

## **DIAMONDS NORTH RESOURCES LTD.**

**Condensed Consolidated Interim Financial Statements**  
**June 30, 2011**  
**(Unaudited – See Notice)**  
**(Expressed in Canadian dollars)**

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## **DIAMONDS NORTH RESOURCES LTD.**

### **General Information**

#### **Directors:**

Mark Kolebaba (President and CEO)  
Bernard H. Kahlert, B.Sc., P. Eng.  
Maynard E. Brown, LL.B.  
Yale R. Simpson, B.Sc.  
Terry A. Lyons, B.Sc., M.B.A.  
Bill Zimmerman, B.Sc., P. M.B.A.

#### **Corporate Secretary:**

Janice Davies

#### **Registrar & Trust Agent:**

CIBC Mellon Trust Company  
Suite 1600, The Oceanic Plaza  
1066 West Hasting Street  
Vancouver, British Columbia V6C 3X1

#### **Corporate Legal Counsel:**

Salley Bowes Hardwardt  
Barrister and Solicitors  
Suite 1750, 1185 West Georgia Street  
Vancouver, British Columbia V6E 4E6

#### **Auditor:**

Davidson & Company LLP  
Chartered Accountants  
1200 – 609 Granville Street  
Vancouver, BC V7Y 1G6

## **DIAMONDS NORTH RESOURCES LTD.**

### **NOTICE – No Auditor Review of the Condensed Consolidated Interim Financial Statements**

The accompanying unaudited interim condensed consolidated interim financial statements of Diamonds North Resources Ltd. (“the Company”), for the six months ended June 30, 2011, have been prepared by management, approved by the audit committee and board of directors and authorized for issuance on August 22, 2011. These condensed consolidated interim financial statements have not been the subject of a review by the Company’s external independent auditor.

**DIAMONDS NORTH RESOURCES LTD.**

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

| Notes                                             | June 30,<br>2011 | December<br>31, 2010 | January 1,<br>2010  |                     |
|---------------------------------------------------|------------------|----------------------|---------------------|---------------------|
| <b>Assets</b>                                     |                  |                      |                     |                     |
| Current assets                                    |                  |                      |                     |                     |
| Cash and cash equivalents                         | 3                | \$ 2,115,611         | \$ 2,584,807        | \$ 3,260,817        |
| Marketable securities                             | 4                | 769,528              | 1,074,657           | 622,560             |
| Receivables                                       | 5                | 277,497              | 616,193             | 339,884             |
| Prepaid expenses                                  |                  | 178,574              | 132,120             | 39,453              |
|                                                   |                  | 3,341,210            | 4,407,777           | 4,262,714           |
| Non-current assets                                |                  |                      |                     |                     |
| Deposits                                          | 6                | 69,270               | 69,969              | 55,000              |
| Equipment                                         | 7                | 81,277               | 90,090              | 153,930             |
| <b>Total Assets</b>                               |                  | <b>\$ 3,491,757</b>  | <b>\$ 4,567,836</b> | <b>\$ 4,471,644</b> |
| <b>Liabilities</b>                                |                  |                      |                     |                     |
| Current liabilities                               |                  |                      |                     |                     |
| Accounts payables and accrued liabilities         | 8                | \$ 329,784           | \$ 291,548          | \$ 197,150          |
| <b>Shareholders' Equity</b>                       |                  |                      |                     |                     |
| Share capital                                     | 11               | 53,069,429           | 52,599,910          | 50,927,778          |
| Share compensation reserve                        |                  | 1,144,335            | 1,166,871           | 435,112             |
| Deficit                                           |                  | (51,051,791)         | (49,490,493)        | (47,088,396)        |
|                                                   |                  | 3,161,973            | 4,276,288           | 4,274,494           |
| <b>Total Liabilities and Shareholders' Equity</b> |                  | <b>\$ 3,491,757</b>  | <b>\$ 4,567,836</b> | <b>\$ 4,471,644</b> |

Corporate Information and Going Concern (Note 1 &amp; 2.2)

Commitments (Note 9)

Subsequent Event (Note 15)

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.**

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

|                                                     | Notes | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------------------------------------|-------|--------------------|------------------|------------------|------------------|
|                                                     |       | June 30,<br>2011   | June 30,<br>2010 | June 30,<br>2011 | June 30,<br>2010 |
| <b>General and administrative expenses</b>          |       |                    |                  |                  |                  |
| Accounting and auditing                             |       | \$ 4,957           | \$ 9,290         | \$ 10,796        | \$ 21,750        |
| Administration fees                                 |       | 9,600              | 9,600            | 19,200           | 19,200           |
| Amortization                                        |       | 7,004              | 13,779           | 13,492           | 25,689           |
| Annual report and meeting                           |       | 9,288              | 10,154           | 9,288            | 12,052           |
| Consulting fees                                     |       | 1,234              | 1,761            | 2,564            | 2,761            |
| Directors' fees                                     |       | 15,625             | 15,625           | 31,250           | 31,250           |
| Filing fees                                         |       | 4,754              | 4,958            | 12,632           | 12,456           |
| Insurance                                           |       | 8,452              | 12,764           | 22,540           | 25,527           |
| Interest                                            |       | 533                | 549              | 1,112            | 1,141            |
| Investor relations and promotion                    |       | 32,228             | 48,842           | 73,231           | 99,201           |
| Legal fees                                          |       | 6,461              | 1,602            | 13,129           | 5,385            |
| Office and miscellaneous                            |       | 6,473              | 7,076            | 17,594           | 18,972           |
| Rent and storage                                    |       | 22,608             | 38,374           | 46,554           | 69,586           |
| Share-based compensation                            | 11    | 157,999            | 315,724          | 157,999          | 700,450          |
| Transfer agent fees                                 |       | 2,364              | 7,342            | 4,915            | 9,484            |
| Wages and benefits                                  |       | 107,173            | 125,641          | 451,736          | 262,410          |
|                                                     |       | (396,753)          | (623,081)        | (888,032)        | (1,317,314)      |
| <b>Other income (expense)</b>                       |       |                    |                  |                  |                  |
| Interest income                                     |       | 7,639              | 2,837            | 10,253           | 7,356            |
| Loss on disposal of equipment                       |       | -                  | (8,032)          | -                | (8,032)          |
| Mineral property exploration                        | 14    | (271,564)          | 792,482          | (558,925)        | 377,920          |
| Property investigation recoveries                   |       | -                  | -                | -                | 27,031           |
| Realized loss in marketable securities              |       | -                  | -                | -                | (244,126)        |
| Reversal of previously recognized unrealized losses |       | -                  | -                | -                | 241,616          |
| Unrealized loss on marketable securities            |       | (701,074)          | (186,207)        | (305,129)        | (129,686)        |
|                                                     |       | (964,999)          | 601,080          | (853,801)        | 272,079          |
| <b>Loss and comprehensive loss for the period</b>   |       | \$ 1,361,752       | \$ 22,001        | \$ 1,741,833     | \$ 1,045,235     |
| <b>Basic and diluted loss per share</b>             |       | \$ (0.02)          | \$ -             | \$ (0.02)        | \$ (0.01)        |
| <b>Weighted average number of common shares</b>     |       | 87,419,259         | 78,156,512       | 87,146,052       | 78,142,122       |

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

|                                       | Notes | Number of<br>Common<br>shares | Share Capital | Reserves     | Deficit         | Total        |
|---------------------------------------|-------|-------------------------------|---------------|--------------|-----------------|--------------|
| <b>Balance at January 1, 2011</b>     |       | 86,869,808                    | \$ 52,599,910 | \$ 1,166,871 | \$ (49,490,493) | \$ 4,276,288 |
| Common shares issued for:             |       |                               |               |              |                 |              |
| Private placement, net of issue costs |       | 3,125,000                     | 469,519       | -            | -               | 469,519      |
| Share-based compensation expense      |       |                               | -             | 157,999      | -               | 157,999      |
| Cancellation of share-based options   |       |                               | -             | (180,535)    | 180,535         | -            |
| Loss for the period                   |       |                               | -             | -            | (1,741,833)     | (1,741,833)  |
| <b>Balance at June 30, 2011</b>       |       | 89,994,808                    | \$ 53,069,429 | \$ 1,144,335 | \$ (51,051,791) | \$ 3,161,973 |

|                                                  | Notes | Number of<br>Common<br>shares | Share capital | Reserves     | Deficit         | Total        |
|--------------------------------------------------|-------|-------------------------------|---------------|--------------|-----------------|--------------|
| <b>Balance at January 1, 2010</b>                |       | 78,057,308                    | \$ 50,927,778 | \$ 435,112   | \$ (47,088,396) | \$ 4,274,494 |
| Common shares issued for:                        |       |                               |               |              |                 |              |
| Share subscription                               |       |                               | 436,000       | -            | -               | 436,000      |
| Exercise of options                              |       | 50,000                        | 8,750         | -            | -               | 8,750        |
| Exercise of warrants                             |       | 52,500                        | 15,750        | -            | -               | 15,750       |
| Exercise of options, share-based<br>compensation |       |                               | 6,105         | (6,105)      | -               | -            |
| Share-based compensation expense                 |       |                               | -             | 700,450      | -               | 700,450      |
| Loss for the period                              |       |                               | -             | -            | (1,045,235)     | (1,045,235)  |
| <b>Balance at June 30, 2010</b>                  |       | 78,159,808                    | \$ 51,394,383 | \$ 1,129,457 | \$ (48,133,631) | \$ 4,390,209 |

