

## **DIAMONDS NORTH RESOURCES LTD.**

**Consolidated Financial Statements**  
**June 30, 2010**  
**(expressed in Canadian dollars)**

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### **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 six months ended June 30, 2010, 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  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,923,514	\$ 3,260,817
Cash, exploration funds (Note 13)	436,000	-
Marketable securities (Notes 4, 5 & 9(e))	465,375	622,560
Receivables (Notes 9(a) & 9(e))	359,967	339,884
Prepaid expenses	55,348	39,453
	4,240,204	4,262,714
Deposits	85,634	55,000
Mineral properties (Note 6)	40,603,785	40,985,953
Property, plant and equipment (Note 7)	272,102	153,930
	\$ 45,201,725	\$ 45,457,597
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 152,527	\$ 98,163
Due to related parties (Note 9(d))	55,204	98,987
	207,731	197,150
Future income taxes	4,177,000	4,177,000
	4,384,731	4,374,150
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	50,995,762	50,644,677
Contributed surplus	3,525,134	3,525,134
Option compensation	1,129,457	435,112
Accumulated other comprehensive loss	(514,527)	(626,457)
Deficit	(14,318,832)	(12,895,019)
	40,816,994	41,083,447
	\$ 45,201,725	\$ 45,457,597

Nature of Operations and Going Concern (Note 1)  
Commitment (Note 10)  
Subsequent Events (Note 14)

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 Loss  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	For the Three Months Ended June 30 <sup>th</sup>		For the Six Months Ended June 30 <sup>th</sup>	
	2010	2009	2010	2009
<b>General and administrative expenses</b>				
Accounting and audit	\$ 9,290	\$ 20,108	\$ 21,750	\$ 35,108
Administration fees	9,600	9,600	19,200	19,200
Amortization	13,779	18,234	25,689	36,338
Annual report and meeting	10,154	11,964	12,052	11,964
Consulting fees	1,761	2,318	2,761	5,125
Directors' fees	15,625	10,000	31,250	20,000
Filing fees	4,958	3,250	12,456	10,050
Insurance	12,764	13,076	25,527	26,152
Interest	549	302	1,141	703
Investor relations and promotion	48,842	44,173	99,201	114,503
Legal fees	1,602	11,093	5,385	17,227
Office and miscellaneous	7,076	7,868	18,972	26,256
Rent and storage	38,374	28,455	69,586	63,879
Stock-based compensation (Note 8(d))	315,724	8,235	700,450	16,471
Transfer agent fees	7,342	4,568	9,484	6,892
Wages and benefits	125,641	121,457	262,410	321,428
	(623,081)	(314,701)	(1,317,314)	(731,296)
<b>Other income (expenses)</b>				
Interest income	2,837	42,051	7,356	77,592
Mineral property transactions	-	-	27,031	-
Property investigation recoveries	(1,029)	24,504	(4,248)	24,504
Realized loss on marketable securities	-	(38,300)	(244,126)	(38,300)
Loss on sale of equipment	(8,032)	-	(8,032)	-
<b>Loss before income taxes</b>	(629,305)	(286,446)	(1,539,333)	(667,500)
<b>Future income tax recovery</b>	-	-	115,520	3,057,192
<b>Net income (loss) for the period</b>	(629,305)	(286,446)	(1,423,813)	2,389,692
<b>Other comprehensive gain (loss)</b>				
Reversal of previously recognized unrealized losses	-	-	241,616	-
Unrealized gain (loss) on marketable securities	(186,207)	199,357	(129,686)	180,991
<b>Other comprehensive income (loss)</b>	(186,207)	199,357	111,930	180,991
<b>Comprehensive income (loss)</b>	\$ (815,512)	\$ (87,089)	\$ (1,311,883)	\$ 2,570,683
<b>Basic and diluted income (loss) per share</b>				
- <b>Basic</b>	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.03
- <b>Diluted</b>	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ 0.03
<b>Weighted average number of common shares outstanding</b>				
- <b>Basic</b>	78,156,512	75,159,308	78,142,122	75,159,308
- <b>Diluted</b>	78,156,512	75,159,308	78,142,122	87,982,266

