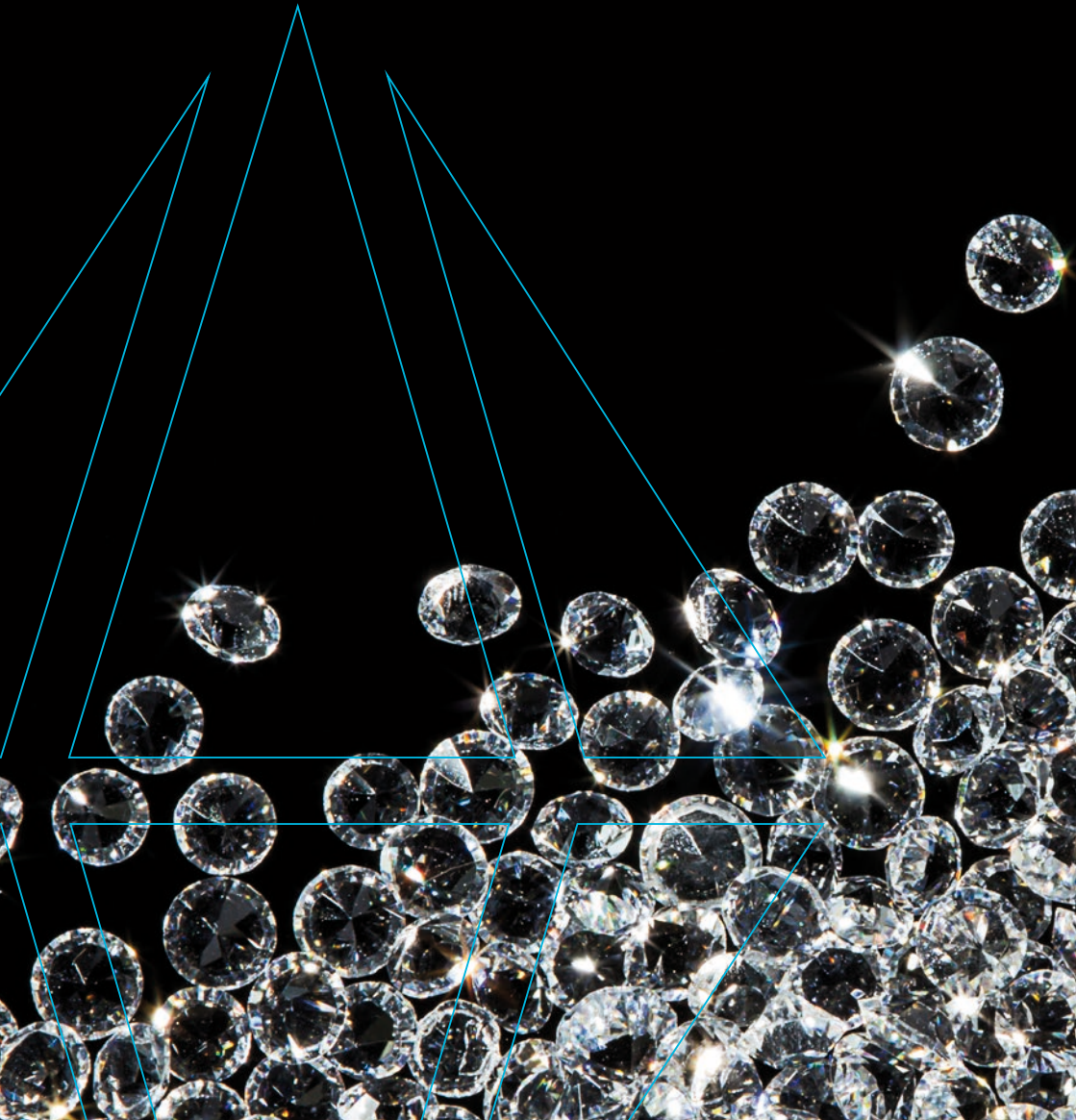




Half-Yearly Report 2016



Chairman's Statement

Dear Shareholder,

I have great pleasure in presenting your Company's Half-Yearly Report for the six months ended 30 November 2016. The discovery of a diamond in a till sample from the Kuhmo region of Eastern Finland was the highlight of the results of your Company's diamond exploration programme in Finland over the half-year. Such an occurrence is an extremely rare event and is a major step forward in your Company's exploration programme.