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

|                                                                     | Three Months Ended |                  | Six Months Ended |                  |                  |
|---------------------------------------------------------------------|--------------------|------------------|------------------|------------------|------------------|
|                                                                     | Notes              | June 30,<br>2011 | June 30,<br>2010 | June 30,<br>2011 | June 30,<br>2010 |
| <b>Cash flows from operating activities</b>                         |                    |                  |                  |                  |                  |
| Loss for the period                                                 |                    | \$ (1,361,752)   | \$ (22,001)      | \$ (1,741,833)   | \$ (1,045,235)   |
| Items not affecting cash:                                           |                    |                  |                  |                  |                  |
| Amortization                                                        |                    | 7,004            | 13,779           | 13,492           | 25,689           |
| Share-based compensation                                            |                    | 157,999          | 315,724          | 157,999          | 700,450          |
| Loss on disposal of equipment                                       |                    | -                | 8,032            | -                | 8,032            |
| Realized loss on sale of marketable securities                      |                    | -                | -                | -                | 244,126          |
| Reversal of previously recognized unrealized losses                 |                    | -                | -                | -                | (241,616)        |
| Unrealized loss on marketable securities                            |                    | 701,074          | 186,207          | 305,129          | 129,686          |
|                                                                     |                    | (495,675)        | 501,741          | (1,265,213)      | (178,868)        |
| Changes in non-cash working capital items:                          |                    |                  |                  |                  |                  |
| Receivables                                                         |                    | 27,370           | (156,906)        | 338,696          | (20,083)         |
| Prepaid expenses                                                    |                    | (69,009)         | (24,298)         | (46,454)         | (8,895)          |
| Accounts payables and accrued liabilities                           |                    | (150,279)        | (105,370)        | 38,236           | 10,580           |
|                                                                     |                    | (687,593)        | 215,167          | (934,735)        | (197,266)        |
| <b>Cash flows from investing activities</b>                         |                    |                  |                  |                  |                  |
| Proceeds from the sale of marketable securities, net of commissions |                    | -                | -                | -                | 24,990           |
| Deposits                                                            |                    | -                | (30,634)         | 699              | (30,634)         |
| Leasehold improvements                                              |                    | -                | (158,893)        | -                | (158,893)        |
| Purchase of equipment                                               |                    | (4,679)          | -                | (4,679)          | -                |
|                                                                     |                    | (4,679)          | (189,527)        | (3,980)          | (164,537)        |
| <b>Cash flows from financing activity</b>                           |                    |                  |                  |                  |                  |
| Shares issued for cash, net of issue costs                          |                    | 469,519          | 440,375          | 469,519          | 460,500          |
| <b>Increase (decrease) in cash and cash equivalents</b>             |                    | (222,753)        | 466,015          | (469,196)        | 98,697           |
| <b>Cash and cash equivalents, beginning of period</b>               |                    | 2,338,364        | 2,893,499        | 2,584,807        | 3,260,817        |
| <b>Cash and cash equivalents, end of period</b>                     |                    | \$ 2,115,611     | \$ 3,359,514     | \$ 2,115,611     | \$ 3,359,514     |

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

### Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

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## DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

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### 1. Corporate Information

The condensed consolidated interim financial statements of Diamonds North Resources Ltd. (“Diamonds North” or “the Company”) for the six months ended June 30, 2011 were authorized for issue in accordance with a resolution of the directors on August 22, 2011. Diamonds North 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”).

Diamonds North is in the process of actively exploring its mineral properties and has not yet determined whether any of these projects contain an ore reserve that is economically recoverable. The Company is considered to be in the exploration stage and does not have operating cash flow.

Diamonds North’s head office and principal address is 1100 – 1111 Melville Street, Vancouver, British Columbia, Canada, V6E 3V6.

### 2. Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Diamonds North’s transition date to IFRS is January 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles (“GAAP”). Historical results and balances have been restated under IFRS. These consolidated interim financial statements should be read in conjunction with the Company’s 2010 GAAP annual audited financial statements for the year ended December 31, 2010, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in Note 16. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these interim financial statements or in Diamonds North’s most current annual GAAP financial statements.

#### 2.1 Basis of Consolidation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts are presented in Canadian dollars unless otherwise specified.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Diamonds North’s wholly-owned subsidiary, SamX Ventures Inc. was incorporated on December 17, 2003, see Note 10.

The financial statements of the subsidiary are prepared for the same reporting period as the Diamonds North financial statements, using consistent accounting policies. All significant intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions have been eliminated.

## **DIAMONDS NORTH RESOURCES LTD.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited – See Notice)

(Expressed in Canadian Dollars)

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### **2.2 Going Concern**

For the six months ended June 30, 2011, Diamonds North reported a loss of \$1,741,833 and has a history of losses with an accumulated deficit of \$51,051,791. Management believes its \$3,011,426 working capital is sufficient to meet administrative, exploration and property obligations for the 2011 year.

These consolidated financial statements have been prepared by management on a going concern basis which assumes that Diamonds North will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As noted above, the Company has incurred ongoing losses. A number of alternatives including, but not limited to selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of Diamonds North are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should Diamonds North be unable to continue in existence.

### **2.3 Use of Estimates**

The preparation of the Diamonds North's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of receivables, valuation and depreciation of property, plant and equipment, impairment of assets, contingencies, valuation of share-based payments, recognition of deferred income tax amounts and provision for restoration, rehabilitation and environmental costs.

### **2.4 Significant Accounting Policies**

#### ***(a) Cash and Cash Equivalents***

Cash is comprised of cash on hand and demand deposits. Cash equivalents consists of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without a significant risk of change in value.

## DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

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### 2.4 Significant Accounting Policies (continued)

#### (b) Financial Instruments

##### Financial assets

Diamonds North classifies its financial assets into one of the following categories as follows:

*Fair value through profit or loss:* This category comprises derivatives, held for trading and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. This category includes cash and cash equivalents and marketable securities held in publicly traded companies.

The Company evaluated its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets or management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

*Loans and receivables:* These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. This category includes receivables and deposits.

*Held-to-maturity investments:* These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

*Available-for-sale:* Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

##### Financial liabilities

Diamonds North classifies its financial liabilities into one of two categories as follows:

*Fair value through profit or loss:* This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities:* This category consists of liabilities carried at amortized cost using the effective interest method and includes accounts payables and accrued liabilities.

## DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

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### 2.4 Significant Accounting Policies (continued)

#### *(c) Equipment*

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at annual rates set-out below, except in the year of acquisition where half the annual rate is used:

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|                        |      |
|------------------------|------|
| Furniture and fixtures | 20%  |
| Computer equipment     | 30%  |
| Computer software      | 100% |
| Equipment              | 20%  |

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#### *(d) Mineral Property Exploration*

The Company charges to operations all exploration and evaluation expenses relating to mineral property interests incurred prior to the determination of economically recoverable reserves. These costs would also include periodic fees such as license and maintenance fees and advance royalty payments.

The Company capitalizes expenditures incurred following the determination that the property has economically recoverable reserves and a development decision has been made. These costs are amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned, or when impairment in value has been determined to have occurred. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Where the Company has a joint interest in a mineral property with other parties, the Company only records its proportionate share of costs in relation to its interest. If the Company acts as operator of a jointly held mineral property interest, any reimbursements of costs is applied against direct costs incurred as operator. As operator, the Company may also charge a fee to recover certain indirect costs and overheads which are recognized as a cost recovery, through the profit or loss.

Any payments received by the Company from third parties pursuant to farm-out or other arrangements or tax credits refunded to the Company are credited to the exploration expenditure to which they relate.

## DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011

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(Expressed in Canadian Dollars)

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### 2.4 Significant Accounting Policies (continued)

#### *(e) Impairment of Non-financial Assets*

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit ("CGU") is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### *(f) Provisions*

##### **General**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

##### **Rehabilitation Provision**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the project location.

Diamonds North's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

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### 2.4 Significant Accounting Policies (continued)

#### *(g) Flow-through Shares*

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow through features at the time of issue is credit to other liabilities which is reversed into profit or loss when eligible expenditures have been made.

