



**Table of Contents**

1.1 Description of Business and Report Date..... - 19 -

1.2 Company Overview and Projects ..... - 19 -

    (a) Highlights for the Three Months Ended June 30, 2009 ..... - 20 -

    (b) Events Subsequent to June 30, 2009 ..... - 21 -

    (c) Amaruk Project – Nunavut, Canada ..... - 21 -

        (i) Ualliq option to International Samuel Exploration Corp. .... - 22 -

        (ii) Sakari joint venture with Shear Minerals Ltd..... - 22 -

        (iii) Siku joint venture with Arctic Star Diamond Corp. .... - 22 -

        (iv) Tunerq - Amaruk Nickel Project (100% owned)..... - 23 -

    (d) Hepburn Project – Northwest Territories, Canada ..... - 23 -

    (e) Mineral Property Expenditures Table ..... - 24 -

1.3 Results of Operations ..... - 25 -

    (a) Current Quarter ..... - 25 -

    (b) Six Months Ended June 30, 2009 vs. Six Months Ended June 30, 2008 ..... - 25 -

1.4 Summary of Quarterly Results ..... - 26 -

1.5 Liquidity ..... - 27 -

1.6 Capital Management ..... - 27 -

1.7 Off-Balance Sheet Arrangements..... - 27 -

1.8 Related Party Transactions..... - 28 -

1.9 Proposed Transactions ..... - 28 -

1.10 Changes in Accounting Policies ..... - 28 -

1.11 New Accounting Pronouncements..... - 28 -

1.12 Financial Instruments ..... - 29 -

1.13 Certification of Interim Filing ..... - 29 -

1.14 Other MD&A Requirements..... - 30 -



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

---

### 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 six months ended June 30, 2009.

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 August 26<sup>th</sup>, 2009 (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

Our 2009 exploration programs are underway and the Amaruk project remains one of Canada's top opportunities for a significant diamond discovery. Mineral chemistry across the property suggests high diamond potential; microdiamond data shows an anomalously high amount of carbon in the system and kimberlites with size potential, reinforced by our Beluga 3 results reported on April 29<sup>th</sup>, see [1.2\(a\) Highlights for the Three Months Ended June 30, 2009](#). The Company is now focusing on collecting a 5 tonne sample from Beluga-3 and testing more subtle magnetic targets to find kimberlites with high macrodiamond content.

Part of the Company's ongoing strategy has been to assess our extensive property portfolio for other commodity potential. Our ability to identify commodities with large scale potential is proven. The Company has captured uranium and nickel potential for our shareholders and is currently advancing gold and copper-silver opportunities. The Company has identified two gold prospects and one copper and silver prospect, see May 11<sup>th</sup> & 21<sup>st</sup>, under [1.2\(a\) Highlights for the Three Months Ended June 30, 2009](#) and July 14<sup>th</sup>, under [1.2\(b\) Events Subsequent to June 30, 2009](#).

Canada's under-explored north provides our shareholders with a unique opportunity. Management believes we are at the start of a new metals cycle. This is an opportune time to maximize value for these new opportunities while maintaining our core diamond focus.

**(a) Highlights for the Three Months Ended June 30, 2009**

- On April 29<sup>th</sup>, the Company reported diamond results for **7 new Amaruk kimberlites** discovered in 2008, below. The Qavvik 7 kimberlite sample was collected using conventional diamond drilling while the remaining kimberlite samples were collected using reverse circulation drilling. For expanded discussion, see [1.2\(c\) Amaruk Project – 2008 Amaruk Exploration Results](#).

Kimberlite Name	Drill hole dip	Weight (kg)	Sieve Sizes (mm)				Total
			0.50	0.60	0.85	1.18	
Beluga 3	-90	1,074.0	1	21	8	2	32
CB-27	-90	1,074.0	1	7	2	2	12
Qavvik-7	-65	1,139.5	7	3	-	1	11
Qavvik-8	-75	1,149.5	-	3	2	-	5
Tuktu-10	-75	1,201.9	-	-	-	-	-
Qavvik-10	-90	879.0	-	-	-	-	-
Qavvik-10	-90	968.5	-	-	-	-	-

