



Management Discussion and Analysis  
For the Three Months Ended March 31, 2007

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### **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 on the TSX Venture Exchange under the symbol "DDN" and is listed as a Tier One 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 three months ended March 31, 2007.

#### *Forward-Looking Information*

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 May 24, 2007 (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.

### **Highlights for the Three Months Ended March 31, 2007**

- On February 15<sup>th</sup> and March 29<sup>th</sup>, the Company reported lab results from the 2006 RC drill program which yielded 596 diamonds from Qavvik and 33 diamonds from Umingmak.
- On March 12<sup>th</sup>, the Company reported the retention of Toronto-based Genoa Management Limited ("Genoa") to provide investor relations and independent capital market counsel. Under the terms of the agreement, Genoa will receive a fixed fee of \$6,500 per month for a term of six months beginning on February 15, 2007.

### **Events Subsequent to March 31, 2007**

- On April 24<sup>th</sup>, the Company reported lab results for the Char kimberlite from the 2006 RC drill program which yielded 178 diamonds including 6 macrodiamonds.
- On May 4<sup>th</sup>, 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 subject to the policies of the Exchange.
- On May 10<sup>th</sup>, 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 subject to the policies of the Exchange.
- On May 10<sup>th</sup>, shareholders at the Company's Annual General Meeting approved all items set forth in the proxy including an increase in the number of allowable stock options to a maximum of 10,325,500.

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Through **clarity**, **diligence** and **perseverance**, the Company has developed three highly prospective diamond projects called Amaruk, Hepburn and Banks Island. Using the proven geological tools of geochemistry and airborne geophysics, these projects have yielded numerous targets. Through RC drilling on Amaruk, the Company has verified two highly diamondiferous kimberlite fields.

**Amaruk** is a 100% owned project located in the Pelly Bay diamond district. In 2006, the Company identified 580 targets within a 90 by 30 kilometre area in the central portion of the Amaruk property and confirmed two highly diamondiferous kimberlite fields, 'Char' and 'Qavvik'. For 2007, the Company plans to evaluate over 200 targets with detailed geophysics and drill test the best 60 targets.

**Hepburn** is a 100% owned project located on a portion of the western margin of the Slave Craton. A combination of regional airborne magnetics and indicator mineral data has identified 204 anomalies. For 2007, the Company plans to drill test at least 20 of the best targets and complete geophysical surveys over the remaining 70% of the property.

**Banks Island** is a 50:50 joint venture with Majescor Resources Inc. ("Majescor") covering 1.2 million acres of permits in NWT. Airborne geophysics interpretation data has identified 65 targets with seven ranked as high to moderate priority. One high priority geophysical target has a size estimate of 12 to 14 hectares. For 2007, drill targets will be qualified using detailed geophysics and the remaining 90% of the property not covered by geophysics will be surveyed for additional target generations.



The Company's principal properties are located in Canada's far north, which poses an inherent risk for mineral exploration due to the remoteness from populated areas, limited season, lack of surface infrastructure, and availability of skilled labour, fuel and supplies. Exploration is heavily dependent on air transportation (fixed wing and helicopter), which is both costly and susceptible to bad weather. The unpredictability of the weather can cause delays in carrying out a planned exploration program which can result in cost overruns. The Company manages these risks by utilizing experienced project geologists who are familiar with the north and the challenges associated with working there.



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In 2007, net mineral property expenditures of \$1,370,744 consists of \$1,200 in acquisition costs, \$2,930,389 in exploration expenditures less \$505,291 in recoveries and \$1,055,554 in write downs. A breakdown by key projects 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.



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**Amaruk Project, NU**

The Amaruk property covers approximately 3.6 million acres around the community of Kugaaruk, Nunavut. 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”). Portions of the property have been optioned to other diamond exploration companies as described under Pelly Bay Diamond District.

**Amaruk Exploration Program for 2007**

For 2007, the Company has proposed a \$3.7 million budget which will include a \$300,000 airborne survey, \$360,000 to evaluate up to 200 targets with detailed geophysics, \$500,000 for till sampling, \$1.5 million for drill testing up to 60 targets and \$1.0 million for core drilling. The Company has proposed mini-bulk samples of 10,000 kilograms each from the Char and Qavvik kimberlites but a formal budget has not been approved.

