KARELIAN
DIAMOND RESOURCES

Annual Report and Financial Statements 2020

Contents

Chairman's Statement

Professor Richard Conroy
Chairman

Dear Shareholder,

I have great pleasure in presenting your Company's Annual Report and Financial Statements for the year ended 31st May 2020. The year has been one of further progress at the Company's two major diamond projects in Finland.

One is the development of the Lahtojoki diamond deposit, in the Kuopio Kaavi region of Finland, over which the Company has been granted a mining concession. The Directors believe that the Lahtojoki deposit is one of the few diamond deposits in the world at a relatively advanced stage of development. It is situated in a highly favourable location with excellent infrastructure including good road access and power distribution, combined with local technical and logistics availability, thereby significantly reducing the potential mine capital and operating costs. A Preliminary Economic Assessment ("PEA") of the deposit was completed by the Company in 2017 and is technically and financially positive with a projected 2.11M carats recoverable over a 9 year mine life.

The Company's other major project is its diamond exploration programme in the emerging kimberlite field in the Kuhmo region of Finland. Again the location allows exploration to be conducted at a far lower cost than were it, for example, to be high up in a Canadian Arctic setting, in the Australian outback or elsewhere in the world without supporting infrastructure. Equally should a discovery be made in the Kuhmo area it too will have similar infrastructural advantages as at Lahtojoki.

The Company's main diamond projects are located in the Finnish section of the Karelian Craton. The Archean-aged Karelian Craton stretches across Eastern Russia and Northern Finland and is highly prospective for diamonds. The world class Lomonosov and Grib Pipe diamond deposits have been discovered in the Russian sector of the Craton and ALROSA, the major Russian diamond company, has indicated that this region is expected to represent most of its future growth. The Finnish section of the Craton, covering an area of over 180,000 sq. km., is comparable in size to the diamond rich Slave Lake Craton in Canada.

Finland has an established mining tradition and is politically and economically stable. There is security of tenure and fiscal framework and Finland regularly ranks in the top ten in the prestigious Fraser Institute Mining ratings.

Lahtojoki Diamond Deposit

During the year the regulatory processes of obtaining a full Mining Permit over the Lahtojoki diamond deposit have reached an advanced stage despite the inevitable delays caused by the COVID-19 pandemic.

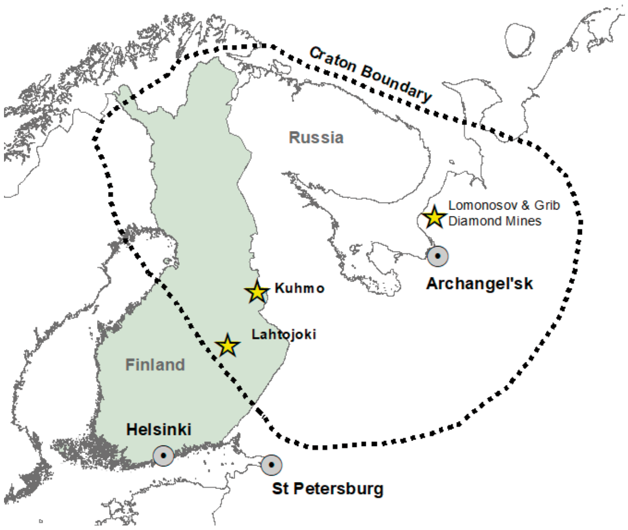
The Mining Concession over the Lahtojoki diamond deposit has already been approved by TUKES (The Finnish Mining Authority). The National Land Survey, on the order of TUKES, is currently undertaking the process of establishing the mining concession for the applied area. This has to be completed prior to TUKES issuing a full Mining Permit. This process by the National Land Survey has involved a series of public meetings and also submissions by the relevant landowners and the Company. It is now in its final stages but due to COVID-19 will not be completed by the National Land Survey until 2021.

Also, in July 2020, the National Land Survey of Finland formally granted to the Company rights of way to the entire Nariskangas private forest road, together with a side road, giving vehicular access to the deposit, the adjacent Lahtojoki South exploration permit area and the surrounding reservation in the Kaavi region of Finland. The granting of vehicular rights of way will facilitate the Company in its technical assessment of the deposit. The grant of vehicular rights gained legal force in August 2020.

A further and possibly highly important feature of the Lahtojoki deposit which has been receiving particular attention during the year is the presence of coloured stones and, especially, the occurrence of pink diamonds in the deposit. The importance of pink diamonds may be put into context when one considers that pink diamonds, although accounting for less than five per cent of the diamond production of what was the world's biggest diamond mine, the Argyle diamond mine in Western Australia, accounted for nearly fifty per cent of its revenue.

Analysis of available data and reports in relation to Lahtojoki suggest that coloured stones could amount to as much as seven per cent of the diamond content of the deposit and that perhaps three per cent could be pink diamonds.

Diamond Deposit Site.



Karelian Craton.

Additionally examination of a pink diamond from the Lahtojoki deposit made available for inspection by the Company, together with photographs of diamonds from the deposit, indicates that the pink diamonds in the Lahtojoki deposit are of high quality.

Coloured diamonds, especially pink diamonds, which have recently been achieving very high prices, are expected to increase further in price due to the closure of the Argyle Mine which has been the main global source of high quality pink diamonds.

Diamond Exploration Programmes

Lahtojoki

Kimberlite boulders discovered to the south of the Lahtojoki diamond deposit are comprised of material which does not appear to be derived from the Lahtojoki kimberlite. This suggests that these boulders may come from an undiscovered kimberlite up ice. The Company, therefore, applied for, and has been granted, an exploration permit over the relevant area.

The possible existence of a further diamondiferous kimberlite nearby, if confirmed, would, in the Board's view, further increase the attractiveness of the Lahtojoki diamond deposit. The Company has therefore commenced an exploration programme in the area.

Kuhmo

The Company's exploration programme in the Kuhmo region of eastern Finland, close to the Russian border, has already led to the discovery of a new kimberlite body, at Riihivaara, and a series of kimberlite anomalies. On one of these, Anomaly 5, a green diamond has been discovered by the Company in till. Such a discovery is a very rare event.

The Company has applied for, and been granted, by TUKES two diamond reservations around the Company's Riihivaara kimberlite discovery and also around the Anomaly 5 diamond discovery. These reservations secure the adjacent ground to licences already held by the Company over known kimberlite bodies. The relevance of this is that kimberlites tend to occur in clusters and in both of these areas there are indications of the possible presence of additional kimberlites.

The results to date encourage the Company to believe that the Kuhmo region in Eastern Finland, could be part of a new kimberlite province.

Ireland

The historic discovery of the Brookeborough diamond in Ireland together with more recent reports of the presence of indicator minerals has led the Company to apply for and obtain an exploration licence over the area. Preliminary assessment is underway.

COVID-19 Update

Since the outbreak of the COVID-19 pandemic, the Company has taken necessary measures in accordance with Government guidelines to protect the health, safety and wellbeing of its employees, contractors and partners in Finland and Ireland. COVID-19 continues to limit field and laboratory work given the restrictions on operations and movement and other work also continues in relation to the Company's exploration and development programme.

Directors and executives took a 50% reduction in fees and salaries while technical and field staff took a 25% reduction in salaries.

Appointment of Director

I am very pleased that Howard M. Bird, who was previously a geoscience consultant to the Company, joined the Board as a non-executive director in September 2019. Howard has extensive experience in both diamond exploration and development. He was Senior Vice President of Global Exploration for TSX and AIM listed SouthernEra Diamonds Ltd., where he spent over 15 years in the diamond industry. He managed and was involved in programmes that have led to the discovery of over 100 kimberlites working in Canada, Australia, Brazil, South Africa, Angola, Zimbabwe, Democratic Republic of Congo, Botswana and Gabon.

Chairman's Statement *continued*

Lahtojoki Diamonds.

Lahtojoki Pink Diamonds.

Mr. Bird was involved in the discovery to production success of several new economic diamond deposits while at SouthernEra, including the Marsfontein pipe, Sugerbird Blow and Klipspringer mine in South Africa, and he worked on one of the world's largest pipes, the Camafuca kimberlite in Angola. Howard will continue to act as a geoscience consultant to the Company.

Extraordinary General Meetings

During the year under review the Company has had to contend with a series of actions by a group of shareholders which have hindered the Board of Directors and management from pursuing the Company's business objectives as planned during the period.

These actions culminated in the holding of two separate Extraordinary General Meetings ("EGM") in July 2019 and October 2019 following requisitions being received from these shareholders. The requisitionists, in association with a former employee/consultant to the Company, endeavoured to gain control of the Company by removing all but two of the current members of the Board and electing four replacements, nominated by them, to the Board.

The resolutions were rejected by shareholders of the Company at the first EGM and the same resolutions were defeated by an even larger majority at the second EGM.

Financials

The loss after taxation for the financial year ended 31 May 2020 was €446,710 (2019: €370,654) and the net assets as at 31 May 2020 were €9,126,781 (2019: €9,189,779).

During the year the Company raised £150,000 (approximately €167,777) in two separate tranches through subscriptions for 3,928,571 ordinary shares in the capital of the Company. 2,500,000 of these shares were subscribed for at a price of 4 pence per share, while 1,428,571 shares were subscribed for at a price of 3.5 pence per share. The Company raised a further £240,000 through a subscription for £120,000 at a price of 4 pence per share and a convertible loan of £120,000 convertible at a price of 10 pence per share.

Subsequent to the year-end the Company also raised £420,000 through a placing of 10,500,000 ordinary shares at a price of 4 pence per ordinary share.

Directors and Staff

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

Future Outlook

I look forward to continued success and in particular to progress in the development of a mine at Lahtojoki and further exploration success.

Richard Conroy

Professor Richard Conroy
Chairman

30 November 2020

Company Information

Directors

Professor Richard Conroy
*Chairman**

Seamus P. FitzPatrick
Deputy Chairman
Non-Executive Director+§

Maureen T.A. Jones
*Managing Director**

Howard M. Bird
*Non-Executive Director**§
(Appointed 17 September 2019)

Dr. Sorċa C. Conroy
*Non-Executive Director**§

Brendan McMorrow
*Non-Executive Director**+§

Louis J. Maguire
*Non-Executive Director**+§
(Resigned 16 December 2019)

* Member of the Executive Committee
\+ Member of the Remuneration Committee
§ Member of the Audit Committee

Company Registration Number

382499

Company Secretary and Registered Office

Maureen T.A. Jones
3300 Lake Drive
Citywest Business Campus
Dublin 24, D24 TD21, Ireland

Statutory Audit Firm

Deloitte Ireland LLP
Chartered Accountants
and Statutory Audit Firm
6 Lapp's Quay
Cork, T12 VY7W, Ireland

London Stock Exchange

AIM Symbol: KDR
SEDOL: BD09HK6
ISIN number: IE00BD09HK61

Registrars

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Dublin 2, D02 X342, Ireland

Broker

Brandon Hill Capital Ltd.
1 Tudor Street
London, EC4Y 0AH, UK

Legal Advisers

William Fry Solicitors
2 Grand Canal Square
Dublin 2, D02 A342, Ireland

Roschier, Attorneys Ltd.
Kasarmikatu 21 A
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HPP Attorneys Ltd
Bulevardi 1 A
FL-00100, Helsinki
Finland

Head Office

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Tel: +353 1 6609377

or

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Floor 6, 131 Cannon Street
London, EC4N 5AX, UK

Tel: +44 20 3290 0707

Professor Richard Conroy
Chairman

Seamus P. FitzPatrick
Deputy Chairman

Dr. Sorċa C. Conroy
Non-Executive Director

Maureen T.A. Jones
Managing Director

Howard M. Bird
Non-Executive Director

Brendan McMorrow
Non-Executive Director

Board of Directors

Professor Richard Conroy

Chairman of the Board of Directors

Professor Richard Conroy is responsible for leading the Board and ensuring it operates in an effective manner whilst promoting communication with shareholders. He has over 40 years' experience of founding and growing companies in the natural resources industry with a track record in making discoveries of global significance.

