

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").



17 November 2016

**Karelian Diamond Resources Plc**  
("KDR" or the "Company")

**Final results for the year ended 31 May 2016**

**Excellent Progress**

Karelian (AIM: KDR, ESM: KDRI), the diamond exploration company focused on Finland, announces its results for the year ended 31 May 2016, a year in which highly encouraging progress has been made towards achieving its objective to discover, or acquire, and develop diamond deposits in Finland.

**Highlights:**

- Acquisition of Lahtojoki Diamond Deposit
- Mining Permit for Lahtojoki Diamond Deposit Granted
- Potential to become Profitable Open Pit Diamond Mine
- Riihivaarä Kimberlite Body discovered by Company likely to be Diamondiferous
- Rio Tinto Agreement Extended to 2020

**Professor Richard Conroy, Chairman, stated:**

*"I am delighted that the Company has made such excellent progress during the year both by the acquisition of the Lahtojoki diamond deposit which could become the first diamond mine in Europe (outside Russia) and by the exploration results. The diamond potential in the Lahtojoki area has been enhanced, post the acquisition, and mineral analysis of the Riihivaarä indicator minerals increases the likelihood that the Riihivaarä kimberlite body is likely to be diamondiferous."*

**Further Information:**

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## **Chairman's Statement**

I have pleasure in presenting your Company's Annual Report and Financial Statements for the financial year ended 31 May 2016. The year has been an excellent one for your Company. The Lahtojoki diamond deposit was acquired, together with a Mining Permit from the Finnish authorities for its development and your Company's diamond exploration programme showed further success with mineral analysis indicating that the Riihivaarä kimberlite body discovered by your Company is likely to be diamondiferous.

The Lahtojoki diamond deposit and your Company's diamond exploration programme are both 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.

### **ACQUISITION OF THE LAHTOJOKI DIAMOND ORE BODY IN CENTRAL FINLAND**

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

An extensive database of information has been received from AGM, including drilling and bulk sampling reports, consultant reports and other technical reports. This has enabled Karelian to expedite its overall assessment of Lahtojoki diamond deposit and to commence planning a development programme including targeting locations for any further drilling or bulk sampling that may be required.

The Lahtojoki diamond ore body has, we believe, the potential to become a profitable open pit diamond mine. As well as acquiring the property, we have received a Mining Permit for its development from the Finnish Safety and Chemical Agency ("TUKES").

The acquisition of the Lahtojoki diamond ore body, together with a Mining Permit, allows the Company, subject to any relevant environmental assessments or requirements, to proceed through to full development of the property as a mine.

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

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

### **ADDITIONAL POTENTIAL AT LAHTOJOKI**

As well as the Lahtojoki diamond ore body, a series of high interest geophysical and kimberlite indicator mineral anomalies have been identified in the immediate area. The anomalies were outlined following an analysis by your Company of the extensive geophysical data acquired from AGM, including image processed magnetic and electromagnetic data together with compilation maps of previous kimberlite indicator mineral till sampling information in the area.

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

### **RIIHIVAARÄ – NEW KIMBERLITE BODY**

In the Kuhmo region of Finland where, at Seitaperä, your Company has defined the largest (at 6.9 hectares) diamondiferous kimberlite pipe discovered to date in Finland, your Company has, at Riihivaarä, discovered a new kimberlite body.

Indicator mineral analysis indicates that the Riihivaarä kimberlite is likely to be diamondiferous. The geotherm is prospective for diamonds and the kimberlite has been sampled to a modelled depth of greater than 200km, within the diamond stability field.

During the year, 355 garnet analyses on samples provided by Karelian from Riihivaarä were carried out by Rio Tinto in their Melbourne laboratories in Australia. The samples provided were from outcrop and till. The garnet analysis comprised kimberlite indicator methods of MLA (Mineral Liberation Analysis) screening followed by laser-ablation ICP-MS (Inductively Coupled Plasma – Mass Spectrometry) analysis.

Lherzolithic (“G9”) garnets were dominant but scattered high interest Harzburgitic (“G10”) garnets were also present. Some evidence of metasomatism was associated with the G9 and G10 populations. Eclogitic garnets, with restricted range in chemical composition of potential diamond-association, were reported from the outcrop sample.

Garnet thermobarometry was also calculated to estimate the geotherm in the Riihivaarä area. The results indicated that the geotherm is prospective for diamonds. The geotherm in Riihivaarä is similar to that in the Kaavi-Kuopio kimberlite field in Finland where your Company has acquired the Lahtojoki diamond deposit, and to kimberlite fields in Southern Africa.

## **AGREEMENT WITH RIO TINTO**

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

Under the agreement, Rio Tinto discloses to Karelian confidential information and physical geological samples relating to exploration in Finland for the purpose of Karelian considering that information in relations to Karelian’s potential and existing exploration programmes in Finland.

