

**Annual Report and
Financial Statements 2010**

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Chairman's Statement



Professor Richard Conroy
Chairman

I have pleasure in presenting your Company's Annual Report and Financial Statements for the year ended 31 May 2010. During the year your Company continued to progress its diamond exploration programme in Finland and concluded a confidentiality agreement (with Back-in-Rights) with Rio Tinto Exploration Limited ("Rio Tinto") in relation to Finland exploration data.

Under the agreement, Rio Tinto will disclose to Karelina confidential information and physical geological samples relating to its exploration in Finland for the purpose of Karelina considering that information in relation to Karelina's potential and existing exploration programmes in Finland.

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

1. For diamond projects the option will be triggered if Karelina completes 10 tons or more of bulk sampling for diamond exploration; and

2. For all other minerals the option will be triggered if Karelina discovers a resource with an in situ value that is equal to or greater than the in situ value of 3 million ounces of gold in a JORC compliant resource calculation.

The Rio Tinto Group is one of the largest mining companies in the world with interests spanning aluminium, copper, diamonds, iron ore, coal, uranium, gold and industrial minerals. Rio Tinto Diamonds is the third largest supplier of diamonds in the world with diamond production ranging from the unique pink diamonds of the Argyle mine in Australia to the spectacular whites of Diavik's high value gemstones in Canada.

I am delighted with the Agreement with Rio Tinto. The confidential information and physical samples now being made available to Karelina will be a significant addition to your Company's existing knowledge base and mineral exploration programme, which itself has already led to the delineation by your Company of the largest diamondiferous kimberlite pipe yet discovered in Finland.

In the Kuhmo area of Finland there has been only limited historical diamond exploration, but when this is considered in conjunction with the results achieved by Karelina, the area's potential for diamondiferous kimberlites is clearly shown. As a result of these encouraging indications, your Company applied for and has now been granted licences covering the two other known Kimberlite occurrences in the area – Kimberlites 18 (Havukkasuo) and 24 (Lentiira).

The Company also continues to explore in the Joensuu area of Eastern Finland, where results to date suggest the possibility that this area could also contain a number of kimberlite pipes.

Financials

The loss after taxation for the year ended 31 May 2010 was €173,081 (2009: loss €194,126) and the net assets as at 31 May 2010 were €3,621,349 (2009: €3,712,312).

As in previous years, I have supported the working capital requirements of the Company and in the period under review have advanced loans to the value of €175,248 and the balance of the loans due to me at the period end was €895,241. The loans have been made on normal commercial terms.

The other Directors consider, having consulted with the Company's Nominated Adviser and the Company's ESM Adviser, that the terms of these loans are fair and reasonable in so far as the Company's shareholders are concerned.

Auditors

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

Directors, Consultants and Staff

I would also like to express my deep appreciation of the support and dedication of the Directors, Consultants and Staff, which has made possible the continued progress which your company has achieved.

Future Outlook

Your Company's objective remains to make a major diamond discovery in Finland comparable to the world class discoveries already made on the Russian side of the structure. We look forward to a successful future.

Professor Richard Conroy
Chairman

12 November 2010

Company Information

Directors

Professor Richard Conroy

*Chairman**

Roger I. Chaplin

Non-Executive Director[§]

Seamus P. Fitzpatrick

Non-Executive Director^{+§}

Maureen T.A. Jones

*Managing Director**

James P. Jones FCA

*Finance Director**

Louis J. Maguire

Non-Executive Director^{+§}*

* Member of the Executive Committee

+ Member of the Remuneration Committee

§ Member of the Audit Committee

Company Secretary and Registered Office

James P. Jones FCA

10 Upper Pembroke Street
Dublin 2

Auditors

Deloitte & Touche

Chartered Accountants
Deloitte & Touche House
Charlotte Quay
Limerick

Registrars

Capita Registrars (Ireland) Limited

Unit 5
Manor Street Business Park
Manor Street
Dublin 7
www.capitaregistrars.ie

Nominated Adviser

Merchant Securities Limited

51-55 Gresham Street
London EC2V 7HQ

Principal Bankers

National Irish Bank

138 Lower Baggot Street
Dublin 2

Stockbroker

City Capital Corporation Limited

29 Farm Street
London
W1J 5RL

Dublin Stockbroker

Dolmen Butler Briscoe

75 St. Stephen's Green
Dublin 2

Legal Advisers

William Fry Solicitors

Fitzwilton House
Wilton Place
Dublin 2

Roschier-Holmberg

Keskuskatu 7A
00 100 Helsinki
Finland

Head Office

Karelian Diamond Resources plc

10 Upper Pembroke Street
Dublin 2

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Fax: +353-1-662 1213

For further information visit
the Company's website at:

www.kareliandiamondresources.com

or contact:

Lothbury Financial

68 Lombard Street
London EC3V 9LJ
UK

Tel: +44 20 7868 2010



Professor Richard Conroy
Chairman



Maureen T.A. Jones
Managing Director



Louis J. Maguire
Non-Executive Director



James P. Jones
Finance Director



Seamus P. FitzPatrick
Non-Executive Director



Roger I. Chaplin
Non-Executive Director

Report of the Directors

The Directors present their annual report, together with the audited financial statements of Karelina Diamond Resources plc for the year ended 31 May 2010.

