DIAMONDS NORTH RESOURCES LTD.

Consolidated Financial Statements
September 30, 2009
(expressed in Canadian dollars)

<u>**Index**</u> <u>Page</u>

Consolidated Financial Statements

NOTICE – No Auditor Review of the Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of Diamonds North Resources Ltd. ("the Company"), for the nine months ended September 30, 2009, have been prepared by management and have not been the subject of a review by the Company's external independent auditor.

DIAMONDS NORTH RESOURCES LTD.

Consolidated Balance Sheets
(expressed in Canadian dollars)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,343,751	$ 3,602,896
Cash, exploration funds (Note 13)	100,192	2,507,033
Marketable securities (Note 4 & 9(e))	548,239	498,635
Receivables (Notes 9(a) & 9(e))	348,330	954,898
Prepaid expenses	75,448	38,450
Field supplies	417,158	533,962
	5,833,118	8,135,874
Deposits	55,000	180,000
Mineral properties (Note 6)	42,864,939	41,181,730
Property, plant and equipment (Note 7)	172,517	225,692
	$ 48,925,574	$ 49,723,296
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 665,983	$ 1,209,526
Due to related parties (Note 9(d))	111,072	39,005
	777,055	1,248,531
Future income taxes	2,814,000	2,814,000
	3,591,055	4,062,531
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	50,132,486	52,734,458
Contributed surplus	919,641	468,519
Option compensation	2,968,580	3,331,206
Accumulated other comprehensive loss	(879,483)	(1,013,652)
Deficit	(7,806,705)	(9,859,766)
	45,334,519	45,660,765
	$ 48,925,574	$ 49,723,296

Nature of Operations and Going Concern (Note 1)
Commitment (Note 10)

Approved by the Directors: *"Mark Kolebaba"* Mark Kolebaba *"Bernard H. Kahlert"* Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Operations and Comprehensive Income
(expressed in Canadian dollars)

	For the Three Months Ended September 30th, 2009	For the Three Months Ended September 30th, 2008	For the Nine Months Ended September 30th, 2009	For the Nine Months Ended September 30th, 2008
General and administrative expenses				
Accounting and audit	$ 15,000	$ 15,000	$ 50,108	$ 51,475
Administration fees	9,600	9,600	28,800	28,800
Amortization	18,323	19,360	54,661	53,716
Annual report and meeting	(582)	1,435	11,382	14,568
Consulting fees	1,969	-	7,094	-
Directors' fees	10,000	10,000	30,000	30,000
Filing fees	505	2,828	10,555	18,713
Insurance	12,764	13,076	38,916	37,082
Interest	361	988	1,064	3,514
Investor relations and promotion	39,546	103,465	154,049	312,624
Legal fees	3,165	3,627	20,392	12,048
Office and miscellaneous	7,842	20,740	34,098	69,809
Rent and storage	29,850	23,344	93,729	69,533
Stock-based compensation (Note 8(e))	72,025	190,319	88,496	683,996
Transfer agent fees	2,670	4,497	9,562	16,799
Wages and benefits	121,309	153,983	442,737	434,824
	(344,347)	(572,262)	(1,075,643)	(1,837,501)
Other income (expenses)				
Interest income	7,883	85,170	85,475	204,090
Property investigation recoveries	6,833		31,337	17,566
Realized loss on marketable securities	(7,000)	-	(45,300)	-
Write down of mineral properties	-	(175,512)	-	(175,512)
Loss before income taxes	(336,631)	(662,604)	(1,004,131)	(1,791,357)
Future income tax recovery	-	-	3,057,192	1,734,200
Net income (loss) for the period	(336,631)	(662,604)	2,053,061	(57,157)
Other comprehensive gain (loss)				
Unrealized gain (loss) on marketable securities	1,900	(703,485)	182,891	(1,237,470)
Future income tax recovery	-	240,029	-	422,225
Other comprehensive income (loss)	1,900	(463,456)	182,891	(815,245)
Comprehensive income (loss)	$ (334,731)	$ (1,126,060)	$ 2,235,952	$ (872,402)
Income (loss) per share:				
- **Basic**	$ -	$ (0.01)	$ 0.03	$ -
- **Diluted**	$ -	$ (0.01)	$ 0.03	$ -
Weighted average number of common shares outstanding:				
- **Basic**	76,948,623	74,231,694	75,255,796	65,319,368
- **Diluted**	76,948,623	74,231,694	87,371,096	65,319,698

