KARELIAN
DIAMOND RESOURCES

Registered Office

3300 Lake Drive,
Citywest Business Campus,
Dublin, D24 TD21
Ireland

Registered No: 382499

18 September 2019

Dear Shareholder,

INTRODUCTION

I am writing to you regarding a further Extraordinary General Meeting ("**EGM**") of your Company which has been requisitioned by three shareholders working in association with Stephen Grimmer, a former employee of and consultant to the Company ("**the Requisitioning Shareholders**").

The resolutions to be considered at this further EGM are identical to those rejected at the recent EGM of the Company held on 26 July 2019. At this further EGM the Requisitioning Shareholders again seek to gain control of the Board of Directors of the Company (the "**Board**") by removing all but two of the current members of the Board and electing four replacements to the Board, namely Stephen Grimmer and Martin Doyle (a former colleague of Stephen Grimmer) and Alan Osborne and Kevin Taylor, being two of the Requisitioning Shareholders.

The Board considers the requisitioning of this further EGM so soon after the rejection of the self-same resolutions to be vexatious. Nonetheless the Company is obliged by Irish Company Law to convene this further EGM. Accordingly, there is enclosed with this document a notice of the further EGM at which the Requisitionists' Resolutions will be considered and which will be held on 18 October 2019 at 1.00 p.m. at Gandon Suite South, Davenport Hotel, 8-10 Merrion Street Lower, Dublin 2. Also enclosed is a Form of Proxy for the EGM.

The purpose of this document is to briefly update you on the Company's activities and again explain why your board unanimously recommends that you again VOTE AGAINST the resolutions proposed by the Requisitioning Shareholders.

COMPANY UPDATE

The Company has been moving ahead in the short period since the last EGM on 26 July 2019 and the Board is determined not to allow the requisition of a further EGM delay progress with your Company's business and, in particular, with the development of a diamond mine at Lahtojoki.

In this context I am delighted that Howard Bird, with his wide experience of the diamond industry, and in particular of successful exploration and diamond mine development, has now joined the Board as a non-executive director in addition to his previously announced role as a geo-science consultant and will assist the Company on technical plans for the development of our diamond deposit at Lahtojoki as a mine, which when developed the Board expect will be the first diamond mine in Europe (outside Russia). Howard is an internationally experienced professional geoscientist (diamonds, gold, platinum and base metals) and has over 30 years' diverse junior and senior company exploration, development and mining experience, including over 15 years at the senior executive management level.

I am also very pleased to report that the process in relation to compensation for landowners at Lahtojoki is now at an advanced stage. This is an essential part of the process at this point of moving forward with the development of a mine at Lahtojoki.

BACKGROUND TO WHY YOU SHOULD VOTE AGAINST THE RESOLUTIONS

It remains the Board's view that the stated strategy of the Requisitioning Shareholders does not propose anything that is compelling or significantly different to that already adopted by the Company. Indeed Mr. Grimmer recently produced a "study" for the Requisitioning Shareholders which concluded that the Company under its current board has acquired an attractive asset in the Lahtojoki diamond deposit and that the Company should develop that project; that, of course, is precisely in line with the Company's existing strategy.

Board structure considerations

It is the Company's understanding that two of the proposed new Directors, Alan Osborne and Kevin Taylor, have never been involved in the discovery, advancement or development of any mining asset, nor indeed have they been involved in the running of any publicly-quoted company. Accordingly, these individuals do not have a track record of successfully managing and operating junior exploration companies to exploration success.

These proposed directors have to date put forward no descriptive technical proposals, supporting documentation or persuasive evidence of how they expect to finance or procure financing to support a meaningful sampling programme. Thus, there is:

- no independent programme evaluation description; and
- no budgets or timeline for an evaluation programme that requires world-class and industry-standard methodology.

This demonstrates an absence of understanding of kimberlite evaluation linked with adequate funding of the Lahtojoki diamond deposit, or of the diamond junior company marketplace that has evolved and changed significantly over the last five years.

The other two proposed directors, Stephen Grimmer and Martin Doyle, do have experience in the diamond industry and are well aware of the value of the Company's assets. In particular, Stephen Grimmer is a former consultant/employee of the Company, working as a geologist, who previously signed a confidentiality agreement with the Company.

In the view of the existing directors, there is no evidence that the directorial candidates proposed by the Requisitionists would add new value to or would provide significant improvements or enhancements to the Company or its assets; in fact the Board believes that the proposed changes are unnecessary and likely to damage the interests of the shareholders.

Operational considerations

Since acquiring the Lahtojoki diamond deposit, your Board has reviewed in detail all the previous technical work on the project and commissioned a Preliminary Economic Assessment which indicated the financial and technical attractiveness of the project. As a consultant to the Company, Stephen Grimmer became very familiar with this information and with the potential value of the Lahtojoki deposit.

Your Company has also carried out other necessary and highly encouraging technical work in relation to the deposit and has also made extensive progress with the Finnish Government's regulatory authorities and, very importantly, with the landowners in the area. Such steps are an essential part of the mining permit process in Finland. The Requisitionists are now renewing their attempt to gain control of the Company at a time when all of this work is coming to completion.