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

## **FINANCE**

The loss after taxation for the year ended 31 May 2016 was €268,334 (2015: €121,551) and the net assets as at 31 May 2016 were €8,461,373 (2015: €8,330,073).

On 17 May 2016, the Company raised £250,000 through the issue of 31,250,000 shares at 0.8p each.

## **AUDITORS**

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

## **DIRECTORS**

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

## **FUTURE OUTLOOK**

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

Professor Richard Conroy  
Chairman

16 November 2016

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 MAY 2016**

	<b>2016</b>	2015
	€	€
<b>OPERATING EXPENSES</b>	<b>(268,504)</b>	(124,488)
Finance income – bank interest receivable	<b>170</b>	2,937
Finance costs – Interest on shareholder loan	-	-
<b>Loss Before Taxation</b>	<b>(268,334)</b>	(121,551)
Taxation	-	-
<b>LOSS RETAINED FOR THE YEAR</b>	<b>(268,334)</b>	(121,551)
Loss per ordinary share	<b>(0.0008)</b>	(€0.0004)

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MAY 2016**

	2016	2015
	€	€
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Intangible assets	8,703,353	8,029,132
Investment in subsidiaries	4	4
Property, plant and equipment	-	-
	<b>8,703,357</b>	<b>8,029,136</b>
<b>Current Assets</b>		
Trade and other receivables	211,368	402,122
Cash and cash equivalents	341,737	474,026
	<b>553,105</b>	<b>876,148</b>
<b>Total assets</b>	<b>9,256,462</b>	<b>8,905,284</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Called up share capital	3,177,850	2,865,350
Share premium	6,791,581	6,786,177
Share based payments reserve	665,127	570,256
Retained earnings	(2,173,185)	(1,891,710)
<b>Total equity</b>	<b>8,461,373</b>	<b>8,330,073</b>
<b>Non-current liabilities</b>		
Financial liabilities	309,589	309,589
<b>Total non-current liabilities</b>	<b>309,589</b>	<b>309,589</b>
<b>Current liabilities</b>		
Trade and other payables	485,500	265,622
<b>Total Current Liabilities</b>	<b>485,500</b>	<b>265,622</b>
<b>Total Liabilities</b>	<b>795,089</b>	<b>575,211</b>
<b>Total Equity and Liabilities</b>	<b>9,256,462</b>	<b>8,905,284</b>

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MAY 2016**

	2016	2015
	€	€
<b>Cash generated by/(used in) operations</b>	<b>160,429</b>	<b>(971,118)</b>
<b>Net cash generated by/(used in) operating activities</b>	<b>160,429</b>	<b>(971,118)</b>
<b>Cash flows from investing activities</b>		
Investment in exploration and evaluation assets	<b>(597,651)</b>	<b>(662,834)</b>
<b>Net cash used in investing activities</b>	<b>(597,651)</b>	<b>(662,834)</b>
<b>Cash flows from financing activities</b>		
Issue of share capital (net of share issue expenses)	<b>317,904</b>	-
Share issue costs	<b>(13,141)</b>	-
Interest received	<b>170</b>	<b>2,937</b>
<b>Net cash generated from financing activities</b>	<b>304,933</b>	<b>2,937</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(132,289)</b>	<b>(1,631,015)</b>
Cash and cash equivalents at beginning of year	<b>474,028</b>	<b>2,105,041</b>
<b>Cash and cash equivalents at end of year</b>	<b>341,737</b>	<b>474,026</b>

## **Notes to the Financial Statements**

### **1. Publication of non-statutory accounts**

The financial information set out in this preliminary announcement is abbreviated from the accounts as defined in Section 1119 of the Companies Act 2014.

The financial information for the year ended 31 May 2016 have been extracted from the Company's financial statements to that date which have received an unqualified auditors' report but have not yet been delivered to the Registrar of Companies.

### **2. Earnings per share**

The calculation of the loss per share of €0.0008 (2015 - €0.0004) is based on the loss for the financial year of €268,334 (2015 – €121,551) and the weighted average number of ordinary shares in issue on a basic and fully diluted basis during the year of 287,819,281 (2015 – 286,535,034).

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

### **3. Dividends**

No dividends were paid or are proposed in respect of the year ended 31 May 2016.

### **4. Copies of Accounts**

A copy of the Annual Report and Financial Statements will be available on the Company's website [www.kareliandiamondresources.com](http://www.kareliandiamondresources.com) and will be available from the Company's registered office, 9 Merrion Square North, Dublin 2. It will also be forwarded to shareholders who requested a hard copy. Notice of the Annual General Meeting to be held on 9 December 2016 and Proxy Form were sent to shareholders on 16 November 2016 and are also available on the website.