KARELIAN
DIAMOND RESOURCES

Annual Report and Financial Statements **2018**

Contents

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 2018.

The year has been a very positive one, during which the Company has followed up on its exploration successes, including the discovery of a green diamond and a new kimberlite pipe and has carried out a Preliminary Economic Assessment ("PEA"), of the Lahtojoki diamond deposit in Kuopio-Kaavi, over which it has been granted a mining concession.

Business Development

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.

Your Company has acquired a diamond deposit at Lahtojoki in the Kuopio-Kaavi region of Finland, discovered a diamond in a till sample taken on its Anomaly 5 exploration area near Kuhmo in Eastern Finland, discovered a new kimberlite body at Riihivaara, also in the Kuhmo region, and demonstrated that the Seitapera diamondiferous kimberlite is the largest kimberlite body discovered to date in Finland.

During the year, the Company completed a PEA on the Lahtojoki diamond deposit and also tested the large Eastern lobe of the deposit, with positive results. In addition, exploration acreage adjacent to Lahtojoki has been acquired and exploration accelerated at Riihivaara and Anomaly 5, where the green diamond was discovered.

The Lahtojoki Diamond Deposit

The Lahtojoki diamond deposit was acquired from A & G Mining Oy ("AGM"), a private Finnish company. The deposit is situated in the Kuopio-Kaavi region in Finland. The location is highly favourable for development with excellent infrastructure, including good roads, power distribution and local technical and logistic availability.

Your Company has been granted a mining concession over the deposit. A PEA carried out during the year has been very positive, both technically and financially. In excess of 2M carats appear to be recoverable with an in-situ value of US$211M. An open/vertical pit mining operation is recommended with a 9+ year life-of mine, with payback by year two, an IRR of 55% and an NPV (8%) of circa US$39.1M.

Microdiamond analysis of drillcore from the previously untested Eastern lobe, which represents the largest part of the Lahtojoki diamond deposit and has a high proportion of the overall tonnage of the deposit, has yielded results comparable to those in the smaller Western and Central portions of the deposit. These results have given increased confidence for the economics of the deposit and indicated the potential for high quality diamonds of good colour and shape.

Core from Kuhmo Area being examined in Company Core Shed in Finland

Drill core from Anomaly 5

GTK Office

The general quality of the micro diamonds in the Eastern lobe is good. Inclusions in the crystals are either absent or very slight and the majority (90%) of the stones are white/colourless. While microdiamond characteristics are not guaranteed to be similar in the commercial sized diamond population, their attributes do indicate the potential for high quality diamonds.

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

The Company acts in close association with consultants from the Geological Survey of Finland ("GTK").

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 the kimberlite in the boulder fragments is classified as cohesive (hypabyssal) kimberlite which is an extremely rare kimberlite facies in the Lahtojoki Kimberlite pipe. These findings suggest that another kimberlite body may be present. Your Company has therefore applied for exploration acreage in the area.

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

Green Diamond Discovery

The sparkling clear crystal, greenish in colour and 0.8mm in diameter, forming a 12-sided, curved and twinned dodecahedron diamond which your Company discovered in a till exploration sample taken on its Anomaly 5 exploration area near Kuhmo in eastern Finland. Such a discovery in diamond exploration is an extremely rare event.

The Company has since been actively engaged in an exploration programme to discover the source of the diamond. The programme has included airborne and ground geophysics and an extensive pitting programme up-ice from the site of the discovery and has led to the discovery of kimberlite indicator trains, suggesting that the diamond source may be close.

During the year, drilling and further laboratory analyses have been carried out directed towards narrowing down the source of the diamond with, post year end, the discovery of an orangeite (Group II kimberlite) a potentially diamondiferous host rock, in drillcore samples from three drill holes.

Also post period Electron Probe Microanalyser results on sample material taken up-ice from where the Company discovered the green diamond has confirmed that the sample material contains indicator minerals derived from the diamond stability field of the Earth's mantle.

The Riihivaara Kimberlite

The discovery by the Company of a kimberlite body at Riihivaara in the Kuhmo region of Finland, the first new kimberlite to be discovered in Finland in over 10 years, was made through a combination of till sampling and ground geophysics. The kimberlite body has, to date, been intersected by five trenches and is still open along strike and at depth.

Orangeite (Group II Kimberlite) Discovery

Chairman's Statement *continued*

Lahtojoki diamond deposit

Freshly drilled core – Kuhmo

Agreement With Rio Tinto

Karelian has a Confidentiality Agreement (with Back in Rights) with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). This agreement with Rio Tinto has been extended to 2020.

Under the agreement, Rio Tinto discloses 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, Karelian has agreed that Rio Tinto will have the option to earn a 51% interest in any project identified by Karelian in Finland by Rio Tinto paying the direct cash expenditures incurred in developing the project.

Finance

The loss after taxation for the financial year ended 31 May 2018 was €439,568 (2017: €410,814) and the net assets as at 31 May 2018 were €9,016,467 (2017: €9,456,036).

During the year the Company cancelled the admission of its ordinary shares to trading on ESM. The Company's ordinary shares continue to be admitted to trading on AIM.

On 11 June 2018, the Company raised £500,000 (€569,390) before expenses through the issue of 11,111,111 new ordinary shares at 0.45p sterling for each ordinary share. 388,889 broker warrants were issued in conjunction with this share placing. These warrants have an exercise price of £0.045 sterling and are exercisable until 11 December 2020.

Share Consolidation

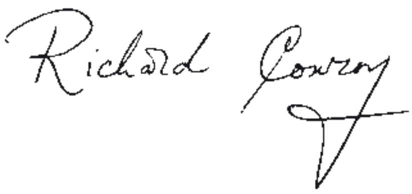
At the Annual General Meeting held on 21 December 2017, the Directors proposed that the issued and unissued ordinary shares would be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. This proposal was accepted by the shareholders and thereafter each existing shareholder held 1 new ordinary share in place of each 25 existing shares.

Directors And Staff

I would like to express my deep appreciation of the support and dedication of all the directors, consultants and staff, which has made possible the continued progress and success which the Company has achieved. I would especially like to pay tribute to James P. Jones who did not go forward at the last AGM. James was a founder director of the Company and has played an outstanding role in the overall progress and success of the Company, particularly in relation to its financial affairs, as Financial Director.

Future Outlook

The Company has continued to make excellent progress in its exploration and development programme. I look forward to this continuing on an accelerated basis as we move to mine development at Lahtojoki and target the discovery of a diamond deposit in the Kuhmo region.