Diamond Discovery

In January, following analysis, we announced the discovery of a diamond in samples from the Kuhmo region of Eastern Finland. The diamond is described by Dr Kinnunen of the Geological Survey of Finland ("GTK") as an excellent diamond; 0.8mm in diameter, forming a 12 sided, curved and twinned dodecahedron. It is a sparkling clear crystal with clean faces. The colour is greenish.

The diamond discovery, a very rare and tremendously exciting discovery, was highly significant not only in itself but also because it was allied with the discovery of high concentrations of Kimberlite Indicator Minerals ("KIMs"). These high concentrations of KIMs suggest that a diamondiferous kimberlite body may be present in the area which could be the source of the diamond discovery.

The KIMs reported included 13 purple to red peridotitic garnets (G9/10 Cr-pyropes), 3 orange mantle garnets, 2 Cr-diopside and 178 chromite grains in the 0.25 to 0.5 mm size range, plus 1 purple to red peridotitic garnet (G9/10 Cr-pyropes) and 6 chromite grains in the 0.5 to 1.0 mm size range. G9 and G10 garnets are important because they tend to be formed at similar temperatures and pressures to diamonds.

ODM Laboratory, the diamond laboratory which processed the sample, contributed to many of the major Canadian discoveries in the 1990's and early 2000's. It recovered less than 10 such naturally occurring diamonds during the processing and logging of more than 50,000 exploration till samples during that period, which indicates the rarity of the discovery.

In Eastern Finland your Company, in addition to its diamond discovery, has also previously discovered a kimberlite body, at Riihvaara, which it is following up and, at Seitapera, demonstrated the largest diamondiferous kimberlite body yet reported in Finland.

Diamond Mining Development Programme at Lahtojoki

Your Company last year acquired the Lahtojoki diamond deposit in the Kuopio-Kaavi region of Finland together with a Mining Permit for the deposit. During the half year your Company has been analysing, reviewing and updating the relevant technical and financial data relating to the deposit. During the exploration carried out during the half year by your Company a further six Kimberlite boulders were discovered suggesting that in addition to the Lahtojoki deposit there may be further diamond resource potential in the immediate area.

The Karelian Craton in Finland, which is your Company's primary exploration area, is comparable in size to the diamond rich Slave Lake Craton in Canada. In the Russian sector of the Karelian Craton two world class diamond deposits, Lomonosova and the Grib Pipe, have been discovered and are now in production. Your Company believes that the Finnish sector of the Craton also has the potential to host economic diamond deposits. The discovery of a diamond in a till sample collected during the half-year gives encouragement to your Company's diamond exploration programme in Finland.

Agreement with Rio Tinto Mining and Exploration

Your Company has an agreement with Rio Tinto Mining and Exploration ("Rio Tinto").

Under the agreement, Rio Tinto discloses to Karelian confidential information and physical geological samples related to exploration in Finland for the purpose of the Company considering that information in relation to its potential and existing 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 51 percent 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 2016 was €117,067 (2015 loss of €109,813) and the net assets as at 30 November 2016 were €8,370,091 (2015: €8,249,640).

Subsequent to the period end the Company raised £425,000 (€505,000) before expenses on 21 December 2016 to fund the advancement of the Company's principal diamond opportunities.

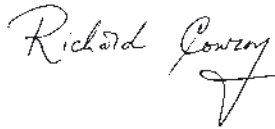
Directors and Staff

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

Outlook

The discovery of a diamond is a striking success on which we look to build as we move forward with your Company's diamond exploration and development programme in Finland.

Yours faithfully,



Professor Richard Conroy
Chairman

27th February 2017

Income Statement

for half-year ended 30 November 2016

	Six months ended 30 November 2016 (Unaudited) €	Six months ended 30 November 2015 (Unaudited) €	Year ended 31 May 2016 (Audited) €
OPERATING EXPENSES	(117,067)	(109,942)	(258,904)
Finance income – bank interest receivable	-	129	170
Finance costs – interest on shareholder loan	-	-	-
LOSS BEFORE TAXATION	(117,067)	(109,813)	(258,734)
Taxation	-	-	-
LOSS FOR THE YEAR	(117,067)	(109,813)	(258,734)
Loss per ordinary share – basic and diluted	(€0.0004)	(€0.0004)	(€0.0008)