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Shareholders' Equity  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	For the Six Months Ended June 30, 2010		For the Year Ended December 31, 2009	
	Number of Shares		Number of Shares	
<b>Share capital</b>				
Balance at the beginning of the year	78,057,308	\$ 50,644,677	75,159,308	\$ 52,734,458
Common shares issued for cash				
Private placements, net of issue costs			2,888,000	455,220
Exercise of options	50,000	8,750	-	-
Exercise of warrants	52,500	15,750	10,000	3,000
Share subscription		436,000	-	-
Issued for other consideration				
Income tax effect on flow-through share renouncement (Note 8(b))	-	(115,520)	-	(2,548,001)
Exercise of options, stock-based compensation	-	6,105	-	-
Balance at the end of the period	78,159,808	50,995,762	78,057,308	50,644,677
<b>Contributed surplus</b>				
Balance at the beginning of the year		3,525,134		468,519
Fair value of options cancelled during the period		-		3,056,615
Balance at the end of the period		3,525,134		3,525,134
<b>Option compensation</b>				
Balance at the beginning of the year		435,112		3,331,206
Stock-based compensation expense		700,450		160,521
Reallocated to share capital		(6,105)		-
Reallocated to contributed surplus		-		(3,056,615)
Balance at the end of the period		1,129,457		435,112
<b>Deficit</b>				
Balance at the beginning of the year		(12,895,019)		(9,859,766)
Net loss for the period		(1,423,813)		(3,035,253)
Balance at the end of the period		(14,318,832)		(12,895,019)
<b>Accumulated other comprehensive loss</b>				
Balance at the beginning of the year		(626,457)		(1,013,652)
Other comprehensive income		111,930		387,195
Balance at the end of the period		(514,527)		(626,457)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	78,159,808	\$ 40,816,994	78,057,308	\$ 41,083,447

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Cash Flows  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	For the Three Months Ended June 30 <sup>th</sup>		For the Six Months Ended June 30 <sup>th</sup>	
	2010	2009	2010	2009
<b>Cash flows from (applied to) operating activities</b>				
Net income (loss) for the period	\$ (629,305)	\$ (286,446)	\$ (1,423,813)	\$ 2,389,692
Items not involving cash:				
Amortization	13,779	18,234	25,689	36,338
Stock-based compensation	315,724	8,235	700,450	16,471
Future income taxes	-	-	(115,520)	(3,057,192)
Realized loss on sale of marketable securities	-	38,300	244,126	38,300
Loss on sale of equipment	8,032	-	8,032	-
	(291,770)	(221,677)	(561,036)	(576,391)
Net change in non-cash working capital items:				
Receivables	(7,112)	(39,252)	54,711	376,312
Prepaid expenses	(31,298)	17,543	(15,895)	27,713
Accounts payable and accrued liabilities	60,638	(14,768)	42,835	(37,311)
Due to related parties	26,169	25,181	(43,783)	41,254
	(243,373)	(232,973)	(523,168)	(168,423)
<b>Cash flows from (applied to) investing activities</b>				
Cash, exploration funds	(436,000)	793,522	(436,000)	1,185,432
Proceeds from sale of marketable securities, net	-	14,485	24,990	14,485
Proceeds from sale of equipment	7,000	-	7,000	-
Mineral property acquisition and exploration costs, net of recoveries	643,717	(125,359)	307,374	(24,151)
Accounts payable and accrued liabilities related to mineral properties	(192,177)	82,386	11,528	(882,220)
Deposits	(30,634)	-	(30,634)	-
Leasehold improvements	(158,893)	-	(158,893)	-
Purchase of equipment	-	(780)	-	(780)
	(166,987)	764,254	(274,635)	292,766
<b>Cash flows from financing activity</b>				
Shares issued for cash, net of issue costs	4,375	-	24,500	-
Share subscription	436,000	-	436,000	-
	440,375	-	460,500	-
<b>Increase (decrease) in cash and cash equivalents</b>	30,015	531,281	(337,303)	124,343
<b>Cash and cash equivalents, beginning of period</b>	2,893,499	3,195,958	3,260,817	3,602,896
<b>Cash and cash equivalents, end of period</b>	\$ 2,923,514	\$ 3,727,239	\$ 2,923,514	\$ 3,727,239

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
June 30, 2010  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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### 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 six months ended June 30, 2010, the Company reported net loss of \$1,423,813. The Company has a history of losses and an accumulated deficit of \$14,318,832. Management believes its \$4,032,473 working capital is sufficient to meet administrative, exploration and property obligations for the 2010 year. Subsequent to June 30, 2010, the Company completed a \$1.7 million non-brokered flow-through financing (Note 14).