Professor Richard Conroy
Chairman

15 November 2018

Company Information

Directors

Professor Richard Conroy
*Chairman**

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

Dr. Sorċa Conroy
*Non-Executive Director**

Maureen T.A. Jones
*Managing Director**

Louis J. Maguire
*Non-Executive Director**+§

Brendan McMorrow
Non-Executive Director

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

Company Secretary and Registered Office

Maureen T.A. Jones
3300 Lake Drive,
Citywest Business Campus,
Dublin, D24 TD21, Ireland

Statutory Audit Firm

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

Registrars

Link Registrars Limited
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Dublin, D02 A342,
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London Stock Exchange

AIM Market Symbol: KDR

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Ireland

Roschier
Kaskuskatu 7A,
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HPP Attorneys Ltd
Bulevardi 1 A 00100
Helsinki
Finland

Broker

Brandon Hill Capital Ltd
1 Tudor Street,
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UK

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Karelian Diamond Resources plc
3300 Lake Drive,
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or contact:

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1 Northumberland Street
Dublin 4, D04 F578

Tel: +353 1 660 9377

Professor Richard Conroy
Chairman

Seamus P. FitzPatrick
Deputy Chairman

Dr. Sorċa C. Conroy
Non-Executive Director

Maureen T.A. Jones
Managing Director

Louis J. Maguire
Non-Executive Director

Brendan McMorrow
Non-Executive Director

Board of Directors

Professor Richard Conroy

Chairman of the Board of Directors

Professor Richard Conroy is responsible for leading the Board and ensuring it operates in an effective manner whilst promoting communication with Shareholders. He has over 40 years experience of founding and growing companies in the natural resources industry with a track record in making discoveries of global significance.

Experience

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 human circadian rhythms.

Séamus P. FitzPatrick

Deputy Chairman/Non-executive Director

In addition to his role as Non-executive Director, Séamus P. FitzPatrick is responsible for working closely with the Chairman to ensure the operation of the Board and its Committees in an effective manner. He brings extensive capital markets experience to the Company.

Experience

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 oversees all of the Company's business and is responsible for formulating the Company's objectives and strategy. She is also the Company Secretary for the Company.

Experience

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.

Dr. Sorċa Conroy

Non-executive Director

Dr. Sorċa Conroy brings a broad range of knowledge to bear on the Company through her capital markets experience and her experience in the natural resources sector.

Experience

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 and was a director of Conroy Gold and Natural Resources P.L.C. for over 10 years.

Louis J. Maguire

Non-executive Director

Louis J. Maguire has a wealth of experience gained in financial and commercial roles across diverse industries including natural resources.

Experience

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.

Brendan McMorrow

Non-executive Director

Brendan McMorrow brings a broad range of knowledge gained through holding senior financial roles in a variety of listed public companies in the natural resources sector. He was appointed to the Board on 15 November 2018.

Experience

Brendan McMorrow has over 25 years' experience in a number of public companies in the oil and gas and base metals mining sectors listed in London, Toronto and Dublin where he held senior executive finance roles. He is currently Finance Director of Dunraven Resources P.L.C., an oil and gas exploration and development company. Prior to that he was Chief Financial Officer of Circle Oil P.L.C. from 2005 to 2015, an AIM listed oil and gas exploration, development and production company, with operations in North Africa and the Middle East. Brendan is a Fellow of the Chartered Association of Certified Accountants. He is also a Director of Conroy Gold and Natural 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 2018.

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 3 to 5. During the financial year under review, the principal focus of management was to continue to develop the activities of the Company concentrating particularly on diamond exploration and evaluation.

The challenges facing the Company in achieving this strategy, are world commodity prices and general economic activity, ensuring compliance with governmental and environmental legislation and meeting work commitments under exploration permits and licences sufficient to maintain the Company's interest therein. To accomplish its strategy and manage the challenges involved, the Company employs experienced individuals with a track record of success of working with resource bodies together with suitably qualified technical personnel and consultants, experienced drilling and geophysical and other contractors and uses accredited international laboratories and technology to interpret and assay technical results. Additionally, the Company ensures as far as possible to obtain adequate working capital to carry out its work obligations and commitments.

By coordinating all of the above, this should result in a satisfactory return for shareholders.

Results for the year and state of affairs at 31 May 2018

The income statement for the financial year ended 31 May 2018 and the statement of financial position at that date are set out on pages 17 and 19. The loss for the year amounted to €439,568 (2017: €410,814) and net assets at 31 May 2018 were €9,016,467 (2017: €9,456,035). No interim or final dividends or transfers have been or are recommended by the Board of Directors.

Important events since the year end

On 11 June 2018, the Company raised £500,000 (€569,390), through a placing of 11,111,111 ordinary shares of €0.00025 in the capital of the Company (the "Placing Shares") at a price of £0.0450 sterling per Placing Share. In conjunction with the Placing the Company issued 388,889 Broker Warrants, which are exercisable at £0.0450 sterling until 11 December 2020, to Brandon Hill Capital Ltd.

Directors

The directors who served at any time during the financial year are as noted below:

- Professor Richard Conroy
- Séamus P. Fitzpatrick
- Maureen T.A. Jones
- Dr. Sorċa Conroy
- Louis J. Maguire
- James P. Jones (resigned 18 December 2017)

Séamus P. Fitzpatrick retires from the Board of Directors by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting of the Company.

Brendan McMorrow, who was appointed to the Board of Directors on 15 November 2018, retires in accordance with the Company's Articles of Association and, being eligible, offers himself for 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 Note 4) and a loan from a shareholder (who is also a Director which is detailed in Note 12), 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.

Company Secretary

James P. Jones resigned as Company Secretary on 18 December 2017. Maureen T.A. Jones was appointed Company Secretary at that date.