Stephen Grimmer, who is proposed by the Requisitionists for an executive role with the Company, was the former Managing Director of Paragon Diamonds, of which company his colleague, Martin Doyle, was Chairman. According to publicly available information, Paragon Diamonds raised funds on AIM to bring the Lemphane diamond deposit in Lesotho into production. Despite raising considerable funds, the company failed to develop the diamond deposit, failed to carry out its obligations laid down by the Lesotho Government and lost its licence over the property. The company's shares were suspended from trading on AIM in November 2015 and the Company had its admission to trading on AIM cancelled in December 2015. The shares in Paragon Diamonds are no longer traded on AIM or any other recognised market.

Now these two individuals are, again, being proposed to become members of the Board of your Company, with one of them to become Operations Director. Your Board does not consider this to be advisable or to be in the best interests of the Company or its shareholders.

Share price

The Company's share price is currently at a low level. Your Board does not believe that the current share price in any way reflects the value of your Company's assets and, in particular, the known potential of the Lahtojoki diamond deposit.

The Board is naturally concerned at the low share price. Members of the Board are themselves significant shareholders and have personally invested heavily (approximately €2.2 million) in the Company. It is of course true that the Board members have been paid by the Company for their work. However, the members of the Board have collectively invested in excess of €1,000,000 more than was paid as remuneration to all of them (net of tax) over the whole of the 13 years to May 2018.

The valuation assigned to exploration projects has, however, not only affected shares in Karelian Diamonds but the mining industry in general, and the diamond industry in particular. The Board believes, nonetheless, that the Company is now at a stage when the asset value of its properties, including the Lahtojoki diamond deposit, may progressively be recognised by the market.

Exploration and development of a mine is dependent on a number of factors, including technical ability and funding. The Board is aware of the accusation of slow progress in the development of the Company's assets but the amount of work that can be carried out is dependent on the funds available. On limited funding, the Company's existing team has developed a very impressive portfolio of assets, carried out the necessary work to retain the licences and built an excellent relationship with both the Finnish authorities and the local population.

Many diamond companies, some of them very large and other small explorers, have come and gone in Finland over the years. Only one company, your Company, Karelian Diamonds, has remained and built a portfolio of assets. As these assets are developed there is the potential for its share value to reflect the true value of that portfolio provided the opportunity is not lost by ill-judged actions such as those proposed by the Requisitionists.

Ongoing progress of the Company

The Company acquired the Lahtojoki diamond deposit on a very attractive basis, through negotiations which took several years to complete, and it is now moving towards development in an orderly and technically measured manner. The Company has also gained the benefit, at a minimal cost, of the multi-million Euro expenditures by previous operators at Lahtojoki. The current Board plans to move forward to developing a diamond mine by continuing its sensible technical and financial approach.

Karelian Diamond's exploration programme has been a success. It has taken time, but successful exploration does take time. It has included the discovery of a diamond – the best possible indicator of a diamond source. It has also resulted in the discovery of two new Kimberlite bodies and has identified a series of 21 Kimberlite indicator anomalies in the Kuhmo region of Finland and has shown the Seitapëra Kimberlite body (at 6.9 hectares) to be the largest discovered to date in Finland.

Furthermore, the Company has a Confidentiality Agreement (with back-in rights) in place with Rio Tinto Mining and Exploration Limited, one of the largest mining companies in the world. This Confidentiality Agreement has been in place since July 2010 and runs through to 30 June 2020.

The existing Board strongly believes that it is important to build on this exploration success, rather than abandon it. The Board acknowledges that it will take time, unless there is a significant increase in the funds available. However, the Board believes that the Requisitionists and their likely actions, if they were to become directors of the Company, could result in the Company failing to meet its licence obligations, an abandoning of the work done to date and, ultimately, a loss of the existing licences. It is especially important to maintain the licence around the Lahtojoki diamond deposit so that the Company will be in a position to commence exploration work when the permit to explore in the surrounding area becomes legally valid and enables exploration to commence. Any discovery in that area could add still further to the value of the Lahtojoki project.

Far from doing very little, as the Requisitionists have tried to assert, the Company under its existing Board, has achieved a great deal by way of a well thought-out and carefully planned, very focused and success-orientated exploration and acquisition programme.

AIM Rules considerations and trading on AIM

We have been advised that shareholders should be made aware of the following considerations in relation to the AIM Rules and trading on AIM, namely that if the Requisitionists' Resolutions were to be passed, there would be a potential risk to the admission of the Ordinary Shares to trading on AIM as, in those circumstances, the Company's AIM nominated adviser will need to consider the proposed alternative directors and the composition of a new Board in connection with the overall suitability of the Company to be a company with shares admitted to a public market in the UK.

In order to comply with the AIM Rules for Nominated Advisers, the Company's AIM nominated adviser must undertake customary due diligence including commissioning third-party due diligence reports on the proposed directors and satisfy itself as to Board composition and suitability, as a whole and the suitability and appropriateness of each of the proposed directors.

