



## Table of Contents

1.1 Description of Business and Report Date.....	- 21 -
1.2 Company Overview and Projects .....	- 21 -
(a) Highlights for the Three Months Ended September 30, 2008.....	- 22 -
(b) Events Subsequent to September 30, 2008 .....	- 22 -
(c) Amaruk Project – Nunavut, Canada .....	- 23 -
(i) Ualliq option to International Samuel Exploration Corp. ....	- 24 -
(ii) Sakari joint venture with Shear Minerals Ltd.....	- 25 -
(iii) Siku joint venture with Arctic Star Diamond Corp. ....	- 25 -
(iv) Tunerq - Amaruk Nickel Project (100% owned).....	- 25 -
(d) Hepburn Project – Northwest Territories, Canada.....	- 26 -
(e) Banks Island Project – Northwest Territories, Canada .....	- 26 -
(f) Mineral Property Expenditures Table.....	- 27 -
1.3 Results of Operations .....	- 28 -
(a) Current Quarter .....	- 28 -
(b) Nine Months Ended September 30, 2008 vs. Nine Months Ended September 30, 2007 .....	- 28 -
1.4 Summary of Quarterly Results .....	- 29 -
1.5 Liquidity.....	- 30 -
1.6 Capital Management.....	- 31 -
1.7 Off-Balance Sheet Arrangements.....	- 31 -
1.8 Related Party Transactions.....	- 31 -
1.9 Proposed Transactions .....	- 32 -
1.10 Changes in Accounting Policies .....	- 32 -
1.11 New Accounting Pronouncements.....	- 33 -
1.12 Financial Instruments.....	- 33 -
1.13 Certification of Interim Filings.....	- 34 -
1.14 Other MD&A Requirements.....	- 34 -



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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### 1.1 Description of Business and Report Date

Diamonds North Resources Ltd. (“the Company”) is an exploration stage company engaged in the acquisition and exploration of diamond mineral properties in Canada. The principal properties are located in northern Canada throughout Nunavut (“NU”) and the Northwest Territories (“NWT”). The Company trades as a Tier One company on the TSX Venture Exchange (“Exchange”) under the symbol “DDN” and is a reporting issuer in British Columbia and Alberta. The following discussion and analysis of the financial position and results of operations for the Company should be read in conjunction with the consolidated financial statements and the notes thereto for the nine months ended September 30, 2008.

This Management Discussion and Analysis (“MD&A”) may contain forward-looking statements that involve risks and uncertainties. Words such as “anticipate,” “believe,” “estimates,” “expects,” and similar expressions are used throughout this report to identify these statements. Forward-looking statements in this MD&A are only made as of November 25, 2008 (the “Report Date”). Please keep in mind that statements which describe the Company’s proposed plans, objectives, and budgets may differ materially from actual results. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration success, continued availability of capital, and general economic, market or business conditions.

Bruce Kienlen (P.Geol) and Graham Gill (P. Geo) are the Company's qualified persons reviewing the exploration projects described throughout the MD&A. They are responsible for the design and conduct of the exploration programs and the verification and quality assurance of analytical results.

### 1.2 Company Overview and Projects

As of the Report Date, the Company has completed the following on its 100% owned Amaruk property:

- Over 6,000 metres of diamond drilling was completed on the Tuktu and Qavvik kimberlites to collect drill core for a composite mini-bulk sample. Final weights reported by the laboratory total 36.12 tonnes of drill core including 21.63 tonnes from Tuktu-1, 2, 3 and 14.49 tonnes from Qavvik-4, 5 & 6, see ‘1.2(c) Amaruk Project’.
- The percussion drills have been utilized for testing new targets and delineation drilling of Tuktu and Qavvik.
- The discovery of 7 new kimberlites.
- Over 212 ground geophysical grids completed.
- More than 600 till samples have been collected on the property.
- At Tunerq, EM and magnetic surveys, percussion drilling, mapping and an IP survey were completed this year.



**(a) Highlights for the Three Months Ended September 30, 2008**

- On July 7<sup>th</sup>, the Company completed a bought deal financing, led by Canaccord Capital Corporation and including Dundee Securities Corporation, GMP Securities L.P. and Haywood Securities Inc. that consisted of 3,833,600 units at a price of \$1.05 per unit and 7,083,700 flow-through common shares at a price of \$1.20 per share for gross proceeds of \$12,525,720. A unit consists of one common share and one-half of one transferable common share purchase warrant entitling the holder to purchase one additional common share at a price of \$1.30 for a period.

