



KARELIAN
DIAMOND RESOURCES

Half-Yearly Report
2013

Chairman's Statement

Dear Shareholder

I have great pleasure in presenting your Company's Interim Report for the six months ended 30 November 2013, a period of positive and exciting progress for your Company's diamond exploration programme in the Karelian Craton in Finland.

The Karelian Craton, which extends across Finland and northwest Russia, is comparable in size to the diamond rich Slave Lake Craton in Canada. Two world class diamond deposits, Lomonosova and the Grib pipe, have been discovered in the Russian sector of the Karelian Craton. Alrosa, the Russian company which is the world's largest diamond miner, has indicated that this new diamond region will represent almost all of its future growth.

Your Company's objective is to find world class diamond deposits on the Finnish side of the craton comparable to the world class diamond deposits discovered in the Russian sector of the craton.

Following successful fund raisings since the period end, your Company is in its strongest financial position in its history and the management team can focus on accelerating the diamond exploration programme in the Karelian Craton and on maximising the benefit of the Company's agreement with Rio Tinto Mining and Exploration ("Rio Tinto").

Diamond Exploration Programme

Your Company's exploration programme has continued to make excellent progress. The potentially diamond bearing mantle

xenolith at Seitaperä near Kuhmo was confirmed as diamondiferous by the recovery of microdiamonds. Two of the microdiamonds were greater than 60 per cent broken, indicating the possibility of larger stone sizes. At 6.9 hectares Seitaperä is the largest known kimberlite in Finland.

A till sampling programme at Riihivaara resulted in the discovery of G9 and G10 diamondiferous indicator minerals – so called because they are formed within the ultramafic rocks underlying the earth's crust at the same temperatures and pressures as diamonds. G3 and G4 garnets were also found, suggesting the presence of eclogitic mantle material which is significant, as it tends to be associated with higher grade diamonds.

The Riihivaara claim reservation lies approximately 10 kilometres southeast of the Company's Seitaperä kimberlite target.

The data made available to Karelian under its agreement with Rio Tinto is continuing to be evaluated and integrated with your Company's exploration data and this is proving very useful both in identifying new targets and in confirming existing work and analysis.

At Kuusamo, which is located in the North-east of Finland just south of the Arctic Circle and is bordered to the East by Russia, the interrogation of airborne geophysics by your Company together with till sampling and integration of data made available to Karelian under its agreement with Rio Tinto led to the decision, in October 2013, to apply for claim reservations in the area.

Agreement with Rio Tinto Mining & Exploration

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

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

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

Finance

The results for the six months ended 30 November 2013 are set out below. The loss for the period was €96,610 (2012: loss €72,545). The net assets of the Company at 30 November 2013 were €4,363,079 (2012: €4,491,981).

Post November your Company raised £2,000,000 before expenses, through a placing of 111,666,666 Ordinary Shares of EUR 0.01 in the capital of the Company. In addition, I have capitalised loans amounting to £469,875 by subscribing for 31,325,000 Ordinary Shares in the capital of the Company.

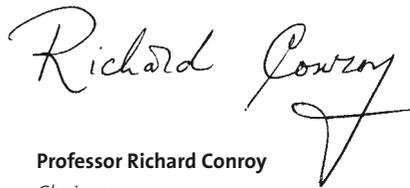
Directors and Staff

I would like to thank my fellow directors, staff and consultants for their support and dedication, which has enabled the continued success of the Company.

Outlook

I look forward with confidence to continued progress with your Company's diamond interests in Finland.

Yours faithfully,



Professor Richard Conroy
Chairman

24 February 2014

Income Statement

For half-year ended 30 November 2013

| | Six months ended 30 November 2013 (Unaudited) € | Six months ended 30 November 2012 (Unaudited) € | Year ended 31 May 2013 (Audited) € |
|--|--|--|--|
| OPERATING EXPENSES | (89,123) | (65,531) | (165,604) |
| Finance income – bank interest receivable | – | – | – |
| Finance costs – interest on shareholder loan | (7,487) | (7,014) | (14,351) |
| LOSS BEFORE TAXATION | (96,610) | (72,545) | (179,955) |
| Taxation | – | – | – |
| LOSS FOR THE YEAR | (96,610) | (72,545) | (179,955) |
| Loss per ordinary share – basic and diluted | (€0.001) | (€0.0008) | (€0.0019) |

Statement of Comprehensive Income

For half-year ended 30 November 2013

| | Six months ended 30 November 2013 (Unaudited) € | Six months ended 30 November 2012 (Unaudited) € | Year ended 31 May 2013 (Audited) € |
|--|--|--|--|
| LOSS FOR PERIOD | (96,610) | (72,545) | (179,955) |
| Total income and expense recognised in other comprehensive income | – | – | – |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD – ENTIRELY ATTRIBUTABLE TO EQUITY HOLDERS | (96,610) | (72,545) | (179,955) |