In 2008, the Company implemented a cash preservation measure whereby, senior employees and a consultant mutually agreed to defer 10% of their salaries or fees and the independent directors agreed to defer their retainer. These amounts accrued as a debt owing by the Company and did not bear interest. At the Company's election, this debt can be satisfied in cash and/or common shares. The debts arising out of 2008 and 2009 have been paid. Commencing January 1, 2010, 10% of the senior employees' salaries will be deferred under the terms above with repayment to be reviewed later in the year.

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 (“GAAP”) 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
June 30, 2010  
(Unaudited – See Notice)  
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### 2. Significant Accounting Policies (continued)

#### (b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 of three months or less or redeemable features 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

#### New Accounting Pronouncements Not Yet Adopted:

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.

#### (a) 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.

#### (b) 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
June 30, 2010  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

### 4. Marketable Securities

	Cost	Unrealized Loss	Fair Value
Available-for-sale securities at June 30, 2010	\$ 873,232	\$ (407,857)	\$ 465,375

Marketable securities are common shares in other junior exploration companies received via property or option agreements and from the conversion of the Uranium North Resources Corp. (“Uranium North”) loan in 2008.

### 5. Financial Instruments, Risk Management and Capital Disclosures

#### (a) Fair value of financial instruments

The Company’s cash and cash equivalents and marketable securities are recognized on the balance sheet at their fair value. The carrying value of receivables, accounts payable and accrued liabilities, and due to related parties approximates their fair value due to their short-term nature. Marketable securities are carried at their fair value based on quoted market prices on the TSX Venture Exchange.

The following table illustrates the classification of the Company’s financial instruments carried at fair value within the fair value hierarchy as at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,923,514	\$ -	\$ -	\$ 2,923,514
Cash, exploration funds	436,000	-	-	436,000
Marketable securities	-	465,375	-	465,375
	\$ 3,359,514	\$ 465,375	\$ -	\$ 3,824,889

As it may be difficult to sell the Company’s marketable securities position without impacting the quoted market price and the market may not be considered active, the marketable securities have been classified as Level 2.

#### (b) Risk management

##### *Credit Risk*

The Company is exposed to credit risk with respect to its cash and cash equivalents, and receivables. To minimize this risk, cash and 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 two years, 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
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### 5. Financial Instruments, Risk Management and Capital Disclosures (continued)

#### (b) Risk management (continued)

##### *Equity Market Risk*

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available for sale and carried at quoted market prices.

##### *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 holdings 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 two years, 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 low volume trading.

##### *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 consist of the components of 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
 June 30, 2010  
 (Unaudited – See Notice)  
 (expressed in Canadian dollars)

