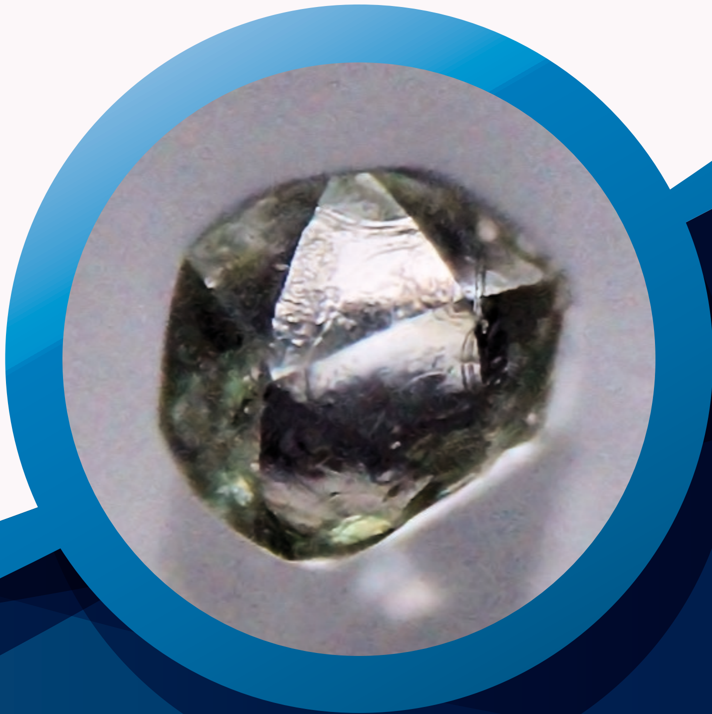
Annual Report and Financial Statements 2017



Cover image is of Kuhmo green diamond discovered by Karelian Diamonds.

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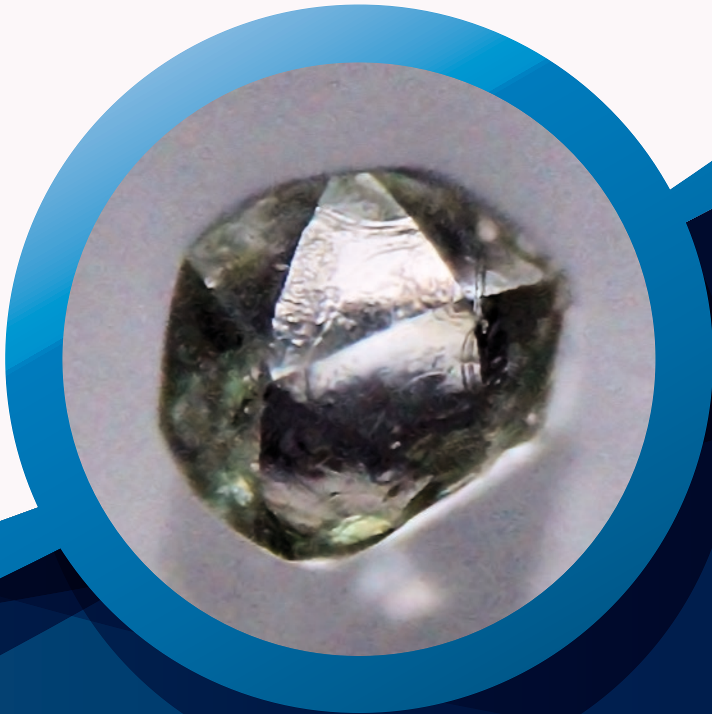


Chairman's Statement

Professor Richard Conroy
Chairman

I have pleasure in presenting your Company's Annual Report and financial statements for the financial year ended 31 May 2017.

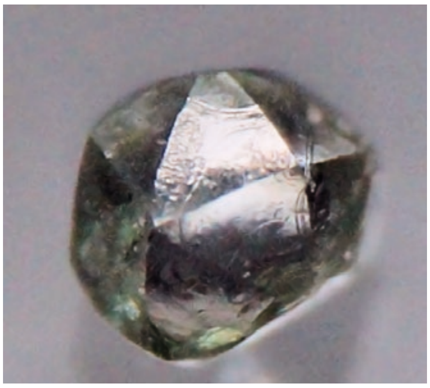
The year was one of great success in the exploration field with the discovery of a diamond in till in the Kuhmo region of Finland.

Introduction

Your Company's diamond exploration and development programmes are located in the Karelian Craton in Finland. The diamond prospectivity of this Craton, which lies across Northern Finland and Russia, has been demonstrated by the discovery and development of the world class Lomonosova and Grib Pipe diamond deposits in the Russian sector of the Craton. Your Company's objective is to discover, or acquire, and develop diamond deposits in the Finnish sector of the Craton.

Diamond Discovery

The outstanding event of the year was the discovery a diamond in a till sample taken in the Kuhmo region of Finland. The diamond is a sparkling clear crystal, greenish in colour and 0.8mm in diameter, forming a 12-sided, curved and twinned dodecahedron.



Kuhmo green diamond discovered by Karelian Diamonds

The discovery of a diamond in a till exploration sample is an extremely rare event. The long established international diamond laboratory ODM, which processed the sample and which has processed more than 50,000 exploration till samples worldwide, including those involved in the major Canadian diamond discoveries at Slave Lake, has recovered less than 10 naturally occurring diamonds during the entire period of the diamond discoveries in Canada from early 1990s.

As a matter of priority your Company is now engaged in an exploration programme to discover the source of this diamond. The programme includes airborne and ground geophysics and an extensive pitting programme up-ice from the site of the discovery.

Lahtojoki

Your Company has acquired a mining concession over the Lahtojoki diamond deposit in the Kaavi region of Finland, and the Company has received a Preliminary Economic Assessment ("PEA") on the deposit. Analysis of combined microdiamond and mini-bulk sample data suggests a +1mm recoverable grade of 40 Carats Per Hundred Tonnes ("cpht") and indicates the presence of a high percentage of gem quality stones within the diamonds that have been recovered to date.

Lahtojoki high gem quality diamonds

Previous drilling indicates 5,603,584 tonnes are present to a depth of 160 metres below surface. For the purposes of the PEA US$100/carat was used in the economic evaluation and mine design.

A total resource (Non Joint Ore Reserve Committee) estimate of 2,225,000 carats was indicated in the study. Plant recovery of diamonds was estimated at 95% (2.11 million carats recoverable).

Chairman Richard Conroy and Managing Director Maureen Jones examine newly discovered diamond.

The Lahtojoki diamond ore body was acquired from A & G Mining Oy ("AGM"), a private Finnish company. The ore body is situated in the Kuopio-Kaavi region in Finland. The location is highly favourable for development with excellent infrastructure including good road access and power distribution and local technical and logistics availability. The Lahtojoki diamond ore body has, we believe, the potential to become a profitable open pit diamond mine and your Company has received a Mining Concession for its development from the Finnish Safety and Chemical Agency ("TUKES").

Under the terms of the acquisition a royalty of 1% is payable to AGM either in diamonds or cash on cumulative diamond production above 2.5 million carats, in addition to a purchase price of €150,000 (comprising an initial purchase price of €50,000 plus a further €100,000 after twenty four (24) months unless Karelian decides not to develop the project).

Finland is recognised by the prestigious Fraser Institute as one of the most attractive jurisdictions in the world for mining investment and the mine, if developed, would be the first diamond mine in Europe (outside Russia).

Diamond exploration around Lahtojoki

Exploration in the vicinity of the Lahtojoki diamond deposit has identified kimberlite boulder fragments. The location of these fragments does not coincide with either of the known ice flow directions from the Lahtojoki deposit in the area, also kimberlite is classified as cohesive (hypabyssal) kimberlite, which is an extremely rare kimberlite facies in the Lahtojoki Kimberlite pipe. The Company is undertaking an exploration programme in this area to determine the source of these boulders.

The presence of additional diamond resource potential in the area adjacent to Lahtojoki would, if confirmed, further add to the financial and technical attractiveness of the Lahtojoki diamond deposit.

Riihivaarä

In addition Karelian Diamonds has discovered a kimberlite body, the first to be discovered in Finland in over 10 years. The discovery was made at Riihivaara, also in the Kuhmo region. The discovery was made through a combination of till sampling and ground geophysics. The kimberlite body has been intersected by five trenches, is interpreted to be a dyke and is open along strike and at depth.

