

DIAMONDS NORTH RESOURCES LTD.

Consolidated Financial Statements
March 31, 2007

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NOTICE – No Auditor Review of the Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of Diamonds North Resources Ltd. ("the Company"), for the three months ended March 31, 2007, have been prepared by management and have not been the subject of a review by the Company's external independent auditor.

DIAMONDS NORTH RESOURCES LTD.

Consolidated Balance Sheets
(Unaudited – See Notice)
(expressed in Canadian dollars)

| | March 31, 2007 | December 31, 2006 |
|--|----------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,029,342 | \$ 4,340,398 |
| Cash, exploration funds (Note 13) | 5,205,727 | 7,315,991 |
| Marketable securities (Note 4) | 1,862,298 | 566,201 |
| Accounts receivable (Note 9(a)) | 854,160 | 1,376,034 |
| Prepaid expenses | 246,884 | 217,331 |
| Field supplies | - | 93,201 |
| Deposits, in-trust | 15,000 | 15,000 |
| | 13,213,411 | 13,924,156 |
| Loan and interest receivable (Note 5) | 315,295 | 311,596 |
| Mineral properties (Note 6) | 17,394,526 | 16,023,782 |
| Property, plant and equipment (Note 7) | 113,989 | 117,408 |
| | \$ 31,037,221 | \$ 30,376,942 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 742,964 | \$ 585,734 |
| Due to related parties (Note 9(c)) | 23,943 | 51,359 |
| | 766,907 | 637,093 |
| Future income taxes | 986,398 | 753,385 |
| | 1,753,305 | 1,390,478 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 31,235,189 | 34,713,764 |
| Contributed surplus | 126,133 | 126,133 |
| Option compensation | 1,982,724 | 1,677,584 |
| Accumulated other comprehensive income | 1,139,064 | - |
| Deficit | (5,199,194) | (7,531,017) |
| | 29,283,916 | 28,986,464 |
| | \$ 31,037,221 | \$ 30,376,942 |

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

Approved by the Directors:

"Mark Kolebaba"
Mark Kolebaba

"Bernard H. Kahlert"
Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Operations and Other Comprehensive Income
(Unaudited – See Notice)
(expressed in Canadian dollars)

| | For the Three Months Ended | |
|---|-----------------------------------|------------------|
| | March 31, | March 31, |
| | 2007 | 2006 |
| General and administrative expenses | | |
| Accounting and audit* | \$ 20,554 | \$ 10,130 |
| Administration fees* | 17,896 | 8,510 |
| Amortization | 8,320 | 4,305 |
| Annual report and meeting | 1,604 | - |
| Bank charges and interest | 32,944 | 15,482 |
| Consulting fees* | 28,970 | 528 |
| Directors' fees* | 78,024 | 15,188 |
| Filing fees | 7,504 | 6,190 |
| Insurance | 14,487 | 12,961 |
| Investor relations and promotion* | 183,153 | 65,300 |
| Legal fees | 1,846 | 7,621 |
| Office and miscellaneous | 20,557 | 28,222 |
| Rent and storage | 20,293 | 21,959 |
| Transfer agent fees | 3,057 | 3,022 |
| Wages and benefits* | 318,138 | 122,280 |
| | (757,347) | (321,698) |
| Other income (expenses) | | |
| Interest income | 104,757 | 44,500 |
| Mineral property transactions | 690 | - |
| Property investigation | - | (2,608) |
| Write down of mineral properties | (1,055,554) | (212,335) |
| Gain on sale of marketable securities | 536,859 | 70,209 |
| Loss before income taxes | (1,170,595) | (421,932) |
| Future income tax recovery (Note 8(b)) | 3,502,418 | 853,060 |
| Income for the period | \$ 2,331,823 | \$ 431,128 |
| Other comprehensive income | | |
| Unrealized gain on marketable securities | 511,250 | - |
| Unrealized loss on convertible loan | (20,774) | - |
| Future income tax | (83,675) | - |
| Other Comprehensive income | \$ 406,801 | \$ - |
| Basic earnings per share | \$ 0.05 | \$ 0.01 |
| Diluted earnings per share | \$ 0.04 | \$ 0.01 |
| Weighted average number of shares outstanding | | |
| -Basic | 51,621,053 | 39,542,134 |
| -Diluted | 62,949,442 | 49,158,310 |
| * Stock-based compensation expense (Note 8(d)) included above, as follows: | | |
| Accounting and audit | \$ 9,974 | \$ - |
| Administration fees | 8,296 | - |
| Consulting fees | 24,405 | - |
| Directors' fees | 68,024 | 15,188 |
| Investor relations and promotions | 29,008 | - |
| Wages and benefits | 170,073 | 26,578 |
| | \$ 309,780 | \$ 41,766 |