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Shareholders' Equity
(expressed in Canadian dollars)

	For the Nine Months Ended September 30, 2009			For the Year Ended December 31, 2008		
	Number of Shares			Number of Shares		
Share capital						
Balance at the beginning of the year	75,159,308	$	52,734,458	59,746,820	$	38,263,819
Common shares issued for cash						
Private placements, net of issue costs	2,888,000		455,220	14,048,799		14,800,811
Exercise of options	-		-	708,700		504,479
Exercise of warrants	-		-	654,989		577,621
Issued for other consideration						
Income tax effect on flow-through share renouncement (Note 8(c))	-		(3,057,192)	-		(1,734,200)
Exercise of options, stock-based compensation	-		-	-		321,928
Balance at the end of the period	78,047,308		50,132,486	75,159,308		52,734,458
Contributed surplus						
Balance at the beginning of the year			468,519			141,184
Fair value of broker warrants issued during the period			-			262,604
Fair value of options cancelled during the period			451,122			64,731
Balance at the end of the period			919,641			468,519
Option compensation						
Balance at the beginning of the year			3,331,206			2,844,831
Stock-based compensation expense			88,496			873,034
Reallocated to share capital			-			(321,928)
Reallocated to contributed surplus			(451,122)			(64,731)
Balance at the end of the period			2,968,580			3,331,206
Deficit						
Balance at the beginning of the year			(9,859,766)			(8,802,449)
Net income (loss) for the period			2,053,061			(1,057,317)
Balance at the end of the period			(7,806,705)			(9,859,766)
Accumulated other comprehensive loss						
Balance at the beginning of the year			(1,013,652)			518,574
Other comprehensive income			182,891			(1,532,226)
Reclassification of loss on sale of marketable securities			(48,722)			-
Balance at the end of the period			(879,483)			(1,013,652)
TOTAL SHAREHOLDERS' EQUITY	78,047,308	$	45,334,519	75,159,308	$	45,660,765

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Cash Flows
(expressed in Canadian dollars)

	For the Three Months Ended September 30th, 2009	2008	For the Nine Months Ended September 30th, 2009	2008
Cash flows from (applied to) operating activities				
Net income (loss) for the period	$ (336,631)	$ (662,604)	$ 2,053,061	$ (57,157)
Items not involving cash:				
Amortization	18,323	19,360	54,661	53,716
Stock-based compensation	72,025	190,319	88,496	683,996
Future income taxes	-	-	(3,057,192)	(1,734,200)
Realized loss on sale of marketable securities	7,000	-	45,300	-
Write down of mineral properties	-	175,512	-	175,512
	(239,283)	(277,413)	(815,674)	(878,133)
Net change in non-cash working capital items:				
Receivables	47,873	(329,216)	424,185	662,342
Prepaid expenses	(64,711)	251,576	(36,998)	(67,394)
Field supplies	116,804	(539,632)	116,804	(296,531)
Deposits	125,000	-	125,000	(250,000)
Accounts payable and accrued liabilities	129,829	(5,125)	92,518	468,153
Due to related parties	30,813	(16,141)	72,067	244
	146,325	(915,951)	(22,098)	(361,319)
Cash flows from (applied to) investing activities				
Cash, exploration funds	1,221,409	(1,687,443)	2,406,841	2,237,316
Proceeds from sale of marketable securities, net	24,780	-	39,265	-
Mineral property acquisition and exploration costs, net of recoveries	(1,476,675)	(7,157,026)	(1,500,826)	(15,682,938)
Accounts payable and accrued liabilities related to mineral properties	246,159	63,476	(636,061)	783,040
Loan and interest receivable	-	(3,781)	-	(11,263)
Purchase of equipment	(706)	(2,112)	(1,486)	(127,567)
	14,967	(8,786,886)	307,733	(12,801,412)
Cash flows from financing activity				
Shares issued for cash, net of issue costs	455,220	15,068,436	455,220	16,150,536
Shares subscription	-	(927,950)	-	-
	455,220	14,140,486	455,220	16,150,536
Increase in cash and cash equivalents	616,512	4,437,649	740,855	2,987,805
Cash and cash equivalents, beginning of period	3,727,239	2,590,009	3,602,896	4,039,853
Cash and cash equivalents, end of period	$ 4,343,751	$ 7,027,658	$ 4,343,751	$ 7,027,658