**Amaruk Exploration Results for Char 2006 RC Drilling**

On April 24<sup>th</sup>, the Company reported results for a 159.35 kilogram sample from the Char kimberlite that yielded 178 diamonds including 6 macrodiamonds, see Table 1. The Char kimberlite sample is a composite of drill cuttings from three depth intervals in a single drill hole. The upper most interval, Char 1 weighing 66.17 kilograms yielded 103 diamonds. A 49.97 kilogram sample from the second interval yielded 15 stones and 43.21 kilograms from the lowermost interval produced 60 diamonds. The Char kimberlite sample was collected using a reverse circulation (RC) drill. A certain amount of diamond loss is anticipated since a high proportion of the sample is pulverized.

**Table 1 - The diamond sieve data for the Char kimberlite**

	Weight (kg)	Sieve Size (mm)						Total
		0.074	0.105	0.150	0.212	0.300	0.425	
Char 1	66.17	17	36	24	12	4	1	103*
Char 2	49.97	1	4	5	2	3	0	15
Char 3	43.21	19	21	14	4	2	0	60
<b>Total</b>	<b>159.35</b>	<b>37</b>	<b>61</b>	<b>43</b>	<b>18</b>	<b>9</b>	<b>1</b>	<b>178</b>

\*9 additional diamonds were recovered below the 0.074mm screen.

Approximately 75% of the diamonds are octahedral in form, 14% of the recovered stones are fragments and 88% are white. The dimensions in millimeters for the three largest diamonds recovered from the sample are: 0.77 x 0.77 x 0.40; 0.77 x 0.40 x 0.40 and 0.68 x 0.40 x 0.43.

The Char kimberlite was penetrated 59 metres with a single drill hole. The estimated size of the Char kimberlite based on geophysics is 1.5 hectares.

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**Amaruk Exploration Results for Qavvik 2006 RC Drilling**

On February 15<sup>th</sup>, the Company reported the first of two Qavvik RC drill holes results for a 60.28 kilogram sample that yielded 91 diamonds or 1.5 stones per kilogram were collected.

**Table 2 - The diamond sieve data for the Qavvik kimberlite (hole 1 of 2)**

Weight (kg)	Sieve Size (mm)					Total
	0.075	0.106	0.150	0.212	0.300	
60.28	36	27	15	8	5	91

Approximately 70% of the recovered diamonds from Qavvik are octahedrons and 95% of the diamonds are white in color. The three largest stones measure 0.51mm x 0.43mm x 0.36mm, 0.51mm x 0.46mm x 0.42mm, and 0.51mm x 0.43mm x 0.32 mm.

On March 29<sup>th</sup>, the Company reported the second Qavvik RC drill hole results for a 397.05 kilogram sample that yielded 515 diamonds, table below. A total of 15 macrodiamonds (0.5mm in one dimension) have been recovered from this sample and the dimensions for the three largest diamonds are: 0.97mm x 0.86mm x 0.71mm; 0.94mm x 0.63mm x 0.52mm and 0.71mm x 0.66mm x 0.53mm. In addition, a high proportion of the diamonds are white, octahedral and exhibit high clarity, consistent with the first sample from Qavvik.

**Table 3 - The diamond sieve data for the Qavvik kimberlite (hole 2 of 2)**

	Weight (kg)	Sieve Size (mm)							Total
		0.075	0.106	0.150	0.212	0.300	0.425	0.600	
Q1a	60.10	21	21	16	7	2	0	0	67
Q2a	70.40	16	34	14	5	6	0	0	75
Q3a	61.70	3	39	13	8	4	0	0	67
Q1b*	73.53	11	27	19	9	3	2	0	71
Q2b	68.71	52	39	16	12	6	2	0	127
Q3b	62.61	34	29	16	12	6	0	1	98
<b>Total</b>	<b>397.05</b>	<b>137</b>	<b>189</b>	<b>94</b>	<b>53</b>	<b>27</b>	<b>4</b>	<b>1</b>	<b>505</b>

\*Results are preliminary

The Company views the Qavvik results as very significant because it is generally considered positive to recover one diamond per kilogram from drill core. Recovering up to 1.8 diamonds per kilogram from RC drill cuttings (where significant diamond loss is anticipated) confirms Qavvik is highly diamondiferous. The vertical second drill hole intersected kimberlite after penetrating 31.4 metres of overburden. The drill hole was terminated in kimberlite at 64 metres depth.