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

| | Three Months Ended March 31, 2007 | | Year Ended December 31, 2006 | |
|---|--|----------------------|---|----------------------|
| | <u>Number of Shares</u> | | <u>Number of Shares</u> | |
| Share capital | | | | |
| Balance at the beginning of the year | 51,579,320 | \$ 34,713,764 | 39,529,098 | \$ 25,894,621 |
| Common shares issued for cash | | | | |
| Private placements, net of issue costs | - | - | 10,633,422 | 9,451,626 |
| Exercise of options | 49,500 | 19,203 | 77,300 | 27,375 |
| Exercise of warrants | - | - | 1,339,500 | 1,232,107 |
| Issued for other consideration | | | | |
| Plan of arrangement | - | - | - | (1,065,195) |
| Income tax effect on flow-through share renouncement (Note 8(b)) | - | (3,502,418) | - | (853,060) |
| Exercise of options, stock-based compensation | - | 4,640 | - | 26,290 |
| Balance at the end of the period | 51,628,820 | 31,235,189 | 51,579,320 | 34,713,764 |
| Contributed surplus | | | | |
| Balance at the beginning of the year | | 126,133 | | 63,522 |
| Fair value of options cancelled during the period | | - | | 62,611 |
| Balance at the end of the period | | 126,133 | | 126,133 |
| Option compensation | | | | |
| Balance at the beginning of the year | | 1,677,584 | | 1,211,198 |
| Stock-based compensation expense | | 309,780 | | 555,287 |
| Reallocated to share capital | | (4,640) | | (26,290) |
| Reallocated to contributed surplus | | - | | (62,611) |
| Balance at the end of the period | | 1,982,724 | | 1,677,584 |
| Deficit | | | | |
| Balance at the beginning of the year | | (7,531,017) | | (6,564,600) |
| Net income (loss) for the period | | 2,331,823 | | (966,417) |
| Balance at the end of the period | | (5,199,194) | | (7,531,017) |
| Accumulated Other Comprehensive Income | | | | |
| Adjustment to opening balance – change in accounting policy (Note 3) | | 1,200,902 | | - |
| Unrealized gain on available for sale marketable securities | | 511,250 | | - |
| Unrealized loss on conversion of loan receivable | | (20,774) | | - |
| Reclassification of gains on marketable securities, transferred to net income | | (319,301) | | - |
| Future income tax | | (233,013) | | - |
| Balance at the end of the period | | 1,139,064 | | - |
| TOTAL SHAREHOLDERS' EQUITY | 51,628,820 | \$ 29,283,916 | 51,579,320 | \$ 28,986,464 |