Riihivaarä Kimberlite

Kimberlite indicator minerals from Riihivaarä have been analysed using MLA screening followed by laser ablation ICP-MS analysis of trace-elements for grains of higher interest. The results showed that the geotherm is prospective for diamonds and the kimberlite has been sampled to a model depth of greater than 2000km, well into the diamond stability field. The kimberlite is therefore likely to be diamondiferous.

Agreement with Rio Tinto

Your Company has a Confidentiality Agreement (with Back in Rights) with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). I am delighted that this agreement with Rio Tinto has been extended to 2020.

Chairman's Statement *continued*

Karelian Craton Location Map

Diamond discovery site. Company senior geologist Kevin McNulty with GTK geologists Jukka Marmo and Ahti Nissinen.

Under the agreement, Rio Tinto discloses to your Company confidential information and physical geological samples relating to exploration in Finland for the purpose of your Company considering that information in relation to its potential and existing exploration programmes in Finland.

In consideration of Rio Tinto disclosing the confidential information to it, your Company has agreed that Rio Tinto will have the option to earn a 51 per cent interest in any project identified by your Company in Finland by Rio Tinto paying the direct cash expenditures incurred in developing the project.

Finance

The loss after taxation for the year ended 31 May 2017 was €410,814 (2016: €258,734) and the net assets as at 31 May 2017 were €9,456,036 (2016: €8,470,973).

On 21 December 2016 your Company raised £425,000 (€505,000) before expenses through the issue of 94,444,444 ordinary shares at 0.45p sterling for each ordinary share, together with 47,222,222 warrants at an exercise price of 0.8p sterling per warrant, exercisable until 29 December 2018.

On 12 April 2017, your Company raised £775,000 (€914,500) before expenses through the issue of 172,222,220 ordinary shares at 0.45p sterling for each ordinary share, together with 79,629,631 warrants at an exercise price of 0.8p sterling per warrant, exercisable until 28 April 2019.

Following a capital reorganisation pursuant to the Annual General Meeting becoming effective the issued share capital as of 9 December 2016 comprised 317,785,034 ordinary shares and 317,785,034 deferred shares (detailed in Note 14).

Share consolidation

The ordinary shares have recently traded in a range at a fraction of a cent. Shareholders will be asked at the Annual General Meeting to approve the consolidation of the Company's shares which will reduce the number of shares in issue and, the Board of Directors expect, result in a share price more appropriate for your Company and more attractive to a greater number of investors. The effect of the consolidation is to reduce the number of ordinary shares in issue by a multiple of approximately 25 and, accordingly, assuming normal market conditions, to increase the price at which the new ordinary shares will trade to approximately 25 times the value at which the existing ordinary shares currently trade.

Subject to approval by the shareholders at the Annual General Meeting, the Directors propose that the issued and unissued ordinary shares will be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. Immediately following the proposed consolidation, each existing shareholder will hold 1 new ordinary share in place of each 25 existing ordinary shares. New certificates representing the Consolidated Shares will be issued as soon as practicable after the record date.

Auditors

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

Directors and Staff

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

Future Outlook

Your Company has continued to make excellent progress in what is now a combined diamond exploration and development programme. We look forward to building rapidly on this success in the coming year.

Richard Conroy

Professor Richard Conroy
Chairman

28 November 2017

Company Information

Directors

Professor Richard Conroy
*Chairman**

Seamus P. FitzPatrick
Deputy Chairman
Non-Executive Director+§

Maureen T.A. Jones
*Managing Director**

James P. Jones
*Finance Director**

Dr. Sorċa Conroy
*Non-Executive Director**

Louis J. Maguire
Non-Executive Director+§*

* *Member of the Executive Committee*
\+ *Member of the Remuneration Committee*
§ *Member of the Audit Committee*

Company Registration Number

382499

Company Secretary and Registered Office

James P. Jones
3300 Lake Drive, Citywest Business Campus
Dublin 24 D24 TD21

Tel: +353 1 4796180

Statutory Audit Firm

Deloitte
Chartered Accountants
and Statutory Audit Firm
Deloitte & Touche House
Charlotte Quay
Limerick V94 X63C

London Stock Exchange

AIM Market
Symbol: KDR
SEDOL: BO1ZSK9
ISIN Number: IE00BO1ZSK94

Registrar

Link Registrars Limited
Link Asset Services
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Dublin 2 D02 A342, Ireland

www.linkassetservices.ie

Nominated Adviser (NOMAD)

Allenby Capital Limited
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London EC3A 6AB
UK

Tel: +44 20 33285656

www.allenbycapital.com

Broker

Beaufort Securities Limited
63 St Mary Axe
London EC3A 8AA
UK

Enterprise Securities Market Adviser*

IBI Corporate Finance
2 Burlington Plaza, Dublin 4 D04 EC66

* On 6 November 2017, the Company cancelled the admission of its ordinary shares to trade on the Enterprise Securities Market.

Principal Banker

AIB
1-4 Lower Baggot Street
Dublin 2 D02 X342

Legal Advisers

William Fry Solicitors
2 Grand Canal Square
Dublin 2 D02 A342

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Finland

Head Office

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3300 Lake Drive, Citywest Business Campus
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Tel: +353 1 4796180

For further information visit the Company's website:

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Hall Communications
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Tel: +353 1 6609377

Professor Richard Conroy
Chairman

Seamus P. FitzPatrick
Deputy Chairman

Maureen T.A. Jones
Managing Director

James. P. Jones
Finance Director and Company Secretary

Dr. Sorċa C. Conroy
Non-Executive Director

Louis J. Maguire
Non-Executive Director

Board of Directors

Professor Richard Conroy

Chairman of the Board of Directors

Professor Richard Conroy has been involved in natural resources for many years. He established Trans-International Oil, which was primarily involved in Irish offshore oil exploration. Trans-International Oil initiated the Deminex Consortium which included Deminex, Mobil, Amoco and DSM. Trans-International Oil was merged with Aran Energy P.L.C. in 1979, which was later acquired by Statoil.

Professor Richard Conroy founded Conroy Petroleum and Natural Resources P.L.C. ("Conroy Petroleum"). Conroy Petroleum was involved in both onshore and offshore oil production and exploration and also in mineral exploration. Conroy Petroleum, in 1986, made the significant discovery of the Galmoy zinc deposits in County Kilkenny later developed as a major zinc mine. The discovery at Galmoy led to the revival of the Irish base metal industry and to Ireland becoming an international zinc province.

Conroy Petroleum was also a founding member of the Stoneboy consortium, which included Sumitomo Metal Mining Co. Ltd., an exploration group which discovered the world class Pogo gold deposit in Alaska, now in production as a major gold mine.

Conroy Petroleum acquired Atlantic Resources P.L.C. in 1992 and subsequently changed its name to ARCON International Resources P.L.C. ("ARCON"). The oil and gas interests in ARCON were transferred to form Providence Resources P.L.C. ARCON was later acquired by Lundin Mining Corporation.

Professor Richard Conroy was Chairman and Chief Executive of Conroy Petroleum/ARCON from 1980 to 1994. He founded Karelian Diamond Resources P.L.C. in 1995.

Professor Richard Conroy served in the Irish Parliament as a Member of the Senate. 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.

Professor Richard Conroy is Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. Professor Conroy's research included pioneering work on jet lag, shift working and decision making after intercontinental flights. Professor Conroy co-authored the first text book on circadian rhythms.

Séamus P. FitzPatrick

Deputy Chairman/Non-executive Director

Séamus P. FitzPatrick 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, of which he is Managing Partner (which has raised funds in excess of £2.0 billion). Séamus P. FitzPatrick is Chairman of the Mater Private Hospital and of Valeo Foods and is a board member of Reno Norden.

Maureen T.A. Jones

Managing Director

Maureen T.A. Jones has over twenty years' experience at senior level in the natural resource sector. She is Managing Director of Karelian Diamond Resources P.L.C. and was a founding Director of the Company. Maureen T.A. Jones joined Conroy Petroleum on its foundation in 1980 and was a Director and member of the Board of Directors of Conroy Petroleum/ARCON from 1986 to 1994. Maureen T.A. Jones has a medical background and specialised in the radiographic aspects of nuclear medicine before becoming a manager of International Medical Corporation in 1977. Maureen T.A. Jones is also a Director of Conroy Gold and Natural Resources P.L.C.