The Qavvik kimberlite is represented by a large 4.3 hectare magnetic anomaly and the area immediately surrounding Qavvik also exhibits highly prospective mineral chemistry. This area will be a high priority for the 2007 exploration program as more than 25 targets have been identified to test.

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***Amaruk Exploration Results for Umingmak 2006 RC Drilling***

On February 15<sup>th</sup>, the Company reported Umingmak lab results from a 246.84 kilogram RC drill cutting sample which yielded 33 diamonds or approximately 0.1 stones per kg, table below. The RC drill hole intersected almost 30 metres horizontal distance across Umingmak. The Umingmak kimberlite is estimated to be three hectares in size.

**Table 4 - The diamond sieve data for the Umingmak kimberlite**

Weight (kg)	Sieve Size (mm)					Total
	0.075	0.106	0.150	0.212	0.300	
246.84	6	13	12	2	0	33

The Umingmak sample is comprised of four down-hole intervals for a total of 60 metres. Approximately 85% of the diamonds in the sample were recovered from the uppermost interval. The single drill hole was located about 136 metres from the center of the outcrop occurrence. Visual inspection of the kimberlite recovered by the drill indicates it appears to be of similar character to the kimberlite observed at surface.

***Amaruk Exploration Results for Walrus and Beluga 2006 RC Drilling***

On April 24<sup>th</sup>, the Company reported results from the Walrus and Beluga kimberlites. The Walrus kimberlite sample weighing 388 kilogram yielded 6 diamonds with the largest diamond remaining on the 0.212 mm screen. The Beluga kimberlite sample weighing 162.1 kilograms yielded 3 diamonds remaining on the 0.105 mm screen. Though the diamond counts are low, it is significant that all of the drilled kimberlites to date on Amaruk have proven to be diamondiferous, indicating that an extensive diamond fertile mantle exists beneath the property.

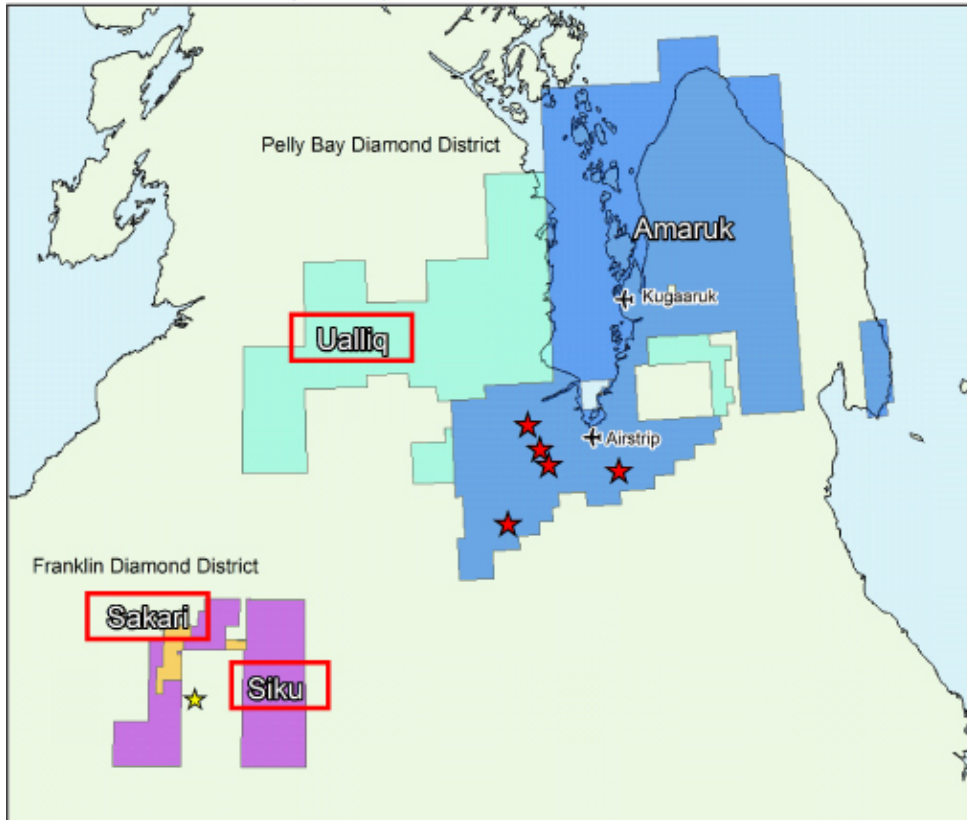
***Amaruk Exploration Results from Float collected in 2006***