Concurrently, the Company closed the first tranche of the non-brokered private placement for gross proceeds of \$2,946,799 from the issuance of 1,391,666 flow-through shares and 1,216,000 units.

- On July 10<sup>th</sup>, the Company closed the second tranche of the non-brokered private placement for gross proceeds of \$552,500 from the issuance of 16,833 flow-through shares and 507,000 units.

**(b) Events Subsequent to September 30, 2008**

- On October 1<sup>st</sup>, the Company and Uranium North Resources Corp. (“Uranium North”) entered into a Debt Settlement Agreement for the repayment of a working capital loan, see ‘1.8 Related Party Transactions’.

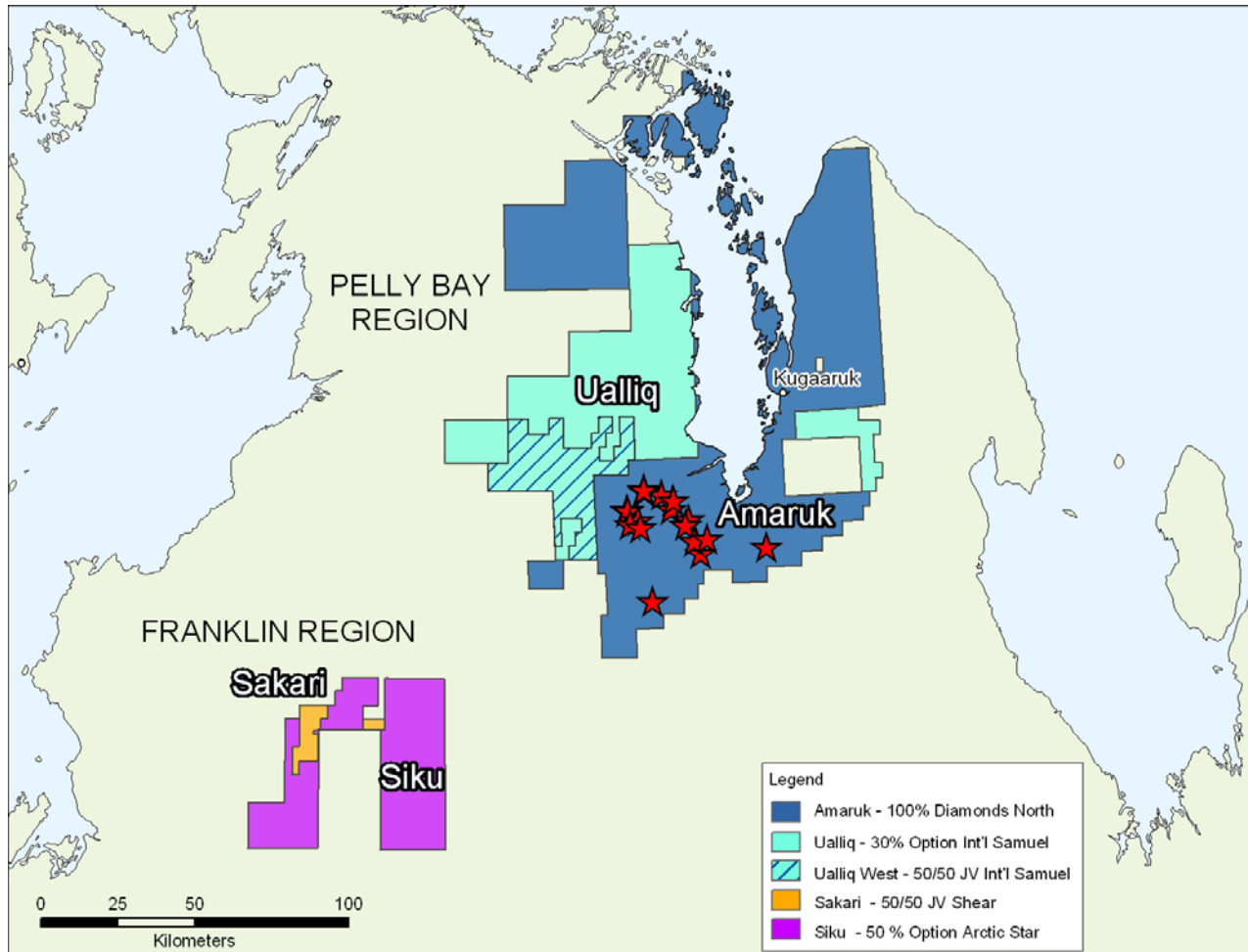
In response to the current market volatility and financial uncertainty, the Company has taken the following measures:

