



KARELIAN
DIAMOND RESOURCES

2007 INTERIM REPORT



Dear Shareholder

I have great pleasure in presenting your Company's Interim Report for the six months ended November 2007. During the period your Company continued to make excellent progress in its exploration programme for diamonds in Finland. This programme is focussed on discovering a potential world-class diamond deposit in the Finnish sector of the Karelian Craton.

Two world-class diamond deposits have been already discovered in the Russian sector of the Karelian Craton and your directors believe that the Finnish sector of the Craton, given its size and potential, is under-explored and, by analogy with the Russian sector, has the potential to host similar world-class deposits.

A four-hole drilling programme on your Company's Seitaperä pipe in the Kuhmo region has shown a possible increase in the surface area of the pipe to 6.9 hectares. This would represent an increase of 65 per cent over the previous size of 4.2ha which itself was the largest known diamondiferous kimberlite in Finland. Kimberlite material was intersected in 224.8m of the 294.3m drilled and zones with potentially diamond-bearing mantle material were encountered.

Combined with previous Company drilling results (two holes for 172.8m of which 103.9m intersected kimberlite) and re-logging of archive core held by the Geological Survey of Finland (nine holes for 221.5m – all in kimberlite), drilling at Seitaperä has now yielded total kimberlite intersections of 550m, including five wall rock contacts at depths between 45.9m and 76.6m depth (average 52.7m).

Based on the above information, your Company has calculated the minimum area of the pipe to be 5.22ha at 50m depth. Its total strike length exceeds 620m and pipe width varies between 40m and 160m (average 90m). When recent surface mapping and results from recent and past surface trenching (12 trenches into kimberlite) are included, and taking into account associated kimberlite dykes and a probable pipe extension to the south-west beneath Lake Kylmälahti, a surface expression of up to 6.9ha is possible for Seitaperä.

Drill-hole SP4 (101.8m, of which 85.0m was in kimberlite) intersected a significant zone (+20m) of kimberlite carrying abundant garnet-peridotite xenoliths. This potentially diamond bearing mantle material represents between 20 per cent and 40 per cent of the total core. Detailed evaluation of this material will include

a mineral chemistry study of the pyrope garnets and other diamond indicator minerals present, to determine diamond bearing potential. If the results are sufficiently positive, this will be followed by large diameter drilling of this zone to extract sufficient material for micro-diamond analysis.

The Seitaperä pipe has been demonstrated to be of adequate size to be a feasible development target if it (or even a substantial sub-portion of it) proves to be of sufficient diamond and grade value.

It remains for the Company to determine the economic viability of the pipe (or a sufficient portion thereof) and this is the subject of ongoing exploration. This work involves demonstrating sufficient diamond grade by micro-diamond studies on mantle-rich areas, and extending such areas by drill testing. If successful, the next step will be to bulk sample these areas to confirm grade and obtain diamond size distribution and quality data, i.e. a diamond value.

Should a kimberlite with economic potential be confirmed, there should be every expectation that it can be developed as a successful and profitable mine in due course and in a realistic time frame.

In addition to making significant progress on the Seitaperä kimberlite your Company has other diamond exploration programmes in Finland at various stages of development.

These include both advanced exploration which has resulted in well defined kimberlite-indicator-mineral (KIM) trains and associated geophysical targets which now warrant drill-testing, and less-advanced regional plays. The latter are using the same geophysical techniques (airborne and ground-based magnetics) and regional till sampling (for KIM's) which, with further work, are expected to identify additional kimberlite targets.

To summarize, the six months to November 2007 have been a successful and encouraging period for your Company. Work to-date has paid dividends in terms of advancing our understanding and confidence in the Seitaperä kimberlite pipe, as well as developing our regional exploration to the stage where we have identified additional drill-ready targets. Our work has been systematic and to best industry standards, involving logging of archive core, surface trenching, drilling and

commissioning mineralogical, mineral chemistry and micro-diamond studies on Seitaperä.

Regionally we have acquired, processed and re-interpreted airborne magnetic data, conceived ground magnetic surveys and undertaken an extensive till sampling programme for kimberlite-indicator-minerals.