Directors' shareholdings and other interests

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

Director	Date of signing financial statements[¥]	Date of signing financial statements[¥]	31 May 2018[¥]	31 May 2018[¥]	1 June 2017 *(or date of appointment if later)*	1 June 2017 *(or date of appointment if later)*
	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.001 each	Warrants
Professor Richard Conroy	**5,338,912***	791,212	**4,783,358***	791,212	**119,583,938***	**19,780,306**
Dr. Sorċa Conroy	**1,129,911**	-	**18,800**	-	**470,000**	-
Maureen T.A. Jones	**639,990**	**262,466**	**528,879**	**262,466**	**13,221,985**	**6,561,645**
Séamus P. FitzPatrick	**481,341**	**9,288**	**36,897**	**9,288**	**922,426**	**232,201**
Louis J. Maguire	**2,067**	**9,288**	**2,067**	**9,288**	**51,668**	**232,201**
Brendan McMorrow	–	–	–	–	–	–

* *Of the 4,783,358 (2017: 119,583,938) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2018, 1,232,601 (2017: 30,815,030) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.*

¥ *At the Annual General Meeting held on 21 December 2017, the Directors proposed that the issued and unissued ordinary shares would be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. This proposal was accepted by the shareholders, and thereafter each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares.*

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 2018	31 May 2018	1 June 2017	1 June 2017	Expiry Date
	Warrants	Price £	Warrants	Price £	Warrants	Price £	
Professor Richard Conroy	**200,000**	**0.00200**	**200,000**	**0.00200**	5,000,000	0.00008	29 December 2018
Professor Richard Conroy	**370,370**	**0.00200**	**370,370**	**0.00200**	9,259,257	0.00008	28 April 2019
Professor Richard Conroy	**220,842**	**0.02200**	**220,842**	**0.02200**	5,521,049	0.00088	16 November 2022
Maureen T.A. Jones	**13,333**	**0.00200**	**13,333**	**0.00200**	333,333	0.00008	29 December 2018
Maureen T.A. Jones	**81,482**	**0.00200**	**81,482**	**0.00200**	2,037,037	0.00008	28 April 2019
Maureen T.A. Jones	**167,651**	**0.02200**	**167,651**	**0.02200**	4,191,275	0.00088	16 November 2022
Séamus P. FitzPatrick	**9,288**	**0.02200**	**9,288**	**0.02200**	232,201	0.00088	16 November 2022
Louis J. Maguire	**9,288**	**0.02200**	**9,288**	**0.02200**	232,201	0.00088	16 November 2022
Brendan McMorrow	–	–	–	–	–	–	–

Directors' Report *continued*

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.

Shareholder	Date of signing financial statements¥	Date of signing financial statements¥	31 May 2018¥	31 May 2018¥	31 May 2017	31 May 2017
	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.01 each	%
Professor Richard Conroy	5,338,912*	15.48	4,783,358*	20.46	119,583,938*	20.46
Mr. Richard Taberner	2,420,114	7.02	1,405,000	6.01	17,637,548	3.02
Mr. Alan Osbourne	1,492,341	4.32	935,786	4.00	20,813,224	3.56
Mr. Steven Coomber	1,185,000	3.44	936,066	4.00	17,639,111	3.02
Dr. Sorċa Conroy	1,129,911	3.28	18,800	0.08	470,000	0.08
Mr. Kevin Taylor	1,054,000	3.06	935,125	4.00	N/a	N/a

* *Of the 4,783,358 (2017: 119,583,938) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2018, 1,232,601 (2017: 30,815,030) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.*

¥ *At the Annual General Meeting held on 21 December 2017, the Directors proposed that the issued and unissued ordinary shares would be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. This proposal was accepted by the shareholders, and thereafter each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares.*

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 structures.

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 €439,568 (2017: €410,814) for the financial year ended 31 May 2018. The Company had net current liabilities of €452,607 (2017 assets: €337,084) at that date.

The Directors, Professor Richard Conroy, Séamus P. Fitzpatrick, Maureen T.A. Jones, Dr. Sorċa Conroy and Louis J. Maguire, and former director James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €542,597 (2017: €324,013) 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 2018 of €113,137 (2017: €273,800) 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 2019. As set out further in the Chairman's statement, the Company expects to incur material levels of capital expenditure in 2018 and 2019, 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.

Corporate governance

In July 2018, the Financial Reporting Council released the 2018 UK Corporate Governance Code and the Guidance on Board Effectiveness. The new Code emphasises the importance of demonstrating, through reporting, how the governance of a company contributes to its long-term sustainable success and achieves wider objectives. The Company agrees that good governance contributes to sustainable success and recognise the renewed emphasis on business building trust by forging strong relationships with key stakeholders. The Company also understands the importance of a corporate culture that is aligned with the Company's purpose and business strategy, and which promotes integrity and includes diversity. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. It is an objective of the Company that all individuals are aware of their responsibilities in applying and maintaining these standards in all their actions. The Board ensures that support is available in the form of staff training and updating its employee handbook such that staff members understand what is expected of them. The Company's Corporate Govenance Code is available on the Company's website: www.kareliandiamondresources.com.

The Company is well placed to comply with the new Code. The Company have a long-standing practice of enabling the Board and committees to receive a broad range of stakeholder information and views. The Company are reviewing the new Code to ensure our governance framework remains aligned with best practice.

Board of Directors

The Board of Directors is made up of two executive and four non-executive Directors. Biographies of each of the Directors are set out on pages 6 and 7.

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 7 occasions from 1 June 2017 to 31 May 2018 and attendance at these meetings is set out in the table below.

	Board
Meetings held during the year	**7**
Professor Richard Conroy	**7/7**
Séamus P. FitzPatrick	**6/7**
Maureen T.A. Jones	**7/7**
Dr. Sorċa Conroy	**7/7**
Louis J. Maguire	**7/7**
James P. Jones*	**3/3**

** James P. Jones resigned on 17th December 2017*

Directors' Report *continued*

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. Executive Directors spend as much time on Company matters as is necessary for the proper performance of their duties. Non-executive Directors are expected to spend a minimum of one day a month on Company activities in addition to preparation for and attendance at Board and sub-committee meetings.

There is an agreed procedure for Directors to take independent legal advice which was not required during the year.

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 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 regarded as independent of management and have no material interest or other relationship with the Company. (Dr. Sorċa Conroy is a daughter of Professor Richard Conroy).

The Board, having fully considered the corporate needs of the Company is satisfied that it has an appropriate balance of experience and skills to carry out its duties. The Chairman of the Company oversees this process and reviews the Board composition to ensure it has the necessary experience, skills and capabilities.

The current non-executive directors have a wide range of financial and technical skills based on both qualifications and experience; including significant fundraisings, financial management, technical expertise and the discovery and bringing into production of operating mines. Each board member keeps their skills up to date through a combination of courses, continuing professional development through professional bodies and reading.

The Company Secretary provides Directors with updates on key developments relating to the Company, the sector in which the Company operates, legal and governance matters including advice from the Company's broker, lawyers and advisors.