A total of eight float samples collected in 2006 were analyzed for diamonds. Six of eight samples are proven diamondiferous. The results are listed below.

	Weight (kg)	Sieve Size (mm)					Total
		0.106	0.150	0.212	0.300	0.425	
KF-1	160.00	3	-	-	-	-	3
KF-2	159.33	17	15	7	5	2	46
KF-3	67.80	2	4	1	-	1	8
KF-5	172.70	-	2	-	-	-	2
KF-6	86.82	1	-	-	-	-	1
KF-8	129.00	9	8	1	-	-	18

Samples KF-4 and KF-7 weighing 119 and 139 kilograms respectively yielded no diamonds.

## Pelly Bay Diamond District



### Ualliq

30% option agreement with International Samuel Exploration Corp.

### Sakari

50% option agreement with Shear Minerals Ltd.

### Siku

50% option agreement with Arctic Star Diamond Corp.

### Ualliq - Amaruk Project, NU

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.

### Ualliq Exploration Program for 2007

On April 18<sup>th</sup>, the Company and International and International Samuel approved a \$1,000,000 exploration budget for the Ualliq property which will include:

- geophysical surveying over the main Ualliq indicator mineral train, \$400,000
- detailed geophysics on up to 50 targets, \$200,000
- drill test up to 12 of the highest priority targets, \$400,000



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### **Sakari – Amaruk Project, NU**

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.

#### ***Sakari Exploration Program for 2007***

On April 17<sup>th</sup>, the Company and Shear approved a \$185,000 exploration budget for the Sakari property which will include:

- airborne geophysics, \$100,000
- evaluating targets with detailed geophysics, \$70,000
- drill testing of high priority targets, \$15,000

### **Siku - Amaruk Project, NU**

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.

#### ***Siku Exploration Program for 2007***

On May 16<sup>th</sup>, the Company and Arctic Star approved a \$1,500,000 exploration budget for the Siku property which will include:

- airborne geophysics,
- evaluating targets with detailed geophysics,
- drill testing of up to 12 high priority targets.



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### **Hepburn, NWT**

The Company holds a 100% interest in the over 1.5 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 properties' uranium rights have been transferred to Uranium North Resources Crop. ("Uranium North"). The Company will continue to hold 100% interest in all diamonds and other metals, except uranium for which the Company retains a royalty.

#### ***Hepburn Exploration Program for 2007***

For 2007, the Company has proposed a \$3.0 million budget which will include an airborne surveying on the remaining 70% of the property, evaluating over 100 of the 200 targets with detailed geophysics, and drill testing up to 20 targets.

### **Banks Island, NWT**

The Banks Island Project consists of 1.2 million acres of permits in NWT which was jointly acquired with Majescor on a 50:50 basis. Airborne geophysics interpretation data has identified 65 targets with seven ranked as high to moderate priority. One high priority geophysical target has a size estimate of 12 to 14 hectares.

#### ***Banks Island Exploration Program for 2007***

The proposed 2007 Banks Island budget includes a \$710,000 airborne survey, \$220,000 in till sampling and \$170,000 in ground geophysics.

### **Results of Operations**

#### ***-Current Quarter Results***

The Company's cash position increased \$688,944 to \$5,029,342. The cash increase is due to \$612,839 from proceeds of the sale of marketable securities, the collection of \$521,874 in receivables and \$19,203 from the exercise of stock options.

Mineral property acquisition and exploration costs used \$2,426,298 in cash which was funded by a \$2,110,264 reduction in cash, flow-through exploration funds and a \$337,222 increase in accounts payable and accrued liabilities related to mineral properties.