- For 2009, management has prepared a \$2 million dollar exploration budget, a significant decrease from the current year’s \$16 million exploration programs. The budget will be funded by with remaining flow-through expenditure obligations from this summer financing. Final budget amounts and specifics for work to be undertaken will be determined in the spring of 2009. Budgets for work, if any, for optioned and joint venture projects will be prepared in the spring of 2009.
- Senior employees and a consultant of the Company agreed to defer 10% of their salaries or fees. This amount will accrue as a debt owing by the Company and shall not bear interest. At the Company’s election, this debt can be satisfied in cash and/or common shares.
- During the quarter, the Company reduced land positions on the following projects Arnaq 15,000 acres, Kidme 27,0000 acres, Siku 129,000 acres, Ualliq 47,000 acres and Ualliq 50/50 134,000 acres.

Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

**(c) Amaruk Project – Nunavut, Canada**

**Map 1- Pelly Bay Diamond District Project Locations**



The Amaruk property and the Ualliq, Sakari and Siku projects cover approximately 3.4 million acres around the community of Kugaaruk, Nunavut. The projects are subject to a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on other minerals except gold, payable to BHP Billiton Diamonds Inc. (“BHP Billiton”). Portions of the property have been optioned or in joint ventures with other diamond exploration companies as noted in the map and described separately are below.

*-Amaruk Exploration Program for 2008*

The 2008 program included detailed geophysics, drill testing, evaluation of known kimberlites and mini-bulk sampling. Management believes the high diamond counts from the Tuktu-1, 2, & 3 kimberlites justified a larger sample.

To date all of the collected kimberlite sample from the Tuktu-1, 2, 3 and Qavvik-4, 5 & 6 kimberlite has been crushed to minus 6 millimetres and has undergone a first pass in the dense media separation (DMS) plant. The remaining kimberlite will be crushed to 3.35 millimetres prior to a second pass through the DMS plant for final separation. Kimberlite concentrates will be picked for diamonds upon completion of the second pass through the DMS plant.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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Final weights reported by the laboratory total 36.12 tonnes of drill core including 21.63 tonnes from Tuktu-1, 2, 3 and 14.49 tonnes from Qavvik-4, 5 & 6. This mini-bulk sample is designed to evaluate the potential for larger diamonds from these highly diamondiferous kimberlites.

In addition, diamond analysis will be conducted on 7 new kimberlites discovered on the Amaruk property in 2008, two of which are included in the mini-bulk sample tonnage.

Overall operating exploration costs were higher in 2008 and the final program will be \$1 million more than budgeted. High oil prices resulted in increased helicopter fuel costs along with fuel levies and surcharges on commercial air transportation. Unlike previous years, the Company was unable to secure the majority of our fuel requirements in Pelly Bay and incurred additional freight costs transporting fuel in. The Company operated five helicopters from the Amaruk camp.

The following discussion is in reference to the table in 1.2(f) Mineral Properties Expenditures:

In preparation for the 2008 Amaruk exploration program, the kitchen/mess hall and dry were destroyed in a fire. No persons were injured, as the camp was unoccupied at the time. The incident was reported to authorities and the cause unknown. Included in Amaruk Camp costs of \$1,473,538 is approximately \$230,000 for the cost of debris removal, lost equipment and kitchen/mess hall and dry reconstruction. An insurance claim was filed and a \$150,000 payment was received in August.

Property expenditures of \$402,573 include bonds and assessment fees paid to the Mining Recorder. Approximately \$278,000 in bonds have been posted in lieu of work and may be recovered in the future, if sufficient exploration work is completed and approved by the Mining Recorder.

*-Future Developments for Amaruk*

To date, all diamond bearing kimberlites discovered have been in close proximity to favourable geochemistry. During 2008, a kimberlite was discovered through ground geophysics in an area with favourable geochemistry. However, no anomaly could be seen in either the first or second phase airborne survey data. Several favourable geochemistry results around the Tuktu and Qavvik kimberlites remained unexplained.