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

| | For the Three Months Ended | |
|--|-----------------------------------|-----------------------|
| | March 31, 2007 | March 31, 2006 |
| Cash flows from (applied to) operating activities | | |
| Income for the period | \$ 2,331,823 | \$ 431,128 |
| Items not involving cash: | | |
| Amortization | 8,320 | 4,305 |
| Stock-based compensation | 309,780 | 41,766 |
| Write down of mineral properties | 1,055,554 | 212,335 |
| Future income taxes | (3,502,418) | (853,060) |
| Gain on sale of marketable securities | (536,859) | (70,209) |
| | (333,800) | (233,735) |
| Net change in non-cash working capital items: | | |
| Accounts receivable | 521,874 | 358,630 |
| Prepaid expenses | (29,553) | 2,131 |
| Field supplies | 93,201 | - |
| Accounts payable and accrued liabilities | (179,992) | (26,562) |
| Due to related parties | (27,416) | (9,517) |
| | 44,314 | 90,947 |
| Cash flows from (applied to) investing activities | | |
| Cash, flow-through exploration funds | 2,110,264 | 790,075 |
| Proceeds from sale of marketable securities, net | 612,839 | 92,784 |
| Mineral property acquisition and exploration costs, net of recoveries | (2,426,298) | 112,034 |
| Accounts payable and accrued liabilities related to mineral properties | 337,222 | (301,490) |
| Loan and interest receivable | (3,699) | (300,295) |
| Purchase of equipment | (4,901) | (1,677) |
| | 625,427 | 391,431 |
| Cash flows from financing activity | | |
| Shares issued for cash, net of issue costs | 19,203 | 4,513 |
| Increase in cash and cash equivalents | 688,944 | 486,891 |
| Cash and cash equivalents, beginning of period | 4,340,398 | 3,715,861 |
| Cash and cash equivalents, end of period | \$ 5,029,342 | \$ 4,202,752 |

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

1. Nature of Operations and Going Concern

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

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

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

At March 31, 2007, the Company had an accumulated deficit of \$5,199,194 and had working capital of \$12,446,504, which will be sufficient to achieve the Company’s planned business objectives for fiscal 2007.

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on continued financial support from its shareholders and other related parties, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company’s liabilities as they become payable. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

(a) Basis of presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada with respect to the preparation of interim consolidated financial statements. Accordingly, they do not include all of the information and disclosure required by Canadian GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in the audited consolidated financial statements and the notes thereto for the year ended December 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements including the notes thereto for the year ended December 31, 2006.

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, which has been inactive since its incorporation on December 17, 2003. All material intercompany transactions and balances have been eliminated.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(b) Use of estimates

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

3. Change in Accounting Policies

(a) Comprehensive Income

The CICA issued CICA Section 1530 “Comprehensive Income,” which became effective for fiscal years beginning on or after October 1, 2006. Comprehensive income is the change in shareholders’ equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in “other comprehensive income” until it is considered appropriate to recognize into net income. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

The Company has adopted this standard and accordingly, the Company now reports a consolidated statement of comprehensive income (loss) and includes the account “accumulated other comprehensive income” in the shareholders’ equity section of the consolidated balance sheet.

(b) Financial Instruments

The CICA issued CICA Section 3855 “Financial Instruments - Recognition and Measurement” and Section 3860 “Financial Instruments – Disclosure and Presentation,” which both became effective for fiscal years beginning on or after October 1, 2006. These standards require all financial instruments within its scope, including derivatives, to be included on a Company’s balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income. The Company elected the early adoption of both standards and has retroactively applied both standards from the beginning of the fiscal year.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company’s outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair value of assets and liabilities prior to January 1, 2007, are recognized by adjusting the opening deficit or opening accumulated other comprehensive income.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

3. Change in Accounting Policies (continued)

(b) Financial Instruments (continued)

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net income (loss) in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net income (loss) in the period in which they arise.

In accordance with the new standards, the Company has classified its financial instruments as follows:

- Marketable securities are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with the unrealized gains or losses recorded in other comprehensive income. At the time securities are sold or otherwise disposed of, gains or losses are included in net income (loss).
- The principle and interest portion of the loan receivable from Uranium North is classified as held-to-maturity. The loan receivable contains an embedded derivative requiring separation from the host contract and measurement of at fair value. The unrealized gains arising on the election of the Company's conversion option into common shares (see Note 5) has been recorded in other comprehensive income.
- The Company is entitled to varying royalties on various exploration projects and properties. Once an economic ore reserve can be determined on a project or property, the royalty may be characterized as a financial instrument.

