**The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR").**

**Karelian Diamond Resources plc**

("Karelian Diamonds" or "the Company")

**28 February 2018**

**Half-yearly results for the six months ended 30 November 2017**

Karelian Diamond Resources plc (AIM: KDR), the diamond exploration company focused on Finland, announces its results for the six months ended 30 November 2017.

**Highlights of the Half-year:**

- **Very close proximity to the source of the diamond discovery by the Company in the Kuhmo region of Finland suggested by indicator mineral sampling results.**
- **Lahtojoki diamond deposit – PEA completed – 5m tonnes, microdiamond data suggest grade of 40 carats per hundred tonnes (cpht) and high percentage of gem quality stones**
- **Riihivaarä - kimberlite body follow up work shows geotherm prospective for diamonds**

**Commenting, Chairman, Professor Richard Conroy said:**

*"I am delighted that over the period the search for the source for the green diamond has been so encouraging with the recent sampling results suggesting close proximity to source. I am also very pleased that the PEA on the Lahtojoki diamond deposit has been so positive."*

***Further Information:***


| | |
|---|---|
| *Professor Richard Conroy, Chairman, Karelian Diamond Resources plc* | ***Tel:*** *+353-1-479-6180* |
| *Virginia Bull / Nick Harriss, Allenby Capital Limited (Nomad)* | ***Tel:*** *+44-20-3328-5656* |
| *Jon Belliss / Elliot Hance, Beaufort Securities Limited (Broker)* | ***Tel:*** *+44-20-7382-8300* |
| *Michael Padley, Lothbury Financial Services Limited* | ***Tel:*** *+44-20-3290-0707* |
| *Don Hall, Hall Communications* | ***Tel****: +353-1-660-9377* |

www.kareliandiamondresources.com

**Chairman's statement**

Dear Shareholder,

I have great pleasure in presenting your Company's Half-Yearly results for the six month period ended 30 November 2017. The discovery of a green diamond in a till sample in the Kuhmo region of eastern Finland has been followed up by an intensive pitting programme designed to find the kimberlite source of the diamond. The latest results suggest that we are now very close to the source. Work has also continued at Riihivaarä, where we have discovered a kimberlite body, and at the Lahtojoki diamond deposit, over which we hold a mining concession and on which a Preliminary Economic Assessment has been completed during the period with highly encouraging results.

**Principal activities and business review**

**Diamond Discovery**

Following the discovery by the Company of a green diamond in January 2016, we have been engaged in an intensive exploration programme to discover the source of the diamond. The programme has included airborne geophysics and an extensive pitting programme up-ice from the site of the discovery. The work programme was designed to identify the kimberlite train arising from the kimberlite source and to trace it back to source.

Sampling results (as announced on 14 November 2017) indicated that the source was within two hundred metres of some of the samples taken in the pitting programme. The most recent results (as announced post period on 23 January 2018) suggest that we are now in very close proximity to the source. This success in tracing back the kimberlite train to source is a great achievement considering that it is scarcely a year since the diamond was found.

In October 2017 we were awarded an Exploration Permit covering an area of 601.68 hectares surrounding the location where the Company discovered the diamond.

**Riihivaarä**

In Eastern Finland, where your Company has discovered a kimberlite body, the first to be discovered in Finland in over 10 years, follow up work has shown that the geotherm there is prospective for diamonds. The kimberlite has been sampled to a model depth of over 200km, well into the diamond stability field, and it is therefore likely to be diamondiferous. The kimberlite body remains open in both directions along strike and to depth and a drilling programme is now envisaged along the known kimberlite.

**Seitaperä**

At Seitaperä, also in the Kuhmo region of Eastern Finland, where your Company has outlined the largest known kimberlite body in Finland and has reported the presence of both macro and micro diamonds, consideration is being given as to whether or not some, or all, of these micro and macro diamonds may have originated from a larger stone. Should this be considered to be the case, it would have significant implications for any follow up mini bulk sampling programme and for the diamond potential of the kimberlite.

**Lahtojoki Mining Development Programme**

A Preliminary Economic Assessment ("PEA") has been carried out during the period on the Lahtojoki diamond deposit in the Kuopio-Kaavi region of Finland over which your Company holds a Mining Concession.

I am delighted that the PEA was positive and a mining operation recommended (as announced on 1 August 2017).