The due diligence exercise on the proposed directors was at an advanced stage at the time of the previous EGM being held for the last requisition and the Company's nominated adviser has met with the proposed directors. However, notwithstanding the due diligence already undertaken on the proposed directors, there can be no guarantee of the eventual outcome of the process and further due diligence will be required to be undertaken for this requisition exercise.

In the event that the Company's AIM nominated adviser cannot reach a satisfactory conclusion as to the suitability of any new Board for the purposes of the AIM Rules, then passing of the Requisitionists' Resolutions could potentially result in the resignation of the AIM nominated adviser and trading in the Company's Ordinary Shares on AIM being suspended. If the Company cannot appoint a replacement AIM nominated adviser within one month of such suspension, the admission of the Company's Ordinary Shares to trading on AIM will be cancelled and, unless other arrangements are put in place, Shareholders will not be able to trade their Ordinary Shares. The existing Directors are of the view that, in the circumstances, there can be no guarantee that a replacement AIM nominated adviser can be appointed within the appropriate timescale.

Shareholders should also be aware that the Company will no longer be bound by the AIM Rules if the admission of the Company's Ordinary Shares to trading on AIM were to be cancelled. As a consequence, investors would not be able to benefit from certain of the protections provided by the AIM Rules. For example, the Company would no longer be required to announce material events, interim or final results or transactions (including transactions with related parties) and certain previously prescribed corporate governance procedures may not be adhered to by the Company in the future as an unquoted company. Shareholders' approval would also not be required for reverse takeovers and/or fundamental changes in the Company's business. The Company would no longer be bound to comply with the corporate governance requirements applicable to UK-quoted companies and the Company would also no longer be required to have an AIM nominated adviser, nor be required to retain a broker.

Endangering the progress already made

The existing Board believes that this success in acquiring and moving forward the Lahtojoki diamond deposit is now being imperilled by proposed impetuous technical and financial actions, just as years of work potentially comes to fruition. Your Board believes the timing of this second attempt to gain control is not accidental.

Equally, the existing Board believes that the success which the Company has had, and the persistence to keep going to achieve it, is in great part due, not only to the commitment and expertise of the existing directors, but also to the constant ongoing financial support over many years that they have provided to the Company. They have also ensured that, of the money raised by the Company to date, the greater part of it has gone into exploration and development. The existing Directors have, in other words, made a major personal financial commitment to the Company.

No definitive plans of any sort have been put forward by the Requisitionists in respect of either the short term or medium term financing of the Company's operations and indeed they have failed to provide to the Board even the most basic financial information. No indication has been given, as to from whom, or from where, or at what price, or under what terms or conditions, funds might be raised. Moreover, little information of a definitive nature has been provided in relation to the Requisitionists' future strategy for the Company.

The technical plans of the Requisitionists are also largely absent or deficient, other than some worrying indications that courses of action may be planned which could potentially destabilise the Lahtojoki project and leave it undeveloped, whilst risking the loss of the other licences due to work not being carried out.

A measured, well thought-out approach from the Company's existing Board and management led to the acquisition of the Lahtojoki diamond project for a minimal cost. The same careful measured approach is essential to achieve its successful development as a mine, which your Board believes will be the first European diamond mine (outside Russia). Few other diamond exploration companies hold a potential diamond mine in their portfolio.

The Board urges you not to allow a campaign of misinformation and misrepresentation regarding your Directors or the progress that your Company has made cause this effort and hard-won success to be jeopardised through the actions of a small group of shareholders who, with a former consultant/employee are endeavouring to gain control of the Board of your Company.

Please support your current Board. They have brought the Company to this stage successfully and will now endeavour to bring about the development of a mine and a profitable Company with a corresponding share price that will reflect what the Board believes to be the true value of your Company.

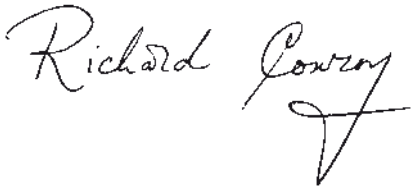
You are asked not to risk it all by placing confidence in, and voting for, individuals who either have no knowledge of the industry or have already overseen the failure of another diamond company.

It does take time to explore, find and then develop a diamond mine, but impatience and dissatisfaction with the low share price and the comments of a former consultant seems to have led to the Requisitionists requiring the calling of an EGM, which, no matter how it goes, is disruptive and expensive for the Company. To do so a second time when these proposals have already been rejected by shareholders in July 2019 is adding further disruption and expense for the Company and seems designed to hamper the Company in the orderly conduct of its business.

Your Board believes that the individuals seeking to gain control of the Board of the Company at the EGM are being opportunistic and their plans are ill-advised and likely to damage the interests of shareholders.

WE WOULD URGE YOU TO VOTE AGAINST THESE PROPOSALS.

Yours faithfully



Professor Richard Conroy
Chairman