James P. Jones

Finance Director

James P. Jones has been associated with the natural resources industry for many years. A Chartered Accountant, he was finance Director of Conroy Petroleum/ARCON from its formation until 1994. James P. Jones was a founding Director of the Company and has served as Finance Director and Secretary of the Company since its inception. James P. Jones is also Secretary of Conroy Gold and Natural Resources P.L.C.

Dr. Sorċa Conroy

Non-executive Director

Dr. Sorċa Conroy was recruited to ING Bank in 2006 and whilst there was ranked second in the Extel Survey for Biotechnology Specialist Sales. Dr. Sorċa Conroy had previously worked in specialist sales for life sciences and institutional equities at Canaccord Adams (2005-2006; where she ranked fourth in the 2006 Extel survey) and Hoodless Brennan (2004-2005). A medical graduate of The Royal College of Surgeons in Ireland, Dr. Sorċa Conroy held a number of clinical positions between her graduation in 1995 and joining Hoodless Brennan.

Louis J. Maguire

Non-executive Director

Louis J. Maguire is an auctioneer by profession and a land valuation expert with particular expertise in the purchase of mineral rights and in land acquisition for mining. He is a founding Director of Karelian Diamond Resources P.L.C.

Directors' report

The Board of Directors submit their annual report together with the audited financial statements of Karelian Diamond Resources P.L.C. (the "Company") for the financial year ended 31 May 2017.

Principal activities, business review and future developments

Information with respect to the Company's principal activities and the review of the business and future developments as required by Section 327 of the Companies Act 2014 is contained in the Chairman's Statement on pages 2 to 4.

During the financial year under review, the principal focus of management is to continue to develop the activities of the Company concentrating particularly on diamond exploration.

Results for the year and state of affairs at 31 May 2017

The Income Statement for the financial year ended 31 May 2017 and the Statement of Financial Position at that date are set out on pages 14 to 15. The loss for the year amounted to €410,814 (2016: €258,734) and net assets at 31 May 2017 were €9,456,035 (2016: €8,470,973). No dividends or transfers to reserves are recommended by the Board of Directors.

Important events since the year end

In October 2017, the Company has been informed that TUKES has granted the Company an exploration permit in the Kuhmo region of Finland. The permit covers an area of 601.68 ha surrounding the location where the Company discovered a diamond in till (31 January 2017). The permit has been granted for a period of four years. An exploration permit provides the holder with an exclusive right to apply for a mining permit.

The Company announced on 10 October 2017 that it is to cancel the admission of its ordinary shares to trading on the Enterprise Securities Market ("ESM") on the Irish Stock Exchange on 6 November 2017. This cancellation occurred on 6 November 2017.

Directors

Dr. Sorċa Conroy retires from the Board of Directors by rotation and, being eligible, offers herself for re-election at the forthcoming Annual General Meeting of the Company.

James P. Jones retires from the Board of Directors by rotation and is not seeking re-election at the forthcoming Annual General Meeting of the Company.

Except as disclosed in the following tables, neither the Directors nor their families had any beneficial interest in the share capital of the Company. Apart from directors remuneration (detailed in Note 2) and a loan from a shareholder (who is also a Director which is detailed in Note 12), there have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest. There were no loans outstanding to any Director at any time during the year.

The Company has confirmed to Conroy Gold and Natural Resources P.L.C. (a company with common Directors) that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2017 of €273,800 (2016: €168,825) for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C., unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay.

Secretary

James P. Jones acts as Company Secretary to the Company.

Directors' and Secretary's shareholdings and other interests

The interests of the Directors and Secretary and their spouses and minor children in the share capital of the Company, all of which were beneficially held, were as follows:

Director	Date of signing financial statements	Date of signing financial statements	31 May 2017	31 May 2017	31 May 2016 *(or date of appointment if later)*	31 May 2016 *(or date of appointment if later)*
	Ordinary Shares of €0.00001 each	Warrants	Ordinary Shares of €0.00001 each	Warrants	Ordinary Shares of €0.01 each	Warrants
Professor Richard Conroy	**119,583,938***	**19,780,306**	**119,583,938***	**19,780,306**	76,806,168*	5,521,049
Maureen T.A. Jones	**13,221,985**	**6,561,645**	**13,221,985**	**6,561,645**	6,110,875	4,191,275
James P. Jones	**9,481,539**	**4,493,577**	**9,481,539**	**4,493,577**	3,814,873	2,604,689
Séamus P. FitzPatrick	**922,426**	**232,201**	**922,426**	**232,201**	922,426	232,201
Dr. Sorċa Conroy	**470,000**	**–**	**470,000**	**–**	470,000	–
Louis J. Maguire	**51,668**	**232,201**	**51,668**	**232,201**	51,668	232,201

* *Of the 119,583,938 (2016: 76,806,168) ordinary shares beneficially held by Professor Richard Conroy, 30,815,030 (2016: 30,815,030) are held by Conroy P.L.C., a company in which Professor Conroy has a controlling interest.*

Directors' report *continued*

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

Director	Date of signing financial statements	Date of signing financial statements	31 May 2017	31 May 2017	31 May 2016	31 May 2016	Expiry Date
	Warrants	Price €	Warrants	Price €	Warrants	Price €	
Professor Richard Conroy	**5,000,000**	**0.009**	**5,000,000**	**0.009**	–	–	29 December 2018
Professor Richard Conroy	**9,259,257**	**0.009**	**9,259,257**	**0.009**	–	–	28 April 2019
Professor Richard Conroy	**5,521,049**	**0.100**	**5,521,049**	**0.100**	5,521,049	0.100	16 November 2022
Maureen T.A. Jones	**333,333**	**0.009**	**333,333**	**0.009**	–	–	29 December 2018
Maureen T.A. Jones	**2,037,037**	**0.009**	**2,037,037**	**0.009**	–	–	28 April 2019
Maureen T.A. Jones	**4,191,275**	**0.100**	**4,191,275**	**0.100**	4,191,275	0.100	16 November 2022
James P. Jones FCA	**222,222**	**0.009**	**222,222**	**0.009**	–	–	29 December 2018
James P. Jones FCA	**1,666,666**	**0.009**	**1,666,666**	**0.009**	–	–	28 April 2019
James P. Jones FCA	**2,604,689**	**0.100**	**2,604,689**	**0.100**	2,604,689	0.100	16 November 2022
Séamus P. FitzPatrick	**232,201**	**0.100**	**232,201**	**0.100**	232,201	0.100	16 November 2022
Louis J. Maguire	**232,201**	**0.100**	**232,201**	**0.100**	232,201	0.100	16 November 2022

Substantial Shareholdings

In so far as the Board of Directors are aware, no person or company, other than the shareholders listed below, held 3% or more of the issued ordinary share capital of the Company at date of signing accounts.

Director	Date of signing financial statements	Date of signing financial statements	31 May 2017	31 May 2017	31 May 2016	31 May 2016
	Ordinary Shares of €0.00001 each	%	Ordinary Shares of €0.00001 each	%	Ordinary Shares of €0.01 each	%
Professor Richard Conroy	**119,583,938***	**20.46**	**119,583,938***	**20.46**	76,806,168*	24.17
Mr. Alan Osbourne	**20,813,224**	**3.56**	**20,813,224**	**3.56**	11,708,566	3.68
Mr. Steven Coomber	**17,639,111**	**3.02**	**17,639,111**	**3.02**	–	–
Mr. Richard Taberner	**17,637,548**	**3.02**	**17,637,548**	**3.02**	–	–

* *Of the 119,583,938 (2016: 76,806,168) ordinary shares beneficially held by Professor Richard Conroy, 30,815,030 (2016: 30,815,030) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.*

Compliance policy statement of Karelian Diamond Resources P.L.C.

The Directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section ('relevant obligations'). The Directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to such compliance;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structure.

It is the policy of the Company to review during the course of each financial year the arrangements and structures referred to above which have been implemented with a view to determining if they provide a reasonable assurance of compliance in all material respects with relevant obligations.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations. Irish company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

Under company law, the Directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of the Company's profit or loss for that year and otherwise comply with the Companies Act 2014. In preparing of the Company financial statements, the Directors are required to:

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reason for any material departure from these standards; 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 adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company are prepared in accordance with applicable IFRS, as adopted by the EU and comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Company incurred a loss of €410,814 (2016: €258,734) for the financial year ended 31 May 2017. The Company had net current assets of €337,084 (2016: €67,605) at that date.