Experience

Professor Richard Conroy has been involved in natural resources for many years. He established Trans-International Oil, which was primarily involved in Irish offshore oil exploration. Trans-International Oil initiated the Deminex Consortium which included Deminex, Mobil, Amoco and DSM. Trans-International Oil was merged with Aran Energy P.L.C. in 1979, which was later acquired by Statoil.

Professor Richard Conroy founded Conroy Petroleum and Natural Resources P.L.C. ("Conroy Petroleum"). Conroy Petroleum was involved in both onshore and offshore oil production and exploration and also in mineral exploration. Conroy Petroleum, in 1986, made the significant discovery of the Galmoy zinc deposits in County Kilkenny which was later developed as a major zinc mine. The discovery at Galmoy led to the revival of the Irish base metal industry and to Ireland becoming an international zinc province.

Conroy Petroleum was also a founding member of the Stoneboy consortium, which included Sumitomo Metal Mining Co. Ltd., an exploration group which discovered the world class Pogo gold deposit in Alaska, now in production as a major gold mine.

Conroy Petroleum acquired Atlantic Resources P.L.C. in 1992 and subsequently changed its name to ARCON International Resources P.L.C. ("ARCON"). The oil and gas interests in ARCON were transferred to form Providence Resources P.L.C. ARCON was later acquired by Lundin Mining Corporation.

Professor Richard Conroy was Chairman and Chief Executive of Conroy Petroleum/ARCON from 1980 to 1994. He founded Karelian Diamond Resources P.L.C. in 1995.

Professor Richard Conroy served in the Irish Parliament as a Member of the Senate. 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.

Professor Richard Conroy is Emeritus Professor of Physiology in the Royal College of Surgeons in Ireland. Professor Richard Conroy's research included pioneering work on jet lag, shift working and decision making in business after intercontinental flights. He co-authored the first textbook on human circadian rhythms.

Séamus P. FitzPatrick

Deputy Chairman/ Non-executive Director

Séamus P. FitzPatrick is the Managing Partner and co-founder of CapVest, a private equity investment firm established in London in 1999. He is currently chairman of Valeo Foods and is a Director of Eight Fifty Food Group. He was formerly chairman of Findus, Vaasan & Vaasan, Mater Private, Youngs Bluecrest, and a Director of Scandi Standard and Curium Pharma.

Prior to the founding of CapVest, Séamus P. FitzPatrick worked in M&A at Morgan Stanley in London. Thereafter, he worked for Chase Capital Partners in New York.

Séamus P. FitzPatrick holds an honours degree in English and Psychology from Trinity College Dublin.

Maureen T.A. Jones

Managing Director

Maureen T.A. Jones oversees all of the Company's business and is responsible for formulating the Company's objectives and strategy. She is also the Company Secretary for the Company.

Experience

Maureen T.A. Jones has over twenty years' of experience at senior level in the natural resource sector. She is Managing Director of Karelian Diamond Resources P.L.C. and was a founding Director of the Company. Maureen T.A. Jones joined Conroy Petroleum on its foundation in 1980 and was a Director and member of the Board of Directors of Conroy Petroleum/ARCON from 1986 to 1994. Maureen T.A. Jones has a medical background and specialised in the radiographic aspects of nuclear medicine before becoming a manager of International Medical Corporation in 1977. Maureen T.A. Jones is also a Director of Conroy Gold and Natural Resources P.L.C.

Dr. Sorċa C. Conroy

Non-executive Director

Dr. Sorċa C. Conroy brings a broad range of knowledge to bear on the Company through her capital markets experience and her experience in the natural resources sector.

Experience

Dr. Sorċa C. Conroy was recruited to ING Bank in 2006 and whilst there was ranked second in the Extel Survey for Biotechnology Specialist Sales. Dr. Sorċa C. Conroy had previously worked in specialist sales for life sciences and institutional equities at Canaccord Adams (2005-2006; where she ranked fourth in the 2006 Extel survey) and Hoodless Brennan (2004-2005). A medical graduate of The Royal College of Surgeons in Ireland, Dr. Sorċa C. Conroy held a number of clinical positions between her graduation in 1995 and joining Hoodless Brennan and was a director of Conroy Gold and Natural Resources P.L.C. for over 10 years.

Brendan McMorrow

Non-executive Director

Brendan McMorrow brings a broad range of knowledge gained through holding senior financial roles in a variety of listed public companies in the natural resources sector. He was appointed to the Board on 15 November 2018.

Experience

Brendan McMorrow has over 25 years' experience in a number of public companies in the oil and gas and base metals mining sectors listed in London, Toronto and Dublin where he held senior executive finance roles. He is currently Finance Director of Dunraven Resources P.L.C., an oil and gas exploration and development company. Prior to that he was Chief Financial Officer of Circle Oil P.L.C. from 2005 to 2015, an AIM listed oil and gas exploration, development and production company, with operations in North Africa and the Middle East. Brendan is a Fellow of the Chartered Association of Certified Accountants. He is also a Director of Conroy Gold and Natural Resources P.L.C.

Howard M. Bird

Non-executive Director

Howard M. Bird brings a broad range of knowledge gained through holding senior positions in a variety of different roles in the natural resources sector. He was appointed to the Board on 17 September 2019.

Experience

Howard M. Bird is an internationally experienced Professional Geoscientist (diamonds, gold, platinum and base metals) and has over 30 years' diverse junior and senior mining company exploration, development and mining experience, including over 15 years at senior executive management level. Howard has extensive worldwide experience and was involved in programmes that have led to the discovery of over 100 kimberlites, working in Canada, Australia, Brazil, South Africa, Angola, Zimbabwe, Democratic Republic of Congo, Botswana and Gabon.

Directors' Report

The Board of Directors submit their annual report together with the audited financial statements of Karelian Diamond Resources P.L.C. (the "Company") for the financial year ended 31 May 2020.

Principal activities, business review and future developments

Information with respect to the Company's principal activities and the review of the business and future developments as required by Section 327 of the Companies Act 2014 is contained in the Chairman's statement on pages 2 to 4. During the financial year under review, the principal focus of management was to continue to develop the activities of the Company concentrating particularly on diamond exploration and evaluation.

The challenges facing the Company in achieving this strategy are world commodity prices and general economic activity, ensuring compliance with governmental and environmental legislation and meeting work commitments under exploration permits and licences sufficient to maintain the Company's interest therein. To accomplish its strategy and manage the challenges involved, the Company employs experienced individuals with a track record of success of discovering world class ore bodies together with suitably qualified technical personnel and consultants, experienced drilling and geophysical and other contractors and uses accredited international laboratories and technology to interpret and assay technical results. Additionally, the Company ensures as far as possible to obtain adequate working capital to carry out its work obligations and commitments.

By co-ordinating all of the above, this should result in a satisfactory return and value for shareholders.

Results for the year and state of affairs at 31 May 2020

The income statement for the financial year ended 31 May 2020 and the statement of financial position at that date are set out on pages 22 and 24 respectively. The loss for the financial year amounted to €446,710 (2019: a loss of €370,654) and net assets at 31 May 2020 were €9,126,781 (2019: €9,189,779). No interim or final dividends have been or are recommended by the Board of Directors.

The Company is not yet in a production stage and so has no income. Consequently, the Company is not expected to report profits until it disposes of or is able to profitably develop or otherwise turn to account its exploration projects. The Board of Directors monitor the activities and performance of the Company on a regular basis and uses both financial and non-financial indicators to assess the Company's performance.

Important events since the year-end

Subsequent to the year-end, the Company raised a total of €465,761 (£420,000) through subscriptions for 10,500,000 ordinary shares in the capital of the Company. 10,500,000 of these shares were subscribed for at a price of £0.04 per share.

COVID-19 continues to limit field and laboratory work given the restrictions on operations and movement and other work also continues in relation to the Company's exploration and development programme.

Directors

The Directors who served throughout the financial year unless otherwise indicated are as noted below:

- Professor Richard Conroy
- Séamus P. FitzPatrick
- Maureen T.A. Jones
- Dr. Sorċa C. Conroy
- Brendan McMorrow
- Howard M. Bird
  (appointed 17 September 2019)
- Louis J. Maguire
  (resigned 16 December 2019)

Dr. Sorċa C. Conroy retires from the Board of Directors by rotation and, being eligible, offers herself for re-election at the forthcoming Annual General Meeting of the Company.

Howard M. Bird, who was appointed to the Board of Directors on 17 September 2019, retires in accordance with the Company's Articles of Association and, being eligible, offers himself for election at the forthcoming Annual General Meeting of the Company.

Except as disclosed in the following tables, neither the Directors nor their families had any beneficial interest in the share capital of the Company. Apart from Directors remuneration (detailed in Note 2 and Note 4) and loans from shareholders (who are also Directors which are detailed in Note 12), there here have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest.

Company secretary

Maureen T.A. Jones served as Company Secretary throughout the year.

Directors' shareholdings and other interests

The interests of the Directors and their spouses and children in the share capital of the Company were as follows:

Director	Date of signing financial statements	Date of signing financial statements	31 May 2020	31 May 2020	1 June 2019 *(or date of appointment if later)*	1 June 2019 *(or date of appointment if later)*
	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.00025 each	Warrants	Ordinary Shares of €0.00025 each	Warrants
Professor Richard Conroy	**8,413,912***	**220,841**	**8,413,912***	**220,841**	**5,338,912***	**220,841**
Dr. Sorċa C. Conroy	**1,129,911**	**–**	**1,129,911**	**–**	**1,129,911**	**–**
Maureen T.A. Jones	**639,990**	**167,651**	**639,990**	**167,651**	**639,990**	**167,651**
Séamus P. FitzPatrick	**481,341**	**9,288**	**481,341**	**9,288**	**481,341**	**9,288**
Brendan McMorrow	**285,000**	**–**	**285,000**	**–**	**–**	**–**

* Of the 8,413,912 (2019: 5,338,912) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2020, 1,232,601 (2019: 1,232,601) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.