Board performance

The Board, through its Chairman, will, in the coming year, evaluate its ongoing performance based on the requirements of the business and corporate governance standards.

It is envisaged that the review process will include the use of internal reviews and periodic external facilitation. The results of such reviews will be used to determine whether any alterations are needed at either a board or senior management level or whether any additional training would be beneficial. These evaluations were not undertaken in previous years. The evaluation for 2018 is ongoing and is expected to be complete in January 2019. It is intended that with effect from the end of the next financial year, these evaluations shall be undertaken annually, after the end of each financial year but prior to the publication of the respective annual report and accounts.

Director's performance will be measured by way of such matters as:

- Commitment
- Independence
- Relevant experience
- Impartiality
- Specialist knowledge
- Effectiveness on the Board

As set out in the Constitution of 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.

Ethical values and behaviours

The Board of Directors is committed to high standards of corporate governance and integrity in all its activities and operations and promotes a culture of good ethical values and behaviour. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. Individual staff members must ensure that they apply and maintain these standards in all their actions.

The Chairman of the Board of Directors regularly monitors and reviews the Company's ethical standards and cultural environment and where necessary takes appropriate action to ensure proper standards are maintained. The Company is fully committed to complying with all relevant health, safety and environment rules and regulations as these apply to its operations. It is an objective of the Company that all individuals are aware of their responsibilities in providing a safe and secure working environment.

Formal procedures in relation to Board of Directors performance will be introduced in the currect financial year.

Board Committees

The Board of Directors have implemented an effective committee structure to assist in the discharge of its responsibilities. The committees and their members are listed on page 1 of this report. Membership of the Audit and Remuneration Committees is comprised exclusively of non-executive Directors. Attendance at the Audit and Remuneration Committee meetings is set out in the table below:

	Audit Committee	Remuneration Committee
Meetings held during the year	2	1
Seamus P. FitzPatrick	2/2	1/1
Louis J. Maquire	2/2	1/1

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 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 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.

Remuneration Committee

The Remuneration Committee's terms of reference has been approved by the Board of Directors and is in accordance with the QCA Remuneration Committee Guide for Small and Mid-Size Quoted Companies. 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.

Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Ms. Maureen T.A. Jones, Dr. Sorċa Conroy 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.

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. 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.

Directors' Report *continued*

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.

Risks and uncertainties

The Company is subject to a number of potential risks and uncertainties, which could have a material impact on the long-term performance of the Company and could cause actual results to differ materially from expectation. The management of risk is the collective responsibility of the Board of Directors. An ongoing process for identifying, evaluating and managing or mitigating the principal risks faced by the Company has been in place throughout the financial year and has remained in place up to the approval date of the report and accounts. The Board intends to keep its risk control procedures under constant review, particularly with regard to the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

As might be expected in a Company of this size, a key control procedure is the day-to-day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations. The Board has considered the impact of the values and culture of the Company and ensures that, through staff communication and training, the Board's expectations and attitude to risk and internal control are embedded in the business. The Board of Directors consider the following risks to be the principal risks affecting the business:

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. As such there is no guarantee that future market conditions will permit the raising of the necessary funds by way of issue of new equity, debt financing or farming out of interests. To mitigate this risk, the Board regularly reviews Company cash flow projections and considers different sources of funds.

Environmental risk

Environmental and safety legislation may change in a manner that may require stricter or additional standards than those now in effect. These could result in heightened responsibilities for the Company and could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. The Company employs staff experienced in the requirements of the relevant environmental authorities and seeks through their experience to mitigate the risk of non-compliance with accepted best practice.

Exploration Risk

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. The Company employs highly competent experienced staff and uses a range of techniques to minimise risk prior to drilling and utilises independent experts to assess the results of exploration activity.

Financial Risk

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

Communication with shareholders

The Company gives high priority to communication with both shareholders and all other stakeholder groups. This is achieved through publications such as the annual and interim report, news releases and the Company's website, www.kareliandiamondresources.com, which is regularly updated.

The Company encourages all shareholders to attend the Annual General Meeting (AGM) to meet, exchange views and discuss the progress of the Company. The Board of Directors members are available after the conclusion of the formal business of the Annual General Meeting, to meet shareholders, listen to and discuss any relevant matters arising.

Political donations

There were no political donations during the year (2017: €nil).

Accounting records

The Directors are responsible for ensuring adequate accounting records, as outlined in Section 281 to 285 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.

Disclosure of information to auditors

So far as each of the Directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

Auditors

Deloitte Ireland LLP 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

15 November 2018

Independent Auditors' Report

Report on the audit of the financial statements

Opinion on the financial statements of Karelian Diamond Resources Plc (the 'company')

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 2018 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.

The financial statements we have audited comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related Notes 1 to 20, including a summary of significant accounting policies as set out in Note 1.

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 ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to SME listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of €439,568 during the year ended 31 May 2018 and, as of that date, the Company had net current liabilities of €452,607.

In response to this, we:

- Obtained an understanding of the Company's controls over the preparation of cash flow forecasts and approval of the projections and assumptions used in cash flow forecasts to support the going concern assumption and assessed the design and implementation of these controls;

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ■ Going concern (see material uncertainty related to going concern section) ■ Realisation of exploration and evaluation assets ■ Within this report, any new key audit matters are identified with ⓐ and any key audit matters which are the same as the prior year identified with ▶.
Materiality	The materiality that we used in the current year was €259,000 which was determined on the basis of a percentage of Net Assets.
Scoping	We identified one significant component, which was the parent company, Karelian Diamond Resources Plc.
Significant changes in our approach	There were no significant changes in our approach.

- We evaluated management's plans and their feasibility by testing the key assumptions used in the cash flow forecast provided by agreeing the inputs to historical run rates, expenditure commitments and other supporting documentation;
- Inspected confirmations received by the Company from the Directors and former Directors that they will not seek repayment of amounts owed to them by the Company within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay;
- Tested the clerical accuracy of the cash flow forecast model;
- Assessed the adequacy of the disclosures made in the financial statements.

