



HALF-YEARLY REPORT 2011

Dear Shareholder,

I have great pleasure in presenting your Company's interim results for the six months ended 30 November 2011, a period of continued progress by your Company.

During the period covered by the report the price of diamonds remained high with increased demand particularly from China.

Your Company has continued its exploration programme in the Karelian Craton in Finland which is based on your Board's belief that one or more diamond finds of similar magnitude to the major finds made in the Russian area of the Karelian Craton may be made in that part of the Craton which lies in Finland.

Your Company has outlined in the Kuhmo area of Eastern Finland, the largest diamondiferous kimberlite pipe to be found so far in Finland. This is the Seitaperä kimberlite pipe, which covers approximately 6.9 hectares. 67 diamonds have been recovered from the pipe during your Company's exploration programme including six macrodiamonds and 61 microdiamonds. Some of these may be fragments of a larger diamond or diamonds which were present in the mantle xenoliths and broke apart during processing. These findings suggest that there is the possibility of larger diamonds in the pipe with much of the kimberlite remaining untested.

Recent drilling by your Company of the pipe encountered kimberlite in all five holes drilled including a new large (52 metre) zone of mantle bearing kimberlite. The new zone is approximately 120 metres from where mantle xenolith material was previously encountered and is in a mica rich brown kimberlite whereas the previous zone was black serpentinized kimberlite. There are also a number of sections in the hole that had olivine xenocrysts present in the core which are also derived from the diamond forming mantle.

The drilling programme has added substantial further information on the scope and extent of this diamondiferous pipe and to our understanding of the potential of the Kuhmo area in general for diamonds.

Positive results from a basal till sampling programme near the Seitaperä pipe suggest that another diamondiferous kimberlite pipe or dyke may exist in the nearby Riihivaara area of Eastern Finland.

The till sampling programme at Riihivaara resulted in the recovery of twelve garnet indicator minerals, comprising three G10's, five G9's, one G4, one G3 and two G1's. Six of the positive results, including the G4 pyroxenitic garnet occurred within a single till sample. The adjacent sample had two positive results, including the eclogitic G3 garnet. These garnets and other mantle-derived minerals are used to locate kimberlites and are referred to as kimberlite indicator minerals. Some of these garnets, the G10's and certain G9's, are created under similar conditions to diamonds within the ultramafic mantle rocks underlying the crust and are therefore used as predictors of the presence of diamonds. There is a strong statistical correlation between G10 and certain G9 garnets, like those found in Riihivaara, and the presence of diamonds.

The sampling programme was undertaken on Karelian's behalf by the Geological Survey of Finland (GTK) in conjunction with the Company's technical staff. Sample analysis was undertaken in the GTK laboratories.

Dr. Hugh O'Brien, a diamond specialist with the GTK stated: "G3 (eclogitic) and G4 (pyroxenitic) garnets are very unusual for eastern Finland. It is surprising to find eclogite-derived grains in this area, because the kimberlites found to date in the Kuhmo-Lentiira Kostomuksha area are very poor in eclogite component, being rather much more dominated by peridotite indicators."

Eclogite mantle material is significant as it tends to be associated with a much higher grade of diamonds than peridotite mantle material.

We are very pleased with these latest sample results at Riihivaara which show a strong correlation with the possible presence of diamonds together with the discovery of eclogitic material which tends to be associated with higher diamond grades. Arising from these results applications have been made for further exploration acreage in the Riihivaara area.

The review and integration of the extensive data on Finland made available to your Company by Rio Tinto Mining and Exploration Limited continues. Arising from this review, applications have been made for additional exploration licences.

Finance

The results for the six months ended 30 November 2011 are set out below. The loss for the period was €84,692 (2010: loss €88,124).

Outlook

Finland clearly has potential for diamonds and we look forward to continuing with our objective of making a diamond discovery in the Karelian Craton in Finland comparable to the major discoveries on the Russian side of the Craton.

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,

Professor Richard Conroy
Chairman

28 February 2012

**INCOME STATEMENT
FOR HALF-YEAR ENDED 30 NOVEMBER 2011**

	Six months ended 30 November 2011 (Unaudited) €	Six months ended 30 November 2010 (Unaudited) €	Year ended 31 May 2011 (Audited) €
OPERATING EXPENSES	(77,907)	(80,605)	(171,813)
Finance income – bank interest receivable	5	-	-
Operating loss	(77,902)	(80,605)	(171,813)
Finance costs – interest on shareholder loan	(6,790)	(7,519)	(15,448)
LOSS BEFORE TAXATION	(84,692)	(88,124)	(187,261)
Taxation	-	-	-
LOSS FOR THE YEAR	(84,692)	(88,124)	(187,261)
Loss per ordinary share – basic and diluted	(€0.0009)	(€0.0015)	(€0.0027)

