



17 November 2016

Karelian Diamond Resources Plc
(“KDR” or the “Company”)

PROPOSED CAPITAL REORGANISATION

INTRODUCTION

The Company are proposing the Capital Reorganisation to be voted on by Shareholders at the Annual General Meeting of the Company to be held at 12.00 noon. on 9 December 2016. Notice of the AGM, which includes details of the Special Resolution, and a form of proxy for use at the AGM have today been posted to Shareholders. The Special Resolution will be passed if at least 75 per cent. of the votes cast are in favour. A copy of the Circular has been published on the Company’s website.

BACKGROUND TO AND REASONS FOR THE PROPOSED REORGANISATION

The Company’s Ordinary Shares have recently traded at a discount to their nominal value of €0.01. As the Company cannot issue shares at a discount to the nominal value, the Board is proposing the Capital Reorganisation. Accordingly, Shareholders will be asked at the AGM to approve a sub-division of the Company’s Existing Ordinary Shares which will have the effect of reducing the nominal value of the issued and unissued ordinary share capital of the Company.

The Capital Reorganisation involves subdividing each issued Existing Ordinary Share of €0.01 each into one Ordinary Share of €0.00001 each and one Deferred Share of €0.00999 each and sub-dividing each of the unissued Existing Ordinary Shares into 1,000 Ordinary Shares of €0.00001. Immediately following the Capital Reorganisation, each existing Shareholder will hold 1 New Ordinary Share and 1 Deferred Shares in place of each Existing Ordinary Share. Existing certificates representing the Existing Ordinary Shares will remain valid. No share certificates will be issued for the Deferred Shares.

Following the Capital Reorganisation, and assuming no further Existing Ordinary Shares are issued between the date of this Circular and the Capital Reorganisation becoming effective, the issued share capital will comprise 317,785,034 Ordinary Shares and 317,785,034 Deferred Shares, and the value of the paid-up share capital will remain €3,177,850.34.

DEFERRED SHARES

The Deferred Shares will 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 will be made to the London Stock Exchange or the Irish Stock Exchange for admission of the Deferred Shares to trading on AIM or the ESM. The New Ordinary Shares will retain all the rights of the Existing Ordinary Shares.

RECOMMENDATION

The Directors consider Capital Reorganisation to be in the best interests of the Company and of Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Special Resolution to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial holdings of 88,176,010 Existing Ordinary Shares representing 27.75 per cent. of the Existing Ordinary Shares in issue.

Further Information:

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DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

"AIM"	the AIM Market, a market operated by London Stock Exchange;
"Annual General Meeting" or "AGM"	the Annual General Meeting of the Company to be held on 9 December 2016 at 12.00 noon, notice of which accompanies the Circular;
"Board" or "Directors"	the board of directors of the Company;
"Capital Reorganisation"	the sub-division and reclassification of each of the Existing Ordinary Shares in issue into one New Ordinary Share and one Deferred Share;
"Circular"	this circular to Shareholders of the Company;
"Companies Act" or "Act"	the Companies Act 2014;
"Company" or "Karelian"	Karelian Diamond Resources plc;
"Deferred Shares"	the deferred shares of €0.00999 each in the capital of the Company to be created by the Special Resolution;
"ESM"	the Enterprise Securities Market, a market operated by The Irish Stock Exchange;

"Existing Ordinary Shares"	the existing ordinary shares of €0.01 each in the capital of the Company;
"Form of Proxy"	the form of proxy for use at the Annual General Meeting enclosed with this Circular;
"Irish Stock Exchange"	the Irish Stock Exchange Limited;
"London Stock Exchange"	the London Stock Exchange plc;
"New Ordinary Shares"	the new ordinary shares of €0.00001 each in the capital of the Company following the Capital Reorganisation
"Shareholders"	holders of Existing Ordinary Shares
"Special Resolution"	the special resolution to be proposed at the Annual General Meeting being Resolution No.4 in the Notice of the Annual General Meeting dated 16 November 2016.