As stated in Note 1, these events or conditions along with other matters as set forth in Note 1 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Realisation of Intangible Assets

Key audit matter description	At 31 May 2018, the carrying value of Exploration and Evaluation Assets included in Intangible Assets in the Statement of Financial Position amounted to €9,661,559.. We draw your attention to the disclosures made in Note 1 to the financial statements concerning the realisation of intangible assets. The realisation of intangible assets held by the Company is dependent on the further successful development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability. The realisation of intangible assets in the Statement of Financial Position was assessed as a signicant risk.
How the scope of our audit responded to the key audit matter	We performed the following procedures: ■ We have evaluated management's procedures for assessing indicators impairment of intangible assets; ■ We inspected documentation in respect of licences held and considered and challenged the directors' assessment of indicators of impairment in relation to exploration and evaluation assets; ■ We performed a review of Board of Directors Meeting Minutes and press releases issued by the Company in relation to the status of exploration and evaluation assets; ■ We performed a review of budgeted expenditure for the next 12 months; and ■ We also considered the adequacy of the disclosure in the financial statements.
Key observations	A material uncertainty exists in relation to the ability of the Company to realise the exploration and evaluation assets capitalised to intangible assets and in relation to the ability of the Company to realise amounts owed by group companies. As noted above, we draw your attention to the disclosures made in Note 1 and 7 to the financial statements concerning the realisation of intangible assets. The realisation of intangible assets by the Company and the amounts owed by group companies to the company, is dependent on the further successful development and ultimate production of the mineral reserves and the availability of sufficient 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. Our opinion is not modified in respect of this matter.

Independent Auditors' report *continued*

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

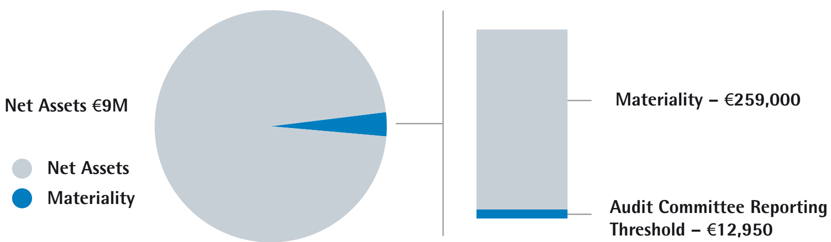
We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be €259,000 which is approximately 3% of Net Assets. We have considered Net Assets to be the critical component for determining materiality as we determined the net asset position to be of most importance to the principal external users of the financial statements. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of mistatements, complexity of the company and reliabity of control environment.

We agreed with the Audit Committee that we would report to them any audit differences in excess of €12,950, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company's environment and assessing the risks of material misstatement. Based on that assessment, we focused our audit scope primarily on the audit work in one significant component, which was the Company. This component was subject to a full scope audit and accounts for 100% of the Group's net assets.



Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Report, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- 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 parent company were sufficient to permit the financial statements to be readily and properly audited.
- The parent company balance sheet is in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the zcompany and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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 Ireland LLP
Chartered Accountants and
Statutory Audit Firm
Deloitte & Touche House,
Charlotte Quay
Limerick

15 November 2018

Income statement
for the financial year ended 31 May 2018

	Note	**2018**	2017
		€	€
Continuing operations			
Operating expenses	*2*	**(439,568)**	(410,814)
Loss before taxation	*3*	**(439,568)**	(410,814)
Income tax expenses	*5*	**-**	-
Loss for the financial year		**(439,568)**	(410,814)
Loss per share			
Basic and diluted loss per share	*6*	**(€0.0188)**	(€0.0268)

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

____
Professor Richard Conroy
Chairman

____
Maureen T.A. Jones
Managing Director

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

Statement of comprehensive income
for the financial year ended 31 May 2018

	2018	2017
	€	€
Loss for the financial year	**(439,568)**	(410,814)
Income/expense recognised in other comprehensive income	-	-
Total comprehensive income for the financial year	**(439,568)**	(410,814)

The total comprehensive income 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.

Statement of financial position
as at 31 May 2018

	Note	31 May 2018 €	31 May 2017 €
Assets			
Non-current assets			
Intangible assets	7	**9,661,559**	9,276,955
Financial assets	8	**4**	4
Total non-current assets		**9,661,563**	9,276,959
Current assets			
Cash and cash equivalents	10	**18,703**	523,324
Other receivables	11	**241,859**	292,562
Total current assets		**260,562**	815,886
Total assets		**9,922,125**	10,092,845
Equity			
Capital and reserves			
Called up share capital	14	**5,844**	5,844
Called up deferred share capital	14	**3,174,672**	3,174,672
Share premium	14	**8,201,664**	8,201,664
Share-based payments reserve	17	**519,159**	765,977
Retained deficit		**(2,884,872)**	(2,692,122)
Total equity		**9,016,467**	9,456,035
Liabilities			
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	12	**192,489**	158,008
Total non-current liabilities		**192,489**	158,008
Current liabilities			
Trade and other payables: amounts falling due within one year	13	**713,169**	478,802
Total current liabilities		**713,169**	478,802
Total liabilities		**905,658**	636,810
Total equity and liabilities		**9,922,125**	10,092,845

The financial statements were approved by the Board of Directors on 15 November 2018 and authorised for issue on 15 November 2018. They are signed on its behalf by:

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

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

Statement of cash flows
for the financial year ended 31 May 2018

	2018	2017
	€	€
Cash flows from operating activities		
Loss for the financial year	**(439,568)**	(410,814)
Adjustments for:		
Expense recognised in income statement in respect of equity settled share-based payments	**-**	74,280
Increase/(decrease) in trade and other payables	**234,367**	(6,698)
(Increase)/decrease in other receivables	**(109,960)**	23,841
Net cash used in operating activities	**(315,161)**	(319,391)
Cash flows from investing activities		
Investment in exploration and evaluation	**(384,604)**	(537,432)
Cash used in investing activities	**(384,604)**	(537,432)
Cash flows from financing activities		
Repayments/(advances) from Conroy Gold and Natural Resources P.L.C.	**160,663**	(105,035)
Shareholder advances/(repayments)	**34,481**	(151,581)
Issue of share capital	**-**	1,412,749
Share issue costs	**-**	(117,723)
Net cash provided by financing activities	**195,144**	1,038,410
(Decrease)/increase in cash and cash equivalents	**(504,621)**	181,587
Cash and cash equivalents at beginning of financial year	**523,324**	341,737
Cash and cash equivalents at end of financial year	**18,703**	523,324

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

Statement of changes in equity
for the financial year ended 31 May 2018

	Share capital	Share premium	Share-based payment reserve	Retained deficit	Total equity
	€	€	€	€	€
Balance at 1 June 2017	**3,180,516**	**8,201,664**	**765,977**	**(2,692,122)**	**9,456,035**
Transfer from share-based payment reserve to retained deficit	-	-	(246,818)	246,818	-
Loss for the financial year	-	-	-	(439,568)	(439,568)
Balance at 31 May 2018	**3,180,516**	**8,201,664**	**519,159**	**(2,884,872)**	**9,016,467**
Balance at 1 June 2016	**3,177,850**	**6,791,581**	**665,127**	**(2,163,585)**	**8,470,973**
Share issue *(Note 14)*	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**

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 the Annual 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 compromises the fair value of all share options and warrants which have been charged over the vesting period, net of amounts relating to share options and warrants forfeited, exercised or lapsed during the year, which are reclassified to retained earnings.