- On May 11<sup>th</sup>, the Company reported a single reconnaissance grab sample collected from a 3 to 5 metre wide oxidized sulfide zone exposed for 50 metres, yielded 5.8 grams per tonne gold. The prospect is located adjacent to a 2 to 3 kilometre diameter granitic intrusion that appears to have been emplaced along a major structure that extends for more than 40 kilometres on its 100% owned Amaruk property.
- On May 21<sup>st</sup>, the Company reported copper and silver trench samples collected from its 100% owned Hepburn property. Trench 2 sampled similar rocks which yielded 1.5% copper over 2 metres approximately 1 kilometre west of Trench 1. Trench 3 also sampled similar rocks which yielded 2.5% copper approximately 200 metres from Trench 1 (for geophysical and geological maps, see [www.diamondsnorthresources.com/s/CopperSilver.asp](http://www.diamondsnorthresources.com/s/CopperSilver.asp)).

		Width (m)	Cu	Ag
Trench 1 *	Historic data	3.0	2.8	159.1
Trench 2	Historic data	2.0	1.5	-
Trench 1 **	2008 sample	3.0	2.9	218.5
Trench 3	2008 sample	1.0	2.5	11.0

\*Includes a 0.25m chip sample assayed 3.2% Cu, 1,613.8 g/T Ag and 0.615% U3O8.

\*\*The Company's continuous chip sampling of Trench 1 confirms historic sampling

- On May 28<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 2,150,000 common shares. The options are exercisable for a period of five years at a price of \$0.175 per share.
- On June 26<sup>th</sup>, the Company extended the expiry of certain outstanding warrants to January 9, 2010, specifically, 2,524,800 warrants previously expiring on July 7, 2009 and 253,500 warrants previously set to expire on July 9, 2009 (collectively the "Warrants"). The Warrants were repriced from \$1.30 to \$0.30 and are subject to a 30 day exercise period should the closing price of the shares of the Company exceed \$0.40 for ten consecutive trading days.

**(b) Events Subsequent to June 30, 2009**

- On July 14<sup>th</sup>, the Company announced 17 new and separate gold anomalies have been identified on Amaruk. The majority of the anomalies are defined by multiple samples containing 25 to 250 gold grains per 15 kilograms of till sampled. Surface textures on the recovered grains suggest minimal transport, estimated by the Company to be in the range of 500 to 1,000 metres from source in most cases. In addition, high gold grain counts occur up-ice of structural lineaments and in some cases appear to be associated with specific lithologies. It is significant to note that the high concentrations of gold in till spans an approximate area measuring 30 x 100 kilometres.
- On August 4<sup>th</sup>, the Company completed a non-brokered private placement of \$462,080 from the issuance of 2,888,000 flow-through shares at \$0.16 per share. Finders' fees were paid consisting of \$3,800 in cash. All securities are subject to a hold period which expires on December 5, 2009.

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

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. Portions of the property have been optioned or in joint ventures with other diamond exploration companies as described separately are below.

*-2008 Amaruk Exploration Results*

Further to the **7 new Amaruk kimberlites** results table in [1.2\(a\) Highlights for the Three Months Ended June 30, 2009](#), Beluga 3 contained 4 diamonds (two on the 1.18mm and two on the 0.85mm) classified as fragments that are less than 40% of their original size suggesting that this kimberlite contains large stones.

The Beluga 3 kimberlite also exhibits a very subtle magnetic signature which is distinctly different than the signatures of the other kimberlites found to date. The subtle nature of the geophysical signature opens up the possibility of new discoveries in the project area which will demand much more detailed magnetic data collection particularly in areas of unexplained kimberlite indicator mineral trains. This detailed data collection will be an important part of the 2009 exploration campaign.

*-Amaruk Exploration Program for 2009*

The Company has budgeted approximately \$1.5 million for RC drilling, ground geophysics, prospecting, and demobilization. The RC Drill will focus on collecting up to 5 tonnes from Beluga 3 and drill test up to 15 new targets. The Company has engaged three prospectors with extensive gold experience to assist current staff to follow up on new gold anomalies, reported on July 14<sup>th</sup> above.