The PEA suggests a +1mm recoverable grade of 39.7 carats per hundred tonnes (cpht) and also indicates the presence of a high percentage of gem quality stones within the diamonds that have been recovered to date. Previous drilling indicates 5,603,584 tonnes are present to a depth of 160 metres below surface. For the purposes of the PEA US$100/carat was used in the economic evaluation and mine design. A total resource (non JORC) estimate of 2,225,000 carats was indicated in the study with plant recovery of diamonds estimated at 95 per cent. The location of Lahtojoki is highly favourable for development and we believe the Lahtojoki diamond deposit has the potential to become a profitable open pit diamond mine.

Clearly much work remains to be done but the PEA Report is a major and highly encouraging step forward in our assessment of the Lahtojoki diamond deposit. Should the deposit be developed it would be the first diamond mine in Europe (outside Russia).

Exploration by your Company suggests that in addition to the Lahtojoki deposit there may also be further diamond resource potential in the immediate area. Having considered a series of geophysical and kimberlite indicator mineral anomalies in the area, your Company has applied for a Claim Reservation in the area adjacent to the Lahtojoki mining concession. The Claim Reservation covers the up-ice area of the kimberlite boulder discovery (as previously announced on 9 November 2016 and 12 January 2017) and totals an area of 8.67km². Post period a Claim covering 28.84 hectares was granted within the Claim Reservation on 22 January 2018. The Claim surrounds the location where the kimberlite boulder discovery was made.

Should a further significant diamond deposit be discovered close to the Lahtojoki deposit, this would of course add greatly to the economic potential and attractiveness of the Lahtojoki diamond deposit.

**Finance**

The loss after taxation for the six month period ended 30 November 2017 was €211,590 (30 November 2016: €117,067) and the net assets as at 30 November 2017 were €9,281,407 (30 November 2016: €8,370,091).

Post period, at the Annual General Meeting on 21 December 2017, shareholders approved the consolidation of the Company's ordinary shares into new ordinary shares of €0.00025 each. Immediately following which, each existing shareholder held 1 new ordinary share in place of each 25 existing ordinary shares. The consolidation was considered to be in the shareholders' interests as the existing number of shares was unwieldy and the bid-offer range was too large as a proportion of the share price. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at this time.

**Directors and Staff**

I would like to thank my fellow directors, staff and consultants for their support and dedication.

**Outlook**

The Company has made outstanding progress in the period under review and I look forward with confidence to further success during the coming period.

Yours faithfully,

Professor Richard Conroy
Chairman

27 February 2018

**Condensed income statements and condensed statement of comprehensive income for the six month period ended 30 November 2017**

***Condensed income statement***

| | *Note* | **Six month period ended 30 November 2017 (Unaudited) €** | *Six month period ended 30 November 2016 (Unaudited) €* | *Year ended 31 May 2017 (Audited) €* |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Operating expenses | | **(211,590)** | (117,067) | (410,814) |
| **Loss before taxation** | | **(211,590)** | (117,067) | (410,814) |
| Income tax expense | | **-** | - | - |
| **Loss for the financial period/year** | | **(211,590)** | (117,067) | (410,814) |
| ***Loss per share*** | | | | |
| Basic and diluted loss per share | *2* | **(€0.0091)** | (€0.0050) | (€0.0176) |

***Condensed statement of comprehensive income***

| | **Six month period ended 30 November 2017 (Unaudited) €** | *Six month period ended 30 November 2016 (Unaudited) €* | *Year ended 31 May 2017 (Audited) €* |
|---|---|---|---|
| **Loss for the financial period/year** | **(211,590)** | (117,067) | (410,814) |
| Income/expense recognised in other comprehensive income | - | - | - |
| **Total comprehensive expense for the financial period/year** | **(211,590)** | (117,067) | (410,814) |