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.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018

1 Accounting policies

Reporting entity

Karelian Diamond Resources P.L.C. (the "Company") is a company domiciled in Ireland. The Company is a limited company incorporated in Ireland under registration number 382499. The registered office is located at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, 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 15 November 2018.

Going concern

The Company incurred a loss of €439,568 (2017: €410,814) for the financial year ended 31 May 2018. The Company had net current liabilities of €452,607 (2017 assets: €337,084) at that date.

The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorċa Conroy and Louis J. Maguire, and former director James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €542,597 (2017: €324,013) 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 2018 of €113,137 (2017: €273,800) 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 31 October 2019. As set out further in the Chairman's statement, the Company expects to incur material levels of capital expenditure in 2018 and 2019, 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 financial year from 1 June 2017:

- Annual improvements to IFRS Standards 2014 – 2016 Cycle: *Amendments to IFRS 12*
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle: *Amendments to IFRS 1 and IAS 28*
- Amendments to IAS 40: *Transfers of Investment Property*
- Amendments to IFRS 2: *Classification and measurement of share-based payment transactions*

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

1 Accounting policies *(continued)*

Recent accounting pronouncements *(continued)*

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRS 9: *Financial Instruments*
- IFRS 14*: Regulatory Deferral Accounts*
- IFRS 15: *Revenue from contracts with customers (May 2014) including amendments to IFRS15*
- Clarification to IFRS 15*: Revenue from contracts with customers*
- IFRS 16*: Leases*
- IAS 7*: Disclosure initiative*
- IAS 12*: Recognition of deferred tax assets for unrealised losses*

The adoption of the above amendments did not have a significant impact on the financial statements.

The standard endorsed by the EU that is not yet required to be applied but can be early adopted is set out below. This standard has not been applied in the current period. The Board of Directors are currently assessing whether this standard will have a material impact on the consolidated financial statements.

- Amendments to IFRS 9: *Prepayment features with negative compensation – To be applied for annual periods ending on or after 31 December 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 consolidated financial statements.

- Amendments to IAS 28: *Long-term interests in associates and joint ventures – Effective date 1 January 2019*
- Annual improvements to IFRS Standards 2015-2017 Cycle: *Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 – Effective date 1 January 2019*
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement – Effective date 1 January 2019*
- Amendments to references to the Conceptual Framework in IFRS Standards – *Effective date 1 January 2020*
- IFRS 17: *Insurance contracts – Effective date 1 January 2021*
- IFRIC 23*: Uncertainty over income tax treatments – Effective date 1 January 2019*
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture – postponed indefinitely*

(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 are 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 resources 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.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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 exists 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.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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 scheme. 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 at initial recognition.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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

The preparation of the consolidated financial statements requires the Board of Directors to make judgements and estimates and form assumptions that affect the amounts of assets, liabilities, contingent liabilities, revenues and expenses reported in the consolidated financial statements. On an ongoing basis, the Board of Directors evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. The Board of Directors bases its judgements and estimates on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the reported amounts that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. 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 consolidated 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. These costs are reviewed on a line by line basis with the resultant calculation of the amount to be capitalised being specific to the activities of the Company in any given year.

Cash generating units ("CGUs")

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 resources and the availability of sufficient finance to bring the resources 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 after 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 25 for further details.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

1 Accounting policies *(continued)*

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

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.

Exploration and evaluation assets

The carrying value of exploration and evaluation assets was €9,661,559 (2017: €9,276,955) at 31 May 2018. 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 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.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

2 Operating expenses

	2018	2017
Analysis of operating expenses	**€**	€
Operating expenses	**623,476**	718,854
Transfer to intangible assets	**(183,908)**	(308,040)
	439,568	410,814
Operating expenses are analysed as follows:		
Wages, salaries and related costs	**304,826**	289,008
Other operating expenses	**297,150**	316,496
Auditor remuneration	**21,500**	12,500
Share-based payments	**-**	100,850
	623,476	718,854

Of the above costs, a total of €183,908 (2017: €308,040) is capitalised to intangible assets based on a review of the nature and quantum of the underlying costs.

	2018	2017
	€	€
Wages, salaries and related costs as disclosed above is analysed as follows:		
Wages and salaries	**277,092**	264,671
Social insurance costs	**7,484**	337
Retirement benefit costs	**20,250**	24,000
Other compensation costs	**-**	-
	304,826	289,008

Amount of wages, salaries and related capitalised to intangible assets during the financial year was €183,908 (2017: €146,274).

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

	2018	2017
Corporate management and administration	**3**	3
Exploration and evaluation	**1**	-
	4	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 payment €	Pension contributions €	Total €
Professor Richard Conroy	20,000	65,000	-	-	85,000
Maureen T.A. Jones	10,000	50,000	-	15,000	75,000
James P. Jones	5,833	17,500	-	5,250	28,583
Louis J. Maguire	10,000	-	-	-	10,000
Séamus P. FitzPatrick	10,000	-	-	-	10,000
Dr. Sorċa Conroy	10,000	-	-	-	10,000
	65,833	**132,500**	**-**	**20,250**	**218,583**

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

2 Operating expenses *(continued)*

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 payment €**	**Pension contributions €**	**Total €**
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

The total share-based payment charge of €nil (2017: €100,850) is accounted for as shown below:

	2018 €	2017 €
Share-based payment charge expensed to income statement	**-**	74,280
Share-based payment charge transferred to intangible assets	**-**	26,570
	-	100,850

3 Loss before taxation

The loss before taxation is arrived at after charging the following items;

	2018 €	2017 €
Auditor's remuneration		
The analysis of the auditor's remuneration is as follows:		
• Audit of financial statements	**21,500**	12,500

No fees were incurred for other assurance; tax advisory or other non-audit services in respect of the current or prior financial years.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

4 Directors' remuneration

	2018	2017
	€	€
Aggregate emoluments paid to or receivable by Directors in respect of qualifying services	**198,333**	215,000
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

	2018	2017
	€	€
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 (2017: 2)	**20,250**	24,000
• Defined benefit scheme	**-**	-

	2018	2017
	€	€
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	**-**	-

	2018	2017
	€	€
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	**-**	-

	2018	2017
	€	€
Compensation paid or payable for loss of office or other termination benefits:		
• Office of Director	**-**	-
• Other offices	**-**	-

No amounts have been paid or are payable to past Directors of the Company or its holding undertakings (2017: €nil). No compensation has been paid or is payable for the loss of office or other termination benefit in respect of the loss of office of Director or other offices (2017: €nil).