The Directors, have confirmed that they will not seek repayment of amounts owed to them by the Company of €324,013 (2016: €399,007) for a minimum period of 12 months from the date of approval of the financial statements, unless the Company has sufficient funds to repay.

The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2017 of €273,800 (2016: €168,825) for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C., unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2018. As set out further in the Chairman's statement the Company expects to incur material levels of capital expenditure in 2017 and 2018, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets and on the basis of the equity raised during the financial year, the results obtained from the exploration programme and the prospects for raising additional funds as required, the Board of Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Directors' report *continued*

Corporate Governance

The Company is committed to high standards of corporate governance. Although the Company, as an AIM quoted Company, is not required to comply with the UK Corporate Governance Code, the Board of Directors in so far as is practical given the Company's size, have implemented the following corporate governance provisions for the financial year ended 31 May 2017.

Board of Directors

The Board of Directors is made up of three executive and three non-executive Directors. Biographies of each of the Directors are set out on page 6.

All the Directors bring independent judgement to bear on issues affecting the Company and all have full and timely access to information necessary to enable them to discharge their duties. The Directors have a wide and varying array of experience in the industry. The Board of Directors agrees a schedule of regular meetings to be held in each calendar year and also meets on other occasions as necessary. Meetings are held at the head office in 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland. Board of Directors meetings were held on 10 occasions during all of 2016 and 2017. An agenda and supporting documentation was circulated in advance of each meeting.

There is an agreed list of matters which the Board of Directors has formally reserved to itself for decision, such as approval of the Company's commercial strategy, trading and capital budgets, financial statements, Board membership, major capital expenditure and risk management policies. Responsibility for certain matters is delegated to Board of Directors Committees.

There is an agreed procedure for Directors to take independent legal advice. The Company Secretary is responsible for ensuring that Board of Directors procedures are followed, and all Directors have direct access to the Company Secretary.

All Directors receive regular Company management financial statements and reports and full Board of Directors papers are sent to each Director in sufficient time before Board of Directors meetings, and any further supporting papers and information are readily available to all Directors on request. The Board of Directors papers include the minutes of all committees of the Board of Directors which have been held since the previous Board of Directors meeting, and, the chairman of each committee is available to give a report on the committee's proceedings at Board of Directors meetings if appropriate.

The Board of Directors has a process whereby each year every Director will meet the Chairman to review the conduct of Board of Directors meetings and the general corporate governance of the Company. The non-executive Directors are independent of management and have no material interest or other relationship with the Company.

Each year, one third of the Directors with the exception of the Chairman and the Managing Director, retire from the Board of Directors by rotation. Effectively, therefore, each such Director will retire by rotation within a three year period.

Board Committees

The Board of Directors has implemented an effective committee structure to assist in the discharge of its responsibilities. The committees and their members are listed on page 5 of this report. Membership of the Audit and Remuneration committees is comprised exclusively of non-executive Directors. The Company Secretary acts as secretary to each of these committees.

Audit Committee

The Audit Committee's terms of reference have been approved by the Board of Directors. The Audit Committee, constituted in accordance with Section 167 of the Companies Act 2014, comprises the two non-executive Directors and is chaired by Séamus P. FitzPatrick. The Audit Committee reviews the accounting principles, policies and practices adopted, and areas of management judgement and estimation in the preparation of the interim and annual financial statements and discusses with the Company's Auditors the results and scope of the audit. The Finance Director attends the Audit Committee meetings. The external auditors have the opportunity to meet with the members of the Audit Committee alone at least once a year.

The Audit Committee advises the Board of Directors on the appointment of external auditors and on their remuneration and discusses the nature and scope of the audit with the external auditors. An analysis of the fees payable to the external audit firm in respect of audit services during the financial year is detailed in Note 3 to the financial statements.

The Audit Committee also undertakes a review of any non-audit services provided to the Company; and a discussion with the auditors of all relationships with the Company and any other parties that could affect independence or the perception of independence.

The Audit Committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The Audit Committee considers internal control issues and contributes to the Board of Director'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 as a result of the size of the Company's operations. The members of the Audit 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.

Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Ms. Maureen T.A. Jones, Dr. Sorċa Conroy, James P. Jones and Louis J. Maguire. Its purpose is to support the Managing Director in carrying out the duties delegated to her by the Board of Directors.

It also ensures that regular financial reports are presented to the Board of Directors, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the Company.

Remuneration Committee

The Remuneration Committee comprises two non-executive Directors and is chaired by Séamus P. FitzPatrick. Emoluments of executive Directors and senior management are determined by the Remuneration Committee. In the course of each financial year, the Remuneration Committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive Directors. The Remuneration Committee applies the same philosophy in determining executive Directors' remuneration as is applied in respect of all employees. The underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Company.

The Board of Directors itself determines the remuneration of the non-executive Directors.

Details of Directors' remuneration for the current period are detailed in Note 2 and Note 4 to the financial statements.

Internal Control

The Directors have overall responsibility for the Company's system of internal control to safeguard shareholders' investments and the Company assets. They operate a system of financial controls which enable the Board of Directors to meet its responsibilities for the integrity and accuracy of the Company's accounting records. Following the publication of the Turnbull Report, the Board of Directors established a process of compliance which involved an expansion of the Board of Directors' responsibility to maintain, review and report on all internal controls, including financial, operational and compliance risk management. Among the processes applied in reviewing the effectiveness of the system of internal controls are the following:

- The Board of Directors establishes risk policies as appropriate, for implementation by executive management.
- All commitments for expenditure and payments are subject to approval by personnel designated by the Board of Directors.
- Regular management meetings take place to review financial and operational activities.

The Directors, through the Audit Committee, review the effectiveness of the Company's system of internal financial control.

The Board of Directors has considered the requirement for an internal audit function. Based on the scale of the Company's operations and close involvement of the Board of Directors, the Directors have concluded that an internal audit function is not currently required.

Risk Management

Refer to Note 18 in relation to the use of financial instruments by the Company, the financial risk management objectives of the Company and the Company's exposure to interest rate risk, foreign currency risk, liquidity risk and credit risk.

Currency Risk Management

Management is authorised to achieve best available rates in respect of each forecast currency requirements.

General Industry Risk

The Company's business may be affected by the general risks associated with all companies in the diamond exploration industry. These risks (the list of which is not exhaustive) include: general economic activity, the world diamond prices, government and environmental regulations, permits and licenses, fluctuating metal prices, the requirement and ability to raise additional capital through future financings and price volatility of publicly traded securities. All drilling to establish productive diamond reserves is inherently speculative and, therefore, a considerable amount of professional judgement is involved in the selection of any prospect for drilling. In addition, in the event drilling successfully encounters diamonds, unforeseeable operating problems may arise which render it uneconomic to exploit such finds. Estimates of potential reserves include substantial proportions which are undeveloped. These reserves require further capital expenditure in order to bring them into production. No guarantee can be given as to the success of drilling programmes in which the Company has an interest.

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 welcomes all shareholders to participate at general meetings. Board of Directors 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 chairpersons of the Board committees will also be available at the Annual General Meeting, as this forum is a particularly important opportunity for shareholders, directors and management to meet and exchange views.

Political donations

There were no political donations during the year (2016: Nil).

Directors' report *continued*

Books and accounting records

The Directors are responsible for ensuring adequate accounting records, as outlined in Section 281 of the Companies Act 2014, are kept by the Company. The Board of Directors, through the use of appropriate procedures and systems and the employment of competent persons have ensured that measures are in place to secure compliance with these requirements.

The accounting records are maintained at the Company's business address, 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

Relevant Audit Information

The Board of Directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Company's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Company's statutory auditors are unaware.

Auditors

Deloitte will continue in office in accordance with Section 383 (2) of the Companies Act 2014. Shareholders will be asked to authorise the Directors to fix their remuneration.