#### ***-Three Months ended March 31, 2007 compared with the Three Months Ended March 31, 2006***

General and administrative expenses of \$757,347 (2006 - \$321,698) represents a \$435,649 increase compared to the comparative fiscal period. Notable changes include:

- Bank charges and interest of \$32,944 (2006 - \$15,482) included \$31,436 paid to the Canada Revenue Agency for PartXII.6 interest on unspent portion of flow-through financings.
- Directors' fees of \$78,024 (2006 - \$15,188) paid to the four independent directors of the Company consisted of \$10,000 in cash and \$68,024 in stock-based compensation.
- Investor relations and promotion of \$183,153 reflects the Company's effort to broaden its corporate profile in financial markets. The first step saw the engagement of a consulting firm to assist with our corporate message of "clarity, diligence and perseverance". The second step saw the engagement of the Toronto-



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based Genoa Management Limited. Future plans include a video documentary and site visits to the Amaruk property for analysts/brokers. A breakdown is below:

	<b>2007</b>	<b>2006</b>
Administration	\$ 971	\$ 946
Conferences and trade shows	31,632	18,079
Consulting, wages and benefits	93,285	21,392
Media	16,730	10,281
Promotion and advertising	11,527	14,602
Stock-based compensation expense	29,008	-
	<b>\$ 183,153</b>	<b>\$ 65,300</b>

- Stock-based compensation expense of \$309,780 (2006 - \$41,766) was allocated to the statement of operations categories as follows:

	<b>2007</b>	<b>2006</b>
Accounting and audit	\$ 9,974	\$ -
Administration	8,296	-
Consulting	24,405	-
Directors fees	68,024	15,188
Investor relations	29,008	-
Wages and benefits	170,073	26,578
	<b>\$ 309,780</b>	<b>\$ 41,766</b>

- Write down of mineral properties expense of \$1,055,554 (2006 - \$212,335) reflects the write down of various projects acquired during the Company's land acquisition phase in fiscal 2003/2004. Results did not warrant maintaining these projects and the permits and/or claims have been allowed to lapse or expire. Write down includes \$652,048 from the Northern Recon initiative and \$365,658 for Kennap, NWT.
- Gain on sale of marketable securities of \$536,859 (2006 - \$70,209) resulted from the sale of common shares of Bayswater Uranium Corporation and Serengeti Resources Inc. The shares were received under option agreements and the Company is not an insider of either company. The sale resulted in the reclassification of \$319,301 in unrealized gains on marketable securities transferred to net income from accumulated other comprehensive income.
- Future income tax recovery of \$3,502,418 (2006 - \$853,060) resulted from the renouncement of exploration expenditures to investors under its flow-through share program. This is a non-cash transaction.

The Company's income for the period was \$2,331,823 (2005 - \$431,128) or \$0.05 per share (2005 - \$0.01), is largely due to the future income tax recovery noted above.

Other comprehensive income of \$406,801 included \$511,250 from the unrealized gains on marketable securities, a \$20,774 in unrealized loss on the convertible loan and \$83,675 in future income expense. The Company does not anticipate paying dividends in 2007.



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**Summary of Quarterly Results**

	Jun. 30 2005 Q2	Sept. 30 2005 Q3	Dec. 31 2005 Q4	Mar. 31 2006 Q1	Jun. 30 2006 Q2	Sept. 30 2006 Q3	Dec. 31 2006 Q4	Mar. 31 2007 Q1
Mineral expenditures, net of recoveries	\$ 51,419	\$ 1,839,462	\$ 106,104	\$ (112,034)	\$ 1,880,861	\$ 2,374,715	\$ (544,203)	\$ 2,426,298
G&A Expense	\$ 415,056	\$ 340,612	\$ 419,876	\$ 321,698	\$ 627,407	\$ 341,588	\$ 561,539	\$ 757,347
Stock-based comp. exp.	\$ 127,391	\$ 102,347	\$ 107,099	\$ 41,766	\$ 159,298	\$ 177,111	\$ 177,111	\$ 309,780
Income (loss)	\$ (399,244)	\$ (317,194)	\$ 790,966	\$ 431,128	\$ (679,779)	\$ 1,127,390	\$ (1,845,156)	\$ 2,331,823
Income (loss) per share -basic and diluted	\$ (0.01)	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.02)	\$ 0.03	\$ (0.04)	\$ 0.05
Weighted avg. common shares outstanding -basic and diluted	30,512,298	33,686,211	32,349,717	39,542,134	39,544,655	43,042,730	42,451,985	51,621,053

The Company conducts diamond exploration in Canada's far north, and mineral expenditures are subject to seasonal conditions with the majority of expenditures during Q2 and Q3. In Q1-2006, the Company's mineral recoveries exceeded expenditure due to cash received under the Blue Ice option agreement and refund of exploration bonds. In Q4-2006, the Company recovered exploration costs from the Amaruk optionees.