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

1. Nature of Operations and Going Concern

The Company was incorporated on February 13, 2002 pursuant to the *Company Act* (British Columbia) and on July 15, 2002 the common shares of the Company were listed for trading on the TSX Venture Exchange ("Exchange"). The Company is in the process of actively exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company is considered to be in the exploration stage and does not have operating cash flow.

The recoverability of amounts shown for mineral property interests in Note 6 is dependent upon one or more of the following:

- the discovery of economically recoverable reserves;
- the ability of the Company to obtain financing to complete development; and
- future profitable production from the properties or proceeds from disposition.

For the nine months ended September 30, 2009, the Company reported net income of $2,053,061, largely due to a future income tax adjustment. However, the Company has a history of losses and an accumulated deficit of $7,806,705. Management believes its $5,056,063 working capital is sufficient to meet administrative, exploration and property obligations for the 2009 year.

For 2009, management exploration budget will be funded by the remaining flow-through expenditure obligations carried over from the 2008 financing. In 2008, the Company implemented cash preservation measures whereby, senior employees, a consultant have mutually agreed to defer 10% of their salaries or fees and the independent directors agreed to defer their retainer. These amounts will accrue as a debt owing by the Company and shall not bear interest. At the Company's election, this debt can be satisfied in cash and/or common shares.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable. These consolidated financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported expenses, and the balance sheet classifications used, that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations, and that such adjustment could be material.

2. Significant Accounting Policies

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the functional currency is the Canadian dollar. These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiary, which has been inactive since its incorporation on December 17, 2003. All material intercompany transactions and balances have been eliminated.

2. Significant Accounting Policies (continued)

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas of estimate include determining the fair value of marketable securities, collectability of receivables, the impairment of assets and rates for amortization, accrued liabilities, future income tax balances and the inputs used in calculating stock-based compensation. While management believes the estimates are reasonable, actual results may differ from those estimates and may impact future results of operations and cash flows.

(c) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities or redeemable features of three months or less from the date of acquisition, and readily convertible to known amounts of cash without a significant risk of change in value.

3. Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments.

(a) Goodwill and Intangible Assets

CICA Section 3064 replaces Section 3062 “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section did not impact the Company.

New Accounting Pronouncements Not Yet Adopted:

Below is a summary of new Canadian GAAP pronouncements which may affect the financial disclosure and results of operations of the Company for future interim and annual periods.

(b) Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Section 1582 “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602 “Non-controlling Interests” which replace Section 1581 “Business Combinations” and Section 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combinations accounting standard under IFRS (defined below). Section 1582 is applicable for the Company’s business combinations with acquisitions dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. The Company is evaluating these new standards.

(expressed in Canadian dollars)

3. Changes in Accounting Policies (continued)

(c) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

4. Marketable Securities

		Cost		Unrealized Loss		Fair Value
Available-for-sale securities at September 30, 2009	$	1,192,231	$	(643,992)	$	548,239

Included in the carrying value of available-for-sale marketable securities are 525,000 common shares of Uranium North Resources Corp. ("Uranium North"), subject to escrow. As escrow shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become "free trading", the fair value will be determined at quoted market prices. At September 30, 2009, the closing price of Uranium North was $0.085 per share. The marketable securities are common shares in other junior exploration companies received via property or option agreements and from the conversion of the Uranium North loan.