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

Director	Date of signing financial statements	Date of signing financial statements	31 May 2020	31 May 2020	1 June 2019	1 June 2019	Expiry Date
	Warrants	Price £	Warrants	Price £	Warrants	Price £	
Professor Richard Conroy	**220,841**	**2.20**	**220,841**	**2.20**	220,841	2.20	16 November 2022
Maureen T.A. Jones	**167,651**	**2.20**	**167,651**	**2.20**	167,651	2.20	16 November 2022
Séamus P. FitzPatrick	**9,288**	**2.20**	**9,288**	**2.20**	9,288	2.20	16 November 2022

Directors' Report *continued*

Substantial shareholdings

So far as the Board of Directors are aware, no person or company, other than the shareholders listed below, held 3% or more of the issued ordinary share capital of the Company.

Shareholder	Date of signing financial statements	Date of signing financial statements	31 May 2020	31 May 2020	31 May 2019	31 May 2019
	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.00025 each	%	Ordinary Shares of €0.00025 each	%
Professor Richard Conroy	8,413,912*	15.71	8,413,912*	19.55	5,388,912	15.62
Spreadex Limited	6,868,430	12.83	–	–	–	–
Mr. Kevin Taylor	5,000,000	9.34	3,022,939	7.02	1,332,586	3.86
Martello Holdings Limited	3,928,571	7.34	3,928,571	9.13	–	–
Mr. Fredrik Björnberg	3,000,000	5.60	3,000,000	6.97	–	–
Mr. Steven Coomber	2,300,000	4.30	1,750,000	4.07	1,410,519	4.09
Mr. Alan Osborne	1,692,819	3.16	2,000,000	4.65	1,832,257	5.31

* Of the 8,413,912 (2019: 5,338,912) ordinary shares beneficially held by Professor Richard Conroy at 31 May 2020, 1,232,601 (2019: 1,232,601) are held by Conroy P.L.C., a company in which Professor Richard Conroy has a controlling interest.

Compliance policy statement of Karelian Diamond Resources P.L.C.

The Directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section ('relevant obligations'). The Directors confirm that:

- a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to compliance with relevant obligations;
- appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- a review has been conducted, during the financial year, of those arrangements and structures.

It is the policy of the Company to review during the course of each financial year the arrangements and structures referred to above which have been implemented with a view to determining if they provide a reasonable assurance of compliance in all material respects with relevant obligations.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report, including the Directors' Report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations. Irish Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

Under company law, the Directors must not approve the Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of the Company's profit or loss for that year and otherwise comply with the Companies Act 2014. In preparing the Company's financial statements, the Directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reason for any material departure from these standards; 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 adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company are prepared in accordance with the relevant accounting framework and comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Company incurred a loss of €446,710 (2019: a loss of €370,654) for the financial year ended 31 May 2020. The Company had net assets of €9,126,781 (2019: €9,189,779) at that date. The Company had net current liabilities of €1,247,702 (2019: net current liabilities of €962,958) at that date. The Company had cash and cash equivalents of €15,942 (2019: €30,833) at 31 May 2020.

The Directors, namely Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorċa C. Conroy and Brendan McMorrow, and former Directors, namely James P. Jones and Louis J. Maguire, have confirmed that they will not seek repayment of amounts owed to them by the Company of €902,805 (2019: €738,429) for a minimum period of 12 months from the date of approval of the financial statements, unless the Company has sufficient funds to repay.

Subsequent to the statement of financial position date, the Company has raised €465,761 (£420,000) through the issue of shares (see Note 18 for details).

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to November 2021. As set out in the Chairman's statement, the Company expects to incur capital expenditure in 2021, consistent with its strategy as an exploration company. In reviewing the proposed work programme for exploration and evaluation assets and on the basis of the funds received after the financial year end, the results obtained from the exploration programme and the prospects for raising additional funds as required, the Board of Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Corporate governance

The Board adopted the QCA Corporate Governance Code ("QCA Code"), which is derived from the 2018 UK Corporate Governance Code and the Guidance on Board Effectiveness (the "Code") but adapted to the needs of smaller quoted companies. The Company agrees that good governance contributes to sustainable success and recognise the renewed emphasis on business building trust by forging strong relationships with key stakeholders. The Company understands the importance of a corporate culture that is aligned with the Company's purpose and business strategy, and which promotes integrity and includes diversity. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. It is an objective of the Company that all individuals are aware of their responsibilities in applying and maintaining these standards in all their actions. The Board ensures that support is available in the form of staff training and updating its employee handbook such that staff members understand what is expected of them.

The Company's Corporate Governance Code is available on the Company's website www.kareliandiamondresources.com.

Board of Directors

The Board of Directors is made up of two executive and four non-executive Directors. Biographies of each of the Directors are set out on pages 6 and 7.

The Board of Directors agree a schedule of regular meetings to be held in each calendar year and also meets on other occasions as necessary. Meetings are usually held at the head office in 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland. Board of Directors' meetings were held on 14 occasions from 1 June 2019 to 31 May 2020 and attendance at these meetings is set out in the table below. An agenda and supporting documentation were circulated in advance of each meeting.

	Board
Meetings held during the year	**14**
Professor Richard Conroy	**13 out of 14**
Séamus P. FitzPatrick	**11 out of 14**
Maureen T.A. Jones	**14 out of 14**
Dr. Sorċa C. Conroy	**14 out of 14**
Brendan McMorrow	**13 out of 14**
Howard M. Bird (appointed 17 September 2019)	**7 out of 7**
Louis J. Maguire (resigned 16 December 2019)	**7 out of 7**

Directors' Report *continued*

There is an agreed list of matters which the Board of Directors has formally reserved to itself for decision, such as approval of the Company's commercial strategy, trading and capital budgets, financial statements, Board of Directors membership, major capital expenditure and risk management policies. Responsibility for certain matters is delegated to Board of Directors committees. Executive Directors spend as much time on Company's matters as is necessary for the proper performance of their duties. Non-executive Directors are expected to spend a minimum of one day a month on Company's activities in addition to preparation for and attendance at Board and sub-committee meetings.

There is an agreed procedure for Directors to take independent legal advice.

The Company Secretary is responsible for ensuring that Board of Directors procedures are followed, and all Directors have direct access to the Company Secretary.

All Directors receive regular reports and full Board of Directors papers are sent to each Director in sufficient time before Board of Directors meetings, and any further supporting papers and information are readily available to all Directors on request. The Board of Directors papers include the minutes of all committees of the Board of Directors which have been held since the previous Board of Directors meeting, and, the Chairman of each committee is available to give a report on the committee's proceedings at Board of Directors meetings if appropriate.

The Board of Directors has a process whereby each year every Director may meet the Chairman to review the conduct of Board of Directors meetings and the general corporate governance of the Company. The non-executive Directors are regarded as independent by the Board of Directors and have no material interest or other relationship with the Company (Dr. Sorċa C. Conroy is a daughter of Professor Richard Conroy).

The Board, having fully considered the corporate needs of the Company, is satisfied that it has an appropriate balance of experience and skills to carry out its duties. The Chairman of the Company oversees this process and reviews the Board composition to ensure it has the necessary experience, skills and capabilities.

The current non-executive Directors have a wide range of financial and technical skills based on both qualifications and experience; including significant fundraisings, financial management, technical expertise and the discovery and bringing into production of operating mines. Each board member keeps their skills up to date through a combination of courses, continuing professional development through professional bodies and reading.

The Company Secretary provides Directors with updates on key developments relating to the Company, the sector in which the Company operates, legal and governance matters including advice from the Company's broker, lawyers and advisors.

Board performance

The Board, through its Chairman, will, in the coming year evaluate its ongoing performance, based on the requirements of the business and corporate governance standards.

It is envisaged that the review process will include the use of internal reviews and periodic external facilitation. The results of such reviews will be used to determine whether any alterations are needed at either a board or senior management level or whether any additional training would be beneficial. It is intended that with effect from the end of the next financial year, these evaluations will be undertaken annually, after the end of each financial year but prior to the publication of the respective annual report and accounts.

Director's performance will be measured by way of such matters as:

- Commitment
- Independence
- Relevant experience
- Impartiality
- Specialist knowledge
- Effectiveness on the Board

As set out in the Constitution of the Company, each year, one third of the Directors with the exception of the Chairman and the Managing Director, retire from the Board of Directors by rotation. Effectively, therefore, each such Director will retire by rotation within a three-year period.

Ethical values and behaviours

The Board of Directors is committed to high standards of corporate governance and integrity in all its activities and operations and promotes a culture of good ethical values and behaviour. The Company conducts its business with integrity, honesty and fairness and requires its partners, contractors and suppliers to meet similar ethical standards. Individual staff members must ensure that they apply and maintain these standards in all their actions.

The Chairman of the Board of Directors regularly monitors and reviews the Company's ethical standards and cultural environment and where necessary takes appropriate action to ensure proper standards are maintained. Due to the size and available resources of the Company, the Chairman of the Board of Directors carries out executive functions. The Company is fully committed to complying with all relevant health, safety and environment rules and regulations as these apply to its operations. It is an objective of the Company that all individuals are aware of their responsibilities in providing a safe and secure working environment.

Board Committees

The Board of Directors have implemented an effective committee structure to assist in the discharge of its responsibilities. The committees and their members are listed on page 5 of this report. Membership of the Audit and Remuneration Committees is comprised exclusively of non-executive Directors. Attendance at the Audit and Remuneration Committee meetings is set out in the table below:

	Audit Committee	Remuneration Committee
Meetings held during the year	3	–
Seamus P. FitzPatrick	3	–
Brendan McMorrow**	3	n/a**
Sorċa C. Conroy*	–*	n/a
Howard M. Bird (appointed 17 September 2019)**	–	n/a**
Louis J. Maguire (resigned 16 December 2019)***	–***	–***

* Sorċa C. Conroy was appointed as a member of the Audit Committee on 28 August 2020

** Brendan McMorrow and Howard M. Bird were both appointed as members of the Remuneration Committee on 28 August 2020

*** Louis J. Maguire resigned as a member of both the Audit Committee and Remuneration on 16 December 2019

Audit Committee

The Audit Committee's terms of reference have been approved by the Board of Directors. The Audit Committee, constituted in accordance with Section 1097 of the Companies Act 2014, comprises three independent non-executive Directors and is chaired by Séamus P. FitzPatrick. The Audit Committee reviews the accounting principles, policies and practices adopted, and areas of management judgement and estimation during the preparation of the interim and annual financial statements and discusses with the Company's Auditors the results and scope of the audit. The external auditors have the opportunity to meet with the members of the Audit Committee alone at least once a year.

The Audit Committee also advises the Board of Directors on the appointment of external auditors and on their remuneration. An analysis of the fees payable to the external audit firm in respect of audit services during the financial year is detailed in Note 3 to the financial statements. The Audit Committee also undertakes a review of any non-audit services provided to the Company, and a discussion with the auditors of all relationships with the Company and any other parties that could affect independence or the perception of independence.

The Audit Committee is responsible for monitoring the controls which are in force to ensure the information reported to the shareholders is accurate and complete. The Audit Committee also reviews internal controls and reviews the effectiveness of the Company's internal controls and risk management systems. It also considers the need for an internal audit function, which it believes is not primarily required at present because of the size of the Company's operations. The members of the Audit 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.