Included in the budget is \$325,000 for demobilization which includes cost for demobilizing the two diamond drills left on the property in 2008. The Company and drill contractor have reached a mutual agreement to leave the two drill rigs in Pelly Bay whereby each party will provide the other party with a first right of use.

Property expenditures of \$43,331 under [1.2\(e\) Mineral Property Expenditure Table](#) relate to filing and grouping for the 2008 assessment report filed with the Mining Recorder.

*-Future Developments for Amaruk*

Subject to the completion and results from the current exploration program.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

---

**(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 an area 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, 2010 (one year extension granted, previously December 31, 2009). In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

In 2007, the Company and International Samuel entered into a second agreement to form a 50:50 partnership on claims that were staked called the Ualliq West property and contiguous with the Amaruk and Ualliq properties. The Company is the project operator.

*-Ualliq Exploration Program for 2009*

A prospecting program has been designed to check airborne geophysical anomalies.

Property expenditures of \$10,494 under [1.2\(e\) Mineral Property Expenditure Table](#) relate to filing and grouping fees for the assessment report filed with the Mining Recorder. The Company anticipates future bond recoveries in the later part of the year.

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

On July 31, 2006, the Company and Shear Minerals Ltd. ("Shear") entered into an agreement covering an area within the southwest portion of the Company's Amaruk project. Shear 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 2009*

There are no exploration plans for 2009, however, costs will be incurred for demobilization of the 2008 Sakari/Siku camp.

Property expenditures of \$3,579 under [1.2\(e\) Mineral Property Expenditure Table](#) relate to filing and grouping fees for the assessment report filed with the Mining Recorder. The Company anticipates up to \$70,000 in bond recoveries later in the year.

**(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 an area within the southwest portion of the Company's Amaruk project. Arctic Star earned a 50% interest in the Siku project by issuing 1,500,000 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.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

---

*-Siku Exploration Program for 2009*

A small prospecting and till sampling program has been budgeted to follow-up on gold anomalies based on gold grains recovered from till samples. In addition, costs will be incurred for demobilization of the 2008 Sakari/Siku camp.

Property expenditures of \$15,402 under [1.2\(e\) Mineral Property Expenditure Table](#) relate to filing and grouping fees for the assessment report filed with the Mining Recorder. The Company anticipates up to \$190,000 in bond recoveries later in the year.

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

The Tunerq prospect is an oxidized sulphide bearing outcrop discovered in 2007. The sulfide mineralized outcrop is approximately 20 to 30 metres wide and slopes gently into an extensive low lying area with no outcrop exposure. In 2008, percussion drill 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.

*-Tunerq Exploration Program for 2009*

The Company will conduct prospecting to follow-up on numerous other mafic and ultra-mafic intrusions on the Amaruk property. In an attempt to demonstrate Amaruk may host a nickel district, many of the intrusions will be prospected for nickel-copper sulphide mineralization.

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

The Company holds a 100% interest in the 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*

Regional exploration by the Company has identified additional copper-silver mineralization along strike for 1 kilometre and in stratigraphically similar rocks 1.5 kilometres south of the historic drill holes, noted below. In addition, 5 separate geophysical magnetic anomalies with copper-silver potential have been identified over a 12.5 kilometre long area, potentially defining a new large scale copper-silver district.

Two historic angle drill holes from a single site drilled beneath Trench 1 intersected 13-15 metres of sulfide mineralization with high grade copper and copper-silver zones as reported in the table below. Drill hole 2 intersected 4.71 metres of 2.4% copper and 99 g/T silver including a 2.07 metre zone with 4.11% copper and 203.4 g/T (6 opt) silver.

*-Hepburn Exploration Program for 2009*

The Company will conduct further prospecting to determine the extent and continuity of the mineralized zone prior to initiating a drill program. In addition, further prospecting and follow-up of samples with anomalous copper in similar areas to the north and south of the main block is planned.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