5. Financial Instruments, Risk Management and Capital Disclosures

(a) Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, cash exploration funds, receivables, deposits, accounts payable and accrued liabilities, and amounts due to related parties and are recognized on the balance sheet at their fair value which approximated their carrying value due to their short-term nature. Marketable securities are carried at their fair value based on quoted market prices in an active market with the exception of shares subject to escrow, as disclosed in Note 4.

(b) Risk management

Credit Risk

The Company is exposed to credit risk with respect to its cash, cash equivalents, cash exploration funds and receivables. To minimize this risk, cash, cash equivalents and cash exploration funds have been placed with major Canadian financial institutions. Receivables include GST which has low risk of default.

Over the last eighteen months, credit risk increases, as service providers may not always be able to perform in accordance with the terms of a contract. To help mitigate this risk with contracts that require large advances, the Company may place funds in-trust with a lawyer.

5. Financial Instruments, Risk Management and Capital Disclosures (continued)

Equity Market Risk

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available for sale.

Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet annual business requirements, after taking into account administrative, property holding and exploration budgets, against cash and cash equivalent holdings. As the Company does not have operating cash flow, the Company has relied primarily on equity financings to meet its capital requirements.

Over the last eighteen months, liquidity risk increases, as other things being equal, the price of an asset will be reduced if the holder cannot sell the asset immediately. Included in marketable securities are large share positions in junior resource companies, which could be difficult to sell in depressed markets.

Foreign Exchange Risk

The Company is not exposed to significant foreign exchange risk as it operates in Canada and makes few US dollar purchases.

(c) Capital management

The Company considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern, see Note 1. As an exploration stage company, the Company is currently unable to self-finance its operations.

The Company's share capital is not subject to any external restriction and the Company did not change its approach to capital management during the period.

(expressed in Canadian dollars)

6. Mineral Properties

As at September 30, 2009, the Company's mineral properties are comprised of properties located in Canada. Expenditures incurred on mineral properties are as follows:

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	Tunerq, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Other Properties (1)	Total
Balance at December 31, 2008	$ 22,266,482	$ 370,686	$ 163,246	$ 397,141	$ 1,276,569	$ 4,441,629	$ 2,513,877	$ 9,003,735	$ 526,110	$ 222,255	$ 41,181,730
Additions during the period:											
Acquisition costs	-	-	-	-	-	-	-	-	-	17,666	17,666
Exploration:											
Airborne geophysics	26,073	3,860	-	380	1,139	-	-	4,993	1,501	121,452	159,398
Camp costs	262,497	-	449	47,000	37,847	1,033	3,663	14,845	-	243	367,577
Camp heli. (incl. fuel)	229,068	-	-	23,597	10,763	-	-	543	-	-	263,971
Drilling - Core	205,402	-	-	-	-	-	-	-	-	-	205,402
Drilling - Percussion	471,924	-	-	-	-	-	-	(650)	-	-	471,274
Geochemistry	23,892	-	-	4,706	-	-	2,530	2,951	-	-	34,079
Geology	99,875	21,319	3,190	5,644	10,110	1,552	7,055	34,713	1,511	40,510	225,479
Ground geophysics	100,324	975	-	-	2,135	-	-	3,300	-	31	106,765
Permitting	5,476	535	535	7,505	-	-	535	2,139	-	1,955	18,680
Prospecting	144,920	6,959	-	-	-	-	-	79,413	-	29,129	260,421
Property	43,331	10,494	3,579	15,402	-	-	-	-	10,847	6,846	90,499
	1,612,782	44,142	7,753	104,234	61,994	2,585	13,783	142,247	13,859	200,166	2,203,545
Less:											
Recoveries	(371,556)	(79,467)	-	(47,515)	-	(5,716)	(32,479)	-	-	(1,269)	(538,002)
Net additions	1,241,226	(35,325)	7,753	56,719	61,994	(3,131)	(18,696)	142,247	13,859	216,563	1,683,209
Balance at September 30, 2009	$ 23,507,708	$ 335,361	$ 170,999	$ 453,860	$ 1,338,563	$ 4,438,498	$ 2,495,181	$ 9,145,982	$ 539,969	$ 438,818	$ 42,864,939