Remuneration Committee

The Remuneration Committee's terms of reference have been approved by the Board of Directors and is in accordance with the QCA Remuneration Committee Guide for Small and Mid-Size Quoted Companies. The Remuneration Committee comprises two non-executive Directors and is chaired by Séamus P. FitzPatrick. Emoluments of executive Directors and senior management are determined by the Remuneration Committee. In the course of each financial year, the Remuneration Committee determines any contract terms, remuneration and other benefits, including share options, for each of the executive Directors. The Remuneration Committee applies the same philosophy in determining executive Directors' remuneration as is applied in respect of all employees. The underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Company.

The Board of Directors itself determines the remuneration of the non-executive Directors. Details of Directors' remuneration for the current period are detailed in Note 2 and Note 4 to the financial statements.

Executive Committee

The Executive Committee comprises of Professor Richard Conroy, Sorċa C. Conroy, Ms. Maureen T.A. Jones and Howard M. Bird. Its purpose is to support the Managing Director in carrying out the duties delegated to her by the Board of Directors. It also ensures that regular financial reports are presented to the Board of Directors, that effective internal controls are in place and functioning, and that there is an effective risk management process in operation throughout the Company.

Internal control

The Directors have overall responsibility for the Company's system of internal control to safeguard shareholders' investments and the Company assets. They operate a system of financial controls which enable the Board of Directors to meet its responsibilities for the integrity and accuracy of the Company's accounting records. Among the processes applied in reviewing the effectiveness of the system of internal controls are the following:

- The Board of Directors establishes risk policies as appropriate, for implementation by executive management.
- All commitments for expenditure and payments are subject to approval by personnel designated by the Board of Directors; and
- Regular management meetings take place to review financial and operational activities.

Directors' Report *continued*

The Board of Directors has considered the requirement for an internal audit function. Based on the scale of the Company's operations and close involvement of the Board of Directors, the Directors have concluded that an internal audit function is not currently required.

Risks and uncertainties

The Company is subject to a number of potential risks and uncertainties, which could have a material impact on the long-term performance of the Company and could cause actual results to differ materially from expectation. The management of risk is the collective responsibility of the Board of Directors. An ongoing process for identifying, evaluating and managing or mitigating the principal risks faced by the Company has been in place throughout the financial year and has remained in place up to the approval date of the report and accounts. The Board intends to keep its risk control procedures under constant review, particularly with regard to the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

As might be expected in a Company of this size, a key control procedure is the day-to-day supervision of the business by the Executive Directors, supported by the senior managers with responsibility for key operations. The Board has considered the impact of the values and culture of the Company and ensures that, through staff communication and training, the Board's expectations and attitude to risk and internal control are embedded in the business. The Board of Directors consider the following risks to be the principal risks affecting the business.

General Industry Risk

The Company's business may be affected by the general risks associated with all companies in the diamond exploration industry. These risks (the list of which is not exhaustive) include: general economic activity, the world diamond prices, government and environmental regulations, permits and licenses, fluctuating metal prices, the requirement and ability to raise additional capital through future financings and price volatility of publicly traded securities. As such there is no guarantee that future market conditions will permit the raising of the necessary funds by way of issue of new equity, debt financing or farming out of interests. To mitigate this risk, the Board regularly reviews Company cash flow projections and considers different sources of funds.

Environmental Risk

Environmental and safety legislation may change in a manner that may require stricter or additional standards than those now in effect. These could result in heightened responsibilities for the Company and could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. The Company employs staff experienced in the requirements of the relevant environmental authorities and seeks through their experience to mitigate the risk of non-compliance with accepted best practice.

Exploration Risk

All drilling to establish productive diamond resources is inherently speculative, and, therefore, a considerable amount of professional judgement is involved in the selection of any prospect for drilling. In addition, in the event drilling successfully encounters diamonds, unforeseeable operating problems may arise which render it uneconomic to exploit such finds. Estimates of potential resources include substantial proportions which are undeveloped. These resources require further capital expenditure in order to bring them into production.

No guarantee can be given as to the success of drilling programmes in which the Company has an interest. The Company employs highly competent experienced staff and uses a range of techniques to minimise risk prior to drilling and utilises independent experts to assess the results of exploration activity.

Financial Risk

Refer to Note 17 in relation to the use of financial instruments by the Company, the financial risk management objectives of the Company and the Company's exposure to interest rate risk, foreign currency risk, liquidity risk and credit risk. Management is authorised to achieve best available rates in respect of each forecast currency requirement.

Pandemic Risk

Since the outbreak of the COVID-19 pandemic, the Company has taken necessary measures in accordance with Government guidelines to protect the health, safety and wellbeing of its employees, contractors and partners in Finland and Ireland. COVID-19 continues to limit field and laboratory work given the restrictions on operations and movement and other work also continues in relation to the Company's exploration and development programme.

Communication with shareholders

The Company gives high priority to communication with both shareholders and all other stakeholder groups. This is achieved through publications such as the annual and interim report, and news releases on the Company's website www.kareliandiamondresources.com, which is regularly updated.

The Company encourages shareholders to attend the Annual General Meeting (AGM) to meet, exchange views and discuss the progress of the Company. The Directors are available after the conclusion of the formal business of the AGM to meet, listen to shareholders and discuss any relevant matters arising.

Political donations

There were no political donations during the financial year (2019: €Nil).

Accounting records

The Board of Directors are responsible for ensuring adequate accounting records, as outlined in Section 281 to 285 of the Companies Act 2014, are kept by the Company. The Board of Directors, through the use of appropriate procedures and systems and the employment of competent persons have ensured that measures are in place to secure compliance with these requirements.

The accounting records are maintained at the Company's business address, 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

Disclosure of information to auditors

So far as each of the Directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

Auditors

Deloitte Ireland LLP will continue in office in accordance with Section 383 (2) of the Companies Act 2014. Shareholders will be asked to authorise the Directors to fix their remuneration.

On behalf of the Directors:

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

30 November 2020

Independent Auditor's Report

to the Members of Karelian Diamond Resources Plc

Opinion on the financial statements of Karelian Diamond Resources Plc (the 'Company')

In our opinion the financial statements:
- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 May 2020 and of the loss of the Company for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related Notes 1 to 20, including a summary of significant accounting policies as set out in Note 1.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty related to going concern section). • Valuation of intangible assets. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was €273,000 which was determined on the basis of approximately 3% of Shareholders Equity.
Scoping	We determined the scope of our audit by obtaining an understanding of the Company and its environment and assessing the risks of material misstatement.
Significant changes in our approach	There were no significant changes in our approach.

Material uncertainty relating to going concern

We draw your attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of €466,710 during the financial year ended 31 May 2020 and, as of that date, the Company had net current liabilities of €1,247,702.

In response to this, we:

- Obtained an understanding of the Company's controls over the preparation of cash flow forecasts and approval of the projections and assumptions used in cash flow forecasts to support the going concern assumption and assessed the design and determined the implementation of these controls;
- Evaluated directors' plans and their feasibility by challenging the key assumptions used in the cash flow forecast provided by agreeing the inputs to expenditure commitments and other supporting documentation;
- Obtained an understanding of directors' plans to enable the Company to raise the funds required to meet the expenditure commitments of the Company;
- Inspected confirmations received by the Company from the directors and former directors that they will not seek repayment of amounts owed to them by the Company within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay;
- Assessed the mechanical accuracy of the cash flow forecast model; and
- Assessed the adequacy of the disclosures made in the financial statements.
- We obtained evidence of the post year end share issues supporting the cash flow projections for the Company.

As stated in Note 1, these events or conditions along with other matters as set forth in Note 1 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Valuation of Intangible Assets	
Key audit matter description	At 31 May 2020, the carrying value of Exploration and evaluation assets included in Intangible assets in the Statement of financial position amounted to €10,523,570. We draw your attention to the disclosures made in Notes 1 and 7 to the financial statements concerning the valuation of Intangible assets held. The valuation of Intangible assets by the Company is dependent on the further successful development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability. The valuation of Intangible assets in the Statement of financial position was assessed as a significant risk and is therefore considered a key audit matter.

Independent Auditor's Report *continued*

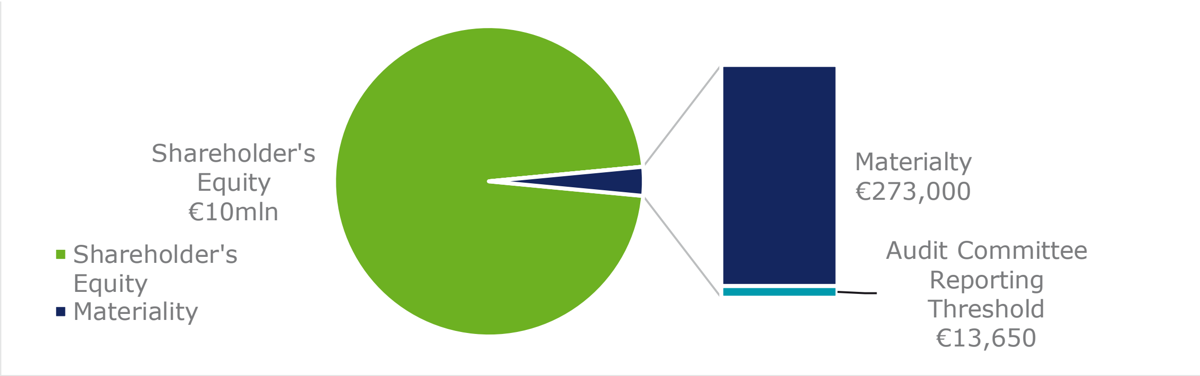
How the scope of our audit responded to the key audit matter	We performed the following procedures: • We evaluated the directors' procedures for assessing indicators of impairment of intangible assets in line with the accounting policies; • We evaluated the design and determined the implementation of controls in place over the capitalisation and subsequent valuation of Intangible assets. • We inspected documentation in respect of licences held and considered and challenged the directors' assessment of indicators of impairment in relation to exploration and evaluation assets; • We performed a review of the proposed exploration programme in respect of the Company's assets; including: - discussing and challenging the allocation of capitalised costs for their reasonableness, - assessing the reasonableness of the assets capitalised in the current year, and - reviewing and considering indicators of impairment. • We obtained a listing of Intangible asset additions in the financial year and selected a sample of additions to ensure the capitalisation was in line with accounting policies. • We performed a review of Board of Directors Meeting Minutes and press releases issued by the Company in relation to the status of exploration and evaluation assets; • We performed a review of budgeted expenditure for the next 12 months; and • We also considered the adequacy of the disclosure in the financial statements.
Key observations	A significant uncertainty exists in relation to the ability of the Company to realise the Exploration and evaluation assets capitalised to Intangible assets. As noted above, we draw your attention to the disclosures made in Notes 1 and 7 to the financial statements concerning the valuation of Intangible assets. The valuation of Intangible assets by the Company is dependent on the further successful development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability. The financial statements do not include any adjustments in relation to these uncertainties and the ultimate outcome cannot, at present, be determined. Our opinion is not modified in respect of this matter.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be €273,000 which is approximately 3% of Shareholders Equity. We have considered Shareholders Equity to be the critical component for determining materiality as we determined the Shareholders Equity position to be of most importance to the principal external users of the financial statements. Raising equity funding is of key importance to the Company in continuing its current operations and is reflective of the current business life cycle of the Company. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Company and reliabity of control environment.