### 6. Mineral Properties

As at June 30, 2010, 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	Victoria Island NU/NWT	Hepburn, NWT	Kidme, NWT	Other Properties	Total
Balance at December 31, 2009	\$ 23,986,961	\$ 365,158	\$ 171,658	\$ 450,562	\$ 1,356,804	\$ 4,440,531	\$ 9,225,385	\$ 539,969	\$ 448,925	\$ 40,985,953
Exploration:										
Camp costs	148,422	-	-	-	323,613	315	-	-	-	472,350
Camp heli. (incl. fuel)	8,920	-	-	-	-	-	-	-	17,840	26,760
Drilling - Core	595	-	-	-	24,000	-	-	-	-	24,595
Drilling - Percussion	49,545	295	-	590	-	-	295	-	-	50,725
Geochemistry	-	126	-	-	2,533	-	8,641	-	-	11,300
Geology	89,299	8,637	-	1,573	12,528	3,636	14,718	2,573	35,654	168,618
Ground geophysics	361	-	-	-	-	-	-	-	402	763
Permitting	1,198	-	-	-	552	8,294	1,097	-	90,507	101,648
Property	75	-	-	-	-	-	-	-	-	75
Prospecting	1,910	-	-	-	-	-	-	-	4,063	5,973
	300,325	9,058	-	2,163	363,226	12,245	24,751	2,573	148,466	862,807
Less:										
Recoveries	(12,141)	-	-	-	(564,781)	-	(569,604)	(4,742)	(93,707)	(1,244,975)
Net additions	288,184	9,058	-	2,163	(201,555)	12,245	(544,853)	(2,169)	54,759	(382,168)
Balance at June 30, 2010	\$ 24,275,145	\$ 374,216	\$ 171,658	\$ 452,725	\$ 1,155,249	\$ 4,452,776	\$ 8,680,532	\$ 537,800	\$ 503,684	\$ 40,603,785

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
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### 6. Mineral Properties (continued)

#### (a) Amaruk Project, Nunavut

The Amaruk property is near the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other 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 common shares to the Company, funding approximately \$956,000 in bonds on the claims and incurring \$2,500,000 in expenditures on the property 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.

On March 8, 2010, the Company announced that it has signed a Letter of Intent with Minerals and Metals Group ("MMG") whereby MMG may earn 75% of the nickel and other base metals on the Amaruk Property in Nunavut, by spending \$6,000,000 and completing a pre-feasibility study on any nickel or base metal deposit that might be identified on Amaruk.

## DIAMONDS NORTH RESOURCES LTD.

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### 6. Mineral Properties (continued)

#### (f) Victoria Island, Nunavut and Northwest Territories

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Wellington and White Ice projects, which are collectively referred to as “Victoria Island”. The projects consist of various leases, which are either adjoined or are within close proximity of each other. Portions of the Victoria Island properties are subject to a 1% GOR and Washburn is subject to a 2% GOR, both on diamonds.

#### (g) Hepburn, Northwest Territories

The Company holds a 100% interest in the Hepburn project.

#### (h) Kidme, Northwest Territories

The Company holds a 100% interest in the Kidme project.

#### (i) Other properties

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

##### (i) 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.

##### (ii) Northern Recon, Nunavut and Northwest Territories

The Company has acquired various exploration permits for grass-roots projects and 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.

### 7. Property, Plant and Equipment

	Cost	Accumulated Amortization	2010 Net Book Value
Furniture and fixtures	\$ 36,167	\$ 26,528	\$ 9,639
Computer equipment	113,376	83,668	29,708
Computer software	10,439	10,112	327
Equipment	191,252	117,717	73,535
Leasehold improvements	158,893	-	158,893
	<u>\$ 546,009</u>	<u>\$ 273,907</u>	<u>\$ 272,102</u>

Leasehold improvements are in connection with the new office premises (Note 10) with a portion recoverable under a tenant improvement allowance.

## DIAMONDS NORTH RESOURCES LTD.

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June 30, 2010  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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### 8. Share Capital

#### (a) Authorized

Unlimited common shares without par value.

#### (b) Income tax effect on flow-through share renouncements

In February 2010, the Company renounced \$462,080 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$115,520, which was deducted from share capital.

#### (c) 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 15,600,000 common shares. Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. At June 30, 2010, the Company had stock options outstanding for the purchase of 9,015,500 common shares which 5,885,500 stock options were exercisable, with a weighted average exercise price of \$0.31 per option.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	9,065,500	\$ 0.31
Exercised	(50,000)	\$ 0.18
Outstanding at June 30, 2010	9,015,500	\$ 0.31

The following summarizes information about stock options outstanding at June 30, 2010:

Number of Shares	Exercise Price	Expiry Date
220,000	\$ 0.848	April 12, 2011
113,500	\$ 1.021	July 13, 2011
177,000	\$ 0.770	February 27, 2012
135,000	\$ 0.880	February 14, 2013
10,000	\$ 0.820	September 2, 2013
2,100,000	\$ 0.175	May 28, 2014
6,260,000	\$ 0.300	December 23, 2014
9,015,500		