1. In 2008, 'Northern Recon was disclosed as a separate project and is now combined under 'Other Properties'.

6. Mineral Properties (continued)

(a) Amaruk Project, Nunavut

The Amaruk property is in close proximity to the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other diamond exploration companies as described below. The property is subject to a 2% gross overriding royalty ("GOR") on diamonds and a 2% net smelter royalty ("NSR") on other minerals except gold, payable to BHP Billiton Diamonds Inc.

(b) Ualliq - Amaruk Project, Nunavut

On July 26, 2006, the Company and International Samuel Exploration Corp. ("International Samuel") entered into an agreement covering an area predominantly within the western portion of the Company's Amaruk Project. International Samuel has an option to earn a 30% interest in the Ualliq project by issuing 100,000 common shares (post consolidation of 20 to 1) to the Company (received) and incurring $3,000,000 in expenditures on the property on or before December 31, 2010 (one year extension granted, previously December 31, 2009). In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

In 2007, the Company and International Samuel entered into an agreement to form a 50/50 partnership on claims that were staked called the Ualliq West property and contiguous with the Amaruk and Ualliq properties. The Company is the project operator.

(c) Sakari - Amaruk Project, Nunavut

On July 31, 2006, the Company and Shear Minerals Ltd. ("Shear") entered into an agreement covering an area within the southwest portion of the Company's Amaruk Project. Shear earned a 50% interest in the Sakari project by making a payment of $97,000 in refundable deposits and incurring $185,940 in expenditures on the property before June 30, 2007. The Company is the project operator.

(d) Siku - Amaruk Project, Nunavut

On October 4, 2006, the Company and Arctic Star Diamond Corp. ("Arctic Star") entered into an agreement covering an area within the southwest portion of the Company's Amaruk Project. Arctic Star earned a 50% interest in the Siku project by issuing 1,500,000 shares to the Company, funding approximately $956,000 in bonds on the claims and incurring $2,500,000 in expenditures on the property on or before September 30, 2009. In addition, for each of the first five kimberlite bodies discovered on the property, Arctic Star shall issue 100,000 common shares to the Company. The Company is the project operator.

(e) Tunerq – Amaruk Project, Nunavut

The Company holds a 100% interest in the Tunerq nickel prospect located on the Amaruk property.

(f) Victoria Island, Nunavut and Northwest Territories

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Holman, Mariner, Washburn, Wellington and White Ice projects, which are collectively referred to as "Victoria Island". The projects consist of various claims and permits, which are either adjoined or are within close proximity of each other. The Company views the land position as a single package but may re-parcel portions of Victoria Island into individual projects, in the future. Portions of the Victoria Island properties are subject to a 1% GOR and Washburn is subject to a 2% GOR, both on diamonds.

6. Mineral Properties (continued)

(g) Banks Island, Northwest Territories

The Company holds a 100% interest in the Banks Island property.

On July 5, 2007, the Company acquired Majescor Resources Inc. (“Majescor”) 50% interest in the Banks Island project in consideration for 1,000,000 common shares of the Company, a two-year warrant to purchase up to 1,000,000 common shares at $1.50 per share (expired) and a 1.5% royalty on diamonds, metals and other minerals of which half of the royalty may be purchased by the Company at anytime for $1,000,000.

(h) Hepburn, Northwest Territories

The Company holds a 100% interest in the Hepburn property located approximately 300 kilometres north of Yellowknife.