(c) Hedges

The CICA issued CICA Section 3865 "Hedges," which became effective for fiscal years beginning on or after October 1, 2006. This standard specifies the circumstances which hedge accounting is permissible and how hedge accounting may be performed. The Company elected the early adoption of this standard and the adoption of this standard did not have any impact on these consolidated financial statements. The Company does not have any hedges.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

4. Marketable Securities

| | Carrying Value | Unrealized Gains | Fair Value |
|-------------------------------|-------------------|---------------------|---------------------|
| Available-for-sale | \$ 490,221 | \$ 1,345,072 | \$ 1,835,293 |
| Conversion of loan receivable | - | 27,005 | 27,005 |
| | <u>\$ 490,221</u> | <u>\$ 1,372,077</u> | <u>\$ 1,862,298</u> |

Included in the carrying value of available-for-sale marketable are 3,150,000 common shares of Uranium North Resources Corp. (“Uranium North”) which are subject to escrow. As these 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. Uranium North shares resulting from the conversion of the loan receivable (Note 5) and/or exercise of any warrants will be subject to the same escrow terms.

5. Loan and Interest Receivable

The Company advanced a working capital loan in the amount of \$300,000 to Uranium North. The loan is repayable in whole or in part on demand and bears interest at 5% per annum. The entire loan plus accrued interest shall be repaid in cash on March 15, 2008, or at the option of Uranium North, may be repaid earlier, provided 30 days notice is given to the Company.

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 as follows:

- i) prior to December 7, 2007, the loan and accrued interest or any portion thereof may be converted into units (“Unit”) at a price of \$0.75 per Unit, with each Unit consisting of one common share of Uranium North and one share purchase warrant entitling the Company to purchase one additional common share of Uranium North at a price equal to \$0.90, up to December 6, 2007, whereupon any unexercised warrants will expire; and
- ii) on and after December 7, 2007, the loan and accrued interest or any portion thereof may be converted into common shares of Uranium North at a per share conversion price equal to \$0.75 per share.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
 Period Ended March 31, 2007
 (Unaudited – See Notice)
 (expressed in Canadian dollars)

6. Mineral Properties

As at March 31, 2007, the Company's mineral properties are comprised of properties located in Canada. Expenditures incurred on mineral properties are as follows:

| | Amaruk, NU | Ualliq, NU(1) | Sakari, NU(1) | Siku, NU(1) | Victoria Island NU/NWT | Banks Island, NWT | Hepburn, NWT | Kidme, NWT | Northern Recon. | Other Properties | Total |
|------------------------------|---------------|------------------|------------------|----------------|------------------------------|-------------------------|-----------------|---------------|--------------------|---------------------|--------------|
| Balance at | | | | | | | | | | | |
| December 31, 2006 | \$4,416,007 | \$ 15,393 | \$ 2,162 | \$ 31,931 | \$4,106,319 | \$ 282,598 | \$ 3,905,253 | \$ 447,426 | \$1,549,630 | \$ 1,267,063 | \$16,023,782 |
| Additions during the period: | | | | | | | | | | | |
| Acquisition costs | - | - | - | - | - | - | 1,200 | - | - | - | 1,200 |
| Exploration: | | | | | | | | | | | |
| Project admin. | 6,777 | - | 394 | 1,183 | 113 | 199 | 3,031 | - | 3,679 | - | 15,376 |
| Airborne geoph. | 24,395 | 3,287 | 2,479 | 14,181 | - | 2,952 | 514,899 | - | 1,564 | - | 563,757 |
| Camp costs | 603,266 | 56,595 | 55,768 | 596,705 | - | - | 62,644 | - | - | - | 1,374,978 |
| Drilling | 91,514 | - | - | - | - | - | 87,808 | - | - | - | 179,322 |
| Geochemistry | 11,882 | - | - | - | 309 | - | 63,703 | - | 896 | - | 76,790 |
| Geology | 23,921 | - | 208 | 2,287 | 3,220 | 1,314 | 4,938 | - | - | - | 35,888 |
| Ground geoph. | 773 | - | - | - | - | - | 10,305 | - | - | - | 11,078 |
| Mobilization | - | - | - | - | - | - | 9,266 | - | - | - | 9,266 |
| Permitting | 386 | - | - | - | - | 1,138 | - | - | - | - | 1,524 |
| Prospecting | 25,825 | - | - | - | - | - | - | - | - | - | 25,825 |
| Property | - | 4,550 | - | - | 7,974 | 3,948 | 564,220 | - | 55,893 | - | 636,585 |
| | 788,739 | 64,432 | 58,849 | 614,356 | 11,616 | 9,551 | 1,320,814 | - | 62,032 | - | 2,930,389 |
| Less: | | | | | | | | | | | |
| Recoveries | (259,478) | - | (99,781) | - | - | (121,848) | - | - | (24,184) | - | (505,291) |
| Write downs | - | - | - | - | - | - | - | - | (689,896) | (365,658) | (1,055,554) |
| | (259,478) | - | (99,781) | - | - | (121,848) | - | - | (714,080) | (365,658) | (1,560,845) |
| Net additions | 529,261 | 64,432 | (40,932) | 614,356 | 11,616 | (112,297) | 1,322,014 | - | (652,048) | (365,658) | 1,370,744 |
| Balance at | | | | | | | | | | | |
| March 31, 2007 | \$4,945,268 | \$ 79,825 | \$ (38,770) | \$ 646,287 | \$4,117,935 | \$ 170,301 | \$ 5,227,267 | \$ 447,426 | \$ 897,582 | \$ 901,405 | \$17,394,526 |