Subsequent to June 30, 2010, the following stock options were cancelled:

Number of Shares	Exercise Price	Expiry Date
70,000	\$ 0.848	April 12, 2011
38,500	\$ 1.021	July 13, 2011
80,000	\$ 0.770	February 27, 2012
75,000	\$ 0.880	February 14, 2013
10,000	\$ 0.820	September 2, 2013
273,500		

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited – See Notice)

(expressed in Canadian dollars)

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### 8. Share Capital (continued)

#### (d) Stock-based and option compensation

Stock-based compensation recognized for options vested during the period was \$700,450. The Company has moved from 'straight line' to 'graded' vesting for the recognition of stock-based compensation expense. A greater portion of expense is earlier vesting periods compared to distributing the expense equally over all vesting period. For stock options granted during 2009 and vesting in 2010, the fair value of \$0.175 per option is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010
Risk-free interest rate	2.03%
Expected dividend yield	-
Expected stock price volatility	92%
Expected option life in years	5.00

### 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 \$7,631 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) For the six months ended June 30, 2010, an officer of the Company has been paid \$19,200 for corporate secretarial services, which has been expensed as administration fees.
- (c) For the six months ended June 30, 2010, a director of the Company has been paid \$10,630 for geological consulting, which has been charged to mineral properties.
- (d) Amounts due to related parties, totalling \$ 55,204, consist of deferred salaries (Note 1) and reimbursement of expenses owed to officers of the Company.
- (e) As at June 30, 2010, the Company held 11.3% of the issued common shares of Uranium North. Included in receivables is \$35,149 owed by Uranium North, a company related by virtue of other common directors, for mineral property, administrative and office costs.

### 10. Commitment

On May 4, 2010, the Company entered into an agreement to lease new office premises for a period of five-years and one month, commencing on August 1, 2010 and expiring on August 31, 2015. 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 remaining rental payments under this arrangement is approximately \$430,000.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
June 30, 2010  
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### 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

	2010
Financing activities:	
Income tax effect on flow-through share renouncement	\$ 115,520
Receivables included in mineral properties recoveries	\$ (74,794)
Accounts payable and accrued liabilities included in mineral properties	\$ 11,528
Stock-based compensation reallocation	\$ 6,105
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Cash and cash equivalents:	
Cash	\$ 1,415,092
Cash equivalents	1,508,422
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	\$ 2,923,514
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Other cash flow information:	
Interest received	\$ 15,662
Interest paid	\$ -
Income taxes paid	\$ -
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### 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 June 30, 2010, the amount of flow-through proceeds remaining to be expended is \$436,000.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited – See Notice)

(expressed in Canadian dollars)

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### 14. Subsequent Events

- (a) On July 8<sup>th</sup>, the Company completed the first tranche of a non-brokered private placement for \$882,000 from the issuance of 4,410,000 flow-through common shares at a price of \$0.20 per share. Finders' fees of \$31,750 and other share issue costs of \$26,460 were paid. In addition, 157,850 Finders' warrants were issued and exercisable at \$0.25 per warrant until July 7, 2011. All securities issued are subject to a four month hold period and may not be traded until November 8, 2010.
- (b) On July 14<sup>th</sup>, the Company completed the second tranche of the non-brokered private placement for \$470,000 from the issuance of 2,350,000 flow-through common shares at a price of \$0.20 per share. Other share issue costs of \$2,350 were paid. In addition, 17,500 Finders' warrants were issued and exercisable at \$0.25 per warrant until July 13, 2011. All securities issued are subject to a four month hold period and may not be traded until November 14, 2010.
- (c) On July 22<sup>nd</sup>, Diamonds North completed the final tranche of the non-brokered private placement for \$390,000 from the issuance of 1,950,000 flow-through common shares at a price of \$0.20 per share. Finders' fees of \$27,300 and other share issue costs of \$2,450 were paid. All securities issued are subject to a four month hold period and may not be traded until November 23, 2010.