**Condensed statement of financial position as at 30 November 2017**

| | *Note* | **30 November 2017 (Unaudited) €** | *30 November 2016 (Unaudited) €* | *Year ended 31 May 2017 (Audited) €* |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | *3* | **9,607,634** | 9,014,182 | 9,276,955 |
| Financial assets | | **4** | 4 | 4 |
| **Total non-current assets** | | **9,607,638** | 9,014,186 | 9,276,959 |
| **Current assets** | | | | |
| Cash and cash equivalents | | **44,347** | 49,224 | 523,324 |
| Other receivables | | **386,848** | 161,503 | 292,562 |
| **Total current assets** | | **431,195** | 210,727 | 815,886 |
| **Total assets** | | **10,038,833** | 9,224,913 | 10,092,845 |
| **Equity** | | | | |
| **Capital and reserves** | | | | |
| Called up share capital | | **5,844** | 3,177,850 | 5,844 |
| Called up deferred share capital | | **3,174,672** | - | 3,174,672 |
| Share premium | | **8,201,664** | 6,791,581 | 8,201,664 |
| Share based payments reserve | | **802,939** | 681,312 | 765,977 |
| Retained losses | | **(2,903,712)** | (2,280,652) | (2,692,122) |
| **Total equity** | | **9,281,407** | 8,370,091 | 9,456,035 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Trade and other payables: amounts falling due after more than one year | *5* | **158,088** | 309,589 | 158,008 |
| **Total non-current liabilities** | | **158,088** | 309,589 | 158,008 |
| **Current liabilities** | | | | |
| Trade and other payables: amounts falling due within one year | | **599,338** | 545,233 | 478,802 |
| **Total current liabilities** | | **599,338** | 545,233 | 478,802 |
| **Total liabilities** | | **757,426** | 854,822 | 636,810 |
| **Total equity and liabilities** | | **10,038,833** | 9,224,913 | 10,092,845 |

***Condensed statement of cash flows for the six month period ended 30 November 2017***

| | **Six month period ended 30 November 2017 (Unaudited) €** | *Six month period ended 30 November 2016 (Unaudited) €* | *Year ended 31 May 2017 (Audited)* € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the financial period/year | **(211,590)** | (117,067) | (410,814) |
| *Adjustments for:* | | | |
| Expense recognised in income statement in respect of equity settled share based payments | **6,810** | 2,900 | 74,280 |
| Increase/(decrease) in trade and other payables | **120,536** | 59,733 | (6,698) |
| (Increase)/decrease in other receivables | **(94,633)** | 49,865 | (81,194) |
| **Net cash used in operating activities** | **(178,877)** | (4,569) | (424,426) |
| | | | |
| **Cash flows from investing activities** | | | |
| Investment in exploration and evaluation | **(300,527)** | (287,944) | (537,432) |
| **Net cash used in investing activities** | **(300,527)** | (287,944) | (537,432) |
| | | | |
| **Cash flows from financing activities** | | | |
| Issue of share capital | **-** | - | 1,412,749 |
| Share issue costs | **-** | - | (117,723) |
| Shareholders loan repayment | **-** | - | (151,581) |
| Shareholders loan reclassified | **80** | - | - |
| Advances made to related parties | **(143,339)** | - | - |
| Repayments from related parties | **143,686** | - | - |
| **Net cash provided by financing activities** | **427** | - | 1,143,445 |
| | | | |
| **(Decrease)/increase in cash and cash equivalents** | **(478,977)** | (292,513) | 181,587 |
| **Cash and cash equivalents at beginning of financial period/year** | **523,324** | 341,737 | 341,737 |
| **Cash and cash equivalents at end of financial period/year** | **44,347** | 49,224 | 523,324 |

***Condensed statement of changes in equity for the six month period ended 30 November 2017***

| | Share capital | Share premium | Share-based payment reserve | Retained losses | Total equity |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Balance at 1 June 2017** | **3,180,516** | **8,201,664** | **765,977** | **(2,692,122)** | **9,456,035** |
| Share-based payments | **-** | **-** | **36,962** | **-** | **36,962** |
| Loss for the financial period | **-** | **-** | **-** | **(211,590)** | **(211,590)** |
| **Balance at 30 November 2017** | **3,180,516** | **8,201,664** | **802,939** | **(2,903,712)** | **9,281,407** |
| | | | | | |
| **Balance at 1 June 2016** | 3,177,850 | 6,791,581 | 665,127 | (2,163,585) | 8,470,973 |
| Share-based payments | - | - | 16,185 | - | 16,185 |
| Loss for the financial period | - | - | - | (117,067) | (117,067) |
| **Balance at 30 November 2016** | 3,177,850 | 6,791,581 | 681,312 | (2,280,652) | 8,370,091 |

**Share capital**

The share capital comprises 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.

