

Half-Yearly Report 2010

Dear Shareholder

I have great pleasure in presenting your Company's half-yearly results for the six months ended 30 November 2010, a year of continued progress for your Company.

The price of diamonds has recovered, reflecting in particular rising demand in Asia and insufficient supply.

Your Company has continued its exploration programme in the Karelian Craton in Finland and has acquired two further known kimberlite pipes, Kimberlite 18, Havukkasuo and Kimberlite 24, Lentiira, in addition to its diamondiferous Seitaperä pipe. These pipes will now be further examined in the light of the knowledge gained at Seitaperä.

The agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), where by Rio Tinto has provided your Company with confidential data, will be of enormous value in relation to your Company's ongoing exploration programme, the object of which is to make a major economic diamond discovery in Finland comparable to the world class discoveries already made on the Russian side of the Karelian Craton.

The data received from Rio Tinto to date comprises over 53,000 surface samples and over 600 analytical probe results and other kimberlitic mineral data, with kimberlitic indicator minerals reported from over 200 locations. 122 diamonds were recovered from various locations in Finland.

Karelian will integrate Rio Tinto's data with that gathered from its own exploration programme to assist in identifying potential targets in Finland.

Finance

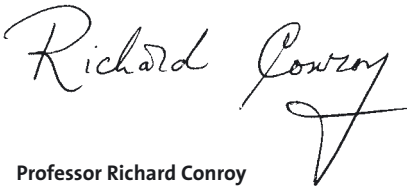
The results for the six months ended 30 November 2010 are set out below. The loss for the period was €88,124 (2009: loss €83,636).

In December the Company raised £350,000, before expenses, through a placing of 11,666,666 ordinary shares and warrants to subscribe for 3,888,888 ordinary shares of €0.01 in the capital of the Company. The shares were placed at a price of 3 pence per share and the warrants can be exercised at 5 pence per share at any time until 23 December 2012. The Company intends to use the net proceeds of the placing primarily to fund the Company's various prospects in Finland and for working capital generally.

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 look forward to the future with confidence.

Yours faithfully,

A handwritten signature in black ink that reads "Richard Conroy". The signature is written in a cursive style with a large, stylized initial 'R' and a long, sweeping tail on the 'y'.

Professor Richard Conroy
Chairman

28 February 2011

Unaudited Balance Sheet

As at 30 November 2010

	30 November 2010 (Unaudited) €	30 November 2009 (Unaudited) €	31 May 2010 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	5,456,424	5,062,451	5,250,016
Financial assets	4	4	4
Property, plant and equipment	753	1,005	837
	5,457,181	5,063,460	5,250,857
Current Assets			
Trade and other receivables	5,804	8,378	24,875
Cash and cash equivalents	4,635	14,037	17,707
	10,439	22,415	42,582
Total Assets	5,467,620	5,085,875	5,293,439
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	605,416	605,416	605,416
Share premium	3,801,202	3,801,202	3,801,202
Share based payments reserve	273,957	169,744	210,803
Retained losses	(1,084,196)	(906,627)	(996,072)
Total Equity	3,596,379	3,669,735	3,621,349
Non-current Liabilities			
Trade and other payables: Amounts falling due after more than one year	895,241	790,765	895,241
Total non-current liabilities	895,241	790,765	895,241
Current Liabilities			
Trade and other payables: Amounts falling due within one year	976,000	625,375	776,849
Total Current Liabilities	976,000	625,375	776,849
Total Liabilities	1,871,241	1,416,140	1,672,090
Total Equity and Liabilities	5,467,620	5,085,875	5,293,439

Unaudited Income Statement

For the Six Months Ended 30 November 2010

	Six months ended 30 November 2010 (Unaudited) €	Six months ended 30 November 2009 (Unaudited) €	Year ended 31 May 2010 (Audited) €
Operating Expenses	(88,124)	(83,641)	(173,086)
Other Income	–	5	5
Loss Before Taxation	(88,124)	(83,636)	(173,081)
Taxation	–	–	–
Loss Retained for the Period	(88,124)	(83,636)	(173,081)
Loss per ordinary share – Basic and diluted	(€0.0015)	(€0.0014)	(€0.0028)

Unaudited Cash Flow Statement

For the Six Months Ended 30 November 2010

	Six months ended 30 November 2010 (Unaudited) €	Six months ended 30 November 2009 (Unaudited) €	Year ended 31 May 2010 (Audited) €
Cash flows from operating activities			
Cash generated from operations	193,336	114,185	134,006
Tax paid	–	–	–
Net cash generated by operating activities	193,336	114,185	134,006
Cash flows from investing activities			
Investment in mineral interest	(206,408)	(178,586)	(299,213)
Net cash used in investing activities	(206,408)	(178,586)	(299,213)
Cash flows from financing activities			
Shareholder loan advances	–	70,772	175,248
Issue of share capital	–	–	–
Net cash from financing activities	–	70,772	175,248
(Decrease)/Increase in cash and cash equivalents	(13,072)	6,371	10,041
Cash and cash equivalents at beginning of year	17,707	7,666	7,666
Cash and cash equivalent at year end	4,635	14,037	17,707