On behalf of the Directors:

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

28 November 2017

Independent Auditors' Report

We have audited the financial statements of Karelian Diamond Resources plc for the financial year ended 31 May 2017 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 20. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with the Companies Act 2014 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 Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the assets, liabilities and financial position of the company as at 31 May 2017 and of the loss for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

Emphasis of Matter – Realisation of Intangible Assets and Going Concern

In forming our opinion on the financial statements, which is not modified, we draw your attention to the disclosures made in:

- Notes 1 and 7 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 intangible assets amounting to €9,276,955 (2016: €8,712,953) is dependent on the successful further development and ultimate production of the mineral reserves and the availability of adequate finance to bring the reserves to economic maturity and profitability. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot at present be determined.
- Note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a loss of €410,814 (2016: €258,734) during the financial year ended 31 May 2017. The directors have reviewed the proposed work programme for exploration and evaluation assets and on the basis of the equity raised during the financial year, the results obtained from the exploration programme and the prospects for raising additional funds as required, 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 that would be necessary, if the group was unable to continue as a going concern.

Matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Gerard Casey
For and on behalf of Deloitte
Chartered Accountants
and Statutory Audit Firm
Limerick

28 November 2017

Income statement
for the financial year ended 31 May 2017

	Note	**2017**	2016
		€	€
Continuing operations			
Operating expenses	*2*	**(410,814)**	(258,904)
Finance income – bank interest receivable		**-**	170
Loss before taxation	*3*	**(410,814)**	(258,734)
Income tax expenses	*5*	**-**	-
Loss for the financial year		**(410,814)**	(258,734)
Loss per share			
Basic and diluted loss per share	*6*	**€(0.0011)**	€(0.0008)

The total loss for the financial year is entirely attributable to equity holders of the Company.

______________________	______________________
Professor Richard Conroy	**Maureen T.A. Jones**
Chairman	*Managing Director*

The accompanying notes form an integral part of these audited financial statements.

Karelian Diamond Resources P.L.C.

Statement of comprehensive income

for the financial year ended 31 May 2017

	2017	2016
	€	€
Loss for the financial year	**(410,814)**	(258,734)
Income/expense recognised in other comprehensive income	-	-
Total comprehensive expense for the financial year	**(410,814)**	(258,734)

The total comprehensive expense for the financial year is entirely attributable to equity holders of the Company.

The accompanying notes form an integral part of these audited financial statements.

Karelian Diamond Resources P.L.C.

Statement of financial position
as at 31 May 2017

	Note	31 May 2017 €	31 May 2016 €
Assets			
Non-current assets			
Intangible assets	*7*	**9,276,955**	8,712,953
Financial assets	*8*	**4**	4
Total non-current assets		**9,276,959**	8,712,957
Current assets			
Cash and cash equivalents	*10*	**523,324**	341,737
Other receivables	*11*	**292,562**	211,368
Total current assets		**815,886**	553,105
Total assets		**10,092,845**	9,266,062
Equity			
Capital and reserves			
Called up share capital	*14*	**5,844**	3,177,850
Called up deferred share capital	*14*	**3,174,672**	-
Share premium	*14*	**8,201,664**	6,791,581
Share based payments reserve		**765,977**	665,127
Retained losses		**(2,692,122)**	(2,163,585)
Total equity		**9,456,035**	8,470,973
Liabilities			
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	*12*	**158,008**	309,589
Total non-current liabilities		**158,008**	309,589
Current liabilities			
Trade and other payables: amounts falling due within one year	*13*	**478,802**	485,500
Total current liabilities		**478,802**	485,500
Total liabilities		**636,810**	795,089
Total equity and liabilities		**10,092,845**	9,266,062

The financial statements were approved by the Board of Directors on 28 November 2017 and authorised for issue on 28 November 2017. They are signed on its behalf by:

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Professor Richard Conroy
Chairman

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Maureen T.A. Jones
Managing Director

The accompanying notes form an integral part of these audited financial statements.

Karelian Diamond Resources P.L.C.

Statement of cash flows
for the financial year ended 31 May 2017

	2017	2016
	€	€
Cash flows from operating activities		
Loss for the financial year	**(410,814)**	(258,734)
Adjustments for:		
Interest income	**-**	(170)
Expense recognised in income statement in respect of equity settled share based payments	**74,280**	18,301
(Decrease)/increase in creditors	**(6,698)**	219,878
(Increase)/decrease in debtors	**(81,194)**	190,754
Net cash (used in)/provided by operating activities	**(424,426)**	170,029
Cash flows from investing activities		
Investment in exploration and evaluation	**(537,432)**	(607,251)
Cash used in investing activities	**(537,432)**	(607,251)
Cash flows from financing activities		
Issue of share capital	**1,412,749**	317,904
Share issue costs	**(117,723)**	(13,141)
Shareholder loan repayment	**(151,581)**	-
Interest received	**-**	170
Net cash provided by financing activities	**1,143,445**	304,933
Increase/(decrease) in cash and cash equivalents	**181,587**	(132,289)
Cash and cash equivalents at beginning of financial year	**341,737**	474,026
Cash and cash equivalents at end of financial year	**523,324**	341,737

The accompanying notes form an integral part of these audited financial statements.

Statement of changes in equity

for the financial year ended 31 May 2017

	Share capital	Share premium	Share-based payment reserve	Retained deficit	Total
	€	€	€	€	€
Balance at 1 June 2016	**3,177,850**	**6,791,581**	**665,127**	**(2,163,585)**	**8,470,973**
Share issue	2,666	1,410,083	-	-	1,412,749
Share issue costs	-	-	-	(117,723)	(117,723)
Share-based payments	-	-	100,850	-	100,850
Loss for the financial year	-	-	-	(410,814)	(410,814)
Balance at 31 May 2017	**3,180,516**	**8,201,664**	**765,977**	**(2,692,122)**	**9,456,035**
Balance at 1 June 2015	**2,865,350**	**6,786,177**	**570,256**	**(1,891,710)**	**8,330,073**
Share issue	312,500	5,404	-	-	317,904
Share issue costs	-	-	-	(13,141)	(13,141)
Share-based payments	-	-	94,871	-	94,871
Loss for the financial year	-	-	-	(258,734)	(258,734)
Balance at 31 May 2016	**3,177,850**	**6,791,581**	**665,127**	**(2,163,585)**	**8,470,973**

Share capital

The share capital comprises of the nominal value share capital issued for cash and non-cash consideration. The share capital also comprises deferred share capital. The deferred share capital arose through the restructuring of share capital which was approved at an Extraordinary General Meeting held on 9 December 2016. A detailed breakdown of the share capital figure is included in Note 14.

Share premium

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

This reserve represents the accumulated losses absorbed by the Company to the statement of financial position date.

The accompanying notes form an integral part of these audited financial statements.

1 Accounting policies

Reporting entity

Karelian Diamond Resources P.L.C. (the "Company") is a company domiciled in Ireland.

Basis of preparation

The financial statements are presented in Euro ("€"). The € is the functional currency of the Company. The financial statements are prepared under the historical cost basis except for derivative financial instruments which, if any, are measured at fair value at each reporting date.

The preparation of financial statements requires the Board of Directors and management to use judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Details of critical judgements are disclosed in the accounting policies.

The financial statements were authorised for issue by the Board of Directors on 28 November 2017.

Going concern

The Company incurred a loss of €410,814 (2016: €258,734) for the financial year ended 31 May 2017. The Company had net current assets of €337,084 (2016: €67,605) at that date.

The Directors, have confirmed that they will not seek repayment of amounts owed to them by the Company of €324,013 (2016: €399,007) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2017 of €273,800 (2016: €168,825) for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C., unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2018. As set out further in the Chairman's statement, the Company expects to incur material levels of capital expenditure in 2018, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets and on the basis of the equity raised during the financial year, the results obtained from the exploration programme and the prospects for raising additional funds as required, the Board of Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Statement of compliance

The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union ("EU").

Recent accounting pronouncements

The following are amendments to existing standards and interpretations that are effective for the Company's financial year from 1 June 2016:

- Annual Improvements to IFRSs 2012-2014 cycle
- IFRS 11: *Accounting for acquisitions of interests in Joint Operations*
- IFRS 14: *Regulatory Deferral Accounts*
- IAS 16: *Property, Plant and Equipment and IAS 41: Bearer Plants*
- IAS 16 and 38: *Acceptable methods of depreciation/amortisation*
- IAS 27: *Equity method in Separate Financial Statements*

1 Accounting policies *(continued)*

Recent accounting pronouncements *(continued)*

- IAS 1: *Disclosure initiative*
- IFRS 10, IFRS 12 and IAS 28: *Investment entities: Applying the consolidation exception.*

The adoption of these amendments did not have a significant impact on the Company's financial statements.

