



KARELIAN
DIAMOND RESOURCES

Half-Yearly Report 2009

Dear Shareholder

I have great pleasure in presenting your Company's Half-Yearly results for the six-months ended 30 November 2009, a period when we largely focused on in-house analytical and interpretational work in relation to our diamond exploration in Eastern Finland.

During this period, sales of diamond jewellery showed welcome signs of recovery and, in the US, which accounts for around half of the market, improved sales were recently reported for the Thanksgiving and Christmas periods, whilst demand from India and China remains strong.

Sentiment also improved in the rough diamond market, where the resulting recovery in prices was also a feature, though they still remain below the highs of 2008. However, cutters and polishers are not likely to be able to build up inventories in the current climate in which debt is hard to come by. Our Seitaperä deposit in the Kuhmo area is the largest known diamondiferous kimberlite pipe in Finland and analytical work has indicated that it has potential to host large diamonds. In the Joensuu area, your Company has identified kimberlite indicator mineral trains and these increase the likelihood of kimberlites being present.

However, until stock market interest in junior diamond explorers shows sustained recovery, your Company has stepped back from undertaking further drilling and micro-diamond sampling/analysis at Seitaperä, both of which are expensive. Much of the 6.9ha pipe identified at Seitaperä remains untested, including the north-east extension.

Whilst conserving resources, we will continue to evaluate opportunities on our licences in the Kuhmo and Joensuu areas. We are also taking advantage of market conditions to evaluate other areas of interest

in Finland. To this end we have submitted a number of licence applications over other known kimberlites, both in the vicinity of Seitaperä and in the wider Kuhmo area.

Corporate

In December 2009, the shares of your Company were listed on the Irish Enterprise Exchange (IEX). Whilst the shares already attract the interest of many Irish investors, we believe that the IEX listing will facilitate dealings for investors in Ireland and elsewhere who normally trade shares in Euro.

Finance

The results for the six months ended 30 November 2009 are set out below. The loss for the period was €83,636 (2008: loss €112,612).

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 €70,772.

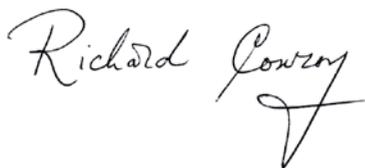
The loans have been made under normal commercial terms in accordance with a letter of support dated 11 November 2008. This letter provides confirmation of support from me for the current financial year ending 31 May 2010. The loans have been and will continue to be made on normal commercial terms. The 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, 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

25 February 2010

Unaudited Balance Sheet

As at 30 November 2009

	30 November 2009 (Unaudited) €	30 November 2008 (Unaudited) €	31 May 2009 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	5,062,451	4,614,881	4,883,865
Financial assets	4	4	4
Property, plant and equipment	1,005	1,089	1,089
	5,063,460	4,615,974	4,884,958
Current Assets			
Trade and other receivables	8,378	46,708	10,222
Cash and cash equivalents	14,037	108,614	7,666
	22,415	155,322	17,888
Total Assets	5,085,875	4,771,296	4,902,846
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	169,744	128,685	128,685
Retained losses	(906,627)	(741,477)	(822,991)
Total Equity	3,669,735	3,793,826	3,712,312
Non-current Liabilities			
Trade and other payables:			
Amounts falling due after more than one year	790,765	582,914	719,993
Total non-current liabilities	790,765	582,914	719,993
Current Liabilities			
Trade and other payables:			
Amounts falling due within one year	625,375	394,556	470,541
Total Current Liabilities	625,375	394,556	470,541
Total Liabilities	1,416,140	977,470	1,190,534
Total Equity and Liabilities	5,085,875	4,771,296	4,902,846

Unaudited Income Statement

For the Six Months Ended 30 November 2009

	Six months ended 30 November 2009 (Unaudited) €	Six months ended 30 November 2008 (Unaudited) €	Year ended 31 May 2009 (Audited) €
OPERATING EXPENSES	(83,641)	(112,783)	(194,342)
Other Income	5	171	216
LOSS BEFORE TAXATION	(83,636)	(112,612)	(194,126)
Taxation	-	-	-
LOSS RETAINED FOR THE PERIOD	(83,636)	(112,612)	(194,126)
Loss per ordinary share – Basic and diluted	(0.0014)	(0.0019)	(0.0032)

Unaudited Cash Flow Statement

For the Six Months Ended 30 November 2009

	Six months ended 30 November 2009 (Unaudited) €	Six months ended 30 November 2008 (Unaudited) €	Year ended 31 May 2009 (Audited) €
Cash generated by operations	114,185	121,032	118,876
Tax paid	-	-	-
Net cash generated by operating activities	114,185	121,032	118,876
Cash flows from investing activities			
Investment in mineral interests	(178,586)	(359,626)	(628,611)
Net cash used in investing activities	(178,586)	(359,626)	(628,611)
Cash flows from financing activities			
Shareholder loan advances	70,772	311,778	481,971
Net cash from financing activities	70,772	311,778	481,971
Increase/(Decrease) in cash and cash equivalents	6,371	73,184	(27,764)
Cash and cash equivalents at beginning of year	7,666	35,430	35,430
Cash and cash equivalent at year end	14,037	108,614	7,666