Our results so far confirm our belief that the Seitaperä kimberlite is a project worthy of detailed evaluation and regionally, have indicated a number of likely kimberlite bodies which we are preparing to drill-test, as well as identifying entirely new indicator mineral trains which we continue to follow-up with further work. Our land position has been maintained and strengthened in accordance with these promising results.

Finance and Results

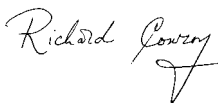
In July 2007 your Company raised €1,429,254, net of expenses, by placing 15,770,000 ordinary shares of €0.01 each at 6.5p sterling.

The results for the half-year are set out below. The loss for the period was €101,500 (€86,989 for the corresponding period last year).

Directors and Staff

I would like to thank my fellow directors, staff and consultants for their support and dedication. They have made the outstanding progress of the Company possible. I look forward to the future with confidence.

Yours faithfully



Professor Richard Conroy

Chairman

21 February 2008

KARELIAN
DIAMOND RESOURCES

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For further information, visit the company's website
at www.kareliandiamondresources.com

Balance Sheet

At 30 November 2007

	30 November 2007	30 November 2006	31 May 2007
	(Unaudited)	(Unaudited)	(Audited)
	€	€	€
Fixed Assets			
Mineral interests	3,858,785	3,704,588	3,617,723
Tangible assets	1,333	1,425	1,341
Financial assets	4	4	4
	<hr/>	<hr/>	<hr/>
	3,860,122	3,706,017	3,619,068
Current Assets			
Debtors	4,146	8,966	2,324
Cash at bank and in hand	602,354	23,604	115,402
	<hr/>	<hr/>	<hr/>
	606,500	32,570	117,726
Creditors: amounts falling due within one year	<hr/>	<hr/>	<hr/>
	(129,544)	(109,122)	(63,759)
Net Current Assets/(Liabilities)	<hr/>	<hr/>	<hr/>
	476,956	(76,552)	53,967
Total Assets less Current Liabilities	<hr/>	<hr/>	<hr/>
	4,337,078	3,629,465	3,673,035
Creditors: amounts falling due after more than one year	<hr/>	<hr/>	<hr/>
	(329,867)	(966,983)	(1,031,298)
Net Assets	<hr/>	<hr/>	<hr/>
	€4,007,211	€2,662,482	€2,641,737
Capital and Reserves			
Called up share capital	605,416	447,716	447,716
Share premium account	3,801,202	2,529,648	2,529,648
Share based payments reserve	62,320	17,500	24,600
Profit and loss account	(461,727)	(332,382)	(360,227)
	<hr/>	<hr/>	<hr/>
Shareholders' Funds – all equity	<hr/>	<hr/>	<hr/>
	€4,007,211	€2,662,482	€2,641,737

Profit and Loss Account

For the six months ended 30 November 2007

	Six months ended 30 November 2007 (Unaudited) €	Six months ended 30 November 2006 (Unaudited) €	Year ended 31 May 2007 (Audited) €
Operating expenses	(109,917)	(87,047)	(125,404)
Other income	8,417	58	70
Loss for the financial period	(101,500)	(86,989)	(125,334)
Profit and loss account at beginning of period	(360,227)	(245,393)	(234,893)
Profit and Loss account at end of period	(€461,727)	(€332,382)	(€360,227)
Loss per share	(€0.0018)	(€0.0019)	(€0.0028)

Cash Flow Statement

For the six months ended 30 November 2007

	Six months ended 30 November 2007 (Unaudited) €	Six months ended 30 November 2006 (Unaudited) €	Year ended 31 May 2007 (Audited) €
Net Cash Outflow from Operating Activities	(37,529)	(408,205)	(305,458)
Capital Expenditure and Financial Investments	(241,062)	(163,182)	(263,046)
Net Cash Outflow before financing	(278,591)	(571,387)	(568,504)
Financing	765,543	482,200	571,115
Increase/(Decrease) in Cash	486,952	(€89,187)	€2,611