We agreed with the Audit Committee that we would report to them any audit differences in excess of €13,650, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our audit by obtaining an understanding of the Company and its environment and assessing the risks of material misstatement.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report *continued*

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. 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.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Kevin Butler

Kevin Butler
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
No. 6 Lapp's Quay
Cork

30 November 2020

Income statement
for the financial year ended 31 May 2020

	Note	**2020** **€**	2019 €
Continuing operations			
Operating expenses	*2*	**(446,710)**	(370,654)
Loss before taxation	*3*	**(446,710)**	(370,654)
Income tax expense	*5*	**-**	-
Loss for the financial year		**(446,710)**	(370,654)
Loss per share			
Basic and diluted loss per share	*6*	**(0.0111)**	(0.0109)

The total loss for the financial year is entirely attributable to equity holders of the Company.

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

Statement of comprehensive income
for the financial year ended 31 May 2020

	2020 €	2019 €
Loss for the financial year	**(446,710)**	(370,654)
Income recognised in other comprehensive income	**-**	-
Total comprehensive loss for the financial year	**(446,710)**	(370,654)

The total comprehensive loss for the financial year is entirely attributable to equity holders of the Company.

Statement of financial position

as at 31 May 2020

	Note	31 May 2020 €	31 May 2019 As restated €	31 May 2018 As restated €
Assets				
Non-current assets				
Intangible assets	*7*	**10,523,570**	10,152,733	9,661,559
Financial assets	*8*	**4**	4	4
Total non-current assets		**10,523,574**	10,152,737	9,661,563
Current assets				
Cash and cash equivalents	*9*	**15,942**	30,833	18,703
Other receivables	*10*	**118,991**	102,989	241,859
Total current assets		**134,933**	133,822	260,562
Total assets		**10,658,507**	10,286,559	9,922,125
Equity				
Capital and reserves				
Share capital presented as equity	*13*	**3,185,432**	3,183,294	3,180,516
Share premium	*13*	**9,150,829**	8,768,276	8,201,664
Share-based payments reserve	*16*	**456,624**	456,624	519,159
Retained deficit		**(3,666,104)**	(3,218,415)	(2,844,872)
Total equity		**9,126,781**	9,189,779	9,016,467
Liabilities				
Non-current liabilities				
Convertible loan	*11*	**148,945**	-	-
Derivative liability	*11*	**146**	-	-
Total non-current liabilities		**149,091**	-	-
Current liabilities				
Trade and other payables	*12*	**1,288,973**	938,693	713,169
Related party loans	*12*	**93,662**	158,087	192,489
Total current liabilities		**1,382,635**	1,096,780	905,658
Total liabilities		**1,531,726**	1,096,780	605,658
Total equity and liabilities		**10,658,507**	10,286,559	9,922,125

The financial statements were approved by the Board of Directors on 30 November 2020 and authorised for issue on 30 November 2020. They are signed on its behalf by:

Professor Richard Conroy
Chairman

Maureen T.A. Jones
Managing Director

Statement of changes in equity

for the financial year ended 31 May 2020

	Share capital €	Share premium €	Share-based payment reserve €	Retained deficit €	Total equity €
Balance at 1 June 2019	**3,183,294**	**8,768,276**	**456,624**	**(3,218,415)**	**9,189,779**
Share issue	**2,138**	**382,553**	**-**	**-**	**384,691**
Share issue costs	**-**	**-**	**-**	**(979)**	**(979)**
Loss for the financial year	**-**	**-**	**-**	**(446,710)**	**(446,710)**
Balance at 31 May 2020	**3,185,432**	**9,150,829**	**456,624**	**(3,666,104)**	**9,126,781**
Balance at 1 June 2018	3,180,516	8,201,664	519,159	(2,884,872)	9,016,467
Share issue	2,778	566,612	-	-	569,390
Share issue costs	-	-	-	(31,390)	(31,390)
Share-based payments	-	-	5,966	-	5,966
Transfer from share-based payment reserve to retained deficit	-	-	(68,501)	68,501	-
Loss for the financial year	-	-	-	(370,654)	(370,654)
Balance at 31 May 2019	3,183,294	8,768,276	456,624	(3,218,415)	9,189,779

Share capital

The share capital comprises of the nominal value share capital issued for cash and non-cash consideration. The share capital also comprises deferred share capital. The deferred share capital arose through the restructuring of share capital which was approved at the Annual General Meeting held on 9 December 2016. A detailed breakdown of the share capital figure is included in Note 13.

Share issues during the year:

On 16 July 2019, the Company raised €111,377 (£100,000) through the issue of 2,500,000 ordinary shares of €0.00025 in the capital of the Company at a price of £0.04 per Subscription Share.

On 3 September 2019, Professor Richard Conroy capitalised loans amounting to €71,429 (£65,000) into 1,625,000 new ordinary shares of nominal value €0.00025 each.

On 7 October 2019, the Company raised €56,060 (£50,000), through the issue of 1,428,571 ordinary shares of €0.00025 in the capital of the Company at a price of £0.035 per Subscription Share.

On 10 December 2019, the Company raised €145,829 (£120,000), through the issue of 3,000,000 ordinary shares of €0.00025 in the capital of the Company.

Share premium

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

Share-based payment reserve

The share-based payment reserve comprises of the fair value of all share options and warrants which have been charged over the vesting period, net of amounts relating to share options and warrants forfeited, exercised or lapsed during the year, which are reclassified to retained deficit.

Retained deficit

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

Statement of cash flows
for the financial year ended 31 May 2020

	2020	2019
	€	€
Cash flows from operating activities		
Loss for the financial year	**(446,710)**	(370,654)
Adjustments for:		
Expense recognised in income statement in respect of equity settled share-based payments	**-**	5,966
Interest expense	**3,262**	-
	(443,448)	(364,688)
Increase in trade and other payables	**350,280**	225,524
(Increase)/decrease in other receivables	**(11,774)**	79,974
Net cash used in operating activities	**(104,942)**	(59,190)
Cash flows from investing activities		
Investment in exploration and evaluation	**(370,837)**	(491,174)
Repayments from Conroy Gold and Natural Resources P.L.C.	**40,818**	148,293
Payments to Conroy Gold and Natural Resources P.L.C.	**(45,046)**	(89,397)
Net cash used in investing activities	**(375,065)**	(432,278)
Cash flows from financing activities		
Issue of share capital	**320,266**	534,988
Share issue costs	**(979)**	(31,390)
Proceeds from convertible loan issue	**145,829**	-
Net cash provided by financing activities	**465,116**	503,598
(Decrease)/increase in cash and cash equivalents	**(14,891)**	12,130
Cash and cash equivalents at beginning of financial year	**30,833**	18,703
Cash and cash equivalents at end of financial year	**15,942**	30,833

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020

1 Accounting policies

Reporting entity

Karelian Diamond Resources P.L.C. (the "Company") is a company domiciled in Ireland. The Company is a public limited company incorporated in Ireland under registration number 382499. The registered office is located at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

Basis of preparation

The financial statements are presented in Euro ("€"). The € is the functional currency of the Company. The financial statements are prepared under the historical cost basis except for derivative financial instruments which, if any, are measured at fair value at each reporting date.

The preparation of financial statements requires the Board of Directors and management to use judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Details of significant judgements are disclosed in the accounting policies.

The financial statements were authorised for issue by the Board of Directors on 30 November 2020.

Going concern

The Company incurred a loss of €446,710 (2019: a loss of €370,654) for the financial year ended 31 May 2020. The Company had net assets of €9,126,781 (2019: €9,189,779) at that date. The Company had net current liabilities of €1,247,702 (2019: net current liabilities of €962,958) at the statement of financial position date.

The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorċa Conroy, Brendan McMorrow, Howard Bird and former directors James P. Jones and Louis J. Maguire, have confirmed that they will not seek repayment of amounts owed to them by the Company of €902,805 (2019: €738,429) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay.

Subsequent to the year-end, the Company raised a total of €465,761 (£420,000) through subscriptions for 10,500,000 ordinary shares in the capital of the Company (please see Note 18 for details).

The Board of Directors have considered carefully the financial position of the Company and in that context, have prepared and reviewed cash flow forecasts for the period to November 2021. As set out further in the Chairman's statement, the Company expects to incur capital expenditure in 2021, consistent with its strategy as an exploration company. The Directors recognise that net current liabilities of €1,247,702 is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. In reviewing the proposed work programme for exploration and evaluation assets and, on the basis of the equity raised during the financial year, the results obtained from the exploration programme and the prospects for raising additional funds as required, the Board of Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements do not include any adjustments to the carrying value and classification of assets and liabilities that would arise if the Company was unable to continue as going concern.

Statement of compliance

The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union ("EU").

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 Accounting policies *(continued)*

Recent accounting pronouncements

The following new standards, amendments to standards and interpretations adopted and endorsed by the EU have been issued to date and are not yet effective for the financial year from 1 June 2019:

- Amendments to references to the Conceptual Framework in IFRS Standards – Effective date 1 January 2020
- Amendments to IFRS 3 Business Combinations – Definition of a Business – Effective date 1 January 2020
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – Effective date 1 January 2020
- Amendment to IFRS 16 about providing lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification – Effective date 1 June 2020

The adoption of the above amendments to standards and interpretations is not expected to have a significant impact on the financial statements either due to being not applicable or immaterial.

The following new standard and amendments to standards have been issued by the International Accounting Standards Board but have not yet been endorsed by the EU, accordingly none of these standards have been applied in the current year. The Board of Directors are currently assessing whether these standards once endorsed by the EU will have any impact or a material impact on the financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture – Postponed indefinitely
- IFRS 1 amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (subsidiary as a first-time adopter) – Effective date 1 January 2022
- IFRS 3 amendments updating a reference to the Conceptual Framework – Effective date 1 January 2022
- IFRS 4 amendments regarding the expiry date of the deferral approach – Effective date 1 January 2023
- Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16, and IAS 39 regarding replacement issues in the context of the IBOR reform – Effective date 1 January 2021
- IFRS 9 amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (fees in the '10 per cent' test for derecognition of financial liabilities) – Effective date 1 January 2022
- IFRS 17: Insurance contracts – Effective date deferred to 1 January 2023
- IAS 1 amendments regarding the classification of liabilities - Effective date 1 January 2023
- IAS 16 amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use – Effective date 1 January 2022
- IAS 37 amendments regarding the costs to include when assessing whether a contract is onerous – Effective date 1 January 2022

(a) Intangible assets

The Company accounts for mineral expenditure in accordance with IFRS 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.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 Accounting policies *(continued)*

(a) Intangible assets *(continued)*

(i) *Capitalisation (continued)*

E&E 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, E&E capitalised costs include an allocation from operating expenses, including share-based payments. All such costs are necessary for exploration and evaluation activities.

E&E capitalised costs are not amortised prior to the conclusion of appraisal activities.

