



KARELIAN
DIAMOND RESOURCES

Half-Yearly Report
2014

Chairman's Statement

Dear Shareholder

I have great pleasure in presenting your Company's Half-Yearly Report for the six months ended 30 November 2014. During this period excellent progress continued to be made with the diamond exploration programme in the Karelian Craton in Finland, the objective of which is to discover a world class diamond deposit. Also during the period your Company's confidentiality agreement (with Back in Rights) with Rio Tinto Mining and Exploration Ltd ("Rio Tinto") was extended to 2020.

Diamond Exploration Programme

Your Company's primary exploration area is in the Karelian Craton in North Eastern Europe where, in the Finnish sector of the Craton, we hope to discover a diamond orebody comparable to the world class diamond deposits, Lomonosova and the Grib Pipe, which have been discovered in the Russian sector of the craton.

The Karelian Craton, which extends across Finland and northwest Russia, is comparable in size to the diamond rich Slave Lake Craton in Canada. The Russian diamond company ALROSA Company Limited (Closed Joint-Stock Company), which is now the world's largest diamond miner, has indicated recently that the Karelian Craton region will represent almost all of its future growth.

Your Company's diamond exploration programme in Finland covers five regions and, at Seitaperä in Eastern Finland, the programme has outlined the largest diamondiferous pipe yet discovered in Finland.

Recent exploration results from your Company's Riihivaara target in Eastern Finland have been particularly exciting. Sample material from the

target area has been confirmed as being derived from the diamond stability field of the Earth's mantle. Eclogite mantle materials are present which is significant, as these tend to be associated with richer diamond grades.

Detailed analysis of the sample material from Riihivaara was carried out by Scanning Electron Microscopy (SEM) at the Geological Survey of Finland (GTK) laboratory in Helsinki. The laboratory results have demonstrated the presence of 27 Group 2 eclogite grains, plus 8 Harzburgitic G10 garnets including a G10(D), as well as 33 Lherzolite G9 garnets, 27 megacrysts and 1 Wehrlitic grain.

The presence of what are known as Harzburgitic G10 garnets, including in particular a G10(D), confirmed that the sample material is derived from the diamond stability field of the Earth's mantle. Follow up exploration is under way at Riihivaara.

Exploration continues also on your Company's other diamond targets in Finland, particularly in the Kuhmo and Kuusamo areas of Eastern Finland.

Agreement with Rio Tinto Mining & Exploration

The existing Confidentiality Agreement (with Back in Rights), as announced on 22 July 2010, with Rio Tinto Mining and Exploration Limited ("Rio Tinto") has been extended until 30 June 2020.

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 own existing and potential exploration programmes in Finland.

To date this information has included data on over 53,000 till samples, over 600 analytical results, data on Kimberlite indicator minerals from over 200 locations and records on the discovery of 122 diamonds. The integration of this data with your Company's own data has been of great benefit.

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 loss after taxation for the half-year ended 30 November 2014 was €121,087 (2013: loss of €96,610) and the net assets as at 30 November 2014 were €8,319,399 (2013: €4,363,079).

At the Annual General Meeting a resolution extending the directors' warrants by five years was passed.

Directors and Staff

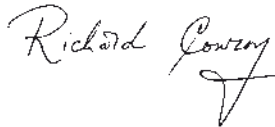
I would like to thank my fellow directors, staff and consultants for their support and dedication, which has enabled the continued success of the Company.

I am also pleased to welcome Dr Sorca Conroy to the Board with her broad-ranging city experience. Her knowledge, skills and experience will significantly contribute to the Company as it moves forward.

Outlook

We have made a significant amount of progress in the period and expect this to continue as we move forward with your Company's diamond interests in Finland.