Principal Activities and Business Review

The company is a London Stock Exchange AIM-listed and Irish Stock Exchange ESM-listed natural resource company incorporated in Ireland, which is focused on the discovery of potential world-class diamond deposits in Finland. The company is presently exploring for diamonds and evaluating an existing diamond prospect (diamondiferous kimberlite pipe) in the Karelian Craton of Finland. The company has a number of projects at various stages of development throughout the diamond-prospective Karelian Craton.

Future Development of the Business

It is the intention of the directors to continue to develop the activities of the company concentrating particularly on diamonds. Further strategic opportunities in mineral resources, both in Finland and elsewhere, will be sought by the company.

Risks and Uncertainties

The company's activities are directed towards the discovery, evaluation and development of diamond and other mineral deposits. Exploration for and development of mineral deposits is speculative. Whilst the rewards can be substantial, there is no guarantee that exploration on the company's properties will lead to the discovery of commercially extractable mineral deposits. The future net asset value is therefore, *inter alia*, dependent on the success or otherwise of the company's exploration programmes. Whether a mineral deposit will be commercially viable in a mining operation depends on a number of factors, such as the grade of

the deposit, prices of the commodities being exploited, currency fluctuations, proximity to infrastructure, financing costs and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, import and export regulations and environmental protection.

The company needs equity capital and financing for working capital and exploration and development of its properties. Due to continuing operating losses, the company's continuance as a going concern is dependant upon its ability to obtain adequate financing and reach profitable levels of operation. It is not possible to predict whether the financing efforts will be successful or if the company will attain profitable levels of operations.

Key Performance Indicators

Currently the company's main KPI is in relation to the estimated resource potential on discovery and development of economic deposits of diamonds in Finland. In addition, the company reviews expenditure incurred on exploration projects together with an ongoing review of operating costs.

Results for the Year and State of Affairs at 31 May 2010

The balance sheet as at 31 May 2010 and the income statement for the year are set out on pages 11 and 12 respectively. The company recorded a loss for the financial year of €173,081 (2009: €194,126). Taking account of the current year loss the equity decreased to €3,621,349 at 31 May 2010 from €3,712,312 at 31 May 2009.

Important Events Since Year End

For important events which have occurred since year end, refer to Note 19 which accompanies these financial statements.

Going Concern

As explained in Note 2 to the financial statements, the Directors have reviewed cash flow projections and other relevant information and are satisfied that the company will be able to continue in operation for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

Directors

The Directors who served during the year are as follows:

R.T.W.L. Conroy	M.T.A. Jones
J.P. Jones	L.J. Maguire
S.P. FitzPatrick	R.I. Chaplin

In accordance with the company's Articles of Association, Mr. James Jones and Mr. Séamus FitzPatrick will retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Details of Directors

Professor Richard Conroy, Chairman of the Board, has been involved in natural resources for many years. He established Trans-International Oil in 1974, which was primarily involved in Irish offshore oil exploration, and initiated the Deminex Consortium which included Deminex, Mobil, Amoco & DSM. Trans-International Oil was merged with Aran Energy Plc in 1979.

Professor Conroy founded Conroy Petroleum and Natural Resources Plc which in 1986 made the very significant discovery of the Galmoy zinc deposit in Co. Kilkenny which is now in production as a major base metal mine. Conroy Petroleum was also a founding member of the Stoneboy consortium, an exploration group which discovered the POGO gold field in Alaska now in production as a major gold mine.

Conroy Petroleum acquired Atlantic Resources Plc in 1992 and was renamed ARCON International Resources Plc (ARCON). Professor Conroy was Chairman and Chief Executive of ARCON from 1980 to 1994.

Professor Richard Conroy is an Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. His research has included pioneering work on the effects of Circadian Rhythms including Jet Lag, Shift Working and Decision Taking in Business after Intercontinental Flights.

Professor Conroy served for two terms in the Irish Parliament as a member of the Senate. As a Senator 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.

Miss Maureen Jones, Managing Director, has many years experience in natural resources. She also has a medical background, as a radiographer specialising in nuclear medicine. She became a manager with International Medical Corporation in 1977 and joined Professor Conroy at Conroy Petroleum

and Natural Resources Plc in 1980. She served as a director of the company from 1986 to 1994, when she joined Professor Conroy in the formation of Conroy Diamonds and Gold Plc. She has been managing director of that company since 1998.

Mr. James Jones, Finance Director, has been associated with the natural resources industry for over 20 years. He is a chartered accountant by profession and a lecturer in Accountancy at Limerick Institute of Technology. He served as finance director of Conroy Petroleum and Natural Resources Plc from its formation until 1994, when he joined with Professor Conroy to create Conroy Diamonds and Gold Plc. He has served as finance director and secretary of that company since its inception in 1995. He became Finance Director and Secretary of this Company on its formation.