At completion of appraisal activities if technical feasibility is demonstrated and commercial resources 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 are written off to the income statement in the period in which the event occurred.

(ii) 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 considered to be key indicators of impairment in relation to E&E assets:

- The period for which the entity has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For E&E assets, where the above indicators exist or on an annual basis, an impairment test is carried out. The E&E assets are categorised into Cash Generating Units ("CGU") on a country-by-country basis (31 May 2020: Finland). The carrying value of the CGU is compared to its recoverable amount and any 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) 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

The plant and office equipment are fully depreciated at 31 May 2020 and 31 May 2019.

(c) Income taxation expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive loss, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 **Accounting policies** *(continued)*

(c) Income taxation expense *(continued)*

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities on a net basis or their tax assets and liabilities will be settled simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(d) Share-based payments

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). As the exercise prices for warrants are denominated in sterling, the risk-free rate assumption is based on a sterling gilts zero-coupon yield curve at the date of issue. 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.

(e) Trade and other receivables and payables

Trade and other receivables are measured at transaction price. Trade payables are measured at initial recognition at fair value, and subsequently measured at amortised cost.

(f) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares.

(g) 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.

(h) Pension costs

The Company provides for pensions for certain employees through a defined contribution pension scheme. The amount charged to the income statement is the contribution payable in that financial year. Any difference between amounts charged and contributions paid to the pension scheme is included in receivables or payables in the statement of financial position.

(i) Foreign currencies

Transactions denominated in foreign currencies relating to costs and non-monetary assets are translated into € 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 € at the rate of exchange ruling at the statement of financial position date. The resulting profits or losses are dealt with in the income statement.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 Accounting policies *(continued)*

(j) Loans

The Directors' 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 interest rate method. 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 to the net carrying amount of initial recognition.

As the convertible loan is made up of both liability and derivative components, it is considered to be a compound financial instrument. At initial recognition, the carrying amount of a compound financial instrument is allocated to its liability and derivative components. The fair value of the liability, which is the difference between the transaction price and the fair value of the conversion feature, and derivative is recognised as a liability in the statement of financial position. The conversion feature is subsequently measured at fair value with changes recognised in profit or loss. The liability is subsequently measured at amortised cost. The Company accounts for the interest expense of the convertible loan note at the effective interest rate. The difference between the effective interest rate and interest rate increases the carrying amount of the liability so that, on maturity, the carrying amount is equal to the capital cash repayment that the Company may be required to pay.

(k) Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from retained earnings, net of any tax effects.

(l) Impairment - financial assets are measured at amortised cost

Financial assets measured at amortised cost are reviewed for impairment loss at each reporting date. The Company applies the simplified approach in accordance with IFRS 9.

The Company measures the loss allowance at an amount equal to the lifetime expected credit losses as required under a simplified approach for trade receivables that do not contain a financing component.

The Company's approach to expected credit losses ("ECL") reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial re-organisation and default in payments are all considered indicators for increases in credit risks.

If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. Any contractual payment which is more than 90 days past due is considered credit impaired.

(m) Significant accounting judgements and key sources of estimation uncertainty

Significant judgements in applying the Company's accounting policies

The preparation of the financial statements requires the Board of Directors to make judgements and estimates and form assumptions that affect the amounts of assets, liabilities, contingent liabilities, revenues and expenses reported in the financial statements. On an ongoing basis, the Board of Directors evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. The Board of Directors bases its judgements and estimates on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the reported amounts that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. In the process of applying the Company's accounting policies above, the Board of Directors have identified the judgemental areas that have the most significant impact on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with as follows:

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 Accounting policies *(continued)*

(m) Significant accounting judgements and key sources of estimation uncertainty *(continued)*

Significant judgements in applying the Company's accounting policies *(continued)*

Exploration and evaluation assets

The assessment of whether operating costs and salary costs are capitalised to exploration and evaluation costs or expensed involves judgement. The Board of Directors consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within exploration and evaluation assets. Given that the activity of management and the resultant administration and salary costs are primarily focused on the Company's diamond prospects, the Board of Directors consider it appropriate to capitalise a portion of such costs. These costs are reviewed on a line by line basis with the resultant calculation of the amount to be capitalised being specific to the activities of the Company in any given year.

Cash generating units

As outlined in the intangible assets accounting policy, the exploration and evaluation assets should be allocated to CGU's. The determination of what constitutes CGU requires judgement.

The carrying value of each CGU 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 judgements:

- 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 financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the successful further development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability. The Board of Directors have reviewed the proposed programme for exploration and evaluation assets and, on the basis of the equity raised after the financial year, the results from the exploration programme and the prospects for raising additional funds as required, consider it appropriate to prepare the financial statements on the going concern basis. Refer to page 28 for further details.

Deferred tax

No deferred tax asset has been recognised in respect of tax losses as it is not considered probable that future taxable profit will be available against which the related temporary differences can be utilised.

Key sources of estimation uncertainty

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.

Exploration and evaluation assets

The carrying value of exploration and evaluation assets was €10,523,570 (2019: €10,152,733) at 31 May 2020. The Board of Directors carried out an assessment, in accordance with IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to the remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities over specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount. Based on this assessment, the Board of Directors is satisfied as to the carrying value of these assets and is satisfied that these are recoverable, acknowledging however that their recoverability is dependent on future successful exploration efforts.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

1 **Accounting policies** *(continued)*

(m) Significant accounting judgements and key sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Employee benefits – Share-based payment transactions

The Company operates equity-settled share-based payment arrangements with non-market performance conditions which fall within the scope of and are accounted for under the provisions of IFRS 2: *Share-based Payment*. Accordingly, the grant date fair value of the options under these schemes is recognised as a personnel expense with a corresponding increase in the "Share-based payment reserve", within equity, over the vesting period. 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. The fair value of these options is measured using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

2 **Operating expenses**

	2020	2019
Analysis of operating expenses	**€**	€
Operating expenses	**609,169**	562,999
Transfer to intangible assets	**(162,459)**	(192,345)
	446,710	370,654
Operating expenses are analysed as follows:		
Other operating expenses	**338,515**	227,540
Wages, salaries and related costs	**244,519**	315,459
Auditor's remuneration	**26,135**	20,000
	609,169	562,999

Of the above costs, a total of €162,459 (2019: €192,345) is capitalised to intangible assets based on a review of the nature and quantum of the underlying costs. Refer to Note 1(a)(i) for further details.

	2020	2019
	€	€
Wages, salaries and related costs as disclosed above is analysed as follows:		
Wages and salaries	**237,512**	290,209
Social insurance costs	**7,007**	10,250
Retirement benefit costs	**-**	15,000
	244,519	315,459

The amount of wages, salaries and related costs capitalised to intangible assets during the financial year was €131,280 (2019: €165,848).

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

2 Operating expenses *(continued)*

The average number of persons employed during the year (including executive Directors) by activity was as follows:

	2020	2019
Corporate management and administration	**2**	3
Exploration and evaluation	**-**	1
	2	4

An analysis of remuneration for each Director of the Company in the current financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	**Salary €**	**Share-based payment €**	**Pension contributions €**	**Total €**
Professor Richard Conroy	**17,500**	**56,875**	**-**	**-**	**74,375**
Maureen T.A. Jones	**8,750**	**43,750**	**-**	**-**	**52,500**
Brendan McMorrow	**8,750**	**-**	**-**	**-**	**8,750**
Séamus P. FitzPatrick	**8,750**	**-**	**-**	**-**	**8,750**
Dr. Sorċa Conroy	**8,750**	**-**	**-**	**-**	**8,750**
Howard Bird	**5,833**	**-**	**-**	**-**	**5,833**
Louis J. Maguire	**5,417**	**-**	**-**	**-**	**5,417**
	63,750	**100,625**	**-**	**-**	**164,375**

An analysis of remuneration for each Director of the Company in the prior financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	Salary €	Share-based payment €	Pension contributions €	Total €
Professor Richard Conroy	20,000	65,000	-	-	85,000
Maureen T.A. Jones	10,000	50,000	-	15,000	75,000
Louis J. Maguire	10,000	-	-	-	10,000
Séamus P. FitzPatrick	10,000	-	-	-	10,000
Dr. Sorċa Conroy	10,000	-	-	-	10,000
Brendan McMorrow	5,833	-	-	-	5,833
	65,833	115,000	-	15,000	195,833

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

3 Loss before taxation

The loss before taxation is arrived at after charging the following items:

	2020	2019
	€	€
Auditor's remuneration		
The analysis of the auditor's remuneration is as follows:		
• Audit of financial statements	**26,135**	20,000

No fees were incurred for other assurance; tax advisory or other non-audit services in respect of the current or prior financial years.

4 Directors' remuneration

	2020	2019
	€	€
Aggregate emoluments paid to or receivable by Directors in respect of qualifying services	**164,376**	180,833
Aggregate amount of gains by Directors on exercise of share options during the financial year	**-**	-
Aggregate amount of money or value of other assets including shares, but excluding share options, paid to or receivable by the Directors under long term incentive schemes in respect of qualifying services	**-**	**-**
Aggregate contributions paid, treated as paid, or payable during the financial year to a retirement benefit scheme in respect of qualifying services of Directors:		
• Defined contribution scheme – for 1 Director (2019: 1)	**-**	15,000
• Defined benefit scheme	**-**	-
Compensation paid, or payable, or other termination payments in respect of loss of office to Directors of the Company in the financial year:		
• Office of Director of the Company	**-**	-
• Other offices	**-**	-
Amounts paid or payable to past Directors of the Company or its holding undertaking:		
• For retirement benefits in relation to services as Directors	**-**	-
• For other retirement benefits	**-**	-
Compensation paid or payable for loss of office or other termination benefits:		
• Office of Director	**-**	-
• Other offices	**-**	-

No amounts have been paid or are payable to past Directors of the Company or its holding undertakings (2019: €Nil). No compensation has been paid or is payable for the loss of office or other termination benefit in respect of the loss of office of Director or other offices (2019: €Nil).

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

5 Income tax expense

No taxation charge arose in the current or prior financial year due to losses incurred.

Factors affecting the tax charge for the financial year:

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

	2020	2019
	€	€
Loss on ordinary activities before taxation	**(446,710)**	(370,654)
Irish standard tax rate	**12.50%**	12.50%
Tax credit at the Irish standard rate	**(55,839)**	(46,332)
Effects of:		
Losses carried forward for future utilisation	**55,839**	46,332
Tax charge for the financial 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.

Unutilised losses may be carried forward from the date of the origination of the losses but may only be offset against taxable profits earned from the same trade. Unutilised losses carried forward amounted to EUR12,003,834 at 31 May 2019.