*Authorised share capital:*

The authorised share capital at 30 November 2017 compromised 182,532,751,034 ordinary shares of €0.00001 each, and 317,785,034 deferred shares of €0.00999 each***** (€5,000,000), (30 November 2016: 500,000,000 ordinary shares of €0.01 each (€5,000,000)).

**Capital reorganisation:*

Following approval at the Annual General Meeting held on 9 December 2016, the Company reorganised its share capital by subdividing and reclassifying each issued ordinary share of €0.01 as one ordinary share of €0.00001 each and one deferred share of €0.00999 each. The Deferred Shares have no right to vote, attend or speak at general meetings of the Company and have no right to receive any dividend or other distribution, and 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 the AIM.

*Post period end:*

After the period end, on 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the Company, whether issued or unissued were consolidated into New Ordinary Shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at this time (see Note 2).

**Share premium**

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

**Share based payment reserve**

The share based payment reserve represents the amount expensed to the condensed income statement in addition to the amount capitalised as part of intangible assets of share-based payments granted which are not yet exercised and issued as shares.

**Retained losses**

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

**Notes to and forming part of the condensed financial statements for the six month period ended 30 November 2017**

## 1 Accounting policies

**Reporting entity**

Karelian Diamond Resources plc (the "Company") is a company domiciled in Ireland.

**Basis of preparation and statement of compliance**

The condensed financial statements for the six months ended 30 November 2017 are unaudited.

The condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*.

The condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 May 2017, which are available on the Company's website - www.kareliandiamondresources.com. The accounting policies adopted in the presentation of the condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 May 2017. There are no new standards, amendments to published standards or interpretations which are effective for the first time in the current period that have a material effect on the condensed financial statements.

The condensed financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are measured at fair value at each reporting date.

The condensed financial statements are presented in Euro ("€"). € is the functional currency of the Company.

The preparation of condensed 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 financial period in which the estimate is revised and in any future financial periods affected. Details of critical judgements are disclosed in the accounting policies detailed in the annual financial statements.

The financial information presented herein does not amount to statutory financial statements that are required by Chapter 4 part 6 of the Companies Act 2014 to be annexed to the annual return of the Company. The statutory financial statements for the financial year ended 31 May 2017 were annexed to the annual return and filed with the Registrar of Companies. The audit report on those financial statements was unqualified.

These Condensed Financial Statements were authorised for issue by the Board of Directors on 27 February 2018.

**Going concern**

The Company incurred a loss of €211,590 (30 November 2016: €117,067) for the six month period ended 30 November 2017. The Company had net current liabilities of €168,143 (30 November 2016: €334,506) at that date.

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to 30 November 2018. As set out in the Chairman's statement, the Company expects to incur material levels of capital expenditure in 2018, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets and on the basis of the equity raised during the year to 31 May 2017, 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 condensed financial statements on a going concern basis.

**Standards, interpretations and amendments issued but not yet effective**

The following new standards, amendments to standards and interpretations have been issued to date and are not yet effective for the financial period ended 30 November 2017, and have not been applied nor early adopted, where applicable, in preparing these condensed financial statements:

- IFRS 9: *Financial Instruments; Classification and Measurement* – effective for periods beginning 1 January 2018
- IFRS 15: *Revenue from Contracts with Customers* - effective for periods beginning 1 January 2018
- IFRS 2: *Classification and Measurement of Share-based Payment Transactions (Amendment)* - effective for

periods beginning 1 January 2018

- IFRS 1: *Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)* - effective for periods beginning 1 January 2018
- IAS 28: *Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)* - effective for periods beginning 1 January 2018
- IFRS 16: *Leases* - effective for periods beginning 1 January 2019
- IFRS 17: *Insurance Contracts* - effective for periods beginning 1 January 2021
- IFRS10/IAS28: *Sale or contribution of an asset between an investor and its Associate of Joint Venture (Amendment)* – Deferred indefinitely by amendments made in December 2015.

The Board of Directors anticipate that the adoption of new standards, interpretations and amendments that were in issue at the date of authorisation of these condensed financial statements, but not yet effective, will have no material impact on the condensed financial statements in the period of initial application.