1. Included under "Amaruk Property" in 2006.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(a) Amaruk Project, Nunavut

The Amaruk property covers approximately 3.6 million acres around the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other diamond exploration companies as described below. The Company holds a 100% interest in the project, 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”).

(b) Ualliq - Amaruk Project, Nunavut

On July 26, 2006, the Company and International Samuel Exploration Corp. (“International Samuel”) entered into an agreement covering more than 1 million acres 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 2,000,000 common shares to the Company (1,500,000 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. The Company will operate the project.

(c) Sakari - Amaruk Project, Nunavut

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 an option to earn a 50% interest in the Sakari project by making a payment of \$97,000 in refundable deposits (completed) and incurring \$185,940 in expenditures on the property on or before June 30, 2007. The Company will operate the project.

(d) Siku - Amaruk Project, Nunavut

On October 4, 2006, the Company and Arctic Star Diamond Corp. (“Arctic Star”) entered into an agreement covering approximately 455,000 acres of claims located within the southwest portion of the Company’s Amaruk project. Arctic Star has an option to earn a 50% interest in the Siku project by issuing 1,500,000 shares to the Company (received), funding approximately \$956,000 in bonds on the claims (completed) 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 will operate the project.

(e) Victoria Island, Nunavut and Northwest Territories

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
Period Ended March 31, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(f) Banks Island, Northwest Territories

The Company holds a 50% interest in the 1.2 million acre Banks Island property. In 2003, the Company entered into an alliance with Majescor Resources Inc. to jointly explore for regional projects on a 50/50 cost sharing basis in three areas, one of which was Banks Island.

(g) Hepburn, Northwest Territories

The Company holds a 100% interest in the 1.5 million acre Hepburn property located approximately 300 kilometres north of Yellowknife.

(h) Kidme, Northwest Territories

The Company owns 40% of the 87,000 acre Kidme Project situated adjacent to the eastern border of the Misty Lake property (Note 6(j)(i)). SouthernEra Diamonds Inc., the co-owner of the property, owns 60% of the property. In 2004, the Company staked an additional 80,000 acres of claims to the south of the original block and this additional land position is held on a 50/50 basis by the two companies.

(i) Northern Recon, Nunavut and Northwest Territories

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

(j) Other Properties

The Company holds a 40% to 100% interest in various other properties located in Nunavut and the Northwest Territories.

(i) Misty Lake, Northwest Territories

The Company holds approximately a 40% interest in the Misty Lake properties. At March 31, 2007, the carrying value of the Misty Lake property is \$279,204.