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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:

	2018	2017
	€	€
Loss on ordinary activities before tax	**(439,568)**	(410,814)
Irish standard tax rate	**12.50%**	12.50%
Tax credit at the Irish standard rate	**(54,946)**	(51,352)
Effects of:		
Losses carried forward for future utilisation	**54,946**	51,352
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

	2018	2017
	€	€
Loss for the year attributable to equity holder of the Company	**(439,568)**	(410,814)
Number of ordinary shares at start of financial year	**584,451,698**	317,785,034
Restructured number of ordinary shares*	**23,378,068**	-
Number of ordinary shares issued during the financial year	**-**	266,666,664
Number of ordinary shares at end of financial year	**23,378,068**	584,451,698
Weighted average number of ordinary shares for the purposes of basic earnings per share	**23,378,068**	382,564,333
Basic loss per ordinary share	**(€0.0188)**	(€0.0268)[¥]

Diluted earnings per share

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

*Please refer to Note 14 for an explanation concerning the share capital restructuring.

[¥]The basic loss per ordinary share for the year ended 31 May 2017 has been restated to reflect the share consolidation. At the Annual General Meeting held on 21 December 2017, the Directors proposed that the issued and unissued ordinary shares would be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. This proposal was accepted by the shareholders, and thereafter each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

7 Intangible assets

Exploration and evaluation assets

Cost	**31 May 2018**	31 May 2017
	€	€
At 1 June	**9,276,955**	8,712,953
Expenditure during the financial year		
• Licence and appraisal costs	**200,696**	255,962
• Other operating expenses (Note 2)	**183,908**	281,470
• Equity settled share-based payments (Note 2)	**-**	26,570
At 31 May	**9,661,559**	9,276,955

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 resources. 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 resources and the availability of sufficient finance to bring the resources to economic maturity and profitability.

8 Financial assets

	31 May 2018	31 May 2017
	€	€
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.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

9 Property, plant and equipment

	31 May 2018 €	31 May 2017 €
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 2018 €	31 May 2017 €
Cash held in bank accounts	**18,703**	523,324
	18,703	523,324

11 Other receivables

	31 May 2018 €	31 May 2017 €
Amount due from related party	**113,137**	273,800
PAYE receivable	**65,132**	-
Vat receivable	**51,737**	18,762
Other debtors	**11,853**	-
	241,859	292,562

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 2018 of €113,137 (2017: €273,800) 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.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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

Shareholder loan

	31 May 2018	31 May 2017
	€	€
Opening balance 1 June	**158,008**	309,589
Loan repayment	**(80)**	(151,581)
Loan advances	**34,561**	-
Closing balance 31 May	**192,489**	158,008

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) and Maureen T.A. Jones (chief executive officer and shareholder). The Directors' have confirmed that they will not seek repayment of amounts owed by the Company at 31 May 2018 within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay. There is no interest payable in respect of these loans, no security has been attached to these loans and there is no repayment or maturity terms. After the year end, €34,482 of the balance owed was converted into ordinary shares in the Company.

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

	31 May 2018	31 May 2017
	€	€
Accrued Directors' remuneration		
Fees and other emoluments	**294,347**	96,013
Pension contributions	**248,250**	228,000
Other creditors and accruals	**170,572**	154,789
	713,169	478,802

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 2018**	31 May 2017
	€	€
182,532,751,034 ordinary shares of €0.00001 each*	**-**	1,825,328
7,301,310,041 consolidated ordinary shares of €0.00025 each¥	**1,825,328**	-
317,785,034 deferred shares of €0.00999 each* ∞	**3,174,672**	3,174,672
	5,000,000	5,000,000

Share restructuring:

*Following approval at the Annual General Meeting held on 9 December 2016, the Company restructured 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.

¥At the Annual General Meeting held on 21 December 2017, the Directors proposed that the issued and unissued ordinary shares would be consolidated into new ordinary shares ("Consolidated Shares") of €0.00025 each. This proposal was accepted by the shareholders, and thereafter each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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

∞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 for admission of the Deferred Shares to trading on AIM.

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

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 – shares of €0.00001 each	**584,451,698**	**5,844**	**3,174,672**	**8,201,664**
Conversion to consolidated shares -shares of €0.00025 each	**23,378,068**	**5,844**	**3,174,672**	**8,201,664**
End of current financial year	**23,378,068**	**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 prior 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 ***(a)***	94,444,444	944	-	498,307
Share issue ***(b)***	172,222,220	1,722	-	911,776
End of prior financial year	584,451,698	5,844	3,174,672	8,201,664

(a) On 21 December 2016, 94,444,444 ordinary shares of €0.00001 were issued, each at £0.0045 sterling (€0.0053) per ordinary share resulting in a premium of €0.00533188 per share. Further, on 21 December 2016, 1,888,887 warrants (adjusted for capital reorganisation on 21 December 2017) at an exercise price of £0.2000 sterling per warrant (adjusted for capital reorganisation on 21 December 2017) were issued. The warrants can be exercised at any time up to 29 December 2018.

(b) On 12 April 2017, 172,222,220 ordinary shares of €0.00001 were issued, each at £0.0045 sterling (€0.0053) per ordinary share resulting in a premium of €0.00526364 per share. Further, on 12 April 2017, 3,185,182 warrants (adjusted for capital reorganisation on 21 December 2017) at an exercise price of £0.2000 sterling per warrant (adjusted for capital reorganisation on 21 December 2017) were issued. The warrants can be exercised at any time up to 28 April 2019.

(c) At 31 May 2018, warrants over 5,585,324 ordinary shares exercisable at prices varying from £0.2000 sterling to £2.2000 sterling at any time up to 16 November 2022 were outstanding.

(d) At 31 May 2018, nil (2017: 800,000) options were outstanding (2017: exercisable price €0.0761). The options outstanding at 31 May 2017 expired on 14 January 2018.