Statement of Comprehensive Income

for half-year ended 30 November 2016

	Six months ended 30 November 2016 (Unaudited) €	Six months ended 30 November 2015 (Unaudited) €	Year ended 31 May 2016 (Audited) €
LOSS FOR PERIOD	(117,067)	(109,813)	(258,734)
Total income and expense recognised in other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD – ENTIRELY ATTRIBUTABLE TO EQUITYHOLDERS	(117,067)	(109,813)	(258,734)

Statement of Financial Position

as at 30 November 2016

	30 November 2016 (Unaudited) €	30 November 2015 (Unaudited) €	31 May 2016 (Audited) €
ASSETS	€	€	€
Non-current Assets			
Intangible assets	9,014,182	8,298,968	8,712,953
Investment in Subsidiary	4	4	4
Property, plant and equipment	-	-	-
	9,014,186	8,298,972	8,712,957
Current Assets			
Trade and other receivables	161,503	508,676	211,368
Cash and cash equivalents	49,224	69,122	341,737
	210,727	577,798	553,105
Total Assets	9,224,913	8,876,770	9,266,062
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	3,177,850	2,865,350	3,177,850
Share premium	6,791,581	6,786,177	6,791,581
Share based payments reserve	681,312	596,736	665,127
Retained losses	(2,280,652)	(1,998,623)	(2,163,585)
Total Equity	8,370,091	8,249,640	8,470,973
Non-current Liabilities			
Financial Liabilities	309,589	309,589	309,589
Total Non-current Liabilities	309,589	309,589	309,589
Current Liabilities			
Trade and other payables	545,233	317,542	485,500
Total Current Liabilities	545,233	317,542	485,500
Total Liabilities	854,822	627,130	795,089
Total Equity and Liabilities	9,224,913	8,876,770	9,266,062

Statement of Changes in Equity

for the half-year ended 30 November 2016

	Share Capital €	Share Premium €	Share- based Payment Reserve €	Retained Earnings (Deficit) €	Total Equity €
At 1 June 2016	3,177,850	6,791,581	665,127	(2,163,585)	8,470,973
Share-based payments	-	-	16,185	-	16,185
Loss for the period	-	-	-	(117,067)	(117,067)
At 30 November 2016	3,177,850	6,791,581	681,312	(2,280,652)	8,370,091
At 1 June 2015	2,865,350	6,786,177	570,256	(1,891,710)	8,330,073
Share-based payments	-	-	26,480	-	26,480
Loss for the period	-	-	-	(106,913)	(106,913)
At 30 November 2015	2,865,350	6,786,177	596,736	(1,998,623)	8,249,640

Cash Flow Statement

for the half-year ended 30 November 2016

	Six months ended 30 November 2016 (Unaudited) €	Six months ended 30 November 2015 (Unaudited) €	Year ended 31 May 2016 (Audited) €
Cash flows from operating activities			
Cash (used in)/generated by operations	(4,569)	(156,665)	170,029
Tax paid	-	-	-
Net cash (used in)/generated by operating activities	(4,569)	(156,665)	170,029
Cash flows from investing activities			
Investment in exploration and evaluation	(287,944)	(248,368)	(607,251)
Net cash used in investing activities	(287,944)	(248,368)	(607,251)
Cash flows from financing activities			
Issue of share capital (net of expenses)	-	-	317,904
Advances/(Repayment) of shareholder loan	-	-	(13,141)
Bank interest received	-	129	170
Net cash generated from financing activities	-	129	304,933
(Decrease)/Increase in cash and cash equivalents	(292,513)	(404,904)	(132,289)
Cash and cash equivalents at beginning of period	341,737	474,026	474,026
Cash and cash equivalents at end of period	49,224	69,122	341,737

Notes to the Financial Statements

for the half-year ended 30 November 2016

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 2016. The half-yearly financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements of the Company for the year ended 31 May 2016, which are available on the Company's website www.kareliandiamondresources.com. The auditor's report on those financial statements was unqualified and contained emphasis of matter paragraphs relating to the preparation of the accounts on the going concern basis and the recoverability of intangible assets.

2. Earnings per share

The calculation of the loss per ordinary share of €0.0004 (2015: loss €0.0004) is based on the loss for the financial period of €117,067 (2015: loss €109,813) and the weighted average number of ordinary shares in issue during the period of 317,785,034 (2015: 286,535,034).

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 2016.

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, 9 Merrion Square North, Dublin 2.