Mr. Louis Maguire, Non-executive Director, is an Auctioneer by profession and land valuation expert with particular expertise in the purchase of mineral rights and in land acquisition for mining. He is also a director of Conroy Diamonds and Gold Plc.

Mr. Séamus FitzPatrick, Non-executive Director, 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, which advises funds with in excess of £2.0 billion of assets under management. He is chairman of the Mater Private Hospital and a member of the supervisory board at Drie Mollen. He is also a member of the board of Conroy Diamonds and Gold Plc.

Mr. Roger Chaplin, Non-executive Director, has over twenty five years experience in mining analysis, gained initially in a major South African mining house and latterly in the City of London. He was Senior Vice President and Mining Analyst at T. Hoare and Co., which later became Canaccord Capital (Europe) Limited in London from 1993 to 2003. Since 2003 he has worked as an independent analyst and as Head of Research for M. Horn & Co. He gained a particular interest in diamonds through following the development of the Canadian diamond mines in the 1990s.

Directors' and Secretary's Shareholdings and Other Interests

The interests of the Directors and Secretary, all of which were beneficially held, in the ordinary share capital and warrants of the company at 31 May 2010 and 31 May 2009 were as follows:

	At 31 May 2010		At 31 May 2009 (or date of appointment, if later)	
	Ordinary shares of €0.01 each	Warrants	Ordinary shares of €0.01 each	Warrants
R.T.W.L. Conroy	37,031,701*	8,354,382	37,031,701*	8,354,382
M.T.A. Jones	125,836	4,941,275	125,836	4,941,275
J.P. Jones	58,335	3,104,689	58,335	3,104,689
R.I. Chaplin	20,000	271,262	20,000	271,262
S.P. FitzPatrick	666	432,201	666	432,201
L.J. Maguire	51,668	432,201	51,668	432,201

* Of the 37,031,701 (2009: 37,031,701) Ordinary Shares beneficially held by Professor Richard Conroy, 30,815,030, (2009: 30,815,030) are held by Conroy Plc a company in which Professor Conroy has a controlling interest.

Report of the Directors *continued*

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

Directors	At 31 May 2010	Granted During Year	At 31 May 2009	Price €	Expiry Date
R.T.W.L. Conroy	1,000,000	–	1,000,000	5p stg	1 September 2015
R.T.W.L. Conroy	5,521,049	–	5,521,049	€0.10	16 November 2017
R.T.W.L. Conroy	1,833,333	–	1,833,333	10p stg	17 July 2010
M.T.A. Jones	750,000	–	750,000	5p stg	1 September 2015
M.T.A. Jones	4,191,275	–	4,191,275	€0.10	16 November 2017
J.P. Jones	500,000	–	500,000	5p stg	1 September 2015
J.P. Jones	2,604,689	–	2,604,689	€0.10	16 November 2017
R.I. Chaplin	200,000	–	200,000	5p stg	1 September 2015
R.I. Chaplin	71,262	–	71,262	€0.10	16 November 2017
S.P. FitzPatrick	200,000	–	200,000	5p stg	1 September 2015
S.P. FitzPatrick	232,201	–	232,201	€0.10	16 November 2017
L.J. Maguire	200,000	–	200,000	5p stg	1 September 2015
L.J. Maguire	232,201	–	232,201	€0.10	16 November 2017

Except as disclosed above, neither the Directors nor their families had any beneficial interest in the share capital of the company. Apart from loans from shareholders (Note 12), there have been no contracts or arrangements during the financial year in which a director of the company was materially interested and which were significant in relation to the company's business.

Substantial Shareholdings

So far as the Board is aware, no person or company, other than the Directors' interests disclosed above and the shareholder's listed below, held 3% or more of the issued ordinary share capital of the company at 31 May 2010.

Name	Number of ordinary shares	%
Professor Conroy	37,031,701*	61.17
HSBC Global Custody	6,422,333	10.61
Gartmore Investment Limited	4,592,333	7.59
Pershing Nominees Limited	2,212,999	3.65

* Of the 37,031,701 ordinary shares beneficially held by Professor Conroy, 30,815,030 are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

Political Donations

There were no political donations during the year.

Books of Account

The measures which the Directors have taken to ensure that proper books of account are kept are the adoption of suitable policies for recording transactions, assets and liabilities, the employment of appropriately qualified staff and the use of computer and documentary systems. The company's books of account are kept at 10 Upper Pembroke Street, Dublin 2.

Auditor

The auditor, Deloitte and Touche, Chartered Accountants, continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

On behalf of the board

R.T.W.L. Conroy <i>Director</i>	J.P. Jones <i>Director</i>
12 November 2010	

Statement of Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the financial statements and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2009. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Statement

Introduction

As the Company is quoted on London's AIM market, the board bases its policies and practices in relation to corporate governance on the Combined Code on Corporate Governance, published by the UK Financial Reporting Council (the Code).

The board supports standards in corporate governance and endeavours to implement the principles of the Combined Code constructively and in a sensible and pragmatic fashion with the objective of enhancing and protecting shareholder value. This is always harder in a small Company than in the larger organisations with which the Combined Code is chiefly concerned. It is particularly problematic for a company such as this which is both small and engaged in mineral exploration and development rather than more routine trading operations.