#### *(h) Earnings (Loss) per Share*

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

#### *(i) Share-based Compensation*

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital.

#### *(j) Income Taxes*

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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### 2.5 New Standards Yet Adopted

In November 2009, the IASB published IFRS 9, “Financial Instruments,” which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact the Company upon implementation of the issued standard.

### 3. Cash and Cash Equivalents

Diamonds North cash and cash equivalents are as follows:

|                                                               | June 30,<br>2011    | December 31,<br>2010 | January 1,<br>2010  |
|---------------------------------------------------------------|---------------------|----------------------|---------------------|
| Cash on hand                                                  | \$ 2,107,096        | \$ 1,076,343         | \$ 1,252,422        |
| Demand deposits                                               | -                   | 1,500,000            | -                   |
| Short-term deposits and guaranteed<br>investment certificates | 8,515               | 8,464                | 2,008,395           |
| <b>Total</b>                                                  | <b>\$ 2,115,611</b> | <b>\$ 2,584,807</b>  | <b>\$ 3,260,817</b> |

### 4. Marketable Securities

Diamonds North marketable securities are as follows:

|                        | June 30,<br>2011  | December 31,<br>2010 | January 1,<br>2010 |
|------------------------|-------------------|----------------------|--------------------|
| Cost                   | \$ 880,732        | \$ 880,732           | \$ 1,192,231       |
| Unrealized gain (loss) | (111,204)         | 193,925              | (569,671)          |
| <b>Total</b>           | <b>\$ 769,528</b> | <b>\$ 1,074,657</b>  | <b>\$ 622,560</b>  |

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#### 5. Receivables

Diamonds North receivables are as follows:

|                              | June 30,<br>2011  | December 31,<br>2010 | January 1,<br>2010 |
|------------------------------|-------------------|----------------------|--------------------|
| Other receivables            | \$ 22,508         | \$ 50,886            | \$ 52,573          |
| HST receivables              | 29,762            | -                    | 8,209              |
| Mineral property receivables | 141,196           | 438,758              | 148,907            |
| Related party receivables    | 84,031            | 126,549              | 130,195            |
| <b>Total</b>                 | <b>\$ 277,497</b> | <b>\$ 616,193</b>    | <b>\$ 339,884</b>  |

Other receivables relate to recoveries of shared office expense and rent. Diamond North shares office space with four other companies and has entered into sub-lease agreements. Security deposits are held in-trust in case. Generally, the amounts are non-interest bearing and on terms of 30 days or less.

HST receivables relate to input tax credit refunds from the Government of Canada.

Mineral property receivables relate to mineral exploration recoveries for projects under option or joint venture agreements with partners. The balance at June 30, 2011, is secured by assignment of bond refunds receivable from the Mining Recorder of Canada.

Related party receivables include recoveries for shared office expense and exploration projects. Generally, the amounts are non-interest bearing and on terms of 30 days or less.

Generally, when an amount is deemed to be 'well-past due', Diamonds North will determine the uncollectable portion and expense the amount through 'bad debts' on the profit or loss versus accruing an allowance for doubtful accounts.

#### 6. Deposits

Diamonds North deposits are as follows:

|                      | June 30,<br>2011 | December 31,<br>2010 | January 1,<br>2010 |
|----------------------|------------------|----------------------|--------------------|
| Office lease deposit | \$ 54,270        | \$ 54,969            | \$ 40,000          |
| Exploration deposit  | 15,000           | 15,000               | 15,000             |
| <b>Total</b>         | <b>\$ 69,270</b> | <b>\$ 69,969</b>     | <b>\$ 55,000</b>   |

Office lease deposit is non-interest-bearing and held by the landlord in accordance with the head lease noted in Note 9. The amount includes deposits for access and security cards which vary on the number of employees.

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### 7. Equipment

|                                  | Furniture<br>and fixtures | Computer<br>equipment | Computer<br>software | Equipment  | Leasehold<br>improvement | Total      |
|----------------------------------|---------------------------|-----------------------|----------------------|------------|--------------------------|------------|
| <b>Cost:</b>                     |                           |                       |                      |            |                          |            |
| Balance at January 1, 2010       | \$ 36,167                 | \$ 113,376            | \$ 10,439            | \$ 220,126 | \$ 35,882                | \$ 415,990 |
| Additions                        | 2,373                     | 6,731                 | -                    | -          | -                        | 9,104      |
| Disposals                        | -                         | (68,411)              | -                    | (28,874)   | -                        | (97,285)   |
| Balance at December 31, 2010     | 38,540                    | 51,696                | 10,439               | 191,252    | 35,882                   | 327,809    |
| Additions                        | -                         | 793                   | 3,886                | -          | -                        | 4,679      |
| Disposals                        | -                         | -                     | (10,439)             | -          | (35,882)                 | (46,321)   |
| Balance at June 30, 2011         | \$ 38,540                 | \$ 52,489             | \$ 3,886             | \$ 191,252 | \$ -                     | \$ 286,167 |
| <b>Accumulated depreciation:</b> |                           |                       |                      |            |                          |            |
| Balance at January 1, 2010       | \$ 25,458                 | \$ 78,426             | \$ 9,784             | \$ 116,751 | \$ 31,641                | \$ 262,060 |
| Depreciation                     | 2,379                     | 11,494                | 655                  | 28,006     | 4,241                    | 46,775     |
| Disposals                        | -                         | (57,275)              | -                    | (13,841)   | -                        | (71,116)   |
| Balance at December 31, 2010     | 27,837                    | 32,645                | 10,439               | 130,916    | 35,882                   | 237,719    |
| Depreciation                     | 1,068                     | 2,887                 | 486                  | 9,051      | -                        | 13,492     |
| Disposals                        | -                         | -                     | (10,439)             | -          | (35,882)                 | (46,321)   |
| Balance at June 30, 2011         | \$ 28,905                 | \$ 35,532             | \$ 486               | \$ 139,967 | \$ -                     | \$ 204,890 |
| <b>Carrying amounts:</b>         |                           |                       |                      |            |                          |            |
| As at December 31, 2010          | \$ 10,703                 | \$ 19,051             | \$ -                 | \$ 60,336  | \$ -                     | \$ 90,090  |
| As at June 30, 2011              | \$ 9,635                  | \$ 16,957             | \$ 3,400             | \$ 51,285  | \$ -                     | \$ 81,277  |

### 8. Accounts Payable and Accrued Liabilities

Diamonds North accounts payables and accrued liabilities are as follows:

|                        | June 30,<br>2011  | December 31,<br>2010 | January 1,<br>2010 |
|------------------------|-------------------|----------------------|--------------------|
| Trade payables         | \$ 93,775         | \$ 82,622            | \$ 29,091          |
| HST payable            | -                 | 11,860               | -                  |
| Accrued liabilities    | 80,000            | 110,486              | 69,072             |
| Related party payables | 156,009           | 86,578               | 98,987             |
| <b>Total</b>           | <b>\$ 329,784</b> | <b>\$ 291,546</b>    | <b>\$ 197,150</b>  |

Trade payables are normally settled within 30 days or less of receipt of the original invoice. Invoices from northern suppliers are often received several weeks past the invoice date and the amount is accrued as a liability for the period the service was received in versus a trade payable based on the invoice date.

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### 8. Accounts Payable and Accrued Liabilities (continued)

HST payable relates to HST collected on project administration fees in excess of input tax credits. The amount is payable to the Government of Canada and settled within 30 days or less from the reporting end date.

Accrued liabilities are based on estimates accrued as of the financial statement date and often become trade payables once the invoice is received.

Related party payables include deferred wages and expense re-imbursements owed to senior management and for shared office expense. In addition, an accrual of \$150,000 at June 30, 2011, relating to amounts owing to the President pursuant to a former employment agreement which has since been renewed, see Note 9(b). The amount is to be payable in three installments of \$75,000, on each of April 1<sup>st</sup> of 2011 (paid), 2012 and 2013

### 9. Commitments

Diamonds North commitments are as follows:

|                                             | June 30,<br>2011    | December 31,<br>2010 | January 1,<br>2010 |
|---------------------------------------------|---------------------|----------------------|--------------------|
| Within one year                             | \$ 515,346          | \$ 297,500           | \$ -               |
| After one year but not more than five years | 1,352,797           | 1,134,500            | -                  |
| <b>Total</b>                                | <b>\$ 1,868,143</b> | <b>\$ 1,432,000</b>  | <b>\$ -</b>        |

|                      | June 30,<br>2011    | December 31,<br>2010 | January 1,<br>2010 |
|----------------------|---------------------|----------------------|--------------------|
| Office lease         | \$ 1,286,023        | \$ 1,432,000         | \$ -               |
| Employment agreement | 582,120             | -                    | -                  |
| <b>Total</b>         | <b>\$ 1,868,143</b> | <b>\$ 1,432,000</b>  | <b>\$ -</b>        |

(a) On May 4, 2010, the Company entered into an agreement to lease 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 partially recovered through subleases with several companies in proportion to the area occupied. Two of these companies are related by virtue of common directors. The Company's proportionate share of the \$1,286,023 estimated remainder of the lease is approximately \$303,666.