**(e) 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	Other Properties (1)	Total
Balance at											
December 31, 2008	\$ 22,266,482	\$ 370,686	\$ 163,246	\$ 397,141	\$ 1,276,569	\$ 4,441,629	\$ 2,513,877	\$ 9,003,735	\$ 526,110	\$ 222,255	\$ 41,181,730
Exploration:											
Airborne geophysics	20,904	1,223	-	380	-	-	-	4,909	1,501	955	29,872
Camp costs	17,456	-	-	8,113	6,195	116	3,663	2,733	-	-	38,276
Drilling - Core	35,807	-	-	-	-	-	-	-	-	-	35,807
Drilling - Percussion	220,790	-	-	-	-	-	-	-	-	-	220,790
Geochemistry	72,705	-	-	-	-	-	2,530	2,951	-	-	78,186
Geology	79,898	8,508	3,146	5,395	7,701	1,552	6,169	21,715	1,511	3,546	139,141
Ground geophysics	4,119	-	-	-	-	-	-	3,300	-	-	7,419
Permitting	5,400	535	535	535	-	-	535	2,139	-	535	10,214
Property	43,331	10,494	3,579	15,402	-	-	-	-	-	-	72,806
	500,410	20,760	7,260	29,825	13,896	1,668	12,897	37,747	3,012	5,036	632,511
Less:											
Recoveries	(342,859)	(24,467)	(81)	(20,215)	-	(5,716)	(32,479)	-	-	-	(425,817)
Net additions	157,551	(3,707)	7,179	9,610	13,896	(4,048)	(19,582)	37,747	3,012	5,036	206,694
Balance at											
June 30, 2009	\$ 22,424,033	\$ 366,979	\$ 170,425	\$ 406,751	\$ 1,290,465	\$ 4,437,581	\$ 2,494,295	\$ 9,041,482	\$ 529,122	\$ 227,291	\$ 41,388,424

1. In 2008, 'Northern Recon was disclosed as a separate project and is now combined under 'Other Properties'.



### 1.3 Results of Operations

#### (a) Current Quarter

The Company's cash position increased from \$3,195,958 to \$3,727,239. During the quarter, the Company collected \$16,000 in GST refunds and \$350,000 in Government of Canada bonds relating to mineral properties. A decrease of \$793,522 in cash, exploration funds help fund the net of bond recoveries, \$125,359 in mineral property acquisition and exploration costs. In addition, the Company received \$14,485 in cash from the sale of marketable securities. In Q3, the Company completed a non-brokered private placement increasing cash, exploration funds by \$462,080.

#### (b) Six Months Ended June 30, 2009 vs. Six Months Ended June 30, 2008

Results of operations for the six months ended June 30, 2009 are discussed in comparison with the six months ended June 30, 2008. General and administrative expenses of \$731,296 (2008 - \$1,265,239) represents a \$533,943 decrease compared to the comparative fiscal period. Notable changes include:

- Investor relations and promotion of \$114,503 reflects a reduced presence at the PDAC in Toronto and other trade shows. A breakdown is below:

	2009	2008
Administration	\$ 707	\$ 3,148
Conferences and trade shows	29,009	71,663
Consulting, wages and benefits	82,901	83,310
Media	3,767	27,882
Promotion and advertising (a)	(1,881)	23,156
	<u>\$ 114,503</u>	<u>\$ 209,159</u>

(a) The credit under 'promotion and advertising' reflects recoveries from a Company sponsored Nunavut event, however, the associated wages and administrative costs are reflected elsewhere.

- Stock-based compensation expense of \$16,471 breakdown, if it had been allocated to the statement of operations by expense categories:

	2009	2008
Accounting and audit	\$ 2,353	\$ 7,688
Administration	-	10,251
Directors fees	11,765	151,544
Investor relations	-	19,857
Wages and benefits	2,353	304,337
	<u>\$ 16,471</u>	<u>\$ 493,677</u>

- Wages and benefits of \$321,428 (2008 - \$280,841) includes a \$50,000 signing bonus paid to the President as part of his employment contract in Q1.
- Future income tax recovery of \$3,057,192 (2008 - \$1,734,200) reflects the renouncement of \$10,190,639 (2008 - \$5,336,000) in exploration expenditures to investors who purchased flow-through shares in 2008. This is a non-cash transaction.

The Company's net income for the period was \$2,389,692 (2008 - \$605,447) or \$0.03 per share (2008 - \$0.01) which is not reflective of the operating deficit, due to the future income tax recovery noted above.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

Other comprehensive income of \$180,991 (2008 - \$351,789) represents the unrealized gains on marketable securities due to the fair value increase of the Company's marketable securities portfolio since the beginning of the year.