Regular board meetings are scheduled to take place throughout the year. During the year three meetings were held. All major policies are approved by the board.

Remuneration Committee

The remuneration committee comprises Mr. Louis Maguire and Mr. Séamus FitzPatrick. It is responsible for making recommendations to the board on the company's executive remuneration. The committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive directors. The board itself determines the remuneration of the non-executive directors.

Audit Committee

The committee's terms of reference have been approved by the board. The audit committee comprises Mr. Louis Maguire, Mr. Roger Chaplin and Mr. Séamus FitzPatrick. The audit committee reviews the interim and annual financial statements before they are presented to the board, focusing in particular on accounting policies and areas of management judgement and estimation. The committee is responsible for monitoring the controls which are in force to ensure the information reported

to the shareholders is accurate and complete. The committee considers internal control issues and contributes to the board'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 because of the company's limited operations. The members of the 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.

The committee advises the board on the appointment of external auditors and on their remuneration and discusses the nature and scope of the audit with the external auditors. It meets formally at least once a year with the company's external auditors. An analysis of the fees payable to the external audit firm in respect of audit services during the year is set out in Note 4 to the financial statements.

The audit committee also undertakes a formal assessment of the auditors' independence each year which includes: a review of any non-audit services provided to the company; discussion with the auditors of all relationships with the company and any other parties that could affect independence or the perception of independence; a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit including the regular rotation of the audit partner; and obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Internal Control

The board of directors is responsible for, and annually reviews, the company's systems of internal control, financial and otherwise. Such systems provide reasonable but not absolute assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial

information. The board considers it inappropriate to establish an internal audit function at present because of the company's limited operations; however this decision is reviewed annually.

There are no significant issues disclosed in the report and financial statements for the year ended 31 May 2010 and up to the date of approval of the report and financial statements that have required the board to deal with any related material internal control issues. The directors confirm that the board has reviewed the effectiveness of the system of internal control as operated during the year.

Risks and Uncertainties

In reviewing the risks facing the company, the board considers it is reasonably close to the company's operations and aware of its activities to be able to adequately monitor risk without the establishment of any formal process. The company may become subject to risks against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. The board believes the significant risks facing the company are adequately disclosed in these financial statements and that there are no other risks of comparable magnitude which need to be disclosed.

Communication with Shareholders

Extensive information about the company and its activities is given in the annual report and financial statements. Further information is available on the company's website, *kareliandiamondresources.com*, which is promptly updated whenever announcements or press releases are made.

The chairman holds meetings with substantial shareholders at least once a year, more often when appropriate, and other directors frequently join these and other meetings with smaller shareholders. Every effort is made to reply promptly and effectively to enquiries from shareholders on matters relating to their shareholdings and the business of the company.

Independent Auditor's Report

To the Members of Karelian Diamond Resources plc

We have audited the financial statements of Karelian Diamond Resources plc for the year ended 31 May 2010 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 193 the Companies Act, 1990. 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.

Respective Responsibilities of Directors and Auditors

The Directors are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report including the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We also report to you whether in our opinion: proper books of account have been kept

by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the company's balance sheet and its income statement are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Report of the Directors and the Corporate Governance statement. Our responsibilities do not extend to other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the affairs of the company as at 31 May 2010 and of the loss for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Emphasis of Matter – Realisation of Intangible Assets

Without qualifying our opinion, we draw your attention to the disclosures made in Notes 2 and 7 concerning the realisation of exploration and evaluation assets included as intangible assets in the balance sheet. The realisation of these assets is dependent on the successful further development and ultimate production of the mineral reserves and the continued availability of adequate finance. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot at present be determined.

Independent Auditor's Report *continued*

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet and income statement are in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 May 2010 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Deloitte & Touche

*Chartered Accountants
and Registered Auditors*

Limerick

12 November 2010

Balance Sheet

As at 31 May 2010

	Note	2010 €	2009 €
ASSETS			
Non-current Assets			
Intangible assets	7	5,250,016	4,883,865
Investment in subsidiary	8	4	4
Property, plant and equipment	9	837	1,089
		5,250,857	4,884,958
Current Assets			
Trade and other receivables	10	24,875	10,222
Cash and cash equivalents		17,707	7,666
		42,582	17,888
Total Assets		5,293,439	4,902,846
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	13	605,416	605,416
Share premium	13	3,801,202	3,801,202
Share based payments reserve		210,803	128,685
Retained earnings		(996,072)	(822,991)
Total Equity		3,621,349	3,712,312
Non-current Liabilities			
Financial liabilities	12	895,241	719,993
Total non-current liabilities		895,241	719,993
Current Liabilities			
Trade and other payables	11	776,849	470,541
Total Current Liabilities		776,849	470,541
Total Liabilities		1,672,090	1,190,534
Total Equity and Liabilities		5,293,439	4,902,846

These annexed notes form an integral part of these financial statements.