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

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.

**Liquidity**

At March 31, 2007, the Company had \$12,446,504 in working capital, which is sufficient to achieve the Company's business objectives for fiscal 2007. The Company's primary focus will be on the Amaruk, Hepburn and Banks Island exploration projects. As of the Report Date, the Company has received \$457,770 from the exercise of 1,071,800 stock options.

**Capital Resources**

The Company does not have operating cash flow and has relied on equity financings to meet its cash requirements. 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.

**Off-Balance Sheet Arrangements**

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



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### **Related Party Transaction**

The Company has engaged a business owned by Bernard 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 \$4,725.

The Company paid \$10,000 in directors' fees to the four independent directors of the Company.

Mark Kolebaba and Maynard Brown are directors of the Company and Uranium North. At March 31, 2007, the Company held 15.9% of the issued common shares of Uranium North.

Given that the Company's directors and officers are engaged in a wide range of activities, the Company operates under the conflict of interest provisions found within the Business Corporations Act of British Columbia. In addition, management adopted a set of Corporate Governance policies which incorporated language from these provisions into the Company's Code of Business Conduct and Ethics.

### **Proposed Transactions**

None.

### **Changes in Accounting Policies**

In 2005, the Canadian Institute of Chartered Accountants ("CICA") issued new accounting standards concerning Comprehensive Income, Financial Instruments - Recognition and Measurement and Hedges. The standards require prospective application and are effective for the Company's first quarter of fiscal 2007.

#### **(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.

#### **(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.

#### **(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 adoption of this standard did not have a material impact on the Company's consolidated financial statements.



**Financial Instruments**

The Company is exposed to credit risk with respect to its cash. To minimize this risk, cash, cash equivalents and cash exploration funds have been placed with major financial institutions. 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 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.

The purpose of the new policy is to record assets and liabilities at ‘fair value’ and the impact to marketable securities at March 31, 2007 is as follows:

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

Included in the carrying value of available-for-sale marketable are 3,150,000 common shares of 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 release 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 and/or exercise of any warrants will be subject to the same escrow terms.

**Disclosure Controls and Procedures - Certification of Interim Filing**

Based on their knowledge, the President and Chief Financial Officer of the Company have reviewed the interim filing and certified that the interim consolidated financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company. The President and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company, and they believe:

- the disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, are made known to them, particularly during the period in which the interim filings are being prepared; and



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- the internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian generally accepted accounting principles.

There was no material changes in the Company's internal control over financial reporting that occurred during the period.

**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 52,650,820 issued common shares outstanding and the following unexercised stock options and warrants:

-Stock Options

Expiry Date	Exercise Price	Number of Shares
July 15, 2007	\$0.429	300
December 19, 2007	\$0.686	50,000
February 20, 2008	\$0.686	482,200
March 4, 2008	\$0.686	100,000
May 22, 2008	\$0.686	60,000
October 6, 2008	\$0.600	111,000
March 30, 2009	\$1.021	200,000
August 8, 2009	\$0.944	560,000
October 18, 2009	\$0.858	300,000
January 27, 2010	\$0.858	50,000
March 22, 2010	\$0.987	252,500
May 17, 2010	\$0.729	550,000
April 12, 2011	\$0.848	1,660,000
July 13, 2011	\$1.021	135,000
February 27, 2012	\$0.770	1,630,000
May 3, 2013	\$1.010	600,000
May 9, 2013	\$1.030	337,000
		7,078,000

-Warrants

Expiry Date	Exercise Price	Number of Shares
July 12, 2007	\$0.858	210,000
July 19, 2007	\$1.286	3,250,000
July 19, 2007	\$1.286	189,600
February 16, 2008	\$0.850	515,789
		4,165,389