Standards endorsed by the EU that are not yet required to be applied but can be early adopted are set out below. None of these standards have been applied in the current period. The Board of Directors are currently assessing whether these standards will have a material impact on the financial statements.

- IAS 7: *Disclosure initiative – effective 1 January 2017*
- IAS 12: *Recognition of deferred tax assets for unrealised losses – effective 1 January 2017*
- IFRS 15: *Revenue from contracts with customers (May 2014) including amendments to IFRS 15 - effective 1 January 2018*
- IFRS 9: *Financial Instruments - effective 1 January 2018*

The following standards have been issued by the IASB but have not yet been endorsed by the EU, accordingly none of these standards have been applied in the current period and the Board of Directors are currently assessing whether these standards will have a material impact on the financial statements.

- IFRS 14 : *Regulatory Deferral Accounts*
- Clarification to IFRS 15: *Revenue from contracts with customers*
- Amendments to IFRS 2: *Classification and measurement of share-based payment transactions*
- Amendments to IFRS 4: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Annual Improvements to IFRS 2014 - 2016 Cycle
- IFRIC 22: *Foreign Currency transaction and advance consideration*
- Amendments to IAS 40: *Foreign Currency transaction and advance consideration*
- IFRS 16: *Leases*
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture*

(a) Intangible assets

The Company accounts for mineral expenditure in accordance with IFRS 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. E&E 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, E&E capitalised costs include an allocation from operating expenses, including share based payments, all such costs being necessary for exploration and evaluation activities.

E&E capitalised 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.

1 Accounting policies *(continued)*

(a) Intangible assets *(continued)*

(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 in relation to E&E assets:

- The period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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.

(b) Transaction costs

Transaction costs arising on the issue of share capital are accounted for as a deduction from equity against retained earnings.

(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) Income taxation expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities on a net basis or their tax assets and liabilities will be settled simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1 Accounting policies *(continued)*

(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.

(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) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares.

(i) 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.

(j) Pension costs

The Company provides for pensions for certain employees through a defined contribution pension schemes. The amounts charged to the income statement and statement of financial position is the contribution payable in that financial year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables in the statement of financial position.

(k) Foreign currencies

Transactions denominated in foreign currencies relating to costs and non-monetary assets are translated into € 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 € at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the income statement.

(l) Shareholder loan

The shareholder loan is initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective 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.

1 Accounting policies *(continued)*

(m) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from retained earnings, net of any tax effects.

(n) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

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

Exploration and evaluation assets

The assessment of whether operating costs and salary costs are capitalised or expensed involves judgement. The Board of Directors consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within exploration and evaluation assets. Given that the activity of management and the resultant administration and salary costs are primarily focused on the Company's diamond prospects, the Board of Directors consider it appropriate to capitalise a portion of such costs.

Intangible assets

As outlined in the intangible assets accounting policy, the exploration and evaluation assets should be allocated to CGU's. The determination of what constitutes a CGU requires judgement.

The carrying value of each CGU 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 judgements:

- 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 financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption 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 Board of Directors have reviewed the proposed programme for exploration and evaluation assets and on the basis the equity raised during the financial year, the encouraging results from the exploration programme and the prospects for raising additional funds as required, consider it appropriate to prepare the financial statements on the going concern basis.

Refer to page 19 for further details.

Key sources of estimation uncertainty

The preparation of the financial statements requires the Board of Directors 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 financial 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 overleaf.

1 Accounting policies *(continued)*

(n) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Exploration and evaluation assets

The carrying value of exploration and evaluation assets was €9,276,955 (2016: €8,712,953) at 31 May 2017. The Board of Directors carried out an assessment, in accordance with IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to the remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities over specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount. Based on this assessment the Board of Directors is satisfied as to the carrying value of these assets and is satisfied that these are recoverable, acknowledging however that their recoverability is dependent on future successful exploration efforts.

Employee benefits - Share based payment transactions

The Company operates an equity-settled share based payment arrangements with non-market performance conditions which fall within the scope of and are accounted for under the provisions of IFRS 2: *Share Based Payment*. Accordingly, the grant date fair value of the options under these schemes is recognised as a personnel expense with a corresponding increase in the “Share based payment reserve”, within equity, over the vesting period. 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. The fair value of these options is measured using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Deferred tax

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

2 Operating expenses

	2017	2016
	€	€
(a) Analysis of operating expenses		
Operating expenses	**718,854**	617,067
Transfer to intangible assets	**(308,040)**	(358,163)
	410,814	258,904
Operating expenses are analysed as follows:		
Wages, salaries and related costs	**289,008**	240,831
Share based payments	**100,850**	94,871
Auditor remuneration	**12,500**	12,500
Other operating expenses	**316,496**	268,865
	718,854	617,067

Of the above costs, a total of €308,040 (2016: €358,163) is capitalised to intangible assets based on a review of the nature and quantum of the underlying costs.

2 Operating expenses *(continued)*

	2017	2016
	€	€
(b) Wages, salaries and related costs as disclosed above is analysed as follows:		
Wages and salaries	**264,671**	216,581
Social insurance costs	**337**	250
Retirement benefit costs	**24,000**	24,000
Other compensation costs	**-**	-
	289,008	240,831

Amount of wages and salaries capitalised to intangible assets during the financial year was €146,274 (2016: €197,934).

The average number of persons employed during the year (including executive Directors) by activity was as follows:

	2017	2016
Corporate management and administration	3	3
	3	3

An analysis of remuneration for each Director of the Company in the current financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees	**Salary**	**Share based**	**Pension**	**Total**
	€	**€**	**payment €**	**contributions €**	**€**
Professor Richard Conroy	20,000	65,000	20,120	-	105,120
Maureen T.A. Jones	10,000	50,000	12,520	15,000	87,520
James P. Jones	10,000	30,000	8,072	9,000	57,072
Louis J. Maguire	10,000	-	524	-	10,524
Séamus P. Fitzpatrick	10,000	-	524	-	10,524
Dr. Sorċa Conroy	10,000	-	-	-	10,000
	70,000	**145,000**	**41,760**	**24,000**	**280,760**

An analysis of remuneration for each Director of the Company in the prior financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees	**Salary**	**Share based**	**Pension**	**Total**
	€	**€**	**payment €**	**contributions €**	**€**
Professor Richard Conroy	20,000	65,000	12,460	-	97,460
Maureen T.A. Jones	10,000	50,000	9,459	15,000	84,459
James P. Jones	10,000	30,000	5,878	9,000	54,878
Louis J. Maguire	10,000	-	524	-	10,524
Séamus P. Fitzpatrick	10,000	-	524	-	10,524
Dr. Sorċa Conroy	10,000	-	-	-	10,000
Roger I. Chaplin	5,385	-	161	-	5,546
	75,385	145,000	29,006	24,000	273,391

2 Operating expenses *(continued)*

The total share based payment charge of €100,850 (2016: €94,871) is accounted for as shown below:

	2017	2016
	€	€
Share based payment charge expensed to income statement	**74,280**	18,301
Share based payment charge transferred to intangible assets	**26,570**	76,570
	100,850	94,871

In the opinion of the Directors, approximately 63% (2016: 80%) of the share based payment charge is directly related to exploration and evaluation activities, and has been capitalised within intangible assets.

3 Loss before taxation

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

	2017	2016
	€	€
Depreciation	**-**	-

Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2017	2016
• Audit of financial statements	**12,500**	12,500

4 Directors' remuneration

	2017	2016
	€	€
Aggregate emoluments paid to or receivable by Directors in respect of qualifying services	**215,000**	220,385
Aggregate amount of gains by Directors on exercise of share options during the financial year	**-**	-
Aggregate amount of money or value of other assets including shares, but excluding share options, paid to or receivable by the Directors under long term incentive schemes in respect of qualifying services	**41,760**	29,006

	2017	2016
	€	€
Aggregate contributions paid, treated as paid, or payable during the financial year to a retirement benefit scheme in respect of qualifying services of Directors:		
• Defined contribution scheme – for 2 Directors (2016: 2)	**24,000**	24,000
• Defined benefit scheme	**-**	-

	2017	2016
	€	€
Compensation paid, or payable, or other termination payments in respect of loss of office to Directors of the Company in the financial year:		
• Officer of Director of the Company	**-**	-
• Other offices	**-**	-

	2017	2016
	€	€
Amounts paid or payable to past Directors of the Company or its holding undertaking:		
• For retirement benefits in relation to services as Directors	**-**	-
• For other retirement benefits	**-**	-

	2017	2016
	€	€
Compensation paid or payable for loss of office or other termination benefits:		
• Office of Director	**-**	-
• Other offices	**-**	-

5 Income tax expense

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

Factors affecting the tax charge for the financial year:

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

	2017	2016
	€	€
Loss on ordinary activities before tax	**(410,814)**	(258,734)
Irish standard tax rate	**12.50%**	12.50%
Tax credit at the Irish standard rate	**(51,352)**	(32,342)
Effects of:		
Losses carried forward for future utilisation	**51,352**	32,342
Tax charge for the financial 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.