**STATEMENT OF COMPREHENSIVE INCOME
FOR HALF-YEAR ENDED 30 NOVEMBER 2011**

	Six months ended 30 November 2011 (Unaudited) €	Six months ended 30 November 2010 (Unaudited) €	Year ended 31 May 2011 (Audited) €
LOSS FOR PERIOD	(84,692)	(88,124)	(187,261)
Total income and expense recognised in other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD – ENTIRELY ATTRIBUTABLE TO EQUITYHOLDERS	(84,692)	(88,124)	(187,261)

**STATEMENT OF FINANCIAL POSITION
AS AT 30 NOVEMBER 2011**

	30 November 2011 (Unaudited) €	30 November 2010 (Unaudited) €	31 May 2011 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	6,154,525	5,456,424	5,760,090
Investment in Subsidiary	4	4	4
Property, plant and equipment	585	753	669
	<u>6,155,114</u>	<u>5,457,181</u>	<u>5,760,763</u>
Current Assets			
Trade and other receivables	8,551	5,804	12,536
Cash and cash equivalents	203,917	4,635	745,908
	<u>212,468</u>	<u>10,439</u>	<u>758,444</u>
Total Assets	<u>6,367,582</u>	<u>5,467,620</u>	<u>6,519,207</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	922,083	605,416	922,083
Share premium	4,621,158	3,801,202	4,621,158
Share based payments reserve	333,981	273,957	292,921
Retained losses	(1,268,025)	(1,084,196)	(1,183,333)
Total Equity	<u>4,609,197</u>	<u>3,596,379</u>	<u>4,652,829</u>
Non-current Liabilities			
Financial Liabilities	812,665	895,241	937,665
Total Non-current Liabilities	<u>812,665</u>	<u>895,241</u>	<u>937,635</u>
Current Liabilities			
Trade and other payables	945,720	976,000	928,713
Total Current Liabilities	<u>945,720</u>	<u>976,000</u>	<u>928,713</u>
Total Liabilities	<u>1,758,385</u>	<u>1,871,241</u>	<u>1,866,378</u>
Total Equity and Liabilities	<u>6,367,582</u>	<u>5,467,620</u>	<u>6,519,207</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 NOVEMBER 2011**

	Share Capital €	Share Premium €	Share-based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2010	605,416	3,801,202	210,803	(996,072)	3,621,349
Share-based payments	-	-	63,154	-	63,154
Loss for the period	-	-	-	(88,124)	(88,124)
At 30 November 2010	605,416	3,801,202	273,957	1,084,196	3,596,379
At 1 December 2010	605,416	3,801,202	273,957	(1,084,196)	3,596,379
Share issue	316,667	-	-	-	316,667
Share premium	-	819,956	-	-	819,956
Share-based payments	-	-	18,964	-	18,964
Loss for the period	-	-	-	(99,137)	(99,137)
At 31 May 2011	922,083	4,621,158	292,921	(1,183,333)	4,652,829
At 1 June 2011	922,083	4,261,158	292,921	(1,183,333)	4,652,829
Share-based payments	-	-	41,060	-	41,060
Loss for the period	-	-	-	(84,692)	(84,692)
At 30 November 2011	922,083	4,621,158	333,981	(1,268,025)	4,609,197

**CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 30 NOVEMBER 2011**

	Six months ended 30 November 2011 (Unaudited)	Six months ended 30 November 2010 (Unaudited) €	Year ended 31 May 2011 (Audited) €
Cash flows from operating activities			
Cash (used in)/generated by operations	(56,031)	150,912	38,549
Tax paid	-	-	-
Net cash (used in)/ generated by operating activities	(56,031)	150,912	38,549
Cash flows from investing activities			
Investment in exploration and evaluation	(360,965)	(206,408)	(443,136)
Net cash used in investing activities	(360,965)	(206,408)	(443,136)
Cash flows from financing activities			
Issue of share capital	-	-	1,136,623
Advances of shareholder loan	-	42,424	42,424
Repayment of shareholder loan	(125,000)	-	-
Bank interest received	5	-	-
Interest paid on shareholder loan	-	-	(46,259)
Net cash (used in)/generated from financing activities	(124,995)	42,424	1,132,788
(Decrease)/Increase in cash and cash equivalents	(541,991)	(13,072)	728,201
Cash and cash equivalents at beginning of period	745,908	17,707	17,707
Cash and cash equivalents at end of period	203,917	4,635	745,908

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 NOVEMBER 2011**

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 2011.

2. Earnings per share

The calculation of the loss per ordinary share of €0.0009 (2010 - €0.0015) is based on the loss for the financial year of €84,692 (2010 – €88,124) and the weighted average number of ordinary shares in issue during the year of 92,208,342 (2010 – 60,541,676).

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, 2011.