(ii) Arnaq, Nunavut

The Arnaq property consists of approximately 136,000 acres of permits and 140,000 acres of claims (subject to a 2% royalty payable to BHP Billiton) and is located immediately south of the Company's Amaruk project. Under an agreement dated July 8, 2004, with Kennecott Canada Exploration Inc. ("Kennecott"), Kennecott holds a 74% interest and the Company holds the remaining 26% interest. At March 31, 2007, the carrying value of the Arnaq project is \$69,149.

(iii) Kennap, Northwest Territories

The Company held a 100% interest in the 162,000 acre Kennap property located 235 kilometres northeast of Yellowknife. The Company has allowed the claims to lapse and accordingly the carrying value has been written down to \$Nil.

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7. Property, Plant and Equipment

| | Cost | Accumulated Amortization | Net Book Value |
|------------------------|-------------------|-----------------------------|-------------------|
| Furniture and fixtures | \$ 35,360 | \$ 16,352 | \$ 19,008 |
| Computer equipment | 62,324 | 32,644 | 29,680 |
| Equipment | 56,743 | 12,128 | 44,615 |
| Leasehold improvements | 35,882 | 15,196 | 20,686 |
| | <u>\$ 190,309</u> | <u>\$ 76,320</u> | <u>\$ 113,989</u> |

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

8. Share Capital

(a) Authorized:

Unlimited common shares without par value.

For share issuance after March 31, 2007, see Note 14(c).

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

In February 2007, the Company renounced \$10,265,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$3,502,418, which is deducted from share capital. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets equal to the amount of the future tax liability, which resulted in a future income tax recovery of \$3,502,418.

(c) Stock options

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. Under the Company's Stock Option Plan, the Company may grant stock options for the purchase of up to 7,909,429 common shares. Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. As at March 31, 2007, the Company had stock options outstanding for the purchase of 7,163,000 common shares with an average remaining contractual life of 3.09 years, of which 5,906,750 stock options were exercisable at March 31, 2007.

| | Shares | Weighted Average Exercise Price |
|--------------------------------------|------------------|------------------------------------|
| Outstanding at December 31, 2006 | 5,582,500 | \$ 0.76 |
| Granted | 1,630,000 | \$ 0.77 |
| Exercised | (49,500) | \$ 0.39 |
| <u>Outstanding at March 31, 2007</u> | <u>7,163,000</u> | <u>\$ 0.76</u> |

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8. Share Capital (continued)**(c) Stock options (continued)**

The following summarizes information about stock options outstanding at March 31, 2007:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|-------------------|
| 1,022,300 | \$ 0.429 | July 15, 2007 |
| 50,000 | \$ 0.686 | December 19, 2007 |
| 482,200 | \$ 0.686 | February 20, 2008 |
| 100,000 | \$ 0.686 | March 4, 2008 |
| 60,000 | \$ 0.686 | May 22, 2008 |
| 111,000 | \$ 0.600 | October 6, 2008 |
| 200,000 | \$ 1.021 | March 30, 2009 |
| 560,000 | \$ 0.944 | August 8, 2009 |
| 300,000 | \$ 0.858 | October 18, 2009 |
| 50,000 | \$ 0.858 | January 27, 2010 |
| 252,500 | \$ 0.987 | March 22, 2010 |
| 550,000 | \$ 0.729 | May 17, 2010 |
| 1,660,000 | \$ 0.848 | April 12, 2011 |
| 135,000 | \$ 1.021 | July 13, 2011 |
| 1,630,000 | \$ 0.770 | February 27, 2012 |
| <hr/> 7,163,000 | | |

For stock options exercised and granted after March 31, 2007, see Notes 14(a), 14(b) and 14(c).