For spring 2009, the Company has proposed a 40 kilometre ground geophysical survey surrounding the Tuktu and Qavvik kimberlites. A final program will be prepared, once all the 2008 data has been reviewed

**(i) Ualliq option to International Samuel Exploration Corp.**

On July 26, 2006, the Company and International Samuel Exploration Corp. ("International Samuel") entered into an agreement covering approximately 824,000 (formerly 871,000) acres predominantly to the west of the Company's Amaruk project. International Samuel has an option to earn a 30% interest in the Ualliq project by issuing 2,000,000 common shares to the Company (received) and incurring \$3,000,000 in expenditures on the property on or before December 31, 2009. In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

In 2007, the Company and International Samuel entered into a second agreement to form a 50:50 partnership on claims that were staked called the Ualliq West property. The 116,000 (formerly 250,000) acres of new claims are contiguous with the Amaruk and Ualliq properties. The Company is the project operator.

*-Ualliq Exploration Program for 2008*



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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A total of 330 airborne geophysical targets have been identified, of which approximately 80 are rated as high to moderate priority. Significantly, 47 of the targets range in size from 2 to 7 hectares. The partners approved a two phase program budgeted at \$1 million.

A total of 53 targets were ground surveyed, 11 of the targets were tested using a percussion drill. No kimberlite was intersected. In addition, 7,650 line kilometres of airborne geophysical surveying was completed in 2008. Interpretation of the data is underway.

**(ii) Sakari joint venture with Shear Minerals Ltd.**

On July 31, 2006, the Company and Shear Minerals Ltd. ("Shear") entered into an agreement covering approximately 42,000 acres of claims located within the southwest portion of the Company's Amaruk project. Shear has 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.

*-Sakari Exploration Program for 2008*

The partners approved a \$310,000 budget to evaluate 10 targets with follow-up exploration including ground geophysics and percussion drill testing of up to three of the most favourable targets.

A total of 18 targets were ground surveyed, 3 of the targets were tested using a percussion drill. No kimberlite was intersected. [NTD: Check with Pam or delete???

**(iii) Siku joint venture with Arctic Star Diamond Corp.**

On October 4, 2006, the Company and Arctic Star Diamond Corp. ("Arctic Star") entered into an agreement covering approximately 326,000 (formerly 455,000) acres of claims located within the southwest portion of the Company's Amaruk project. Arctic Star has earned a 50% interest in the Siku project by issuing 1,500,000 shares to the Company, funding approximately \$956,000 in bonds on the claims and incurring \$2,500,000 in expenditures on the property on or before September 30, 2009. In addition, for each of the first five kimberlite bodies discovered on the property, Arctic Star shall issue 100,000 common shares to the Company. The Company is the project operator.

*-Siku Exploration Program for 2008*

The partners planned an extensive 2008 field program of percussion drill testing of 15 to 30 targets. Interpretation of geophysical data from 2007 is completed. The partners approved a two phase field program for prospecting, ground magnetic and percussion drilling of 15 targets budgeted at \$1,140,000.

A total of 54 targets were ground surveyed, 14 of the targets were tested using a percussion drill. No kimberlite was intersected. In addition, a 3,625 line kilometres of airborne geophysical surveying was completed in 2008. Interpretation of the data is underway. A total of 304 targets remain untested.

**(iv) Tunerq - Amaruk Nickel Project (100% owned)**

The Tunerq prospect is an oxidized sulphide bearing outcrop discovered in 2007. Some of the initial grab samples yielded high nickel values ranging from just over 1% to 1.71% nickel with associated copper and cobalt. The sulfide mineralized outcrop is approximately 20 to 30 metres wide and slopes gently into an extensive low lying area with no outcrop exposure.

*-Tunerq Exploration Program for 2008*



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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In April/May, the Company completed detailed ground EM and magnetic surveys and a percussion drill program. In September, a mapping program and Induced Polarized (IP) survey was completed. Percussion drill results highlights include:

- Hole 1 intersected 1.20% Ni, 0.26% Cu and 0.03% Co over 12.2 metres within a 22.9 metre zone containing 0.83% Ni and 0.19% Cu.
- Hole 2 intersected 2.49% Ni, 0.56 % Cu and 0.05% Co over 9.1 metres within a 34.8 metre zone containing 1.05% Ni and 0.26% Cu.
- Hole 4 intersected 1.86% Ni, 0.36 % Cu and 0.04% Co over 5.8 metres within a 7.3 metre zone containing 1.50% Ni and 0.29% Cu.

**(d) Hepburn Project – Northwest Territories, Canada**

The Company holds a 100% interest in the 1.3 million acre Hepburn property located approximately 400 kilometres north of Yellowknife. Based on indicator mineral data, the Company has outlined two potential kimberlite fields on the property. A portion of the property's uranium rights were transferred to Uranium North Resources Corp. ("Uranium North") and the Company continues to hold 100% interest in all diamonds and other metals, except uranium for which the Company retains a royalty.