Approved by the Directors on 12 November 2010.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Income Statement

For the Year Ended 31 May 2010

	Note	2010 €	2009 €
Operating Expenses	3	(173,086)	(194,342)
Other Income		5	216
Loss Before Tax	4	(173,081)	(194,126)
Taxation	5	–	–
Loss Retained for the Year		(173,081)	(194,126)
Loss per ordinary share – basic and diluted	6	(€0.0028)	(€0.0032)

These annexed notes form an integral part of these financial statements.

R.T.W.L. Conroy
Director

J.P. Jones
Director

Approved by the Directors on 12 November 2010.

Statement of Changes in Equity

For the Year Ended 31 May 2010

	Share capital €	Share Premium €	Share-based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2008	605,416	3,801,202	87,626	(628,865)	3,865,379
Share-based payments	–	–	41,059	–	41,059
Loss for the year	–	–	–	(194,126)	(194,126)
At 31 May 2009	605,416	3,801,202	128,685	(822,991)	3,712,312
At 1 June 2009	605,416	3,801,202	128,685	(822,991)	3,712,312
Share-based payments	–	–	82,118	–	82,118
Loss for the year	–	–	–	(173,081)	(173,081)
At 31 May 2010	605,416	3,801,202	210,803	(996,072)	3,621,349

These annexed notes form an integral part of these financial statements.

Share Capital

The share capital comprises of share capital issued for cash and non-cash consideration.

Share Premium

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

Share Based Payment Reserve

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

Cash Flow Statement

For the Year Ended 31 May 2010

	Notes	2010 €	2009 €
Cash flows from operating activities			
Cash generated by operations	14	134,006	118,876
Tax paid		–	–
Net cash generated by operating activities		134,006	118,876
Cash flows from investing activities			
Investment in exploration and evaluation		(299,213)	(628,611)
Net cash used in investing activities		(299,213)	(628,611)
Cash flows from financing activities			
Advances of shareholder loans		175,248	481,971
Net cash generated from financing activities		175,248	481,971
Increase/(decrease) in cash and cash equivalents		10,041	(27,764)
Cash and cash equivalents at beginning of year		7,666	35,430
Cash and cash equivalents at end of year		17,707	7,666

These annexed notes form an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 May 2010

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) and have also been prepared in accordance with IFRS's adopted by the European Union.

The financial statements have also been prepared in accordance with the Companies Acts, 1963 to 2009. The financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Adoption of New and Revised Standards

The following standards and interpretations are effective for the current period. These are:

IAS 1	(Amendment) Presentation of financial statements
IAS 23	Borrowing costs
IAS 32 & IAS 1	(Amendment) Puttable financial instruments and obligations arising on liquidation
IAS 39 & IFRS 7	(Amendment) Reclassification of financial assets
IFRS 1 & IAS 27	(Amendment) Cost of an investment in a subsidiary, jointly controlled entity or associate
IFRS 2	(Amendment) Vesting conditions and cancellation
IFRS 8	Operating segments
IFRS 7	(Amendment) Improving disclosures about financial instruments
IFRIC 9 & IAS 39	Embedded Derivatives
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net Investment in a foreign operation

Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of these financial statements, other than the standards and interpretations adopted by the company in advance of their effective dates, the following Standards and Interpretations were in issue but not yet adopted:

IAS 24	Related party disclosures (effective for accounting periods beginning on or after 1 January 2011)
IAS 27	(Amendment) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009)
IAS 32	(Amendment) Classification of rights issues (effective for accounting periods beginning on or after 1 February 2010)
IAS 39	(Amendment) Eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)
IFRS 1	(Amendment) First time adoption of Financial Reporting Standards (effective for accounting periods beginning on or after 1 July 2009) Amendments to IFRS1 Additional Exemptions for First-Time Adopters (effective for accounting periods beginning on or after 1 January 2010) Amendments to IFRS1 Additional Exemptions for First-Time Adopters (effective for accounting periods beginning on or after 1 January 2010)

Notes to the Financial Statements *continued*

<i>IFRS 1</i>	(Amendment) Limited exemption from comparative IFRS 7 disclosures for first time adopters (effective for accounting periods beginning on or after 1 July 2010)
<i>IFRS 2</i>	Amendments to IFRS2 Group Cash-settled Share-based payment Transactions (effective for accounting periods beginning on or after 1 January 2010)
<i>IFRS 3</i>	Business Combinations (effective for accounting periods beginning on or after 1 July 2009)
<i>IFRSs 2009</i>	(Improvements) (effective for accounting periods beginning on or after 1 July 2009)
<i>IFRSs 2010</i>	(Improvements) (effective for accounting periods beginning on or after 1 January 2011)
<i>IFRIC 14</i>	(Amendment) Prepayments of a minimum funding requirement (effective for accounting periods beginning on or after 1 January 2011)
<i>IFRIC 17</i>	Distribution of Non-Cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009)
<i>IFRIC 18</i>	Transfers of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009)
<i>IFRIC 19</i>	(Amendment) Extinguishing financial liabilities with equity instruments (effective for accounting periods ending on or after 1 July 2010)

The directors have completed an initial assessment of the impact in relation to the adoption of these Standards and Interpretations for future periods of the Company. In the opinion of the Directors, the standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

A. Intangible Assets

The Company accounts for mineral expenditure in accordance with International Financial Reporting Standard 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. 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, capitalised costs includes an allocation from operating expenses, including share based payments, all such costs are directly related to exploration and evaluation activities.

