Shareholder loans		
Opening balance	**1,007,214**	1,107,373
Funds advanced/(repaid)	**93,000**	(125,000)
Interest charge for the year	**71,754**	67,474
Interest paid	**–**	(42,633)
	1,171,968	1,007,214

The immediate funding requirements of the company have been financed by advances from Prof. 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 2013 is €266,303 (2012: €194,549). 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 and that its immediate funding requirements will continue to be met through increases in the shareholder loan to enable the company to discharge its current liabilities as they fall due. Of the €71,754 interest charge for the year (2012: €67,474), €14,351 (2012: €13,495) has been expensed to the income statement, with the remaining charge of €57,403 (2012: €53,979 being transferred to intangible assets (Note 8).

14. CALLED UP SHARE CAPITAL AND PREMIUM

	2013 €	2012 €
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	92,208,242	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 2013 and all were outstanding at 31 May 2013.

(b) On 6 April 2012 warrants to subscribe for 6,666,666 shares were granted. The warrants were exercisable at 6p at any time up to 13 April 2013. These warrants lapsed during the year.

(c) At 31 May 2012 and 31 May 2013 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding.

(d) At 31 May 2012 and 31 May 2013, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2017 were outstanding.

(e) At 31 May 2012 and 31 May 2013, 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.

(f) The share price at 31 May 2013 was 0.575p sterling. During the year the price ranged from 0.50p to 1.02p sterling.

14. CALLED UP SHARE CAPITAL AND PREMIUM *continued*

Issued and Fully Paid – previous financial year

	Number	Share Capital €	Share Premium €
At start 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 2013.

(b) On 6 April 2012 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. These warrants lapsed during the year ended 31 May 2013.

(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 2010 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 3.125p sterling. During the year the price ranged from 1.05p to 3.75p sterling.

15. NOTE TO THE CASHFLOW STATEMENT

Reconciliation of operating loss to Net

Reconciliation of operating loss to Net Cash generated (used in) Operations:	**2013 €**	**2012 €**
Operating (loss)	**(165,604)**	(194,582)
Depreciation	**168**	168
Expense recognised in income statement in respect of equity settled share based payments	**13,781**	15,180
Increase in creditors	**65,196**	155,449
Decrease/(increase) in debtors	**35,691**	(34,846)
Net cash used in operations	**(50,768)**	(58,631)

16. COMMITMENTS AND CONTINGENCIES

At 31 May 2013 there were no capital commitments or contingent liabilities (2012: €Nil).

Notes to the Financial Statements *continued*

17. RELATED PARTY TRANSACTIONS

(a) Details as to shareholder loans and share capital transactions and transactions with Prof. 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 2013, Conroy Gold and Natural Resources plc, incurred costs totalling €84,950 (2012: €104,103) on behalf of the company. These costs were recharged to the company by Conroy Gold and Natural Resources plc. Part of the costs were funded by advances in the shareholder loan.

The costs are analysed as follows:

	2013 €	2012 €
Wages and salaries	**39,902**	39,767
Rent and rates	**4,920**	9,525
Travel and subsistence	**6,311**	10,036
Legal and professional	**21,116**	26,623
Other operating expenses	**12,701**	18,152
	84,950	104,103

At 31 May 2013, €119,308 was outstanding in relation to recharges between the related parties.

(c) Details of key management compensation which comprises directors' remuneration including short term employee benefits €215,000 (2012: €215,000), post employment benefits €24,000 (2012: €24,000), other long term benefits €Nil (2012: €Nil), share based payment €69,467 (2012: €69,467) and termination benefits €Nil (2012: €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:

	2013		2012	
	No. of Share Options	Weighted Average Exercise Price €	No. of Share Options	Weighted Average Exercise Price €
1 June	**1,000,000**	**0.0803**	1,000,000	0.0803
Granted during year	**–**	**–**	–	–
Exercised during year	**–**	**–**	–	–
Lapsed during year	**–**	**–**	–	–
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:

	2013		2012	
	No. of Share Warrants	Weighted Average Exercise Price €	No. of Share Warrants	Weighted Average Exercise Price €
1 June	**18,686,010**	**0.0872**	18,686,010	0.0872
Granted during year	**–**	**–**	–	–
Exercised during year	**–**	**–**	–	–
Lapsed during year	**–**	**–**	–	–
31 May	**18,686,010**	**0.0872**	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.

	2013 Stock options	2013 Stock warrants	2012 Stock options	2012 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 €75,118 (2012: €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, 30,815,030 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 2013:

	Carrying Amount 2013 €	Fair Value 2013 €	Carrying Amount/ Fair Value 2012 €
Trade and other receivables	**11,691**	**11,691**	47,382
Cash and cash equivalents	**2,506**	**2,506**	10,054
Trade and other payables and financial liabilities	**2,393,943**	**2,393,943**	1,921,668

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 2013 amounted to €14,197 (2012: €57,436).

At 31 May 2013 and 31 May 2012 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 €9,057. 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 12 November 2013.