**1.4 Summary of Quarterly Results**

	Q3 Sept. 30 2007	Q4 Dec. 31 2007	Q1 Mar. 31 2008	Q2 Jun. 30 2008	Q3 Sept. 30 2008	Q4 Dec. 31 2008	Q1 Mar. 31 2009	Q2 Jun. 30 2009
Mineral expenditures, net of recoveries	\$ 6,617,447	\$ 2,470,749	\$ 1,020,663	\$ 7,505,249	\$ 7,157,026	\$ 695,062	\$ (101,208)	\$ 125,359
G&A expense	\$ 556,125	\$ 1,033,528	\$ 700,851	\$ 564,388	\$ 572,262	\$ 673,222	\$ 416,595	\$ 314,701
Stock-based comp. exp.	\$ 249,601	\$ 459,361	\$ 311,594	\$ 182,083	\$ 190,319	\$ 189,038	\$ 8,236	\$ 8,235
Net income (loss)	\$ (455,455)	\$ (3,359,807)	\$ 1,097,719	\$ (492,272)	\$ (662,604)	\$ (1,000,160)	\$ 2,676,138	\$ (286,446)
Other comprehensive income (loss)	\$ (631,854)	\$ 151,058	\$ (174,987)	\$ (176,802)	\$ (463,456)	\$ (716,981)	\$ (18,366)	\$ 199,357
Income (loss) per share -basic	\$ (0.01)	\$ (0.06)	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.04	\$ (0.01)
Weighted avg. common shares outstanding -basic	55,914,592	54,701,763	60,602,852	61,078,366	74,231,694	67,814,839	75,159,308	75,159,308

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.

Due to seasonal conditions in Canada's north, the Company conducts diamond exploration in Q2 and Q3. In 2008, the Company completed exploration in August and the majority of de-mobilization costs were completed in Q3 unlike the previous year where costs carried into Q4. 2009 exploration expenditures will be lower than 2008. In Q1-2009 includes refunded Government of Canada bond incurred as mineral property expenditures in lieu of exploration work.

G&A expense for Q1-2009 and Q2-2009 decreased, largely to lower stock-based compensation expense. A portion of the stock options granted in May will vest in Q3-2009, resulting in higher G&A expense. Stock-based compensation is a method used by junior exploration companies to compensate staff and directors, in an effort to conserve cash.

The Company is in the exploration stage and does not have an operating mine. Earnings per share are anomalous and reflect adjustments to future income tax. The Company renounced exploration expenditures under its flow-through share program, resulting in future income tax recovery of \$1,734,200 in Q1-2008 and \$3,057,192 in Q1-2009.

Comprehensive income accounting was adopted on January 1, 2007 and other comprehensive income (loss) represents unrealized gains or losses on available-for-sale investments. The negative trend is a reflection of a declining equity markets. In Q1-2009, there was a small recovery in the junior resource sector.



### 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.

The current financial crisis increases:

- liquidity risk, as other things being equal, the price of an asset will be reduced if the holder cannot sell the asset immediately. Included in marketable securities are large share positions in junior resources companies, which would be difficult to sell in depressed markets.
- credit risk, as service providers may not always be able to perform in accordance with the terms of a contract. To help mitigate this risk with contracts that require large advances, the Company may place funds in-trust with a lawyer.

The Company is in the exploration stage and commodity prices are not reflected in operating financial results. 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 2008, the Company implemented cash preservation measures whereby, senior employees, a consultant and mutually agreed to defer 10% of their salaries or fees and the independent directors' agreed to defer their retainer. These amounts 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.

Management believes its \$6,292,399 in working capital is sufficient to meet administrative and property obligations to complete the 2009 year. The 2009 exploration program will be funded by the remaining flow-through expenditure obligations and complemented with the August 4<sup>th</sup> non-brokered private placement, will be approximately \$2 million.

### 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. As an exploration stage company, the Company is currently unable to self-finance its operations.

As the Company does not have operating cash flow, the Company has relied primarily on equity financings to meet its capital 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. The current financial crisis has increased market volatility and junior resource stock prices remain low.