*-Hepburn Exploration Program for 2008*

For 2008, the Company planned a program of detailed ground geophysics and till sampling to delineate drill targets for testing. The program was completed in September and the budget was under \$2 million. A total of 92 ground magnetic surveys were completed and over 600 till samples collected.

In reference to the table in 1.2(f) Mineral Properties Expenditures under Property expenditures includes \$455,626 for bonds and assessment fees paid to the Mining Recorder. Approximately \$255,000 in bonds have been posted in lieu of work and may be recovered in the future, if sufficient exploration work is completed and approved by the Mining Recorder.

**(e) Banks Island Project – Northwest Territories, Canada**

The Banks Island property covers 1.2 million acres of permits in NWT which was acquired with Majescor on a 50:50 basis. On July 5, 2007, the Company acquired Majescor's 50% interest in consideration for 1 million common shares, a two year warrant to purchase up to 1 million shares at \$1.50 per share and a 1.5% royalty on diamonds, metals and other minerals of which half of the royalty may be purchased by the Company at anytime for \$1 million. The warrant is only exercisable if a designated target is proven to be a kimberlite pipe of at least 200 meters in diameter and at which time the warrant will expire at the earlier of six months or July 18, 2009.

*-Banks Island Exploration Program for 2008*

In 2008, the Company conducted a program detailed ground geophysics and prospecting to delineate targets for drill testing. The proposed budget was under \$1 million.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

**(f) Mineral Property Expenditures Table**

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	Tunerq, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Northern Recon.	Other Properties	Total
Balance at												
December 31, 2007	\$ 11,319,082	\$ -	\$ 19,084	\$ -	\$ 26,064	\$ 4,145,442	\$ 1,831,525	\$ 7,157,418	\$ 447,426	\$ 270,709	\$ 272,233	\$ 25,488,983
Additions during the period:												
Acquisition costs	-	-	-	-	-	-	-	-	20,000	-	-	20,000
Exploration:												
Airborne geophysics	781,257	162,507	2,109	86,020	274	-	6,330	14,662	-	-	-	1,053,159
Camp costs	1,473,538	272,846	19,439	174,145	203,714	3,515	202,497	163,821	-	2,106	-	2,515,621
Camp heli. (incl. fuel)	1,148,427	231,945	17,464	51,895	254,737	-	125,692	395,457	-	-	-	2,225,617
Drilling - Core	3,872,136	-	-	-	-	-	-	-	-	-	-	3,872,136
Drilling - Percussion	1,776,425	145,180	67,943	313,777	187,188	-	-	-	-	-	-	2,490,513
Geochemistry	156,256	569	-	1,270	2,813	4,096	2,470	74,513	-	166	-	242,153
Geology	190,786	12,993	3,674	15,340	90,947	4,162	21,277	39,001	-	2,017	-	380,197
Ground geophysics	732,841	34,144	31,019	355,350	392,270	1,667	167,658	468,540	-	-	-	2,183,489
Permitting	11,971	3,099	855	855	14,780	260,509	14,088	-	30,419	-	-	336,576
Prospecting	62,841	12,002	2,956	9,853	72,401	-	38,732	52,936	-	8,416	-	260,137
Property	402,573	159,574	4,231	26,676	6,679	10,110	87,103	455,626	36,878	-	-	1,189,450
	10,609,051	1,034,859	149,690	1,035,181	1,225,803	284,059	665,847	1,664,556	67,297	12,705	-	16,749,048
Less:												
Recoveries	(27,654)	(974,695)	(153,597)	(642,292)	-	-	-	(54,782)	(8,613)	(7,517)	-	(1,869,150)
Option payments	-	(40,000)	-	-	-	-	-	-	-	-	-	(40,000)
Write downs	-	-	-	-	-	-	-	-	-	-	(175,512)	(175,512)
	(27,654)	(1,014,695)	(153,597)	(642,292)	-	-	-	(54,782)	(8,613)	(7,517)	(175,512)	(2,084,662)
Net additions	10,581,397	20,164	(3,907)	392,889	1,225,803	284,059	665,847	1,609,774	78,684	5,188	(175,512)	14,684,386
Balance at												
September 30, 2008	\$ 21,900,479	\$ 20,164	\$ 15,177	\$ 392,889	\$ 1,251,867	\$ 4,429,501	\$ 2,497,372	\$ 8,767,192	\$ 526,110	\$ 275,897	\$ 96,721	\$ 40,173,369