Unutilised losses may be carried forward from the date of the origination of the losses, but may only be offset against taxable profits earned from the same trade.

6 Loss per share

Basic earnings per share

	2017	2016
	€	€
Loss for the year attributable to equity holder of the Company	**(410,814)**	(258,734)
Number of ordinary shares at start of financial year	**317,785,034**	286,535,034
Number of ordinary shares issued during the financial year	**266,666,664**	31,250,000
Number of ordinary shares at end of financial year	**584,451,698**	317,785,034
Weighted average number of ordinary shares for the purposes of basic earnings per share	**382,564,333**	287,219,281
Basic loss per ordinary share	**(€0.0011)**	(€0.0008)

Diluted earnings per share

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

7 Intangible assets
Exploration and evaluation assets

Cost	**2017**	2016
	€	€
At 1 June	**8,712,953**	8,029,132
Expenditure during the financial year		
• Licence and appraisal costs	**255,962**	325,658
• Other operating expenses (Note 2)	**281,470**	281,413
• Equity settled share based payments (Note 2)	**26,570**	76,750
At 31 May	**9,276,955**	8,712,953

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities. These assets are carried at historical cost and have been assessed for impairment in particular with regard to the requirements of IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities as a result of specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount.

The Board of Directors have considered the proposed work programmes for the underlying mineral reserves. They are satisfied that there are no indications of impairment.

The Board of Directors note that the realisation of the intangible assets is dependent on further successful development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the resources to economic maturity and profitability.

8 Financial assets

	31 May 2017	31 May 2016
	€	€
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 asset 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 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

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

9 Property, plant and equipment

	2017	2016
	€	€
Cost		
At 1 June	1,677	1,677
Additions	-	-
At 31 May	**1,677**	1,677
Accumulated depreciation		
At 1 June	1,677	1,677
Charge for the financial year	-	-
At 31 May	**1,677**	1,677
Net Book Value At 31 May	**-**	**-**

10 Cash and cash equivalents

	31 May 2017	31 May 2016
	€	€
Cash held in bank accounts	**523,324**	341,737
	523,324	341,737

The cash held in bank accounts is held solely with AIB, in both sterling and € bank accounts (2016: solely with AIB).

11 Other receivables

	31 May 2017	31 May 2016
	€	€
Amount due from related party	**273,800**	168,825
Vat receivable	**18,762**	39,833
Other debtors	**-**	2,710
	292,562	211,368

The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2017 of €273,800 (2016: €168,825) for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C., unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C.

12 Trade and other payables: amounts falling due after more than one year
Shareholder loan

	31 May 2017	31 May 2016
	€	€
Opening balance 1 June	**309,589**	309,589
Loan repayment	**(151,581)**	-
Closing balance 31 May	**158,008**	309,589

Prior to the various placings of shares, the immediate funding requirements of the Company had been financed by advances from Professor Richard Conroy (executive chairman and major shareholder). This loan is interest free and is repayable on demand. Professor Richard Conroy has undertaken to not seek repayment of this amount within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

13 Trade and other payables: amounts falling due within one year

	31 May 2017	31 May 2016
	€	€
Accrued Directors' remuneration		
Fees and other emoluments	**96,013**	195,007
Pension contributions	**228,000**	204,000
Other accruals	**154,789**	86,493
	478,802	485,500

It is the Company's practice to agree terms of transactions, including payment terms with suppliers. It is the Company's policy that payment is made according to the agreed terms. The carrying value of the trade and other payables approximates to their fair value.

14 Called up share capital and share premium

Authorised:	**31 May 2017**	31 May 2016
	€	€
182,532,751,034 ordinary shares of €0.00001 each*	**1,825,328**	-
317,785,034 deferred shares of €0.00999 each*	**3,174,672**	-
500,000,000 ordinary shares of €0.01 each	**-**	5,000,000
	5,000,000	5,000,000

***Capital reorganisation:**
Following approval at the Annual General Meeting held on 9 December 2016, the Company reorganised its share capital by subdividing and reclassifying each issued ordinary share of €0.01 as one ordinary share of €0.00001 each and one deferred share of €0.00999 each.

The Deferred Shares have no right to vote, attend or speak at general meetings of the Company and will have no right to receive any dividend or other distribution and will have only limited rights to participate in any return of capital on a winding-up or liquidation of the Company, which will be of no material value. No application was made to the London Stock Exchange or the Irish Stock Exchange for admission of the Deferred Shares to trading on AIM or the ESM.

On 6 November 2017, the Company cancelled the admission of its ordinary shares to trade on the ESM of the Irish Stock Exchange. This cancellation occurred on 6 November 2017.

14 Called up share capital and share premium *(continued)*

Issued and fully paid – Current financial year

	Number of ordinary shares	**Called up share capital €**	**Called up deferred share capital €**	**Share premium €**
Start of current financial year	317,785,034	3,177,850	-	6,791,581
Reclassified	317,785,034	3,178	3,174,672	6,791,581
Share issue ***(b)***	94,444,444	944	-	498,307
Share issue ***(c)***	172,222,220	1,722	-	911,776
End of current financial year	**584,451,698**	**5,844**	**3,174,672**	**8,201,664**

Issued and fully paid – Prior financial year

	Number of ordinary shares	**Called up share capital €**	**Called up deferred share capital €**	**Share premium €**
Start of previous financial year	286,535,034	2,865,350	-	6,786,177
Share issue ***(a)***	31,250,000	312,500	-	5,404
End of previous financial year	317,785,034	3,177,850	-	6,791,581

(a) On 16 May 2016, 31,250,000 ordinary shares of €0.01 were issued each at 0.8p sterling (€0.010173) per ordinary share resulting in a premium of €0.000173 per share. Further, on 16 May 2016, 31,500,000 warrants at an exercise price of 1.6p sterling per warrant were issued. The warrants can be exercised at any time up to 24 May 2018. The warrants also contain a mandatory exercise clause if the closing price of the ordinary shares remains at 5p sterling or higher for 10 or more consecutive business days.

(b) On 21 December 2016, 94,444,444 ordinary shares of €0.00001 were issued, each at 0.45p sterling (€0.00534188) per ordinary share resulting in a premium of €0.00533188 per share. Further, on 21 December 2016, 47,222,222 warrants at an exercise price of 0.8p sterling per warrant were issued. The warrants can be exercised at any time up to 29 December 2018.

(c) On 12 April 2017, 172,222,220 ordinary shares of €0.00001 were issued, each at 0.45p sterling (€0.00527364) per ordinary share resulting in a premium of €0.00526364 per share. Further, on 12 April 2017, 79,629,631 warrants at an exercise price of 0.8p sterling per warrant were issued. The warrants can be exercised at any time up to 28 April 2019.

(d) At 31 May 2017 and 31 May 2016, warrants over 12,852,677 ordinary shares exercisable at €0.10 at any time up to 16 November 2022 were also outstanding.

(e) At 31 May 2017, 800,000 (2016: 1,000,000) options were outstanding, exercisable at €0.0761 (2016: prices exercisable prices ranged from €0.0761 to €0.0975) and will expire on 14 January 2018.

(f) The ordinary share price at 31 May 2017 was 0.53525p sterling (after capital reorganisation) (2016:1.0000p sterling). During the financial year the ordinary share price ranged from 0.42013p sterling to 1.02500p sterling (2016: 0.52500p sterling to 1.2000p sterling).

15 Commitments and Contingencies

At 31 May 2017, there were no capital commitments or contingent liabilities (2016: €Nil). Should the Company decide to develop the Lahtojoki project, an amount of €100,000 is payable by the Company.