(b) On May 17, 2011, the Company entered into a new employment agreement with the President, whereby the President receives \$17,640 per month from April 1, 2011 to March 31, 2014. The agreement is subject to certain payouts if terminated without cause or in the event of a change of control.

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### 10. Related Party Disclosures

The consolidated financial statements include the financial statements of Diamonds North and its wholly owned subsidiary which has been inactive since incorporation, as follows:

| Name of Subsidiary | Country of Incorporation | Proportion of Ownership Interest |                   |                 |
|--------------------|--------------------------|----------------------------------|-------------------|-----------------|
|                    |                          | June 30, 2011                    | December 31, 2010 | January 1, 2010 |
| SamX Venture Inc.  | Canada                   | 100%                             | 100%              | 100%            |

Diamonds North entered into the following transactions with other related parties:

- (a) Included in receivables at June 30, 2011 in Note 5, is \$2,188 (2010 - \$3,842) owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) Included in receivables at June 30, 2011 in Note 5, is \$81,843 (2010 - \$122,707) owed by Uranium North Resources Ltd., a company related by virtue of a common directors and officers, for shared office costs and exploration expenditures recovery.
- (c) For the six months ended June 30, 2011, an officer of Diamonds North has been paid \$19,200 (2010 - \$19,200) for corporate secretarial services, which has been expensed as administration fees.
- (d) For the six months ended June 30, 2011, a director of the Company has been paid \$8,215 (2010 - \$10,630) for geological consulting, which has been expensed as mineral property exploration.
- (e) For the six months ended June 30, 2011, the four independent directors were paid an aggregate of \$20,000 in directors' fees with the members of the audit committee paid an additional \$1,875 per quarter for a total of \$11,250 (2010 - \$11,250).

The remuneration of directors and key management personnel as follows:

|                              | Three Months Ended |                   | Six Months Ended  |                   |
|------------------------------|--------------------|-------------------|-------------------|-------------------|
|                              | June 30, 2011      | June 30, 2010     | June 30, 2011     | June 30, 2010     |
| Director fees                | \$ 15,625          | \$ 15,625         | \$ 31,250         | \$ 31,250         |
| Share-based compensation (i) | 136,676            | 270,860           | 136,676           | 602,347           |
| Wages and benefits (ii)      | 111,920            | 175,418           | 460,847           | 350,836           |
| <b>Total</b>                 | <b>\$ 264,221</b>  | <b>\$ 461,903</b> | <b>\$ 628,773</b> | <b>\$ 984,433</b> |

(i) Share-based payments are the fair value of options granted to directors and key management personnel.

(ii) Wage and benefits include amounts expensed as mineral property exploration.

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### 11. Share Capital

#### (a) Authorized share capital

As at June 30, 2011, the authorized share capital of Diamonds North is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

#### (b) Issued share capital

- i) On June 17, 2011, Diamonds North completed a non-brokered private placement of \$500,000 through the sale of 3,125,000 flow-through shares at a price of \$0.16 per share. A due diligence fee of \$25,000 and other share issue costs of \$5,734 were paid. The securities issued are subject to a four month hold and may not be traded until October 15<sup>th</sup>, 2011.

#### (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, Diamonds North 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.

|                                  | Shares    | Weighted Average<br>Exercise Price |
|----------------------------------|-----------|------------------------------------|
| Outstanding at December 31, 2009 | 9,065,500 | \$0.31                             |
| Cancelled                        | (273,500) | \$0.83                             |
| Expired                          | (50,000)  | \$0.18                             |
| Outstanding at December 31, 2010 | 8,742,000 | \$0.29                             |
| Granted                          | 1,545,000 | \$0.15                             |
| Cancelled                        | (720,000) | \$0.27                             |
| Expired                          | (150,000) | \$0.84                             |
| Outstanding at June 30, 2011     | 9,417,000 | \$0.26                             |

The following summarizes information about stock options outstanding and exercisable at June 30, 2011:

| Number of Shares | Exercise Price | Expiry Date       |
|------------------|----------------|-------------------|
| 75,000           | \$ 1.021       | July 13, 2011     |
| 97,000           | \$ 0.770       | February 27, 2012 |
| 60,000           | \$ 0.880       | February 14, 2013 |
| 1,925,000        | \$ 0.175       | May 28, 2014      |
| 5,715,000        | \$ 0.300       | December 23, 2014 |
| 1,545,000        | \$ 0.155       | April 14, 2016    |
| 9,417,000        |                |                   |

Subsequent to June 30, 2011, 75,000 stock options with an exercise price of \$1.021 expired unexercised on July 13, 2011.

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### 11. Share Capital (continued)

#### (d) Share-based compensation

During the six months ended June 30, 2011, Diamonds North granted 1,545,000 stock options with a fair value of \$168,624 or \$0.11 per option

During the six months ended June 30, 2010, Diamonds North did not grant any stock options.

Share-based compensation recognized for options vested during the six months ended June 30, 2011 was \$157,999 (2010 - \$700,450).

#### (e) Warrants

At June 30, 2011, the Company had outstanding warrants to purchase an aggregate of 173,350 common shares as follows:

| Exercise Price | Expiry Date   | Outstanding at December 31, 2010 | Issued | Exercised | Expired | Outstanding at June 30, 2011 |
|----------------|---------------|----------------------------------|--------|-----------|---------|------------------------------|
| \$ 0.25        | July 7, 2011  | 157,850                          | -      | -         | -       | 157,850                      |
| \$0.25         | July 13, 2011 | 17,500                           | -      | -         | -       | 17,500                       |
|                |               | 175,350                          | -      | -         | -       | 175,350                      |

Subsequent to June 30, 2011, 157,500 warrants with an exercise price of \$0.25 and 17,500 warrants with an exercise price of \$0.25 expired, unexercised on July 7<sup>th</sup> and 13<sup>th</sup>, respectively.

### 12. Segment Information

The Company operates in one reportable operating segment, being mineral exploration in Canada.

### 13. Financial Risk Management

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

*Level 1:* Unadjusted quoted prices in active markets for identical assets or liabilities;

*Level 2:* Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

*Level 3:* Inputs that are not based on observable market data.

The fair value of the Company's receivables, deposits, and accounts payable and accrued liabilities approximate their carrying values. Diamonds North's other financial instruments, being cash and cash equivalents and marketable securities, are measured at fair value using Level 1 inputs.

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### 13. Financial Risk Management (continued)

Diamonds North is exposed to varying degrees to a variety of financial instrument related risks:

#### **Credit Risk**

Credit risk is the risk of an unexpected loss if a customer, tenant, related party or a third party to a financial instrument fails to meet its contractual obligations.

Diamonds North's cash and cash equivalents are held with major Canadian financial institutions. The Company has no investment in asset backed commercial paper.

The Company's receivables are disclosed in Note 5.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 13.1.

#### **Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

##### **a) Interest rate**

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

##### **b) Foreign exchange**

The Company does not have any balances denominated in a foreign currency and believes it not exposed to significant foreign exchange risk.

##### **c) Commodity and equity prices**

Fluctuations in commodity prices may influence financial markets and commodity price risk may indirectly affect the Company. As the Company is in the exploration stage, commodity prices are not reflected in operating results. Unlike other commodities, diamonds are typically sold in private transactions and rough diamond prices are generally not publicly disclosed.

The Company is exposed to equity price risk arising from its marketable securities, which are classified as held for trading and carried at quoted market prices in Note 4. There can be no assurance that the Company can exit these equity positions if required, resulting in proceeds approximating the carrying value of these marketable securities.

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### 13.1 Capital Risk Management

Diamonds North's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral projects, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

Currently, the Company's share capital is not subject to any externally imposed capital requirements. There were no changes in Diamonds North approach to capital management during the period.

### 14. Mineral Property Exploration

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, title to all of its properties, are properly registered and in good standing.