1. Included under "Northern Recon." in 2007.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

**1.3 Results of Operations**

**(a) Current Quarter**

The Company's cash position increased \$4,437,649 to \$7,027,658. During the quarter, the Company issued 14,048,799 commons shares for net proceeds of \$14,805,831 via private placements completed in July, see 1.2(a) Highlights for the Three Months Ended September 30, 2008. As of the Report Date, approximately \$630,000 of the \$797,101 receivables at September 30<sup>th</sup> remains outstanding. Included in these outstanding receivable is \$411,000 in GST filed in November and the Company anticipates the return to be approved. Included in \$2,490,288 payables at September 30<sup>th</sup> is a \$560,000 accrual for airborne surveys completed in the summer for which an invoice has not been issued. As of the Report Date, approximately \$1.9 million of the payables have been paid.

Cash exploration funds from the July flow-through financing funded the \$7,157,026 in mineral property acquisition and exploration cash expenditures. Cash exploration funds received from flow-through financings are used for Canadian exploration and the Company will spend the remaining obligations before December 2009.

**(b) Nine Months Ended September 30, 2008 vs. Nine Months Ended September 30, 2007**

Results of operations for the nine months ended September 30, 2008 are discussed in comparison with the nine months ended September 30, 2007. General and administrative expenses of \$1,837,501 (2007 - \$1,994,066) represents a \$156,565 decrease compared to the comparative fiscal period. Notable changes include:

- Amortization expense \$53,716 (2007 - \$33,001) increased due to exploration equipment purchased in 2007 and 2008. The Company has found it more cost effective to purchase versus renting various exploration equipment.
- Investor relations and promotion of \$340,682 decreased as the comparative period included cost for the Genoa Management services and a BTV television show segment. A breakdown is below:

	<b>2008</b>	<b>2007</b>
Administration	\$ 4,639	\$ 2,463
Conferences and trade shows	100,628	118,477
Consulting, wages and benefits	137,245	197,922
Media	38,694	42,635
Promotion and advertising	31,418	50,683
Stock-based compensation expense	28,058	61,814
	<b>\$ 340,682</b>	<b>\$ 473,994</b>

- Stock-based compensation expense of \$683,966 (2007 - \$791,170) was allocated to the statement of operations categories as follows:

	<b>2008</b>	<b>2007</b>
Accounting and audit	\$ 12,709	\$ 16,484
Administration	15,376	13,179
Consulting	-	33,196
Directors fees	205,478	252,694
Investor relations	28,058	61,814
Wages and benefits	422,375	413,803
	<b>\$ 683,996</b>	<b>\$ 791,170</b>



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

- Write down of mineral properties expense of \$175,512 reflects the write down of Carp Lake, NWT project acquired for its proximity to other diamonds projects in the area.
- Future income tax recovery of \$1,734,200 (2007 - \$3,502,418) reflects the renouncement of exploration expenditures to investors under its flow-through share program. In 2008, the Company renounced \$5,336,000 in flow-through financings compared to \$10,265,000 in 2007. This is a non-cash transaction.

The Company's net loss for the period was \$57,157 (2007 – \$2,001,069) or \$0.00 per share (2007 – \$0.04) which is not reflective of the operating deficit due to the future income tax recovery noted above.

Other comprehensive loss of \$815,245 includes \$1,237,470 in unrealized losses on marketable securities against \$422,225 future income tax recovery. This other comprehensive income represents the decrease in the fair value of the Company's marketable securities portfolio since the beginning of the year.

1.4 Summary of Quarterly Results

	Q4 Dec. 31 2006	Q1 Mar. 31 2007	Q2 Jun. 30 2007	Q3 Sept. 30 2007	Q4 Dec. 31 2007	Q1 Mar. 31 2008	Q2 Jun. 30 2008	Q3 Sept. 30 2008
Mineral expenditures, net of recoveries	\$ (544,203)	\$ 2,426,298	\$ 1,052,611	\$ 6,617,447	\$ 2,470,749	\$ 1,020,663	\$ 7,505,249	\$ 7,157,026
G&A expense	\$ 561,539	\$ 757,347	\$ 680,594	\$ 556,125	\$ 1,033,528	\$ 700,851	\$ 564,388	\$ 572,262
Stock-based comp. exp.	\$ 177,111	\$ 309,780	\$ 231,789	\$ 249,601	\$ 459,361	\$ 311,594	\$ 182,083	\$ 190,319
Net income (loss)	\$ (1,845,156)	\$ 2,331,823	\$ 164,229	\$ (455,455)	\$ (3,359,807)	\$ 1,097,719	\$ (492,272)	\$ (662,604)
Other comprehensive income (loss)		\$ 427,575	\$ 74,305	\$ (631,854)	\$ 151,058	\$ (174,987)	\$ (669,074)	\$ (463,456)
Income (loss) per share -basic	\$ (0.04)	\$ 0.05	\$ -	\$ (0.01)	\$ (0.06)	\$ 0.02	\$ (0.01)	\$ (0.01)
Weighted avg. common shares outstanding -basic	42,451,985	51,621,053	52,312,074	55,914,592	54,701,763	60,602,852	61,078,366	74,231,694

