



Dear Shareholder

I have great pleasure in presenting your Company's half-yearly report for the six months ended 30 November 2008. During the period your Company continued to progress its diamond exploration programme in Finland with the objective of discovering a world-class diamond deposit in the Finnish sector of the Karelian Craton.

The Kuhmo Area

To date over 1,500m of core drilling in 24 holes has accurately delineated the Seitaperä pipe to over 115m in depth, and provided extensive intersections of Hypabyssal Kimberlite which contain significant quantities of mantle material, including Harzburgite and Lherzolite Mantle Peridotite containing G9 and G10 garnets. This material originates in the diamond stability zone of the Upper Mantle and demonstrates the capacity of the Seitaperä Kimberlite to carry diamond-bearing material. With its 6.9 hectare surface outline, Seitaperä represents the largest known kimberlite pipe in Finland, being approximately three times bigger than the next largest pipe.

The Seitaperä Kimberlite has yielded both highly positive mineral chemistry results (G9/G10 garnets and DI-chromites) and significant micro-diamond results. Further analysis of core samples is ongoing.

Historical work is limited in the Kuhmo area of Eastern Finland but, when taken together with our new results, demonstrates the area's potential for diamondiferous kimberlites. In addition to our existing claims and reservations in the area, we have also applied for licenses covering the other two known kimberlite occurrences, namely Kimberlites #18 (Havukkasuo) and #24 (Lentiira).

The Joensuu Area

Your Company also continues with its exploration programme in the Joensuu area of Eastern Finland where kimberlite indicator minerals, including a G10 Harzburgite garnet and eight G9 Lherzolite garnets, have been identified in recent sampling programmes. Taken in conjunction with previous results from the area the latest data increases the likelihood that the Joensuu area could contain a number of kimberlite pipes.

Finance and Results

The results for the six months ended 30 November 2008 are set out below. The loss for the period was €112,612 (2007: €101,500). During this period I have supported the working capital requirements of the Company and in the period under review have advanced aggregate loans amounting to €582,914.

The loans have been made under normal commercial terms in accordance with a letter of support dated 11 November 2008. This letter provides confirmation of support from me for the current financial year ending 31 May 2009. The loans have been and will continue to be made on normal commercial terms. The interest on the loans is currently accruing at a rate of 8.25 per cent per annum. The loans may be repaid at any time, but I have confirmed to the Company that I will not request repayment, other than in exceptional circumstances, within a period of less than one year.

The other directors consider, having consulted with the Company's Nominated Adviser, that the terms of the loan are fair and reasonable in so far as the Company's shareholders are concerned.

Directors and Staff

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

Yours faithfully



Professor Richard Conroy
Chairman

25 February 2009

**KARELIAN**
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Unaudited Balance Sheet

As At 30 November 2008

	30 November 2008 (Unaudited) €	30 November 2007 (Unaudited) €	31 May 2008 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	4,614,881	3,858,785	4,221,785
Financial assets	4	4	4
Property, plant and equipment	1,089	1,333	1,173
	4,615,974	3,860,122	4,222,962
Current Assets			
Trade and other receivables	46,708	4,146	50,441
Cash and cash equivalents	108,614	602,354	35,430
	155,322	606,500	85,871
Total Assets	4,771,296	4,466,622	4,308,833
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	128,685	62,320	87,626
Retained losses	(741,477)	(461,727)	(628,865)
Total Equity	3,793,826	4,007,211	3,865,379
Non-current Liabilities			
Trade and other payables:			
Amounts falling due after more than one year	582,914	329,867	271,135
Total non-current Liabilities	582,914	329,867	271,135
Current Liabilities			
Trade and other payables:			
Amounts falling due within one year	394,556	129,544	172,319
Total Current Liabilities	394,556	129,544	172,319
Total Liabilities	977,470	459,411	443,454
Total Equity and Liabilities	4,771,296	4,466,622	4,308,833

Unaudited Income Statement

For The Six Months Ended 30 November 2008

	Six months ended 30 November 2008 (Unaudited) €	Six months ended 30 November 2007 (Unaudited) €	Year ended 31 May 2008 (Audited) €
OPERATING EXPENSES	(112,783)	(109,917)	(280,720)
Other Income	171	8,417	12,082
Loss Before Taxation	(112,612)	(101,500)	(268,638)
Taxation	-	-	-
LOSS RETAINED FOR THE PERIOD	(112,612)	(101,500)	(268,638)
Loss per ordinary share – Basic and diluted	(€0.0019)	(€0.0018)	(€0.0046)

Unaudited Cash Flow Statement

For The Six Months Ended 30 November 2008

	Six months ended 30 November 2008 (Unaudited) €	Six months ended 30 November 2007 (Unaudited) €	Year ended 31 May 2008 (Audited) €
Cash generated from/(used by) operations	121,032	191	(196,010)
Tax paid	-	-	-
Net cash generated from/(used in) operating activities	121,032	191	(196,010)
Cash flows from investing activities			
Investment in mineral interest	(359,626)	(241,062)	(553,053)
Net cash used in investing activities	(359,626)	(241,062)	(553,053)
Cash flows from financing activities			
Shareholder loan advances	311,778	(701,431)	(760,163)
Issue of share capital	-	1,429,254	1,429,254
Net cash from financing activities	311,778	727,823	669,091
(Decrease)/Increase in cash and cash equivalents	73,184	486,952	(79,972)
Cash and cash equivalents at beginning of year	35,430	115,402	115,402
Cash and cash equivalent at year end	108,614	602,354	35,430