Diamonds North mineral property exploration by type, as follows:

|                        | Three Months Ended |                     | Six Months Ended  |                     |
|------------------------|--------------------|---------------------|-------------------|---------------------|
|                        | June 30,<br>2011   | June 30,<br>2010    | June 30,<br>2011  | June 30,<br>2010    |
| Airborne geophysics    | \$ 73,195          | \$ -                | \$ 75,445         | \$ -                |
| Camp costs             | 64,990             | 179,226             | 256,205           | 472,351             |
| Camp helicopter & fuel | 30,220             | 26,760              | 30,220            | 26,760              |
| Drilling – Core        | 3,662              | 24,595              | 4,412             | 24,595              |
| Drilling – Percussion  | 53,936             | 26,129              | 53,936            | 50,724              |
| Geochemistry           | 20,678             | 2,533               | 23,966            | 11,301              |
| Geology                | 56,545             | 98,868              | 97,468            | 172,863             |
| Ground geophysics      | -                  | 763                 | -                 | 763                 |
| Permitting             | 250                | 2,649               | 39,941            | 101,649             |
| Property               | 13,151             | -                   | 57,722            | 75                  |
| Prospecting            | 1,070              | 5,274               | 1,070             | 5,973               |
|                        | 317,697            | 366,797             | 640,385           | 867,054             |
| Recoveries             | (46,133)           | (1,159,279)         | (81,460)          | (1,244,974)         |
| <b>Total</b>           | <b>\$ 271,564</b>  | <b>\$ (792,482)</b> | <b>\$ 558,925</b> | <b>\$ (377,920)</b> |

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### 14. Mineral Property Exploration (continued)

Diamonds North mineral property exploration by location, as follows:

|                               | Three Months Ended |                     | Six Months Ended  |                     |
|-------------------------------|--------------------|---------------------|-------------------|---------------------|
|                               | June 30,<br>2011   | June 30,<br>2010    | June 30,<br>2011  | June 30,<br>2010    |
| Nunavut ("NU")                | \$ 267,505         | \$ (230,924)        | \$ 553,960        | \$ 169,102          |
| Northwest Territories ("NWT") | 4,059              | (561,558)           | 4,965             | (547,022)           |
| <b>Total</b>                  | <b>\$ 271,564</b>  | <b>\$ (792,482)</b> | <b>\$ 558,925</b> | <b>\$ (377,920)</b> |

Diamonds North mineral property exploration by project, as follows:

|                   | Three Months Ended |                  | Six Months Ended  |                     |
|-------------------|--------------------|------------------|-------------------|---------------------|
|                   | June 30,<br>2011   | June 30,<br>2010 | June 30,<br>2011  | June 30,<br>2010    |
| Amaruk, NU        | \$ 270,813         | \$ 213,428       | \$ 292,571        | \$ 280,339          |
| Banks Island, NWT | -                  | -                | (1,200)           | -                   |
| Barrow, NU        | -                  | -                | 187               | -                   |
| Blue Ice, NU      | 21,686             | 3,402            | 215,045           | 12,245              |
| Boothia, NU       | 1,076              | 29,758           | 9,322             | 120,369             |
| Esker, NU         | 4,661              | -                | 4,661             | -                   |
| Genex             | (46,134)           | 874              | (46,134)          | 4,248               |
| Halkett, NU       | 2,763              | 6,689            | 42,671            | 9,504               |
| Hepburn, NWT      | 4,059              | (564,131)        | 6,165             | (544,853)           |
| Henik, NU         | 3,072              | (17,216)         | 16,467            | (17,216)            |
| Hyde, NU          | -                  | 19,996           | 1,315             | 1,381               |
| Kidme, NWT        | -                  | 2,573            | -                 | (2,169)             |
| Nanunk, NU        | -                  | -                | -                 | (51,434)            |
| Tunerq, NU        | -                  | (489,769)        | 4,089             | (201,555)           |
| Sakari, NU        | -                  | -                | 314               | -                   |
| Siku, NU          | -                  | 590              | -                 | 2,163               |
| Ualliq, NU        | -                  | 1,324            | 3,884             | 9,058               |
| Recon – 2011, NU  | 9,568              | -                | 9,568             | -                   |
| <b>Total</b>      | <b>\$ 271,564</b>  | <b>(792,482)</b> | <b>\$ 558,925</b> | <b>\$ (377,920)</b> |

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### 14. Mineral Property Exploration (continued)

#### (a) *Amaruk Project, Nunavut*

The Company, jointly with other participants, own certain exploration and evaluation assets. The Amaruk property is located near the community of Kugaaruk, Nunavut. Portions of the property have been joint ventured to other exploration companies, 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.

##### (i) *Ualliq 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 to the Company and incurring \$3.0 million in expenditures on the property on or before December 31, 2010. 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.

On September 20, 2010, the parties entered into an agreement whereby International Samuel earned a fully vested 30% joint venture interest in the Ualliq Project, as the Company accepted the issuance of 50,000 common shares of International Samuel and its \$2.7 million in aggregate exploration expenditures as satisfactory completion of the original \$3.0 million exploration expenditure total.

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.

##### (ii) *Sakari 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.

##### (iii) *Siku 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.

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### 14. Mineral Property Exploration (continued)

#### **(b) Farm-out and Earn-in Arrangements**

##### **(i) Tunerq 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.

##### **(ii) Barrow Project, Nunavut**

On March 4, 2011, the Company and Indicator Minerals Inc. ("Indicator Minerals") entered into an agreement covering the diamond interest on Indicator Mineral's Barrow Property in Nunavut. The Company may earn up to sixty percent (60%) interest in any diamond discovery on the Barrow Property by incurring \$2,000,000 in expenditures on the Property over five years. To earn an initial 51% interest, the Company must incur \$1,000,000 in expenditures by December 31, 2015, of which \$50,000 must be incurred before the end of the current year and a total of \$200,000 must be incurred by December 31, 2013. To earn an additional 9% interest (for 60%), the Company must incur an additional \$1,000,000 in expenditures (for aggregate of \$2,000,000) by December 31, 2016.

#### **(c) Other Projects**

##### **(i) 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.

##### **(ii) Hepburn, Northwest Territories**

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

##### **(iii) Kidme, Northwest Territories**

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

##### **(iv) Other Properties**

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

##### **(i) Thelon, Nunavut and Northwest Territories**

The Company holds the right to a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty with respect to the Thelon property.

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### 14. Mineral Property Exploration (continued)

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

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

#### (iii) Recon - 2011, Nunavut

In 2011, the Company acquired several prospective gold properties through permitting and claim staking in Southern Nunavut. The projects are 'KL', 'Fox', 'Yandle & River' and 'Esker'. With the exception of Esker, these will be grass-projects and collective called 'Recon – 2011'.

### 15. Subsequent Event

- i) On July 6, 2011, Diamonds North completed a non-brokered private placement of \$750,000 through the sale of 4,687,500 flow-through shares at a price of \$0.16 per share. Finders' fees of \$32,500 and other share issue costs of \$4,553 were paid. The securities issued are subject to a four month hold and may not be traded until November 5<sup>th</sup>, 2011

### 16. First Time Adoption of IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with GAAP. For periods, on or after January 1, 2011, the Company's financial statements are prepared and reported in accordance with IFRS.

As stated in Note 2, the Company has prepared these financial statements which comply with IFRS applicable for the periods beginning on or after January 1, 2010. In preparing these consolidated financial statements, the Company's opening statement of financial position was prepared as at January 1, 2010, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its previous GAAP statement of financial position as at January 1, 2010 and its previously published GAAP financial statements for the year ended December 31, 2010.

#### (a) Exemptions Applied

IFRS 1 First Time Adoption of International Financial Reporting Standards allows first time adopters certain exemptions from the retrospective application of certain IFRS. The Company has applied the following exemption:

- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.
- IFRS 2 Share-based Payments has not been applied to equity instruments that were not vested prior to January 1, 2010.

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### 16. First Time Adoption of IFRS (continued)

#### ***(b) IFRS 6 Exploration for and Evaluation of Mineral Resources adjustments***

Under the previous GAAP, costs associated with mineral property acquisition, exploration and evaluation were capitalized to mineral properties. Under IFRS, these costs are expensed through the profit or loss until the technical feasibility and commercial viability of extracting the mineral resources is demonstrable. Under previous GAAP, mineral properties costs included \$5,616,202 in acquisition costs and \$35,369,751 in exploration costs, resulting in \$40,985,953 expensed through opening accumulated deficit. For the year ended December 31, 2010, \$862,270 costs relating to acquisition and exploration costs have been expensed through profit or loss.

#### ***(c) Other Adjustments***

##### **(i) Reclassification of marketable securities**

The Company decided to reclassify its marketable securities from available for sale to fair value through profit and loss, and accordingly, has reclassified accumulated other comprehensive income into deficit and unrealized gains and losses in other comprehensive income into net loss.