The summary of quarterly results are from the Company's financial statement which are prepared in accordance with Canadian generally accepted accounting principles and denoted in the currency of Canada.

The Company conducts diamond exploration in Canada's north, and mineral expenditures are subject to seasonal conditions with the majority of expenditures occurring in Q2 and Q3. In 2008, the Company commenced exploration earlier along with increased exploration budgets resulting in higher Q2-2008 vs. Q2-2007 expenditures.

G&A expense has increased commensurate with the growth of the Company, in mineral projects and staff. Current G&A expenses reflect costs to comply with regulatory requirements and to retain professional staff in a highly competitive market. Stock-based compensation is a method used by junior exploration companies in retaining staff from larger producing companies which can offer more lucrative salaries.

In Q3-2008, the Company terminated four employees and the majority of these wages were allocated to projects. However, the stock-based compensation portion is included in G&A and will result in future lower G&A



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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cost. The 10% deferral of salaries and fees will help preserve cash but the expense will continue to accrue in G&A cost.

The Company is still in the exploration stage and does not have an operating mine. Earnings per share are anomalous and reflect adjustments to future income tax and gain on sale of marketable securities. In Q1- 2007, income includes a future income tax recovery of \$3,502,418 and in Q1-2008, \$1,734,200.

Comprehensive income accounting was adopted on January 1, 2007 and is the change in shareholders' equity that results from transactions and other events from other than the Company's shareholders and includes items that would not normally be included in net income (loss). Other comprehensive income (loss) represents unrealized gains or losses on available-for-sale investments.

### 1.5 Liquidity

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

The current financial crisis impacts credit and liquidity risk:

- liquidity risk increases, as other things being equal, the price of an asset will be reduced if the holder cannot sell the asset immediately. Included in marketable securities are large share positions which would be difficult to sell in depressed markets. There is also a risk that some of these companies may re-structure their share capital, which may further decrease the values.
- credit risk increases, as service providers may not always be able to perform in accordance with the terms of a contract. To help mitigate this risk with large value contracts, the Company will place funds in-trust with a lawyer, to be released on completion of the contract.

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

In response to the current market volatility and financial crisis, the Company has taken the measures as noted under '1.2(b) Subsequent Events to September 30, 2008'. Management believes its \$8,458,100 in working capital is sufficient to meet administrative and property obligations to complete the current year and continue into 2009. For 2009, the budgeted \$2 million exploration program will be funded with the remaining flow-through expenditure obligations.



### **1.6 Capital Management**

The Company considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable.

The current financial crisis has increased market volatility and placed downward pressure on the Company's stock price.

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

### **1.7 Off-Balance Sheet Arrangements**

The Company has not entered into any off-balance sheet financial arrangements.

### **1.8 Related Party Transactions**

The Company has engaged a business owned by Bernard H. Kahlert, a director of the Company, to provide project management and geological consulting. During the period, the Company paid fees to this related party in the aggregate of \$14,175.

At September 30, 2008, the Company held 8.5% of the issued common shares of Uranium North, a company related by virtue of other common directors. Included in accounts receivable is \$67,646 owed by Uranium North, for mineral property, administrative and office costs.

In 2006, the Company advanced a \$300,000 working capital loan to Uranium North. The loan is repayable in whole or in part, on demand, and bears interest at 5% per annum. At any time prior to repayment, whether before or after a notice of prepayment has been given, the loan and accrued interest or any portion thereof, may be convertible at the sole discretion and option of the Company into securities of Uranium North at a per share conversion price equal to \$0.75 per share.