E&E costs are not amortised prior to the conclusion of appraisal activities. At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered, then the carrying amount of the relevant E&E asset will be reclassified as a development and production asset, once the carrying value of the asset has been assessed for impairment.

If following completion of appraisal activities in an area, it is not possible to determine technical feasibility and commercial viability, or if the right to explore expires, then the costs of such unsuccessful exploration and evaluation is written off to the income statement in the period in which the event occurred.

(i) 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 indicators of impairment.

- The right to explore in an area has expired, or will expire in the near future, without renewal.
- No further exploration or evaluation is planned or budgeted for.
- A decision has been made to discontinue exploration and evaluation in an area, because of the absence of commercial reserves.
- Sufficient data exists to indicate that the carrying amount will not be fully recovered from future development and production.

1. ACCOUNTING POLICIES *continued*

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 the 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. Issue Expenses

Issue expenses arising on the issue of equity securities are accounted for as a deduction from equity against the share premium account net of any income tax benefit.

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
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D. Taxation

The tax expense represents the sum of the current and deferred tax charge.

The tax currently payable is based on taxable profits for the year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the balance sheet liabilities method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

E. Share Based Payments

The company has applied the requirements of IFRS 2 “Share-Based Payments”. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 June 2006.

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 at 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. The amount expensed to the income statement excludes the amount capitalised as part of intangible assets.

Notes to the Financial Statements *continued*

1. ACCOUNTING POLICIES *continued*

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. 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.

I. Pension costs

The company provides for certain employees through defined contribution pension schemes. The amounts charged to the income statement and balance sheet is the contribution payable in that year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables at the balance sheet.

J. Foreign currencies

Transactions denominated in foreign currencies relating to revenues, costs and non-monetary assets are translated into Euro 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 Euro at the rate of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

K. Shareholder's Loan

Shareholder's loans are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

L. Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying the company's accounting policies

In the process of applying the company's accounting policies above, management has identified the judgmental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

Exploration and evaluation

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets. In addition there is uncertainty as to whether the exploration activity will yield any economical viable discovery.

1. ACCOUNTING POLICIES *continued*

Impairment of intangible assets

If an indicator of impairment exists (as outlined in the Intangible Assets accounting policy), the exploration and evaluation assets need to be allocated into Cash Generating Units. The determination of what constitutes a cash generating unit requires judgment. Once this is decided, the carrying value of each cash generating unit 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 judgments:

- 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 the financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on finance being available for the continuing working capital requirements of the company and finance for the development of the company's projects becoming available. Based on financial support received to date from the shareholders, and their financial commitment to continue to support the company for a period of at least twelve months from the date of approval of these financial statements, the directors believe that the going concern basis is appropriate for these financial statements. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the company's assets, in particular the intangible fixed assets, to their realisable values.

Key sources of estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the 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 below.

Share-based payments

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.

2. GOING CONCERN

Mineral exploration and evaluation costs capitalised as intangible assets amounted to €5,250,016 (2009: €4,883,865) (Note 7) at the balance sheet date.

The directors recognise that the future realisation of intangible assets is dependent on the successful further development and ultimate production of the mineral reserves and the availability of sufficient finance to bring the reserves to economic maturity and profitability.

The directors have reviewed the projected cash flows for the company and on the basis of the capital funding achieved to date and existing commitments for further capital funding received from the shareholders, together with their review of projected cash flow information and taking into account the high potential of the acreage under licence, they consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments to the carrying amount, or classification of assets and liabilities, if the company was unable to continue as a going concern in the future.

Notes to the Financial Statements *continued*

3. OPERATING EXPENSES

	2010 €	2009 €
Operating expenses	434,741	514,238
Transfer to intangible assets (Note 7)	(261,655)	(319,896)
	173,086	194,342

Operating expenses are analysed as follows:	2010 €	2009 €
Wages and salaries	231,182	274,292
Share based payments	82,118	41,059
Depreciation	252	84
Loan interest	68,134	39,363
Auditor's remuneration	10,000	10,000
Other operating expenses	43,055	149,440
	434,741	514,238

Of the above costs, a total of €261,655 (2009: €319,896) is allocated to intangible assets based on a review of the nature and quantum of the underlying cost.