##### **(ii) Reclassification with equity section**

Under GAAP, a balance within contributed surplus existed to record the issuance of compensatory warrants and equity-settled employee benefits. Under adoption of IFRS, the balances in these accounts have been reclassified to "Reserves" and additionally, the Company has reclassified amounts relating to forfeited and expired options and warrants back into deficit or share capital where they were originally recorded.

##### **(iii) Deferred tax**

Under previous GAAP, deferred taxation assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non-current assets.

Additionally, deferred taxes have been adjusted for changes to net book values arising as a result of the adjustments for first time adoption of IFRS as discussed above.

##### **(iv) Flow-through Shares**

Under IFRS, flow-through instruments are treated as a compound instrument consisting of a liability component and an equity component. When issued at a premium, the fair value of the equity component is allocated to share capital, and the remainder is considered a liability representing the Company's obligation to pass a tax deduction on to the shareholder. Where there is no excess value of attribute to the liability, no liability is recognized. As the Company discharges the liability by making the required mineral property expenditure, the liability is reduced into income. As at January 1, 2010 and December 31, 2010, the Company had no liability with respect to its flow through obligations. An adjustment was recorded to reverse the GAAP treatment of recognizing a share issuance cost of \$115,520 upon the renouncement of the flow through shares.

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**16. First Time Adoption of IFRS (continued)**

The reconciliation between GAAP and IFRS consolidated statement of financial position as at January 1, 2010 (date of transition to IFRS) is provided below:

|                                                   | Notes           | January 1, 2010      |                               |                     |
|---------------------------------------------------|-----------------|----------------------|-------------------------------|---------------------|
|                                                   |                 | GAAP                 | Effects of transition to IFRS | IFRS                |
| <b>ASSETS</b>                                     |                 |                      |                               |                     |
| Current assets                                    |                 |                      |                               |                     |
| Cash and cash equivalents                         |                 | \$ 3,260,817         | \$ -                          | \$ 3,260,817        |
| Marketable securities                             |                 | 622,560              | -                             | 622,560             |
| Receivables                                       |                 | 339,884              | -                             | 339,884             |
| Prepaid expenses                                  |                 | 39,453               | -                             | 39,453              |
|                                                   |                 | 4,262,714            | -                             | 4,262,714           |
| Non-current assets                                |                 |                      |                               |                     |
| Deposits                                          |                 | 55,000               | -                             | 55,000              |
| Mineral properties                                | 16(b)           | 40,985,953           | (40,985,953)                  | -                   |
| Property, plant and equipment                     |                 | 153,930              | -                             | 153,930             |
| <b>Total Assets</b>                               |                 | <b>\$ 45,457,597</b> | <b>\$ (40,985,953)</b>        | <b>\$ 4,471,644</b> |
| <b>LIABILITIES</b>                                |                 |                      |                               |                     |
| Current liabilities                               |                 |                      |                               |                     |
| Accounts payable and accrued liabilities          |                 | \$ 197,150           | \$ -                          | \$ 197,150          |
| Deferred income taxes                             | 16(c)(iii)      | 4,177,000            | (4,177,000)                   | -                   |
| <b>SHAREHOLDERS' EQUITY</b>                       |                 |                      |                               |                     |
| Share capital                                     | 16(c)(ii) &(iv) | 50,644,677           | 283,101                       | 50,927,778          |
| Contributed surplus                               | 16(c)(ii)       | 3,525,134            | (3,525,134)                   | -                   |
| Share compensation reserve                        |                 | 435,112              | -                             | 435,112             |
| Accumulated other comprehensive loss              | 16(c)(i)        | (626,457)            | 626,457                       | -                   |
| Deficit                                           |                 | (12,895,019)         | (34,193,377)                  | (47,088,396)        |
|                                                   |                 | 41,083,447           | (36,808,953)                  | 4,274,494           |
| <b>Total Liabilities and Shareholders' Equity</b> |                 | <b>\$ 45,457,597</b> | <b>\$ (40,985,953)</b>        | <b>\$ 4,471,644</b> |

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**16. First Time Adoption of IFRS (continued)**

The reconciliation between GAAP and IFRS consolidated statement of financial position as at June 30, 2010 is provided below:

|                                                   | Notes           | June 30, 2010        |                               |                     |
|---------------------------------------------------|-----------------|----------------------|-------------------------------|---------------------|
|                                                   |                 | GAAP                 | Effects of transition to IFRS | IFRS                |
| <b>ASSETS</b>                                     |                 |                      |                               |                     |
| Current assets                                    |                 |                      |                               |                     |
| Cash and cash equivalents                         |                 | \$ 3,359,514         | \$ -                          | \$ 3,359,514        |
| Marketable securities                             |                 | 465,375              | -                             | 465,375             |
| Receivables                                       |                 | 359,967              | -                             | 359,967             |
| Prepaid expenses                                  |                 | 55,348               | -                             | 55,348              |
|                                                   |                 | 4,240,204            | -                             | 4,240,204           |
| Non-current assets                                |                 |                      |                               |                     |
| Deposits                                          |                 | 85,634               | -                             | 85,634              |
| Mineral properties                                | 16(b)           | 40,603,785           | (40,603,785)                  | -                   |
| Property, plant and equipment                     |                 | 272,102              | -                             | 272,102             |
| <b>Total Assets</b>                               |                 | <b>\$ 45,201,725</b> | <b>\$ (40,603,785)</b>        | <b>\$ 4,597,940</b> |
| <b>LIABILITIES</b>                                |                 |                      |                               |                     |
| Current liabilities                               |                 |                      |                               |                     |
| Accounts payable and accrued liabilities          |                 | \$ 207,731           | \$ -                          | \$ 207,731          |
| Deferred income taxes                             | 16(c)(iii)      | 4,177,000            | (4,177,000)                   | -                   |
| <b>SHAREHOLDERS' EQUITY</b>                       |                 |                      |                               |                     |
| Share capital                                     | 16(c)(ii) &(iv) | 50,995,762           | 398,621                       | 51,394,383          |
| Contributed surplus                               | 16(c)(ii)       | 3,525,134            | (3,525,134)                   | -                   |
| Share compensation reserve                        |                 | 1,129,457            | -                             | 1,129,457           |
| Accumulated other comprehensive loss              | 16(c)(i)        | (514,527)            | 514,527                       | -                   |
| Deficit                                           |                 | (14,318,832)         | (33,814,799)                  | (48,133,631)        |
|                                                   |                 | 40,816,994           | (36,426,785)                  | 4,390,209           |
| <b>Total Liabilities and Shareholders' Equity</b> |                 | <b>\$ 45,201,725</b> | <b>\$ (40,603,785)</b>        | <b>\$ 4,597,940</b> |

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**16. First Time Adoption of IFRS (continued)**

The reconciliation between GAAP and IFRS consolidated statement of financial position as at December 31, 2010 is provided below:

|                                                   | Notes            | December 31, 2010    |                               |                     |
|---------------------------------------------------|------------------|----------------------|-------------------------------|---------------------|
|                                                   |                  | GAAP                 | Effects of transition to IFRS | IFRS                |
| <b>ASSETS</b>                                     |                  |                      |                               |                     |
| Current assets                                    |                  |                      |                               |                     |
| Cash and cash equivalents                         |                  | \$ 2,584,807         | \$ -                          | \$ 2,584,807        |
| Marketable securities                             |                  | 1,074,657            | -                             | 1,074,657           |
| Receivables                                       |                  | 616,193              | -                             | 616,193             |
| Prepaid expenses                                  |                  | 132,120              | -                             | 132,120             |
|                                                   |                  | 4,407,777            | -                             | 4,407,777           |
| Non-current assets                                |                  |                      |                               |                     |
| Deposits                                          |                  | 69,969               | -                             | 69,969              |
| Mineral properties                                | 16(b)            | 35,496,185           | (35,496,185)                  | -                   |
| Property, plant and equipment                     |                  | 90,090               | -                             | 90,090              |
| <b>Total Assets</b>                               |                  | <b>\$ 40,064,021</b> | <b>\$ (35,496,185)</b>        | <b>\$ 4,567,836</b> |
| <b>LIABILITIES</b>                                |                  |                      |                               |                     |
| Current liabilities                               |                  |                      |                               |                     |
| Accounts payable and accrued liabilities          |                  | \$ 291,548           | \$ -                          | \$ 291,548          |
| Deferred income taxes                             | 16(c)(iii)       | 4,081,000            | (4,081,000)                   | -                   |
| <b>SHAREHOLDERS' EQUITY</b>                       |                  |                      |                               |                     |
| Share capital                                     | 16(c)(ii) & (iv) | 52,195,833           | 404,077                       | 52,599,910          |
| Contributed surplus                               | 16(c)(ii)        | 3,653,836            | (3,653,836)                   | -                   |
| Share compensation reserve                        |                  | 1,166,871            | -                             | 1,166,871           |
| Accumulated other comprehensive income            | 16(c)(i)         | 87,255               | (87,255)                      | -                   |
| Deficit                                           |                  | (21,412,322)         | (28,078,171)                  | (49,490,493)        |
|                                                   |                  | 35,691,473           | (31,415,185)                  | 4,276,288           |
| <b>Total Liabilities and Shareholders' Equity</b> |                  | <b>\$ 40,064,021</b> | <b>\$ (35,496,185)</b>        | <b>\$ 4,567,836</b> |