On March 15, 2008, the entire loan plus accrued interest was to mature. Prior to maturity, the Company and Uranium North proposed to amend the terms of the loan agreement by extending the due date for repayment of the principal and interest to December 31, 2008, reducing the conversion price under the loan to \$0.54 per share and Uranium North would pay a \$6,000 administration fee.

The companies agreed not to proceed with the amendment and entered into a Debt Settlement Agreement dated October 1, 2008 pursuant to which the principal amount of the outstanding loan, together with accrued interest thereon, will be converted into common shares of Uranium North. Pursuant to the Debt Settlement Agreement, Uranium North will issue to the Company a total of 1,689,281 common shares at a deemed price of \$0.20 per share to settle an aggregate of \$337,856.17 in debt. Subject to acceptance by the Exchange.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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### 1.9 Proposed Transactions

None.

### 1.10 Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to the prior period financial statements.

#### *-Accounting Changes*

CICA Section 1506.30 requires companies to provide disclosure in the financial statements when there are new accounting pronouncements which have been issued but not yet effective.

#### *-Assessing Going Concerns*

CICA Section 1400 has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

#### *-Capital Disclosures*

CICA Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the entity's key management personnel:

- qualitative information about its objectives, policies and process for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject; and
- when the company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

#### *-Inventories*

CICA Section 3031 (supersedes Section 3030) prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

#### *-Financial Instruments Disclosures and Presentation*

CICA Section 3862 and 3863 (replaces Section 3861) requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable user to evaluate:

- a) the significance of financial instruments for the entity's financial position and performance; and
- b) the nature and extent of risks arising from the financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

Entities will be required to disclose the measurement basis or bases used and the criteria used to determine classification for different types of instruments.

**1.11 New Accounting Pronouncements**

Below is a summary of new Canadian GAAP pronouncements which may affect the financial disclosure and results of operations of the Company for interim and annual periods beginning after October 1, 2008.

*-Goodwill and Intangible Assets*

CICA Section 3064 replaces Section 3062 Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. The Company is evaluating this new standard and it will not likely impact the Company.

*-International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**1.12 Financial Instruments**

The Company is exposed to credit risk with respect to its cash, cash equivalents and cash exploration funds. To minimize this risk, cash has been placed with major financial institutions. The total amount of cash is available on demand and is not invested in commercial paper or asset backed security programs.

In accordance with the new financial instruments accounting standards, the Company has recorded its assets and liabilities at ‘fair value’ and marketable securities have been classified as available-for-sale securities. The fair value of marketable securities at September 30, 2008 is as follows:

<b>Marketable Securities</b>	<b>Carrying Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>
Available-for-sale	\$ 1,067,761	\$ (612,226)	\$ 455,535

Included in the carrying value of available-for-sale marketable are 1,575,000 common shares of Uranium North, which are subject to escrow. As escrow shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become “free trading”, the fair value will be determined at quoted market prices. At September 30, 2008, the closing price of Uranium North was \$0.085 per share.



Management Discussion and Analysis  
For the Nine Months Ended September 30, 2008

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### 1.13 Certification of Interim Filings

On December 31, 2007, the Company adopted BC Securities Commission 52-511 'Relief for Venture Issuers from Certification Requirements.' The relief helps small size companies like ours, where there is a lack of segregation of duties which is an ongoing internal control weakness. The Company mitigates this risk through direct involvement of senior management in day to day operations.

### 1.14 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

As of the Report Date, the Company had 75,159,308 issued common shares outstanding and the following unexercised stock options and warrants:

#### *-Stock Options*

Expiry Date	Exercise Price	Number of Shares
March 30, 2009	\$1.021	200,000
August 8, 2009	\$0.944	545,000
October 18, 2009	\$0.858	300,000
January 27, 2010	\$0.858	50,000
March 22, 2010	\$0.987	247,500
May 17, 2010	\$0.729	550,000
April 12, 2011	\$0.848	1,660,000
July 13, 2011	\$1.021	113,500
February 27, 2012	\$0.770	1,605,000
May 3, 2012	\$1.010	600,000
May 9, 2012	\$1.030	337,000
February 14, 2013	\$0.880	1,421,000
September 2, 2013	\$0.820	70,000
		7,699,000

#### *-Warrants*

Expiry Date	Exercise Price	Number of Shares
July 7, 2009	\$1.30	1,916,800
July 7, 2009	\$1.30	608,000
July 7, 2009	\$1.30	24,000
July 7, 2009	\$1.30	655,038
July 9, 2009	\$1.30	253,500
July 9, 2009	\$1.30	28,620
		3,485,958