(e) The consolidated ordinary share price at 31 May 2018 was £0.0582 sterling (after capital reorganisation) (2017 (pre-capital reorganisation): £0.0054 sterling). After the capital reorganisation on 21 December 2017 the ordinary share price ranged from £0.0500 sterling to £0.0725 sterling.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

15 Commitments and Contingencies

At 31 May 2018, there were no capital commitments or contingent liabilities (2017: €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 shareholder loans advanced by Professor Richard Conroy and Maureen T.A. Jones are outlined in Note 12 of the financial statements.

(b) The Company shares office accommodation with Conroy Gold and Natural Resources P.L.C. which has certain common Directors and shareholders. For the financial year ended 31 May 2018, Conroy Gold and Natural Resources P.L.C. incurred costs totalling €202,494 (2017: €278,810) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources P.L.C.

These costs are analysed as follows:

	2018	2017
	€	€
Office salaries	**74,482**	46,343
Other operating expenses	**31,480**	47,196
Rent and rates	**29,690**	31,793
Legal and professional	**28,388**	24,672
Travel and subsistence	**26,059**	41,313
Exploration costs	**12,395**	87,493
	202,494	278,810

(c) At 31 May 2018, Conroy Gold and Natural Resources P.L.C. owed €113,137 (2017: €273,800) 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. During the financial year ended 31 May 2018, €41,832 (2017: €383,845) was paid by the Company to Conroy Gold and Natural Resources P.L.C. During the financial year ended the Company was charged €202,494 (2017: €278,810) by Conroy Gold and Natural Resources P.L.C. in respect of the allocation of certain costs as detailed in Note 16(b). 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 2018 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) Details of key management compensation which comprises Directors' remuneration are detailed in Note 2 and Note 4 to the financial statements.

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

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

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

17 Share-based payments

The Company operated a share option scheme for key individuals who devoted a substantial amount of their time to the business of the Company.

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

	2018 No. of Share Options	**2018 Weighted Average Exercise Price €**	2017 No. of Share Options	2017 Weighted Average Exercise Price €
At 1 June	**800,000**	**0.0761**	1,000,000	0.0803
Lapsed during the financial year *(Note 14)*	**(800,000)**	**0.0761**	(200,000)	0.0975
At 31 May	**-**	**-**	800,000	0.0761

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

	2018 No. of Share Warrants	**2018 Weighted Average Exercise Price €**	2017 No. of Share Warrants	2017 Weighted Average Exercise Price €
At 1 June	**170,954,530**	**0.0171**	44,102,677	0.0440
Conversion to consolidated shares *(Note 14)*	**6,838,181**	**0.0040**	-	-
Granted during the financial year	**-**	**-**	126,851,853	0.0092
Lapsed during the financial year	**(1,252,857)**	**0.0023**	-	-
At 31 May	**5,585,324**	**0.0044**	170,954,530	0.0171

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.

	2018 Stock Options	**2018 Stock Warrants**	2017 Stock Options	2017 Stock Warrants
Dividend yield	**N/a**	**0%**	0%	0%
Expected volatility	**N/a**	**53%**	70%	53%
Risk free interest rate	**N/a**	**0.1%**	4.2%	0.1%
Expected life (in years)	**N/a**	**2**	10	2

This calculation results in a share-based payment of €nil (2017: €100,850). Amounts relating to share options and warrants which lapsed during the year and which are reclassified to retained earnings were €246,818 (2017: €nil).

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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:

	2018	2017
Variable rate instruments:	**€**	€
Financial assets – cash and cash equivalents	**18,703**	523,324
	18,703	523,324

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points ("bps") in interest rates at 31 May 2018 and 31 May 2017 would have decreased the reported loss by €187 (2017: €5,233). 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 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 2018 and 31 May 2017 the Company did not utilise foreign currency forward contracts or other derivatives to manage foreign currency risk.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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 2018:

	Sterling exposure denominated in €	CAD exposure denominated in €	Not at risk €	Total €
Amount due from related party	-	-	113,137	113,137
Other debtors	-	-	11,855	11,855
Cash and cash equivalents	359	-	18,344	18,703
Trade and other payables	(6,575)	(3,455)	(703,139)	(713,169)
Shareholder loan	-	-	(192,489)	(192,489)
Total exposure	**(6,216)**	**(3,455)**	**(752,292)**	**(761,963)**

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:

	Sterling exposure denominated in €	CAD 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 following are the significant exchange rates that applied against €1 during the financial year:

	Average Rate 2018	Average Rate 2017	**Spot rate 31 May 2018**	Spot Rate 31 May 2017
GBP	**0.886**	0.852	**0.875**	0.874

Sensitivity analysis

A 10% strengthening of the € against Sterling, based on outstanding financial assets and liabilities at 31 May 2018 would have decreased the reported loss by €622 (2017 increased: €30,826) 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. A 10% strengthening of the € against Canadian Dollars ("CAD"), based on outstanding financial assets and liabilities at 31 May 2018 would have decreased the reported loss by €345 (2017: Not applicable) as a consequence of the retranslation of foreign currency denominated financial assets at those dates. A weakening of 10% of the € against CAD would have had an equal and opposite effect.

It is assumed that all other variables, especially interest rates, remain constant in the analysis.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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 2018 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	**905,658**	**905,658**	**713,169***	**-**	**192,489**	**-**

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	-

*The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorċa Conroy and Louis J. Maguire, and former director James P. Jones, have confirmed that they will not seek repayment of amounts owed to them by the Company of €542,597 (2017: €324,013) 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 €18,703 at 31 May 2018 (2017: €523,324).

(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:

	2018 €	2017 €
Cash and cash equivalents	**18,703**	523,324
Other debtors	**11,855**	-
	30,558	523,324

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

Notes

to and forming part of the financial statements for the financial year ended 31 May 2018 *(continued)*

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 2018 and 31 May 2017, 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

On 11 June 2018, the Company raised £500,000 (€569,390), through a placing of 11,111,111 ordinary shares of €0.00025 in the capital of the Company (the "Placing Shares") at a price of £0.0450 sterling per Placing Share. In conjunction with the Placing the Company issued 388,889 Broker Warrants, which are exercisable at £0.0450 sterling until 11 December 2020, to Brandon Hill Capital Ltd.

20 Approval of the audited financial statements for the financial year ended 31 May 2018

These audited financial statements were approved by the Board of Directors on 15 November 2018. 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.