6 Loss per share

Basic loss per share

	2020	2019
	€	€
Loss for the year attributable to equity holders of the Company	**(446,710)**	(370,654)
Number of ordinary shares at start of the financial year	**34,489,178**	23,378,067
Number of ordinary shares issued during the financial year	**8,553,571**	11,111,111
Number of ordinary shares at end of the financial year	**43,042,749**	34,489,178
Weighted average number of ordinary shares for the purposes of basic loss per share	**40,243,826**	34,154,324
Basic and diluted loss per ordinary share	**(0.0111)**	(0.0109)

Diluted loss per share

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

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

7 Intangible assets
Exploration and evaluation assets

Finland	**31 May**	31 May
Cost	**2020**	2019
	€	€
At 1 June	**10,152,733**	9,661,559
Expenditure during the financial year:		
• Licence and appraisal costs	**208,378**	298,829
• Other operating expenses (Note 2)	**162,459**	192,345
At 31 May	**10,523,570**	10,152,733

Exploration and evaluation assets relate to expenditure incurred in the development of mineral exploration opportunities. These assets are carried at historical cost and have been assessed for impairment in particular with regard to the requirements of IFRS 6: *Exploration for and Evaluation of Mineral Resources* relating to remaining licence or claim terms, likelihood of renewal, likelihood of further expenditure, possible discontinuation of activities as a result of specific claims and available data which may suggest that the recoverable value of an exploration and evaluation asset is less than its carrying amount.

The Board of Directors have considered the proposed work programmes for the underlying mineral resources. They are satisfied that there are no indications of impairment.

The Board of Directors note that the realisation of the intangible assets is dependent on further successful development and ultimate production of the mineral resources and the availability of sufficient finance to bring the resources to economic maturity and profitability.

8 Financial assets

	31 May	31 May
	2020	2019
	€	€
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 asset of each entity is €2. Certain diamond claims in Finland are held in the name of the Company's subsidiaries. The registered office of both non-trading subsidiaries is 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.

The above subsidiaries have not been consolidated on the basis that they are immaterial as the net asset of each entity is €2. The subsidiaries are not trading and have no contingencies or commitments other than intercompany balances of €2.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

9 Cash and cash equivalents

	31 May 2020 €	31 May 2019 €
Cash held in bank accounts	**15,942**	30,833
	15,942	30,833

10 Other receivables

	31 May 2020 €	31 May 2019 €
Amount due from related party	**58,469**	54,241
Vat receivable	**37,957**	36,840
Other debtors	**22,379**	11,722
PAYE receivable	**186**	186
	118,991	102,989

The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek repayment of amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2020 of €58,469 (2019: €54,241) for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C., unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C. As this amount is receivable from the Group company, the Directors consider that the probability of default is close to zero.

11 Non-current liabilities – as restated
Convertible loan

On 10 December 2019, the Company has entered into a convertible loan note agreement for a total amount of €145,829 (£120,000) with one of its shareholders. The convertible loan note is unsecured, has a term of three years and attracts interest at a rate of 5% per annum which is payable on the maturity or conversion of the convertible loan. The conversion price is 10 pence. The shareholder has the right to seek conversion of the principal amount outstanding on the convertible loan note and all interest accrued at any time during the term. Any conversion of the convertible loan note will be a for a minimum of €60,761 (£50,000) of loan notes. The amount of €146 relates to derivative liability attached to the convertible loan note. Interest incurred on this convertible loan note is €3,262 for the period.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

12 Current liabilities – as restated
Trade and other payables

	31 May 2020 €	31 May 2019 €
Accrued Directors' remuneration		
Fees and other emoluments	**639,555**	475,179
Pension contributions	**263,250**	263,250
Other creditors and accruals	**386,168**	200,264
	1,288,973	938,693

It is the Company's practice to agree terms of transactions, including payment terms with suppliers. It is the Company's policy that payment is made according to the agreed terms. The carrying value of the trade and other payables approximates to their fair value.

Related party loans

	31 May 2020 €	31 May 2019 €
Opening balance 1 June	**158,087**	192,489
Loan conversion into shares*	**(71,425)**	(34,402)
Loan advances**	**7,000**	-
Closing balance 31 May	**93,662**	158,087

Prior to the various placings of shares, the immediate funding requirements of the Company had been financed by advances from Professor Richard Conroy (Director, executive chairman and major shareholder) and Maureen T.A. Jones (Director, managing director and shareholder). The Directors' have confirmed that they will not seek repayment of amounts owed by the Company at 31 May 2020 within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay. There is no interest payable in respect of these loans, no security has been attached to these loans and there is no repayment or maturity terms.

*On 3 September 2019, Professor Richard Conroy capitalised loans amounting to €71,425 (£65,000) into 1,625,000 new ordinary shares of nominal value €0.00025 each.
**This amount relates to a loan provided by Maureen T.A. Jones to the Company.

13 Called up share capital and share premium

Authorised:	**31 May 2020 €**	31 May 2019 €
182,532,751,034 ordinary shares of €0.00001 each	**-**	-
7,301,310,041 consolidated ordinary shares of €0.00025 each	**1,825,328**	1,825,328
317,785,034 deferred shares of €0.00999 each	**3,174,672**	3,174,672
	5,000,000	5,000,000

The deferred shares do not entitle the holder to receive a dividend or other distribution. Furthermore, the deferred shares do not entitle the shareholder to receive notice of or vote at any general meeting of the Company, and do not entitle the shareholder to any proceeds on a return of capital or winding up of the Company.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

13 Called up share capital and share premium *(continued)*

Issued and fully paid – Current financial year

	Number of ordinary shares	**Called up share capital €**	**Called up deferred share capital €**	**Share premium €**
Start of current financial year – shares of €0.00025 each	**34,489,178**	**8,622**	**3,174,672**	**8,768,276**
Share issue ***(b)***	**2,500,000**	**625**	**-**	**110,752**
Loan conversion into shares ***(c)***	**1,625,000**	**405**	**-**	**71,019**
Share issue ***(d)***	**1,428,571**	**358**	**-**	**55,703**
Share issue ***(e)***	**3,000,000**	**750**	**-**	**145,079**
End of current financial year	**43,042,749**	**10,760**	**3,174,672**	**9,150,829**

Issued and fully paid – Prior financial year

	Number of ordinary shares	Called up share capital €	Called up deferred share capital €	Share premium €
Start of prior financial year – shares of €0.00025 each	23,378,067	5,844	3,174,672	8,201,664
Share issue ***(a)***	11,111,111	2,778	-	566,612
End of prior financial year	34,489,178	8,622	3,174,672	8,768,276

(a) On 11 June 2018, 11,111,111 ordinary shares of €0.00025 were issued, each at €0.05172 sterling (£0.045) per ordinary share resulting in a premium of €0.05147 per share. Further, on 11 June, 388,889 warrants at an exercise price of £0.05 sterling per warrant were issued. The warrants can be exercised at any time up to 11 December 2020.

(b) On 16 July 2019, the Company raised €111,377 (£100,000), through the issue of 2,500,000 ordinary shares of €0.00025 in the capital of the Company at a price of £0.04 per Subscription Share resulting in a total premium of €110,752 per issue.

(c) On 3 September 2019, Professor Richard Conroy capitalised loans amounting to €71,429 into 1,625,000 new ordinary shares of nominal value €0.00025 each resulting in a total premium of €71,019 per issue.

(d) On 7 October 2019, the Company raised €56,060 (£50,000), through the issue of 1,428,571 ordinary shares of €0.00025 in the capital of the Company at a price of £0.035 per Subscription Share resulting in a total premium of €55,703 per issue.

(e) On 10 December 2019, the Company raised €291,659 (£240,000), through the issue of 3,000,000 ordinary shares of €0.00025 in the capital of the Company and the issue of an unsecured convertible loan note resulting in a total premium of €145,079 per issue.

(f) At 31 May 2020 and 31 May 2019, warrants over 900,139 ordinary shares exercisable at prices varying from £1.1250 sterling to £2.2000 sterling at any time up to 16 November 2022 were outstanding. There were no warrants issued during the year ended 31 May 2020.

(g) At 31 May 2020 and 31 May 2019, there are no options outstanding.

(h) The share price at 31 May 2020 was £0.0395 sterling (2019: £0.0240 sterling). The ordinary share price ranged from £0.0172 sterling to £0.0470 sterling (2019: £0.0225 sterling to £0.0675 sterling).

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

14 Commitments and contingencies

At 31 May 2020, there were no capital commitments or contingent liabilities (2019: €Nil) recognised at the reporting date. Should the Company decide to further develop the Lahtojoki project, an amount of €60,000 is payable by the Company to the vendors of the Lahtojoki mining concession.

15 Related party transactions

(a) Details of Directors' loans advanced by Professor Richard Conroy and Maureen T.A. Jones are outlined in Note 12 of the financial statements.

(b) The Company shares office accommodation with Conroy Gold and Natural Resources P.L.C. which has certain common Directors and shareholders. For the financial year ended 31 May 2020, Conroy Gold and Natural Resources P.L.C. incurred costs totalling €40,818 (2019: €148,293) on behalf of the Company. These costs were recharged to the Company by Conroy Gold and Natural Resources P.L.C.

These costs are analysed as follows:

	2020	2019
	€	€
Office salaries	**80,144**	108,541
Other operating expenses	**9,851**	12,397
Rent and rates	**(49,177)***	27,355
	40,818	148,293

*This amount is rechargeable by Conroy Gold and Natural Resources P.L.C. from the Company

(c) At 31 May 2020, Conroy Gold and Natural Resources P.L.C. owed €58,469 (2019: €54,241) to the Company. Amounts owed from Conroy Gold and Natural Resources P.L.C. are included within other receivables in the current and previous financial years. During the financial year ended 31 May 2020, €45,046 (2019: €89,397) was paid by the Company to Conroy Gold and Natural Resources P.L.C. During the financial year ended, the Company was charged €40,818 (2019: €148,293) by Conroy Gold and Natural Resources P.L.C. in respect of the allocation of certain costs as detailed in Note 15(b). The Company has confirmed to Conroy Gold and Natural Resources P.L.C. that it will not seek the repayment of the amounts owed by Conroy Gold and Natural Resources P.L.C. at 31 May 2020 for a period of at least 12 months from the date of approval of the financial statements of Conroy Gold and Natural Resources P.L.C. unless Conroy Gold and Natural Resources P.L.C. has sufficient funds to repay. There is a commonality of certain Directors and certain shareholders between the Company and Conroy Gold and Natural Resources P.L.C. At 31 May 2020, Brendan McMorrow was owed €20,417 (2019: €2,700) in respect of his services. This amount is included in the trade and other payables balance in the statement of financial position.

(d) An analysis of remuneration for each Director of the Company in the current financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	**Salary €**	**Share-based payment €**	**Pension contributions €**	**Total €**
Professor Richard Conroy	**17,500**	**56,875**	-	-	**74,375**
Maureen T.A. Jones	**8,750**	**43,750**	-	-	**52,500**
Brendan McMorrow	**8,750**	-	-	-	**8,750**
Séamus P. FitzPatrick	**8,750**	-	-	-	**8,750**
Dr. Sorċa Conroy	**8,750**	-	-	-	**8,750**
Howard Bird	**5,833**	-	-	-	**5,833**
Louis J. Maguire	**5,417**	-	-	-	**5,417**
	63,750	**100,625**	-	-	**164,375**

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

15 Related party transactions *(continued)*

(d) *(continued)*

An analysis of remuneration for each Director of the Company in the prior financial year (prior to amounts transferred to intangible assets) is as follows:

	Fees €	Salary €	Share-based payment €	Pension contributions €	Total €
Professor Richard Conroy	20,000	65,000	-	-	85,000
Maureen T.A. Jones	10,000	50,000	-	15,000	75,000
Louis J. Maguire	10,000	-	-	-	10,000
Séamus P. FitzPatrick	10,000	-	-	-	10,000
Dr. Sorċa Conroy	10,000	-	-	-	10,000
Brendan McMorrow	5,833	-	-	-	5,833
	65,833	115,000	-	15,000	195,833

(e) Details of share capital transactions with the Directors are disclosed in the Directors' Report.