16 Related party transactions

(a) Details of a shareholder loan advanced by Professor Richard Conroy are outlined in Note 12 of the financial statements. Professor Richard Conroy has undertaken to not seek repayment of this amount within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

(b) The Company shares accommodation with Conroy Gold and Natural Resources P.L.C. which has certain common Directors and shareholders. For the financial year ended 31 May 2017, Conroy Gold and Natural Resources P.L.C. incurred costs totalling €278,810 (2016: €245,733) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources P.L.C.

	2017	2016
	€	€
Exploration costs	**87,493**	118,964
Other operating expenses	**47,196**	46,958
Office salaries	**46,343**	6,344
Travel and subsistence	**41,313**	16,776
Rent and rates	**31,793**	34,876
Legal and professional	**24,672**	21,815
	278,810	245,733

(c) At 31 May 2017, Conroy Gold and Natural Resources P.L.C. owed €273,800 (2016: €168,825) to the Company. Amounts owed from to Conroy Gold and Natural Resources P.L.C. are included within other receivables in the current and previous financial years. The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek the repayment of the amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2017 for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C. unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C.

(d) At 31 May 2017, Maureen T.A. Jones was owed €80 (2016: €80) by the Company.

(e) Details of key management compensation which comprises Directors remuneration are detailed in Note 2 to the financial statements.

(f) Details of share capital transactions with the Directors are disclosed in the Directors Report.

(g) Apart from Directors remuneration (detailed in Note 2 and Note 4), a loan from a shareholder (who is also a Director which is detailed in Note 12), and share capital transaction (which are detailed within the Directors Report), there here have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest.

17 Share based payments

The Company operates a share option scheme for key individuals 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 financial year are as follows:

	2017 No. of Share Options	**2017 Weighted Average Exercise Price €**	2016 No. of Share Options	2016 Weighted Average Exercise Price €
At 1 June	1,000,000	0.0803	1,000,000	0.0803
Lapsed during the financial year	(200,000)	0.0975	-	-
At 31 May	**800,000**	**0.0761**	**1,000,000**	**0.0803**

Warrants granted generally have a vesting period of ten years. Warrants granted during the financial year vested immediately, and with an expiry period of 2 years. Details of the warrants outstanding during the financial year are as follows:

	2017 No. of Share Warrants	**2017 Weighted Average Exercise Price €**	2016 No. of Share Warrants	2016 Weighted Average Exercise Price €
At 1 June	44,102,677	0.0440	16,852,677	0.0919
Granted during the financial year	126,851,853	0.0092	31,250,000	0.0210
Lapsed during the financial year	-	-	(4,000,000)	0.0659
At 31 May	**170,954,530**	**0.0171**	**44,102,677**	**0.0440**

The Company estimated the fair value of 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 P.L.C. 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.

	2017 Stock Options	**2017 Stock Warrants**	2016 Stock Options	2016 Stock Warrants
Dividend yield	0%	0%	0%	0%
Expected volatility	70%	53%	70%	70%
Risk free interest rate	4.2%	0.1%	4.2%	4.1%
Expected life (in years)	10	2	10	10

This calculation results in a share based payment reserved movement of €41,971 (2016: €94,871).

18 Financial instruments

Financial risk management objectives, policies and processes

The Company has exposure to the following risks from its use of financial instruments:

(a) Interest rate risk;
(b) Foreign currency risk;
(c) Liquidity risk; and
(d) Credit risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and framework in relation to the risks faced.

(a) Interest rate risk

The Company currently finances its operations through shareholders' funds. Short term cash funds are invested, if appropriate, in short term interest bearing bank deposits. The Company did not enter into any hedging transactions with respect to interest rate risk.

The interest rate profile of these interest bearing financial instruments was as follows:

	2017	2016
Variable rate instruments:	**€**	€
Financial assets – cash and cash equivalents	**523,324**	341,737
	523,324	341,737

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points ("bps") in interest rates at 31 May 2017 and 31 May 2016 would have decreased the reported loss by €5,233 (2016: €3,417). A decrease of 100 basis points would have had an equal and opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

(b) Foreign currency risk

The Company is exposed to currency risk on purchases, loans and bank deposits that are denominated in a currency other than the functional currency of the entities of the Company.

It is Company policy to ensure that foreign currency risk is managed wherever possible by matching foreign currency income and expenditure. During the years ended 31 May 2017 and 31 May 2016 the Company did not utilise foreign currency forward contracts or other derivatives to manage foreign currency risk.

18 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(b) Foreign currency risk *(continued)*

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2017:

	GBP exposure denominated in €	Not at risk €	Total €
Amount due from related party	-	273,800	273,800
Cash and cash equivalents	308,256	215,068	523,324
Trade and other payables	-	(478,802)	(478,802)
Shareholder loan	-	(158,008)	(158,008)
Total exposure	**308,256**	**(147,942)**	**160,314**

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2016:

	GBP exposure denominated in €	Not at risk €	Total €
Other debtor	-	2,710	2,710
Amount due from related party	-	168,825	168,825
Cash and cash equivalents	316,059	25,678	341,737
Trade and other payables	-	(485,500)	(485,500)
Shareholder loan	-	(309,589)	(309,589)
Total exposure	316,059	(597,876)	(281,817)

The following are the significant exchange rates that applied against €1 during the financial year:

	Average Rate 2017	Average Rate 2016	**Spot rate 31 May 2017**	Spot Rate 31 May 2016
GBP	**0.852**	0.743	**0.874**	0.762

Sensitivity analysis

A 10% strengthening of the € against sterling, based on outstanding financial assets and liabilities at 31 May 2017 would have increased the reported loss by €30,826 (2016: €31,606) as a consequence of the retranslation of foreign currency denominated financial assets at those dates. A weakening of 10% of the € against sterling would have had an equal and opposite effect. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

18 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(c) Liquidity risk

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by regularly monitoring cash flow projections. The nature of the Company's exploration and appraisal activities can result in significant differences between expected and actual cash flows.

Contractual maturities of financial liabilities as at 31 May 2017 were as follows:

Item	Carrying amount €	Contractual cash flows €	6 months or less €	6 -12 months €	1-2 years €	2-5 years €
Trade and other payables	**636,810**	636,810	478,802	-	158,008	-

Contractual maturities of financial liabilities as at 31 May 2016 were as follows:

Item	Carrying amount €	Contractual cash flows €	6 months or less €	6 -12 months €	1-2 years €	2-5 years €
Trade and other payables	795,089	795,089	485,500	-	309,589	-

The Directors, have confirmed that they will not seek repayment of amounts owed to them by the Company of €324,013 (2016: €399,007) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

Professor Richard Conroy has undertaken to not seek repayment of monies advanced by him as a shareholder loan of €158,008 (2016: €309,589) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

The Company had cash and cash equivalents of €523,324 at 31 May 2017 (31 May 2016: €341,737).

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a cash deposit is not recovered. Company deposits are placed only with banks with appropriate credit ratings.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 May was:

	2017	2016
	€	€
Cash and cash equivalents	**523,324**	341,737
Other debtors	**-**	2,710
	523,324	344,447

The Company's cash and cash equivalents are held at AIB Bank which has a credit rating of "BBB-" as determined by Fitch.

18 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(e) Fair values versus carrying amounts

Due to the short term nature of all of the Company's financial assets and liabilities at 31 May 2017 and 31 May 2016, the fair value equals the carrying amount in each case.

(f) Capital management

The Company has historically funded its activities through share issues and placings. The Company's capital structure is kept under review by the Board of Directors and it is committed to capital discipline and continues to maintain flexibility for future growth.

19 Post balance sheet events

In October 2017, the Company has been informed that TUKES has granted the Company an exploration permit in the Kuhmo region of Finland. The permit covers an area of 601.68 ha surrounding the location where the Company discovered a diamond in till (31 January 2017). The permit has been granted for a period of four years as from July 2017. An exploration permit provides the holder with an exclusive right to apply for a mining permit.

The Company announced on 10 October 2017 that it is to cancel the admission of its ordinary shares to trading on the Enterprise Securities Market ("ESM") on the Irish Stock Exchange on 6 November 2017. This cancellation occurred on 6 November 2017.

20 Approval of the audited financial statements for the financial year ended 31 May 2017

These audited financial statements were approved by the Board of Directors on 28 November 2017. A copy of the audited financial statements will be available on the Company's website www.kareliandiamondresources.com and will be available from the Company's registered office at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.