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**16. First Time Adoption of IFRS (continued)**

The reconciliation between GAAP and IFRS consolidated statement of changes in equity as at January 1, 2010 and December 31, 2010 is provided below:

|                                          | Notes           | Number of<br>Common<br>shares | Share capital | Reserves     | Deficit         | Total         |
|------------------------------------------|-----------------|-------------------------------|---------------|--------------|-----------------|---------------|
| <b>Balance at January 1, 2010 GAAP</b>   |                 | 78,057,308                    | \$ 50,644,677 | \$ 3,960,246 | \$ (13,521,476) | \$ 41,083,447 |
| Acquisition costs                        | 16(b)           |                               | -             | -            | (5,616,202)     | (5,616,202)   |
| Exploration costs                        | 16(b)           |                               | -             | -            | (35,369,751)    | (35,369,751)  |
| Future income tax adjustment             | 16(c)(iii)      |                               | -             | -            | 4,177,000       | 4,177,000     |
| Reallocation of contributed surplus      | 16(c)(ii)       |                               | 283,101       | (3,525,134)  | 3,242,033       | -             |
| <b>Balance at January 1, 2010 IFRS</b>   |                 | 78,057,308                    | \$ 50,927,778 | \$ 435,112   | \$ (47,088,396) | \$ 4,274,494  |
| <b>Balance at December 31, 2010 GAAP</b> |                 | 86,869,808                    | \$ 52,195,833 | \$ 4,820,707 | \$ (21,325,067) | \$ 35,691,473 |
| <b>Adjustments for IFRS:</b>             |                 |                               |               |              |                 |               |
| Acquisition costs                        | 16(b)           |                               | -             | -            | (5,616,202)     | (5,616,202)   |
| Exploration costs                        | 16(b)           |                               | -             | -            | (35,369,751)    | (35,369,751)  |
| Future income tax adjustment             | 16(c)(iii)&(iv) |                               | -             | -            | 4,177,000       | 4,177,000     |
| Reallocation of contributed surplus      | 16(c)(ii)       |                               | 283,101       | (3,525,134)  | 3,242,033       | -             |
| Exploration expenditures                 | 16(b)           |                               | -             | -            | (862,270)       | (862,270)     |
| Mineral property write down              | 16(b)           |                               | -             | -            | 6,352,038       | 6,352,038     |
| Contributed surplus adjustment           | 16(c)(ii)       |                               | 5,456         | (128,702)    | 123,246         | -             |
| Future income tax adjustment             | 16(c)(iv)       |                               | 115,520       | -            | (211,520)       | (96,000)      |
| <b>Balance at December 31, 2010 IFRS</b> |                 | 86,869,808                    | \$ 52,599,910 | \$ 1,166,871 | \$ (49,490,493) | \$ 4,276,288  |

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### 16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of comprehensive loss for the six months ended June 30, 2010 is provided below:

|                                                     | Notes     | For the Six Months Ended June 30, 2010 |                               |                |
|-----------------------------------------------------|-----------|----------------------------------------|-------------------------------|----------------|
|                                                     |           | GAAP                                   | Effects of transition to IFRS | IFRS           |
| <b>General and administrative expenses</b>          |           |                                        |                               |                |
| Accounting and audit                                |           | \$ 21,750                              | \$ -                          | \$ 21,750      |
| Administration fees                                 |           | 19,200                                 | -                             | 19,200         |
| Amortization                                        |           | 25,689                                 | -                             | 25,689         |
| Annual report and meeting                           |           | 12,052                                 | -                             | 12,052         |
| Consulting fees                                     |           | 2,761                                  | -                             | 2,761          |
| Directors' fees                                     |           | 31,250                                 | -                             | 31,250         |
| Filing fees                                         |           | 12,456                                 | -                             | 12,456         |
| Insurance                                           |           | 25,527                                 | -                             | 25,527         |
| Interest                                            |           | 1,141                                  | -                             | 1,141          |
| Investor relations and promotion                    |           | 99,201                                 | -                             | 99,201         |
| Legal fees                                          |           | 5,385                                  | -                             | 5,385          |
| Office and miscellaneous                            |           | 18,972                                 | -                             | 18,972         |
| Rent and storage                                    |           | 69,586                                 | -                             | 69,586         |
| Share-based compensation                            |           | 700,450                                | -                             | 700,450        |
| Transfer agent fees                                 |           | 9,484                                  | -                             | 9,484          |
| Wages and benefits                                  |           | 262,410                                | -                             | 262,410        |
|                                                     |           | (1,317,314)                            | -                             | (1,317,314)    |
| <b>Other income (expenses)</b>                      |           |                                        |                               |                |
| Interest income                                     |           | 7,356                                  | -                             | 7,356          |
| Loss on disposal of equipment                       |           | (8,032)                                | -                             | (8,032)        |
| Mineral property exploration                        | 16(b)     | (4,248)                                | 382,168                       | 377,920        |
| Property investigation recoveries                   |           | 27,031                                 | -                             | 27,031         |
| Realized loss on marketable securities              |           | (244,126)                              | -                             | (244,126)      |
| Reversal of previously recognized unrealized losses |           | -                                      | 241,616                       | 241,616        |
| Unrealized gain on marketable securities            |           | -                                      | (129,686)                     | (129,686)      |
|                                                     |           | (222,019)                              | 494,098                       | 272,079        |
| <b>Loss before income taxes</b>                     |           | (1,539,333)                            | -                             | (1,045,235)    |
| <b>Future income tax recovery</b>                   | 16(c)(iv) | 115,520                                | (115,520)                     | -              |
| <b>Loss for the period</b>                          |           | (1,423,813)                            | 378,578                       | (1,045,235)    |
| <b>Other comprehensive income</b>                   | 16(c)(i)  |                                        |                               |                |
| Reversal of previously recognized unrealized losses |           | 241,616                                | (241,616)                     | -              |
| Unrealized gain on marketable securities            |           | (129,686)                              | 129,686                       | -              |
|                                                     |           | 111,930                                | (111,930)                     | -              |
| <b>Loss and comprehensive loss for the period</b>   |           | \$ (1,311,883)                         | \$ 266,648                    | \$ (1,045,235) |

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### 16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of comprehensive loss for the year ended December 31, 2010 is provided below:

|                                                     | Notes     | For the Year Ended December 31, 2010 |                               |                |
|-----------------------------------------------------|-----------|--------------------------------------|-------------------------------|----------------|
|                                                     |           | GAAP                                 | Effects of transition to IFRS | IFRS           |
| <b>General and administrative expenses</b>          |           |                                      |                               |                |
| Accounting and audit                                |           | \$ 83,730                            | \$ -                          | \$ 83,730      |
| Administration fees                                 |           | 40,275                               | -                             | 40,275         |
| Amortization                                        |           | 46,775                               | -                             | 46,775         |
| Annual report and meeting                           |           | 12,052                               | -                             | 12,052         |
| Consulting fees                                     |           | 3,537                                | -                             | 3,537          |
| Directors' fees                                     |           | 62,500                               | -                             | 62,500         |
| Filing fees                                         |           | 17,414                               | -                             | 17,414         |
| Insurance                                           |           | 36,797                               | -                             | 36,797         |
| Interest                                            |           | 2,644                                | -                             | 2,644          |
| Investor relations and promotion                    |           | 192,683                              | -                             | 192,683        |
| Legal fees                                          |           | 15,904                               | -                             | 15,904         |
| Office and miscellaneous                            |           | 47,310                               | -                             | 47,310         |
| Rent and storage                                    |           | 116,850                              | -                             | 116,850        |
| Share-based compensation                            |           | 861,034                              | -                             | 861,034        |
| Transfer agent fees                                 |           | 16,641                               | -                             | 16,641         |
| Wages and benefits                                  |           | 548,305                              | -                             | 548,305        |
|                                                     |           | (2,104,451)                          | -                             | (2,104,451)    |
| <b>Other income (expenses)</b>                      |           |                                      |                               |                |
| Interest income                                     |           | 13,205                               | -                             | 13,205         |
| Loss on disposal of equipment                       |           | (19,168)                             | -                             | (19,168)       |
| Mineral property exploration                        | 16(b)     | (52,271)                             | (862,270)                     | (914,541)      |
| Property investigation recoveries                   |           | 30,026                               | -                             | 30,026         |
| Realized loss on marketable securities              |           | (244,126)                            | -                             | (244,126)      |
| Reversal of previously recognized unrealized losses |           | -                                    | 241,616                       | 241,616        |
| Unrealized gain on marketable securities            |           | -                                    | 472,096                       | 472,096        |
| Write down of mineral properties                    |           | (6,352,038)                          | 6,352,038                     | -              |
|                                                     |           | (6,624,372)                          | 6,203,480                     | (420,892)      |
| <b>Loss before income taxes</b>                     |           | (8,728,823)                          | -                             | (2,525,343)    |
| <b>Future income tax recovery</b>                   | 16(c)(iv) | 211,520                              | (211,520)                     | -              |
| <b>Loss for the year</b>                            |           | (8,517,303)                          | 5,991,960                     | (2,525,343)    |
| <b>Other comprehensive income</b>                   |           |                                      |                               |                |
| Reversal of previously recognized unrealized losses | 16(c)(i)  | 241,616                              | (241,616)                     | -              |
| Unrealized gain on marketable securities            |           | 472,096                              | (472,096)                     | -              |
|                                                     |           | 713,712                              | (713,712)                     | -              |
| <b>Loss and comprehensive loss for the year</b>     |           | \$ (7,803,591)                       | \$ 5,278,248                  | \$ (2,525,343) |