Statement of Financial Position

As at 30 November 2013

| | 30 November 2013 (Unaudited) € | 30 November 2012 (Unaudited) € | 31 May 2013 (Audited) € |
|--------------------------------------|---|---|----------------------------------|
| ASSETS | | | |
| Non-current Assets | | | |
| Intangible assets | 7,068,402 | 6,581,906 | 6,801,539 |
| Investment in Subsidiary | 4 | 4 | 4 |
| Property, plant and equipment | 249 | 417 | 333 |
| | 7,068,655 | 6,582,327 | 6,801,876 |
| Current Assets | | | |
| Trade and other receivables | 7,051 | 43,574 | 11,691 |
| Cash and cash equivalents | 4,271 | 24,282 | 2,506 |
| | 11,322 | 67,856 | 14,197 |
| Total Assets | 7,079,977 | 6,650,183 | 6,816,073 |
| EQUITY AND LIABILITIES | | | |
| Capital and Reserves | | | |
| Called up share capital | 922,083 | 922,083 | 922,083 |
| Share premium | 4,621,158 | 4,621,158 | 4,621,158 |
| Share based payments reserve | 487,716 | 412,598 | 450,157 |
| Retained losses | (1,667,878) | (1,463,858) | (1,571,268) |
| Total Equity | 4,363,079 | 4,491,981 | 4,422,130 |
| Non-current Liabilities | | | |
| Financial Liabilities | 1,212,404 | 1,107,283 | 1,171,968 |
| Total Non-current Liabilities | 1,212,404 | 1,107,283 | 1,171,968 |
| Current Liabilities | | | |
| Trade and other payables | 1,504,494 | 1,050,919 | 1,221,975 |
| Total Current Liabilities | 1,504,494 | 1,050,919 | 1,221,975 |
| Total Liabilities | 2,716,898 | 2,158,202 | 2,393,943 |
| Total Equity and Liabilities | 7,079,977 | 6,650,183 | 6,816,073 |

Statement of Changes in Equity

For the half-year ended 30 November 2013

| | Share Capital € | Share Premium € | Share-based Payment Reserve € | Retained Earnings (Deficit) € | Total Equity € |
|----------------------------|-----------------------|-----------------------|--|--|----------------------|
| At 1 June 2013 | 922,083 | 4,621,158 | 450,157 | (1,571,268) | 4,422,130 |
| Share-based payments | – | – | 37,559 | – | 37,559 |
| Loss for the period | – | – | – | (96,610) | (96,610) |
| At 30 November 2013 | 922,083 | 4,621,158 | 487,716 | (1,667,878) | 4,363,079 |
| At 1 June 2012 | 922,083 | 4,621,158 | 375,039 | (1,391,313) | 4,526,967 |
| Share-based payments | – | – | 37,559 | – | 37,559 |
| Loss for the period | – | – | – | (72,545) | (72,545) |
| At 30 November 2012 | 922,083 | 4,621,158 | 412,598 | (1,463,858) | 4,491,981 |

Cash Flow Statement

For the half-year ended 30 November 2013

| | Six months ended 30 November 2013 (Unaudited) € | Six months ended 30 November 2012 (Unaudited) € | Year ended 31 May 2013 (Audited) € |
|---|--|--|--|
| Cash flows from operating activities | | | |
| Cash generated/(used in) by operations | 76,440 | (46,459) | (50,768) |
| Tax paid | - | - | - |
| Net cash generated by/(used in) operating activities | 76,440 | (46,459) | (50,768) |
| Cash flows from investing activities | | | |
| Investment in exploration and evaluation | (236,273) | (160,544) | (292,105) |
| Net cash used in investing activities | (236,273) | (160,544) | (292,105) |
| Cash flows from financing activities | | | |
| Increase in accrued directors' remuneration | 121,162 | 121,162 | 242,325 |
| Advances of shareholder loan | 40,436 | 100,069 | 93,000 |
| Bank interest received | - | - | - |
| Interest paid on shareholder loan | - | - | - |
| Net cash generated from financing activities | 161,598 | 221,231 | 335,325 |
| Increase/(Decrease) in cash and cash equivalents | 1,765 | 14,228 | (7,548) |
| Cash and cash equivalents at beginning of period | 2,506 | 10,054 | 10,054 |
| Cash and cash equivalents at end of period | 4,271 | 24,282 | 2,506 |

Notes To The Financial Statements

For the half-year ended 30 November 2013

1. Basis of preparation

The half-yearly financial statements have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and their interpretations adopted by the International Accounting Standards Board (IASB). The accounting policies used in the preparation of the half-yearly financial information are the same as those used in the Company's audited financial statements for the year ended 31 May 2013.

2. Earnings per share

The calculation of the loss per ordinary share of €0.001 (2012: loss €0.0008) is based on the loss for the financial year of €96,610 (2012: loss €72,545) and the weighted average number of ordinary shares in issue during the period of 92,208,342 (2012: 92,208,342).

Since the Company incurred a loss the effect of share options and warrants would be anti-dilutive.

3. Dividends

No dividends were paid or are proposed in respect of the period ended 30 November 2013.

4. Copy of half yearly report

A copy of the half yearly report will be available on the Company's website www.kareliandiamondresources.com and will be available from the Company's registered office, 10 Upper Pembroke Street, Dublin 2.