(i) Kidme, Northwest Territories

The Company holds a 100% interest in the Kidme project. In 2008, the Company purchased SouthernEra Diamonds Inc. the co-owner of the property’s 60% interest for $20,000.

(j) Other properties

The Company holds interests in various other properties located in Nunavut and the Northwest Territories.

(i) Arnaq, Nunavut

The Arnaq property is located immediately south of the Company's Amaruk Project. Under an agreement dated July 8, 2004, with Kennecott Canada Exploration Inc. (“Kennecott”), Kennecott holds a 74% interest and the Company holds the remaining 26% interest. At September 30, 2009, the carrying value of the Arnaq project is $70,942.

(ii) Thelon, Nunavut and Northwest Territories

As part of the Uranium North arrangement completed in 2006, the Company transferred substantially all of its interest in the property pursuant to a memorandum of understanding dated April 14, 2005, with Pathfinder Resources Ltd. (“Pathfinder”). In August 2006, Pathfinder amalgamated with Bayswater Uranium Corporation. The Company retains the right to a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

(iii) Northern Recon, Nunavut and Northwest Territories

The Northern Recon Initiative comprises various Canadian grassroots projects within the Company's property portfolio. In 2004, the Company acquired exploration permits for these projects and the Company continues to develop and evaluate these projects. In 2006, some projects were transferred to Uranium North whereby the Company retains varying royalties, which include a 2% GOR with respect to diamonds, a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

(expressed in Canadian dollars)

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	2009 Net Book Value
Furniture and fixtures	$ 36,167	$ 24,788	$ 11,379
Computer equipment	113,376	74,681	38,695
Computer software	10,439	8,182	2,257
Equipment	220,126	105,675	114,451
Leasehold improvements	35,882	30,147	5,735
	$ 415,990	$ 243,473	$ 172,517

Leasehold improvements costs are in connection with the office premises (Note 10).

8. Share Capital

(a) Authorized

Unlimited common shares without par value.

(b) Private placement

On August 4th, 2009, the Company completed a non-brokered private placement of $462,080 from the issuance of 2,888,000 flow-through shares at $0.16 per share. Finders' fees were paid consisting of $3,800 in cash. All securities are subject to a hold period which expires on December 5, 2009.

(c) Income tax effect on flow-through share renouncements

In February 2009, the Company renounced $10,190,639 of exploration expenditures under its flow-through share program, resulting in a future tax liability of $3,057,192, which is deducted from share capital.

(d) Stock options

Options to purchase common shares have been granted to directors, officers, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. Under the Company's stock option plan, the Company may grant stock options for the purchase of up to 15,000,000 common shares. Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. As at September 30, 2009, the Company had stock options outstanding for the purchase of 8,792,000 common shares which 7,179,500 stock options were exercisable at September 30, 2009.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	7,649,000	$ 0.87
Granted	2,150,000	$0.18
Expired	(1,007,000)	$ 0.94
Outstanding at September 30, 2009	8,792,000	$ 0.71

(expressed in Canadian dollars)

8. Share Capital (continued)

(d) Stock options (continued)

The following summarizes information about stock options outstanding at September 30, 2009:

Number of Shares	Exercise Price	Expiry Date
300,000	$ 0.858	October 18, 2009
50,000	$ 0.858	January 27, 2010
247,500	$ 0.987	March 22, 2010
550,000	$ 0.729	May 17, 2010
1,558,000	$ 0.848	April 12, 2011
113,500	$ 1.021	July 13, 2011
1,565,000	$ 0.770	February 27, 2012
600,000	$ 1.010	May 3, 2012
337,000	$ 1.030	May 9, 2012
1,251,000	$ 0.880	February 14, 2013
70,000	$ 0.820	September 2, 2013
2,150,000	$ 0.175	May 28, 2014
8,792,000		

Subsequent to September 30, 2009, 300,000 stock options with an exercise price $0.858 expired unexercised, on October 18, 2009.