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**16. First Time Adoption of IFRS (continued)**

**(d) Restatement of Statement of Cash Flows from the Previous GAAP to IFRS**

The reconciling items between GAAP and IFRS consolidated statement of cash flow for the six months ended June 30, 2010 is provided below:

|                                                                        | Notes           | For the Six Months Ended June 30, 2010 |                               |                |
|------------------------------------------------------------------------|-----------------|----------------------------------------|-------------------------------|----------------|
|                                                                        |                 | GAAP                                   | Effects of transition to IFRS | IFRS           |
| <b>Cash flows from operating activities</b>                            |                 |                                        |                               |                |
| Loss for the period                                                    | 16(b) & (c)(ii) | \$ (1,423,813)                         | \$ 378,578                    | \$ (1,045,235) |
| Items not affecting cash:                                              |                 |                                        |                               |                |
| Amortization                                                           |                 | 25,689                                 | -                             | 25,689         |
| Share-based compensation                                               |                 | 700,450                                | -                             | 700,450        |
| Future income tax                                                      | 16(c)(iv)       | (115,520)                              | 115,520                       | -              |
| Loss on disposal of equipment                                          |                 | 8,032                                  | -                             | 8,032          |
| Realized loss on sale of marketable securities                         |                 | 244,126                                | -                             | 244,126        |
| Reversal of previously recognized unrealized losses                    | 16(c)(i)        | -                                      | (241,616)                     | (241,616)      |
| Unrealized loss on marketable securities                               | 16(c)(i)        | -                                      | 129,686                       | 129,686        |
|                                                                        |                 | (561,036)                              | 382,168                       | (178,868)      |
| Changes in non-cash working capital items:                             |                 |                                        |                               |                |
| Receivables                                                            | 16(b)           | 54,711                                 | (74,794)                      | (20,083)       |
| Prepaid expenses                                                       |                 | (8,895)                                | -                             | (8,895)        |
| Accounts payable and accrued liabilities                               | 16(b)           | 42,835                                 | (32,255)                      | 10,580         |
| Due to related parties                                                 |                 | (43,783)                               | 43,783                        | -              |
|                                                                        |                 | (516,168)                              | 318,902                       | (197,266)      |
| <b>Cash flows from investing activities</b>                            |                 |                                        |                               |                |
| Proceeds from sale of marketable securities, net of commissions        |                 | 24,990                                 | -                             | 24,990         |
| Mineral property acquisition and exploration costs, net of recoveries  | 16(b)           | 307,374                                | (307,374)                     | -              |
| Accounts payable and accrued liabilities related to mineral properties | 16(b)           | 11,528                                 | (11,528)                      | -              |
| Deposits                                                               |                 | (30,634)                               | -                             | (30,634)       |
| Leasehold improvements                                                 |                 | (158,893)                              | -                             | (158,893)      |
|                                                                        |                 | 154,365                                | (318,902)                     | (164,537)      |
| <b>Cash flows from financing activity</b>                              |                 |                                        |                               |                |
| Shares issued for cash, net of issue costs                             |                 | 460,500                                | -                             | 460,500        |
| <b>Decrease in cash and cash equivalents</b>                           |                 | 98,697                                 | -                             | 98,697         |
| <b>Cash and cash equivalents, beginning of period</b>                  |                 | 3,260,817                              | -                             | 3,260,817      |
| <b>Cash and cash equivalents, end of period</b>                        |                 | \$ 3,359,514                           | \$ -                          | \$ 3,359,514   |

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**16. First Time Adoption of IFRS (continued)**

**(d) Restatement of Statement of Cash Flows from the Previous GAAP to IFRS**

The reconciling items between GAAP and IFRS consolidated statement of cash flow for the year ended December 31, 2010 is provided below:

|                                                                        | Notes             | For the Year Ended December 31, 2010 |                               |                |
|------------------------------------------------------------------------|-------------------|--------------------------------------|-------------------------------|----------------|
|                                                                        |                   | GAAP                                 | Effects of transition to IFRS | IFRS           |
| <b>Cash flows from operating activities</b>                            |                   |                                      |                               |                |
| Loss for the year                                                      | 16(b) & (c)(ii)   | \$ (8,517,303)                       | \$ 5,991,961                  | \$ (2,525,342) |
| Items not affecting cash:                                              |                   |                                      |                               |                |
| Amortization                                                           |                   | 46,775                               | -                             | 46,775         |
| Share-based compensation                                               |                   | 861,034                              | -                             | 861,034        |
| Future income tax                                                      | 16(c)(iii) & (iv) | (211,520)                            | 211,520                       | -              |
| Loss on disposal of equipment                                          |                   | 19,168                               | -                             | 19,168         |
| Mineral property option payment                                        | 16(b)             | -                                    | (7,500)                       | (7,500)        |
| Write down of mineral properties                                       | 16(b)             | 6,352,038                            | (6,352,038)                   | -              |
| Realized loss on sale of marketable securities                         | 16(c)(ii)         | 244,126                              | -                             | 244,126        |
| Reversal of previously recognized unrealized losses                    | 16(c)(i)          | -                                    | (241,616)                     | (241,616)      |
| Unrealized gain on marketable securities                               | 16(c)(i)          | -                                    | (472,096)                     | (472,096)      |
|                                                                        |                   | (1,205,682)                          | (869,769)                     | (2,075,451)    |
| Changes in non-cash working capital items:                             |                   |                                      |                               |                |
| Receivables                                                            | 16(b)             | (61,458)                             | (214,851)                     | (276,309)      |
| Prepaid expenses                                                       |                   | (85,667)                             | -                             | (85,667)       |
| Accounts payable and accrued liabilities                               | 16(b)             | 60,046                               | 34,351                        | 94,397         |
| Due to related parties                                                 |                   | (12,409)                             | 12,409                        | -              |
|                                                                        |                   | (1,305,170)                          | (1,037,860)                   | (2,343,030)    |
| <b>Cash flows from investing activities</b>                            |                   |                                      |                               |                |
| Proceeds from sale of marketable securities, net of commissions        |                   | 24,990                               | -                             | 24,990         |
| Mineral property acquisition and exploration costs, net of recoveries  | 16(b)             | (1,084,621)                          | 1,084,621                     | -              |
| Accounts payable and accrued liabilities related to mineral properties | 16(b)             | 46,761                               | (46,761)                      | -              |
| Deposits                                                               |                   | (14,969)                             | -                             | (14,969)       |
| Purchase of equipment                                                  |                   | (9,104)                              | -                             | (9,104)        |
|                                                                        |                   | (1,036,943)                          | 1,037,860                     | 917            |
| <b>Cash flows from financing activity</b>                              |                   |                                      |                               |                |
| Shares issued for cash, net of issue costs                             |                   | 1,666,103                            | -                             | 1,666,103      |
| <b>Decrease in cash and cash equivalents</b>                           |                   | (676,010)                            | -                             | (676,010)      |
| <b>Cash and cash equivalents, beginning of year</b>                    |                   | 3,260,817                            | -                             | 3,260,817      |
| <b>Cash and cash equivalents, end of year</b>                          |                   | \$ 2,584,807                         | \$ -                          | \$ 2,584,807   |