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.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

---

### 1.8 Related Party Transactions

The Company has engaged a business owned by Janice Davies, an officer of the Company, to provide corporate secretarial services. During the period, the Company paid fees to this related party in the aggregate of \$19,200.

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 \$7,900.

At June 30, 2009, the Company held 11.9% of the issued common shares of Uranium North, a company related by virtue of other common directors. Included in accounts receivable is \$13,636 owed by Uranium North, for mineral property, administrative and office costs.

### 1.9 Proposed Transactions

None.

### 1.10 Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the following new accounting standard issued by the CICA relating to financial instruments.

#### *-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 did impact the Company.

### 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 future interim and annual periods.

#### *-Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Section 1582 "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602 "Non-controlling Interests" which replace Section 1581 "Business Combinations" and Section 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combinations accounting standard under IFRS (defined below). Section 1582 is applicable for the Company's business combinations with acquisitions dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. The Company is evaluating these new standards.



*-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. The Company has adopted a three phase approach to IFRS, consisting of:

- Phase 1 'Preliminary Planning and Scoping';
- Phase 2 'Detailed Impact and Assessment'; and
- Phase 3 'Implementation'.

The Company has completed Phase 1 with Phase 2 scheduled to commence in the second half of 2009.

**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 June 30, 2009 is as follows:

<b>Marketable Securities</b>	<b>Cost</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>
Available-for-sale	\$ 1,352,832	\$ (679,761)	\$ 673,071

Included in the carrying value of available-for-sale marketable are 525,000 common shares of Uranium North, 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 June 30, 2009, the closing price of Uranium North was \$0.125 per share. The marketable securities are common shares in other junior exploration companies received via property or option agreements and from the conversion of the Uranium North loan.

**1.13 Certification of Interim Filing**

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.



Management Discussion and Analysis  
For the Six Months Ended June 30, 2009

### 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 78,047,308 issued common shares outstanding and the following unexercised stock options and warrants:

#### *-Stock Options*

Expiry Date	Exercise Price	Number of Shares
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	1,565,000
May 3, 2012	\$1.010	600,000
May 9, 2012	\$1.030	337,000
February 14, 2013	\$0.880	1,271,000
September 2, 2013	\$0.820	70,000
May 28, 2014	\$0.175	2,150,000
		8,914,000

#### *-Warrants*

Expiry Date	Exercise Price	Number of Shares
January 9, 2010	\$0.30	1,916,800
January 9, 2010	\$0.30	608,000
January 9, 2010	\$0.30	253,500
		2,778,300

The warrants are subject to a 30 day exercise period should the closing price of the Company's share exceed \$0.40 for ten consecutive trading days.

**HEAD OFFICE**

Diamonds North Resources Ltd.  
Suite 510, 510 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3A8

**TEL:** (604) 689-2010

**TOLL FREE:** 1-866-802-2010

**FAX:** (604) 484-7143

**www.diamondsnorth.com**  
**info@diamondsnorth.com**

**OFFICERS & DIRECTORS**

Mark Kolebaba  
*President and Director*

Bernard H. Kahlert, B.Sc., P.Eng.  
*Director*

Maynard E. Brown, LL.B.  
*Director*

Yale R. Simpson, B.Sc.  
*Director*

Terry A. Lyons, B.Sc., M.B.A.  
*Director*

Bill Zimmerman, B.Sc., M.B.A.  
*Director*

Bruce Kienlen, P.GEOL  
*VP, Exploration*

Graham Gill, P.GEO  
*VP, Operations*

Nancy Curry  
*VP, Corporate Communications*

Michael Lee, C.G.A  
*Chief Financial Officer*

Janice Davies  
*Corporate Secretary*

**LISTINGS**

TSX Venture Exchange: **DDN**  
Tier One

**CAPITALIZATION**

(as of June 30, 2009)

Shares Authorized: Unlimited

Shares Issued: 75,159,308

**REGISTRAR & TRUST AGENT**

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

**AUDITOR**

Davidson & Company  
Chartered Accountants  
1200 – 609 Granville Street  
Vancouver, British Columbia  
V7Y 1G6

**LEGAL COUNSEL**

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