Wages and salaries as disclosed above is analysed as follows:

	2010 €	2009 €
Wages and salaries	195,214	215,063
Social welfare costs	10,468	20,979
Pension costs	25,500	38,250
	231,182	274,292

3. OPERATING EXPENSES *continued*

An analysis of remuneration for each director (prior to amounts capitalised as part of intangible assets) of the company in the current financial year is as follows:

	Emoluments & Compensation €	Share Options €	Pension Contributions €
Prof. R.T.W.L. Conroy	85,000	28,687	–
M.T.A. Jones	60,000	21,730	16,500
J.P. Jones	40,000	13,679	9,000
L.J. Maguire	10,000	2,019	–
S.P. Fitzpatrick	10,000	2,019	–
R.I. Chaplin	10,000	1,333	–

The total share based payment charge of €82,118 (2009: €41,059) is accounted for as shown below:

	2010 €	2009 €
Share based payment charge expensed to income statement	15,180	7,590
Share based payment charge transferred to intangible assets	66,938	33,469
	82,118	41,059

In the opinion of the directors, approximately eighty per cent of the share based payment charge is directly related to exploration and evaluation activities, and has been capitalised within intangible assets.

4. LOSS BEFORE TAX

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

	2010 €	2009 €
Directors' remuneration		
– Fees for services as directors	70,000	71,075
– Remuneration for other services	145,000	195,097
Share based payments	69,467	41,059
Auditor's remuneration – audit services	10,000	10,000
Depreciation	252	84

Notes to the Financial Statements *continued*

5. TAXATION

(a) Analysis of the taxation charge for the year

	2010 €	2009 €
Irish corporation tax	–	–
Based on adjusted loss for the year	–	–
Total current tax	–	–

No taxation charge arises in the financial year due to a loss being incurred in the current year.

(b) Factors affecting the tax charge for the year:

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

	2010 €	2009 €
Loss on ordinary activities before tax	(173,081)	(194,126)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 12.5% (2009: 12.5%)	(21,635)	(24,266)
Effects of:		
Losses carried forward for future utilisation	21,635	24,266
Tax charge for the 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. The amount not recognised amounts to €478,218 (2009: €456,583).

6. LOSS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of the loss per ordinary share of €0.0028 (2009: €0.0032) is based on the loss for the financial year of €173,081 (2009: €194,126) and the weighted average number of ordinary shares on a basic and fully diluted basis during the year of 60,541,676 (2009: 60,541,676).

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

7. INTANGIBLE ASSETS

Exploration and evaluation:	2010 €	2009 €
Cost		
At 1 June	4,883,865	4,221,785
Expenditure during the year		
– licence and appraisal costs	104,496	342,184
– other operating costs (Note 3)	194,717	286,427
– equity settled share based payments (Note 3)	66,938	33,469
At 31 May	5,250,016	4,883,865

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities.

The directors are aware that by its nature there is an inherent uncertainty in exploration and evaluation, and, consequently, in relation to the carrying value of capitalised exploration and evaluation assets.

The realisation of these intangible assets is dependent on the successful discovery and development of economic reserves.

The Directors have considered the proposed work programmes for these mineral reserves. They are satisfied that there are no indications of impairment, but none the less recognise that future realisation of the intangible assets is dependent on further successful exploration and appraisal activities and the subsequent economic production of the mineral reserves.

8. INVESTMENT IN SUBSIDIARY

	2010 €	2009 €
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 assets of each entity is €2. Both companies were incorporated in Ireland. Certain diamond claims in Finland are held in the name of the company's subsidiaries. The registered office of both non-trading subsidiaries is 10 Upper Pembroke Street, Dublin 2.

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

Notes to the Financial Statements *continued*

9. PROPERTY, PLANT AND EQUIPMENT

Plant & Office Equipment	2010	2009
	€	€
Cost		
At 1 June	1,677	1,677
Additions	–	–
At 31 May	1,677	1,677
Accumulated Depreciation		
At 1 June	588	504
Charge for the year	252	84
At 31 May	840	588
Carrying amount at 31 May	837	1,089

10. TRADE AND OTHER RECEIVABLES

	2010	2009
	€	€
VAT receivable	10,526	10,222
Prepayments	14,349	–
	24,875	10,222

11. TRADE AND OTHER PAYABLES

	2010	2009
	€	€
Accrued directors' remuneration		
– fees and other emoluments	531,813	324,112
– pension contributions	63,750	38,250
Other accruals	181,286	108,179
	776,849	470,541

It is the company's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the company's policy that payment is made according to the agreed terms. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The carrying value of the trade and other payables approximates to their fair value.

12. FINANCIAL LIABILITIES

	2010 €	2009 €
Shareholder loans		
Opening balance	719,993	238,022
Funds advanced	175,248	481,971
	895,241	719,993

The immediate funding requirements of the company have been financed by advances from Prof. R.T.W.L. Conroy (Executive Chairman and principal shareholder).

None of the above unsecured loans are repayable on demand.

Interest at a rate of 8.25% per annum is accrued on all amounts advanced. The accrued interest for the year ended 31 May 2010 is €140,610 (2009: €72,476). Of this, an amount of €54,306 is capitalised as part of intangible assets in the current year. The accrued interest is included within other accruals in Note 11 above.