(f) Apart from Directors' remuneration (detailed in Note 2 and Note 4), loans from two shareholders (who are also Directors which is detailed in Note 12), convertible loan from a shareholder (which is detailed in Note 11) and share capital transactions (which are detailed within the Directors' Report), there have been no contracts or arrangements entered into during the financial year in which a Director of the Company had a material interest.

16 Share-based payments

The Company operated a share option scheme for key individuals who devoted a substantial amount of their time to the business of the Company.

At 31 May 2020, there were no share options outstanding (2019: €Nil).

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

	2020 No. of Share Warrants	**2020 Weighted Average Exercise Price €**	2019 No. of Share Warrants	2019 Weighted Average Exercise Price €
At 1 June	**900,139**	**0.0815**	5,585,324	0.0044
Granted during the financial year	**-**	**-**	388,889	0.0244
Lapsed during the financial year	**-**	**-**	(5,074,074)	0.0508
At 31 May	**900,139**	**0.0815**	900,139	0.0815

The Company estimated the fair value of 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 P.L.C. 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 and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

16 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:

	2020 Stock Options	**2020 Stock Warrants**	2019 Stock Options	2019 Stock Warrants
Dividend yield	**N/a**	**0%**	N/a	0%
Expected volatility	**N/a**	**50%**	N/a	50%
Risk free interest rate	**N/a**	**0.7%**	N/a	0.7%
Expected life (in years)	**N/a**	**2.5**	N/a	2.5

This calculation results in a share-based payment of €Nil (2019: €5,966). Amounts relating to share warrants which lapsed during the year and which are reclassified to retained deficit were €Nil (2019: €68,501).

17 Financial instruments

Financial risk management objectives, policies and processes

The Company has exposure to the following risks from its use of financial instruments:

(a) Interest rate risk;
(b) Foreign currency risk;
(c) Liquidity risk; and
(d) Credit risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and framework in relation to the risks faced.

(a) Interest rate risk

The Company currently finances its operations through shareholders' funds and loan finance. Short term cash funds are invested, if appropriate, in short-term interest-bearing bank deposits at 31 May 2020 and 2019. The Company did not enter into any hedging transactions with respect to interest rate risk.

(b) Foreign currency risk

The Company is exposed to currency risk on purchases, loans and bank deposits that are denominated in a currency other than the functional currency of the Company. As the exercise prices for warrants are denominated in sterling, the risk-free rate assumption is based on a sterling gilts zero-coupon yield curve at the date of issue.

It is the Company policy to ensure that foreign currency risk is managed wherever possible by matching foreign currency income and expenditure. During the years ended 31 May 2020 and 31 May 2019, the Company did not utilise foreign currency forward contracts or other derivatives to manage foreign currency risk.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

17 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(b) Foreign currency risk *(continued)*

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2020:

	Sterling exposure denominated in €	**Not at risk €**	**Total €**
Cash and cash equivalents	**409**	**15,533**	**15,942**
Amount due from related party	**-**	**58,469**	**58,469**
Other debtors	**-**	**22,379**	**22,379**
Convertible loan	**(148,945)**	**-**	**(148,945)**
Derivative liability	**(146)**	**-**	**(146)**
Related party loans	**-**	**(93,662)**	**(93,662)**
Trade and other payables	**(41,493)**	**(1,247,480)**	**(1,288,973)**
Total exposure	**(190,175)**	**(1,244,761)**	**(1,434,936)**

The Company's foreign currency risk exposure in respect of the principal foreign currencies in which the Company operates was as follows at 31 May 2019:

	Sterling exposure denominated in €	Not at risk €	Total €
Cash and cash equivalents	1,449	29,384	30,833
Amount due from related party	-	54,241	54,241
Other debtors	-	11,722	11,722
Directors' loans	-	(158,087)	(158,087)
Trade and other payables	(20,986)	(917,707)	(938,693)
Total exposure	(19,537)	(980,447)	(999,984)

The following are the significant exchange rates that applied against €1 during the financial year:

	Average Rate 2020	Average Rate 2019	**Spot Rate 31 May 2020**	Spot Rate 31 May 2019
GBP	**0.875**	0.881	**0.899**	0.887

Sensitivity analysis

A 10% strengthening of the Euro against Sterling, based on outstanding financial assets and liabilities at 31 May 2020 would have decreased the reported loss by €4,123 (2019 decreased by: €1,954) as a consequence of the retranslation of foreign currency denominated financial assets at those dates. A weakening of 10% of the Euro against Sterling would have had an equal and opposite effect.

It is assumed that all other variables, especially interest rates, remain constant in the analysis.

(c) Liquidity risk

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Notes
to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

17 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(c) Liquidity risk *(continued)*

The Company manages liquidity risk by regularly monitoring cash flow projections. The nature of the Company's exploration and appraisal activities can result in significant differences between expected and actual cash flows.

Contractual maturities of financial liabilities as at 31 May 2020 were as follows:

	Carrying amount €	Contractual cash flows €	6 months or less €	6-12 months €	1-2 years €	2-5 years €
Trade and other payables (including related party loans)	**1,382,635**	**1,382,635**	**386,168***	**93,662****	**902,805****	**-**
Derivative liability	**146**	**146**	**-**	**-**	**-**	**146*****
Convertible loan	**148,945**	**167,835**	**-**	**-**	**-**	**148,945*****
	1,531,726	**1,550,616**	**386,168***	**93,662****	**902,805****	**149,091*****

Contractual maturities of financial liabilities as at 31 May 2019 were as follows:

	Carrying amount €	Contractual cash flows €	6 months or less €	6-12 months €	1-2 years €	2-5 years €
Trade and other payables (including related party loans)	1,096,780	1,096,780	200,264*	158,087**	738,429**	-

*The amount of €386,168 (2019: €200,264) relates to other trade payables.

**The Directors, Professor Richard Conroy, Séamus P. FitzPatrick, Maureen T.A. Jones, Dr. Sorċa Conroy and Brendan McMorrow, and former directors James P. Jones and Louis J. Maguire, have confirmed that they will not seek repayment of amounts owed to them by the Company of €902,805 (2019: €738,429) within 12 months of the date of approval of the financial statements, unless the Company has sufficient funds to repay. The related party loans amounts consist of monies owed to Professor Richard Conroy amounting to €86,583 (2019: €158,007) and Maureen T.A. Jones amounting to €7,079 (2019: €80).

***On 10 December 2019, the Company has entered into a convertible loan note agreement for a total amount of €145,829 (£120,000) with one of its shareholders. Please refer to Note 11 for further details.

The Company had cash and cash equivalents of €15,942 at 31 May 2020 (2019: €30,833).

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge on obligation.

Credit risk is the risk of financial loss to the Company if a cash deposit is not recovered. Company deposits are placed only with banks with appropriate credit ratings.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

17 Financial instruments *(continued)*

Financial risk management objectives, policies and processes (continued)

(d) Credit risk *(continued)*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was as follows:

	2020	2019
	€	€
Cash and cash equivalents	**15,942**	30,833
Other debtors	**22,379**	11,722
Amount due from related party	**58,469**	54,241
	96,790	96,796

The Company's cash and cash equivalents are held at AIB Bank which has a credit rating of "BBB" as determined by Fitch.

Expected credit loss

The Company measures credit risk and expected credit losses on financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward-looking information in determining any expected credit loss. At 31 May 2020 and 31 May 2019, all cash is accessible on demand and held with counterparties with a credit rating of BBB or higher. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term.

As the amount due from related party is receivable from the Group companies, the Directors of the Company consider the probability of default to be close to zero. As a result, no loss allowance has been recognised based on lifetime expected credit losses under simplified approach as any such impairment would be wholly insignificant to the Company.

(e) Fair values versus carrying amounts

Due to the short-term nature of all of the Company's financial assets and liabilities at 31 May 2020 and 31 May 2019, the fair value equals the carrying amount in each case. The carrying value of non-current financial assets and liabilities is a reasonable approximation of fair value.

(f) Capital management

The principal activities of the Company are concentrating particularly on diamond exploration and evaluation.

The Company has historically funded its activities through share issues and placings and loans. The Company's capital structure is kept under review by the Board of Directors and it is committed to capital discipline and continues to maintain flexibility for future growth.

The capital structure of the Company consists of equity of the Company (refer to the statement of changes in equity and Note 13). The Company is not subject to any externally imposed capital requirements.

Notes

to and forming part of the financial statements for the financial year ended 31 May 2020 *(continued)*

18 Post balance sheet events

Subsequent to the year-end, the Company raised a total of €465,761 (£420,000) through subscriptions for 10,500,000 ordinary shares in the capital of the Company. 10,500,000 of these shares were subscribed for at a price of £0.04 per share. In addition, the Company broker, Brandon Hill Capital Ltd, will be granted warrants to subscribe for 525,000 new ordinary shares in the Company at an exercise price of 4 pence per Ordinary Share for a period of 30 months from admission date.

COVID-19 continues to limit field and laboratory work given the restrictions on operations and movement and other work also continues in relation to the Company's exploration and development programme.

There were no other material events subsequent to the reporting date which necessitate revision of the figures or disclosures included in the financial statements.

19 Prior year adjustment

The Statement of Financial Position as at 31 May 2019 previously presented related party loans amounting to €158,087 within non-current liabilities. Following a review of the applicable terms and conditions, the Directors determined that these amounts should, more appropriately, be classified within current liabilities. The Statement of Financial Position as at 31 May 2019 have therefore been adjusted to reflect the impact of this reclassification.

In line with the requirements of IAS 8 *Accounting policies, changes in accounting estimates and errors*, the comparative figures for the year ended 31 May 2019 have been restated as follows:

Balance Sheet	**As previously stated 31 May 2019**	**Effect of restatement 31 May 2019**	**As restated 31 May 2019**
	€	**€**	**€**
Non-current liabilities			
Related party loans	158,087	(158,087)	-
Total non-current liabilities	**158,087**	**(158,087)**	**-**
Current liabilities			
Trade and other payables	938,693	-	938,693
Related party loans	-	158,087	158,087
Total current liabilities	**938,693**	**158,087**	**1,096,780**

There is no impact on Net Assets, Total equity and liabilities or the Statement of Comprehensive Income.

20 Approval of the audited financial statements for the financial year ended 31 May 2020

These audited financial statements were approved by the Board of Directors on 30 November 2020. A copy of the audited financial statements will be available on the Company's website www.kareliandiamondresources.com and will be available from the Company's registered office at 3300 Lake Drive, Citywest Business Campus, Dublin 24, D24 TD21, Ireland.