(d) Stock-based and option compensation

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following weighted average assumptions at March 31, 2007:

| | |
|---------------------------------|--------|
| Risk-free interest rate | 2.87% |
| Expected dividend yield | - |
| Expected stock price volatility | 73.65% |
| Expected option life in years | 2.61 |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

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8. Share Capital (continued)

(d) Stock-based and option compensation

The following summarizes information about stock-based compensation summarized by the statement of operations categories:

| | | |
|-----------------------------------|----|---------|
| Accounting and audit | \$ | 9,974 |
| Administration fees | | 8,296 |
| Consulting fees | | 24,405 |
| Directors' fees | | 68,024 |
| Investor relations and promotions | | 29,008 |
| Wages and benefits | | 170,073 |
| Stock-based compensation expense | \$ | 309,780 |

(e) Warrants

At March 31, 2007, the Company had outstanding warrants to purchase an aggregate of 4,165,389 common shares as follows:

| Exercise Price | Expiry Date | Outstanding at December 31, 2006 | Issued | Exercised | Expired | Outstanding at March 31, 2007 |
|----------------|-------------------|----------------------------------|--------|-----------|---------|-------------------------------|
| \$ 0.858 | July 12, 2007 | 210,000 | - | - | - | 210,000 |
| \$ 1.286 | July 19, 2007 | 3,250,000 | - | - | - | 3,250,000 |
| \$ 1.286 | July 19, 2007 | 189,600 | - | - | - | 189,600 |
| \$ 0.858 | February 16, 2008 | 515,789 | - | - | - | 515,789 |
| | | 4,165,389 | - | - | - | 4,165,389 |

9. Related Party Transactions

The Company had the following related party transactions and balances:

- (a) Included in accounts receivable is \$17,039 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs and \$43,433 owed by Uranium North, a company related by virtue of other common directors, for mineral property and office costs.
- (b) As at March 31, 2007, a director of the Company has been paid a total of \$4,725 for consulting fees which has been charged to deferred exploration expenditures. In addition, the Company has paid a retainer of \$2,500 to each of the four independent directors of the Company.
- (c) Amounts due to related parties, totalling \$23,943, consist of fees and reimbursement of expenses owed to directors and officers of the Company.
- (d) At March 31, 2007, the Company held 15.9% of the issued common shares of Uranium North.

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10. Commitment

On December 18, 2003, the Company entered into an agreement for the lease of new office premises for a six-year period, commencing on July 1, 2004 and expiring on June 30, 2010. The cost of the entire premises is shared amongst several companies in proportion to the area occupied. Two of the companies are related by virtue of common directors. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately \$90,000.

11. Segmented Information

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

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

12. Supplemental Cash Flow Information

Financing activities

| | | |
|--|----|-----------|
| Income tax effect on flow-through share renouncement (Note 8(b)) | \$ | 3,502,418 |
| Stock-based compensation | | (4,640) |
| | \$ | 3,497,778 |

Other cash flow information:

| | | |
|-------------------|----|--------|
| Interest received | \$ | 27,092 |
| Interest paid | \$ | 31,436 |
| Income taxes paid | \$ | - |

13. Income Taxes

The Company's future income tax liability arises primarily from the renunciation of mineral exploration costs on flow-through shares issued to investors. Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. A future income tax liability arises from the renunciation of mineral exploration costs to investors of flow-through shares.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances, which have not been spent as at March 31, 2007 and which are held by the Company for such expenditures. As at March 31, 2007, the amount of flow-through proceeds remaining to be expended is \$5,205,727.

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14. Subsequent Events

- (a) On May 4, 2007, the Company granted incentive stock options under the Company's stock option plan to directors, officers, employees and consultants to purchase an aggregate of 600,000 treasury shares. The options are exercisable for a period of five years at a price of \$1.01 per share and are subject to the policies of the Exchange.
- (b) On May 10, 2007, the Company granted incentive stock options under the Company's stock option plan to a director and an employee to purchase an aggregate of 337,000 treasury shares. The options are exercisable for a period of five years at a price of \$1.03 per share and are subject to the policies of the Exchange.
- (c) Subsequent to March 31, 2007, the Company issued 1,022,000 common shares for proceeds of \$438,438 pursuant to the exercise of stock options.