## 2 Loss per share

*Basic earnings per share*

| | **Six month period ended 30 November 2017 (Unaudited) €** | *Six month period ended 30 November 2016 (Unaudited) €* | *Year ended 31 May 2017 (Audited) €* |
|---|---|---|---|
| **Loss for the financial period/year attributable to equity holders of the Company** | **(211,590)** | (117,067) | (410,814) |
| Number of ordinary shares for the purposes of earnings per share¥ | **23,378,067** | 23,378,067 | 23,378,067 |
| **Loss per ordinary share** | **(€0.0091)** | (€0.0050) | (€0.0176) |

¥ On 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the Company, whether issued or unissued were consolidated into new ordinary shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. (*In line with IAS 33: Earnings per share, the calculation of basic and diluted EPS for all periods presented is adjusted retrospectively when the number of ordinary or potential ordinary shares outstanding increases as a result of a reverse share split).*

*Diluted earnings per share*

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

Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted at that time, to the following:

- Expiry date : 29 December 2018 - 20p sterling;
- Expiry date : 28 April 2019 - 20p sterling;
- Expiry date : 19 November 2022 - £2.20 sterling.

## 3 Intangible assets

**Exploration and evaluation assets**

| **Cost** | **30 November 2017 (Unaudited) €** | *30 November 2016 (Unaudited) €* | *31 May 2017 (Audited) €* |
|---|---|---|---|
| *At 1 June* | **9,276,955** | 8,712,953 | 8,712,953 |
| Expenditure during the financial period/year | | | |
| • Licence and appraisal costs | **136,002** | 148,320 | 255,962 |
| • Other operating expenses | **164,525** | 139,625 | 281,470 |

| | | | |
|---|---|---|---|
| • Equity settled share based payments | **30,152** | 13,284 | 26,570 |
| *At 30 November/31 May* | **9,607,634** | 9,014,182 | 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.

**4 Commitments and Contingencies**

At 30 November 2017, there were no capital commitments or contingent liabilities (31 May 2017: No capital commitments or contingencies liabilities). Should the Company decide to develop the Lahtojoki project, an amount of €100,000 is payable by the Company.

**5 Related party transactions**

| **(a) Shareholders loans** | **30 November 2017 (Unaudited) €** | *30 November 2016 (Unaudited) €* | *31 May 2017 (Audited) €* |
|---|---|---|---|
| *Opening balance 1 June* | **158,008** | 309,589 | 309,589 |
| Reclassification of loan balance | **80** | - | - |
| Loan repayment | **-** | - | (151,581) |
| *Closing balance 30 November/31 May* | **158,088** | 309,589 | 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).

**(b)** Apart from Directors remuneration, and loans from shareholders, (who are also Directors), there here have been no contracts or arrangements entered into during the six month period in which a Director of the Company had a material interest.

**(c)** The Company shares accommodation with Conroy Gold and Natural Resources plc which have certain common Directors and shareholders. For the six month period ended 30 November 2017, Conroy Gold and Natural Resources plc incurred costs totalling €143,686 (30 November 2016: €126,057) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources plc. At 30 November 2017, Conroy Gold and Natural Resources plc owed €273,453 to the Company. Amounts owed from Conroy Gold and Natural Resources plc are included within other receivables in the current and previous financial periods/years.

**6 Post balance sheet events**

Mr. James P. Jones resigned as the Secretary of the Company on the 18 December 2017, and was replaced by Maureen T.A. Jones at that time. Mr. James P. Jones also retired as a director by rotation at the AGM on 21 December 2017, and did not offer himself for re-election at that time.

On 21 December 2017, the Company passed a Special Resolution at the Company's AGM, that all of the ordinary shares of €0.00001 each in the capital of the company, whether issued or unissued were consolidated into new ordinary shares of €0.00025 each in the capital of the Company ("consolidated shares") on the basis of one consolidated share for every 25 existing ordinary shares. Following the consolidation of the ordinary shares on 21 December 2017, the warrants in issue were consolidated into one consolidated warrant for every 25 existing warrants. The exercise price in relation to the warrants was also adjusted as detailed in Note 2.

**7 Approval of the Condensed Financial Statements**

These Condensed Financial Statements were approved by the Board of Directors on 27 February 2018. A copy of the Condensed Financial Statements will be available on the Company's website www.kareliandiamondresources.com on 28 February 2018.