(e) Stock-based and option compensation

For stock options which vested during the period, the compensation expense is estimated using the Black-Scholes option pricing model using a weighted average fair value of $0.13 per option granted based on the following weighted average assumptions:

	2009
Risk-free interest rate	2.45%
Expected dividend yield	-
Expected stock price volatility	98%
Expected option life in years	5.00

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. The following summarizes information about stock-based compensation, if it had been allocated to the statement of operations by expense categories:

		2009
Accounting and audit	$	4,028
Administration fees		2,512
Consulting fees		1,675
Directors' fees		47,778
Investor relations and promotion		4,187
Wages and benefits		28,316
Stock-based compensation expense	$	88,496

(expressed in Canadian dollars)

8. Share Capital (continued)

(f) Warrants

At September 30, 2009, the Company had outstanding warrants to purchase an aggregate of 2,778,300 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2008	Issued	Exercised	Expired	Outstanding at September 30, 2009
$0.30	January 9, 2010*	1,916,800	-	-	-	1,916,800
$0.30	January 9, 2010*	608,000	-	-	-	608,000
$1.30	July 7, 2009	24,000	-	-	(24,000)	-
$1.30	July 7, 2009	655,038	-	-	(655,038)	-
$0.30	January 9, 2010*	253,500	-	-	-	253,500
$1.30	July 9, 2009	28,620	-	-	(28,620)	-
		3,485,958	-	-	(707,658)	2,778,300

*The Company extended the expiry of the above warrants from July 7, 2009 to January 9, 2010 and repriced the warrants from $1.30 to $0.30. The warrants are subject to a 30 day exercise period should the closing price of the Company's shares exceed $0.40 for ten consecutive trading days.

Subsequent to September 30, 2009, 10,000 warrants with an exercise price of $0.30 were exercised for gross proceeds of $3,000.

9. Related Party Transactions

Related party transactions are in the normal course of business, recorded at the exchange amount and bear no interest or stated terms of repayment. In addition to items disclosed elsewhere in these statements, the Company had the following related party transactions and balances:

(a) Included in receivables is $29,583 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.

(b) For the nine months ended September 30, 2009, an officer of the Company has been paid $28,800 for corporate secretarial services, which has been expensed as administration fees.

(c) For the nine months ended September 30, 2009, a director of the Company has been paid $14,540 for geological consulting, which has been charged to mineral properties.

(d) Amounts due to related parties, totalling $111,072 , consist of deferred salaries and retainer, fees and reimbursement of expenses owed to directors and officers of the Company.

(e) As at September 30, 2009, the Company held 11.3% of the issued common shares of Uranium North. Included in receivables is $25,274 owed by Uranium North, a company related by virtue of other common directors, for mineral property, administrative and office costs.

(expressed in Canadian dollars)

10. Commitment

On December 18, 2003, the Company entered into an agreement for the lease of new office premises for a six-year period, commencing on July 1, 2004 and expiring on June 30, 2010. The cost of the entire premises is shared amongst several companies in proportion to the area occupied. Two of the companies are related by virtue of common directors. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately $98,000 per year.

11. Segmented Information

The Company has one operating segment, being mineral exploration, and all assets of the Company are located in Canada.

Revenues for the period are derived from interest on deposits and mineral property transactions, both earned in Canada.

12. Supplemental Cash Flow Information

		2009
Financing activities		
Income tax effect on flow-through share renouncement	$	(3,057,192)
Receivables included in mineral properties recoveries		(182,383)
Accounts payable included in mineral properties		636,061
	$	(2,603,514)
Cash and cash equivalents		
Cash	$	1,335,370
Cash equivalents		3,008,381
	$	4,343,751
Other cash flow information:		
Interest received	$	78,324
Interest paid	$	-
Income taxes paid	$	-

13. Income Taxes

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through share gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances, which have not been spent and are held by the Company for such expenditures. As at September 30, 2009, the amount of flow-through proceeds remaining to be expended is $100,192.