13. CALLED UP SHARE CAPITAL AND PREMIUM

	2010 €	2009 €
Authorised:		
500,000,000 ordinary shares of €0.01 each	5,000,000	5,000,000

Issued and Fully Paid:

	Number	Share Capital €	Share Premium €
At start and end of year	60,541,676	605,416	3,801,202

- (a) At 31 May 2010 and 31 May 2009 warrants over 4,000,000 shares exercisable at 5p sterling at any time up to 1 September 2015 were outstanding.
- (b) At 31 May 2010 and 31 May 2009, warrants over 12,852,677 shares exercisable at 10p sterling at any time up to 16 November 2017 were outstanding.
- (c) At 31 May 2010 and 31 May 2009, warrants over 1,833,333 shares exercisable at 10p sterling at any time up to 17 July 2010 were outstanding.
- (d) At 31 May 2010 and 31 May 2009, options had been issued over 2,000,000 shares. These options are exercisable at prices ranging from €0.0761 to €0.0975 and expire between 16 April 2017 and 14 January 2018.
- (e) The share price at 31 May 2010 was 3.25p sterling. During the year the price ranged from 2.5p to 8.75p sterling.

Notes to the Financial Statements *continued*

14. NOTE TO THE CASHFLOW STATEMENT

Reconciliation of operating loss to Net Cash generated by/(used in) Operations:

	2010 €	2009 €
Operating loss	(173,081)	(194,126)
Depreciation	252	84
Expense recognised in income statement in respect of equity settled share based payments	15,180	7,590
Increase in creditors	306,308	265,109
(Increase)/decrease in debtors	(14,653)	40,219
Net cash generated by operations	134,006	118,876

15. COMMITMENTS AND CONTINGENCIES

At 31 May 2010 there were no capital commitments or contingent liabilities.

16. RELATED PARTY TRANSACTIONS

- a) Details as to shareholder loans with Prof. R.T.W.L. Conroy are outlined in Note 12 to the financial statements.
- b) The company shares accommodation with Conroy Diamonds and Gold Plc, which has certain common shareholders and directors. For the year ended 31 May 2010, Conroy Diamonds and Gold Plc, paid costs totalling €99,997 (2009: €61,185) on behalf of the company. These costs are funded by advances in shareholder's loan.

The costs are analysed as follows:

	2010 €	2009 €
Wages and salaries	21,348	13,249
Rent and rates	9,150	22,856
Travel and subsistence	8,089	6,829
Legal and professional	32,333	10,000
Other operating expenses	29,077	8,251
	99,997	61,185

At 31 May 2010, there were no amounts outstanding between the related parties (2009: Nil).

17. SHARE BASED PAYMENTS

The company operates a share option scheme for employees who devote a substantial amount of their time to the business of the company.

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

	2010		2009	
	No. of Share Options	Weighted Average Exercise Price €	No. of Share Options	Weighted Average Exercise Price €
1 June	2,000,000	0.0803	2,000,000	0.0803
Granted during year	–	–	–	–
Exercised during year	–	–	–	–
Lapsed during year	–	–	–	–
31 May	2,000,000	0.0803	2,000,000	0.0803

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

	2010		2009	
	No. of Share Warrants	Weighted Average Exercise Price €	No. of Share Warrants	Weighted Average Exercise Price €
1 June	18,686,010	0.0872	18,686,010	0.0872
Granted during year	–	–	–	–
Exercised during year	–	–	–	–
Lapsed during year	–	–	–	–
31 May	18,686,010	0.0872	18,686,010	0.0872

The company estimated the fair value of employee stock 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 plc 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.

Notes to the Financial Statements *continued*

17. SHARE BASED PAYMENTS *continued*

The company's Binomial Lattice Model included the following weighted average assumptions for the company's employee stock option and warrants.

	2010 Stock Options	2010 Stock Warrants	2009 Stock Options	2009 Stock Warrants
Dividend yield	0%	0%	0%	0%
Expected volatility	70%	70%	70%	70%
Risk free interest rate	4.2%	4.1%	4.2%	4.1%
Expected life (in years)	10	10	10	10

This calculation results in a share based payments reserve movement of €82,118 (2009: €41,059).

18. CONTROLLING PARTY

The control of Karelina Diamond Resources plc is held by the following shareholder:

Name	Number of ordinary shares	%
Professor Conroy	37,031,701*	61.17

* Of the 37,031,701 ordinary shares held by Professor Conroy, 30,815,030 are held by Conroy Plc, a company in which Professor Conroy has a controlling interest.

19. POST BALANCE SHEET EVENTS

In July 2010 the Company concluded a Confidentiality Agreement (with Back-in-Rights) with Rio Tinto Mining and Exploration Limited ("Rio Tinto"). Under the agreement, Rio Tinto will disclose to Karelina confidential information and physical geological samples relating to exploration in Finland for the purpose of Karelina considering that information in relation to Karelina's potential and existing exploration programmes in Finland.

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

1. For diamond projects the option will be triggered if Karelina completes 10 tons or more of bulk sampling for diamond exploration; and
2. For all other minerals the option will be triggered if Karelina discovers a resource with an in situ value that is equal to or greater than the in situ value of 3 million ounces of gold in a JORC compliant resource calculation.

The Company was also awarded further licences in Finland.

20. Approval of Financial Statements

These financial statements were approved by the Board on 12 November 2010.

