



Half-Yearly Report 2012

CHAIRMAN'S STATEMENT

Dear Shareholder,

I have great pleasure in presenting your Company's Interim Report for the six months ended 30 November 2012, a period of continued progress for your Company.

The recovery of microdiamonds in the mantle xenolith identified during this year's drilling confirmed that the xenolith encountered was diamondiferous. It is a further indication of the diamond potential of the Seitaperä diamondiferous kimberlite pipe, which at 6.9 hectares is the largest known kimberlite pipe discovered to date in Finland.

The microdiamonds most recently identified in your Company's Seitaperä pipe are white in colour, transparent and octahedral. The broken nature of the microdiamond suggests the possibility of larger stone sizes. This is of relevance both in the exploration of the pipe and its diamond and economic potential.

These results, in conjunction with the discovery by your Company of diamondiferous indicator minerals during a sampling programme at nearby Riihivaara, indicate that there is more than one source of diamonds in the Kuhmo area and enhances the overall diamond potential of the area in which they are located. Applications for further exploration licences in the area have therefore been made.

Work has continued on the integration of the extensive database made available to your Company under its agreement with Rio Tinto. Arising from this, applications have been made for additional exploration licences outside the Kuhmo area in this highly exciting Finnish region of the Karelian Craton.

Karelian's exploration programme in Finland is based on the existence in Finland of similar geology to that in the Russian sector of the Karelian Craton in which two world class diamond discoveries have been made – Lomonosov and the Grib Diamond Pipe - and it is your Company's aim to make a similar large scale diamond discovery in Finland.

Finance

The results for the six months ended 30 November 2012 are set out below. The loss for the period was €72,545 (2011: loss €84,691). The net assets of the Company at 30 November 2012 were €4,491,981 (2011: €4,609,197).

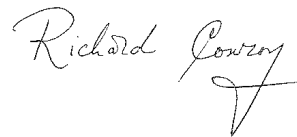
Outlook

Karelian looks forward to further progress with its diamond interests in Finland and continues to review other opportunities that may arise.

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 cursive script that reads "Richard Conroy". The signature is written in black ink and is positioned above the printed name and title.

Professor Richard Conroy
Chairman

28 February 2013

**INCOME STATEMENT
FOR HALF-YEAR ENDED 30 NOVEMBER 2012**

	Six months ended 30 November 2012 (Unaudited) €	Six months ended 30 November 2011 (Unaudited) €	Year ended 31 May 2012 (Audited) €
OPERATING EXPENSES	(65,531)	(77,907)	(194,582)
Finance income – bank interest receivable	-	5	97
Finance costs – interest on shareholder loan	(7,014)	(6,790)	(13,495)
LOSS BEFORE TAXATION	(72,545)	(84,692)	(207,980)
Taxation	-	-	-
LOSS FOR THE YEAR	(72,545)	(84,692)	(207,980)
Loss per ordinary share – basic and diluted	(€0.0008)	(€0.0009)	(€0.0023)

**STATEMENT OF COMPREHENSIVE INCOME
FOR HALF-YEAR ENDED 30 NOVEMBER 2012**

	Six months ended 30 November 2012 (Unaudited) €	Six months ended 30 November 2011 (Unaudited) €	Year ended 31 May 2012 (Audited) €
LOSS FOR PERIOD	(72,545)	(84,692)	(207,980)
Total income and expense recognised in other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD – ENTIRELY ATTRIBUTABLE TO EQUITYHOLDERS	(72,545)	(84,692)	(207,980)

**STATEMENT OF FINANCIAL POSITION
AS AT 30 NOVEMBER 2012**

	30 November 2012 (Unaudited) €	30 November 2011 (Unaudited) €	31 May 2012 (Audited) €
ASSETS			
Non-current Assets			
Intangible assets	6,581,906	6,154,525	6,390,694
Investment in Subsidiary	4	4	4
Property, plant and equipment	417	585	501
	6,582,327	6,155,114	6,391,199
Current Assets			
Trade and other receivables	43,574	8,551	47,382
Cash and cash equivalents	24,282	203,917	10,054
	67,856	212,468	57,436
Total Assets	6,650,183	6,367,582	6,448,635
EQUITY AND LIABILITIES			
Capital and Reserves			
Called up share capital	922,083	922,083	922,083
Share premium	4,621,158	4,621,158	4,621,158
Share based payments reserve	412,598	333,981	375,039
Retained losses	(1,463,858)	(1,268,025)	(1,391,313)
Total Equity	4,491,981	4,609,197	4,526,967
Non-current Liabilities			
Financial Liabilities	1,107,283	812,665	1,007,214
Total Non-current Liabilities	1,107,283	812,665	1,007,214
Current Liabilities			
Trade and other payables	1,050,919	945,720	914,454
Total Current Liabilities	1,050,919	945,720	914,454
Total Liabilities	2,158,202	1,758,385	1,921,668

Total Equity and Liabilities

6,650,183

6,367,582

6,448,635

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 NOVEMBER 2012**

	Share Capital	Share Premium	Share-based Payment Reserve	Retained Earnings (Deficit)	Total Equity
	€	€	€	€	€
At 1 June 2012	922,083	4,621,158	375,039	(1,391,313)	4,526,967
Share-based payments	-	-	37,559	-	37,559
Loss for the period	-	-	-	(72,545)	(72,545)
At 30 November 2012	922,083	4,621,158	412,598	(1,463,858)	4,491,981

	Share Capital	Share Premium	Share-based Payment Reserve	Retained Earnings (Deficit)	Total Equity
	€	€	€	€	€
At 1 June 2011	922,083	4,261,158	292,921	(1,183,333)	4,652,829
Share issue	-	-	-	-	-
Share premium	-	-	-	-	-
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 2012**

	Six months ended 30 November 2012 (Unaudited) €	Six months ended 30 November 2011 (Unaudited) €	Year ended 31 May 2012 (Audited) €
Cash flows from operating activities			
Cash generated/(used in) by operations	74,703	(56,031)	(58,631)
Tax paid	-	-	-
Net cash generated by/(used in) operating activities	74,703	(56,031)	(58,631)
Cash flows from investing activities			
Investment in exploration and evaluation	(160,544)	(360,965)	(509,687)
Net cash used in investing activities	(160,544)	(360,965)	(509,687)
Cash flows from financing activities			
Issue of share capital	-	-	-
Advances of shareholder loan	100,069	-	-
Repayment of shareholder loan	-	(125,000)	(125,000)
Bank interest received	-	5	97
Interest paid on shareholder loan	-	-	(42,633)
Net cash (used in)/generated from financing activities	100,069	(124,995)	(167,536)
(Decrease)/Increase in cash and cash equivalents	(14,228)	(541,991)	(735,854)
Cash and cash equivalents at beginning of period	10,054	745,908	745,908
Cash and cash equivalents at end of period	24,282	203,917	10,054

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 NOVEMBER 2012**

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 2012.

2. Earnings per share

The calculation of the loss per ordinary share of €0.0008 (2011 - €0.0009) is based on the loss for the financial year of €72,545 (2011 – €84,692) and the weighted average number of ordinary shares in issue during the year of 92,208,342 (2011 – 92,208,342).

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, 2012.

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, 10 Upper Pembroke Street, Dublin 2.