Yours faithfully,



Professor Richard Conroy

Chairman

25 February 2015

Income Statement

for half-year ended 30 November 2014

	Six months ended 30 November 2014 (Unaudited) €	Six months ended 30 November 2013 (Unaudited) €	Year ended 31 May 2014 (Audited) €
OPERATING EXPENSES	(122,808)	(89,123)	(191,139)
Finance income – bank interest receivable	1,721	-	699
Finance costs – interest on shareholder loan	-	(7,487)	(8,451)
LOSS BEFORE TAXATION	(121,087)	(96,610)	(198,891)
Taxation	-	-	-
LOSS FOR THE YEAR	(121,087)	(96,610)	(198,891)
Loss per ordinary share – basic and diluted	(€0.0004)	(€0.001)	(€0.0013)

Statement of Comprehensive Income

for half-year ended 30 November 2014

	Six months ended 30 November 2014 (Unaudited) €	Six months ended 30 November 2013 (Unaudited) €	Year ended 31 May 2014 (Audited) €
LOSS FOR PERIOD	(121,087)	(96,610)	(198,891)
Total income and expense recognised in other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD – ENTIRELY ATTRIBUTABLE TO EQUITYHOLDERS	(121,087)	(96,610)	(198,891)

Statement of Financial Position

as at 30 November 2014

	30 November 2014 (Unaudited) €	30 November 2013 (Unaudited) €	31 May 2014 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	7,609,850	7,068,402	7,329,228
Investment in Subsidiary	4	4	4
Property, plant and equipment	0	249	165
	7,609,854	7,068,655	7,329,397
Current Assets			
Trade and other receivables	307,309	7,051	55,779
Cash and cash equivalents	924,748	4,271	2,105,041
	1,232,057	11,322	2,160,820
Total Assets	8,841,911	7,079,977	9,490,217
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	2,865,350	922,083	2,865,350
Share premium	6,786,177	4,621,158	6,786,177
Share based payments reserve	559,118	487,716	525,275
Retained losses	(1,891,246)	(1,667,878)	(1,770,159)
Total Equity	8,319,399	4,363,079	8,406,643
Non-current Liabilities			
Financial Liabilities	309,589	1,212,404	309,589
Total Non-current Liabilities	309,589	1,212,404	309,589
Current Liabilities			
Trade and other payables	212,923	1,504,494	773,985
Total Current Liabilities	212,923	1,504,494	773,985
Total Liabilities	522,512	2,716,898	1,083,574
Total Equity and Liabilities	8,841,911	7,079,977	9,490,217

Statement of Changes in Equity

for the half-year ended 30 November 2014

	Share Capital €	Share Premium €	Share- based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2014	2,865,350	6,786,177	525,275	(1,770,159)	8,406,643
Share-based payments	-	-	33,843	-	33,843
Loss for the period	-	-	-	(121,087)	(121,087)
At 30 November 2014	2,865,350	6,786,177	559,118	(1,891,246)	8,319,399
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

Cash Flow Statement

for the half-year ended 30 November 2014

	Six months ended 30 November 2014 (Unaudited) €	Six months ended 30 November 2013 (Unaudited) €	Year ended 31 May 2014 (Audited) €
Cash flows from operating activities			
Cash (used in)/generated by operations	(930,224)	197,602	(147,489)
Tax paid	-	-	-
Net cash (used in)/generated by operating activities	(930,224)	197,602	(147,489)
Cash flows from investing activities			
Investment in exploration and evaluation	(251,790)	(236,273)	(432,548)
Net cash used in investing activities	(251,790)	(236,273)	(432,548)
Cash flows from financing activities			
Issue of share capital (net of expenses)	-	-	3,025,788
Advances/(Repayment) of shareholder loan	-	40,436	(343,915)
Bank interest received	1,721	-	699
Net cash generated from financing activities	1,721	40,436	2,682,572
(Decrease)/Increase in cash and cash equivalents	(1,180,293)	1,765	2,102,535
Cash and cash equivalents at beginning of period	2,105,041	2,506	2,506
Cash and cash equivalents at end of period	924,748	4,271	2,105,041

Notes to the Financial Statements

for the half-year ended 30 November 2014

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 2014.

2. Earnings per share

The calculation of the loss per ordinary share of €0.0004 (2013: loss €0.001) is based on the loss for the financial period of €121,087 (2013: loss €96,610) and the weighted average number of ordinary shares in issue during the period of 286,535,034 (2013: 92,308,242).

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 half-year ended 30 November 2014.

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.