



## **ANNUAL REPORT 2008**

[www.diamondsnorth.com](http://www.diamondsnorth.com)

## **DIAMONDS NORTH RESOURCES LTD.**

**Consolidated Financial Statements  
December 31, 2008  
(expressed in Canadian dollars)**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Auditors' Report to Shareholders</b>	<b>2</b>
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Comprehensive Loss	4
Consolidated Statements of Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-27

## AUDITORS' REPORT

To the Shareholders of  
Diamonds North Resources Ltd.

We have audited the consolidated balance sheet of Diamonds North Resources Ltd. as at December 31, 2008 and the consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at December 31, 2007 and for the years ended December 31, 2007 and 2006 were examined by other auditors who expressed an opinion without reservation on those statements in their report dated March 26, 2008.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

April 1, 2009



1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6  
Telephone (604) 687-0947 Fax (604) 687-6172

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Balance Sheets  
December 31  
(expressed in Canadian dollars)

	2008	2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,602,896	\$ 4,039,853
Cash, exploration funds (Note 14)	2,507,033	3,924,759
Marketable securities (Note 4 & 10(e))	498,635	1,653,005
Receivables (Notes 10(a) & (e))	954,898	1,459,743
Prepaid expenses	38,450	39,819
Field supplies	533,962	243,101
Loan and interest receivable (Note 5)	-	326,593
	8,135,874	11,686,873
Deposits	180,000	55,000
Mineral properties (Note 7)	41,181,730	25,488,983
Property, plant and equipment (Note 8)	225,692	171,200
	\$ 49,723,296	\$ 37,402,056
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,209,526	\$ 2,022,135
Due to related parties (Note 10(d))	39,005	4,106
	1,248,531	2,026,241
Future income taxes (Note 14)	2,814,000	2,409,856
	4,062,531	4,436,097
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	52,734,458	38,263,819
Contributed surplus	468,519	141,184
Option compensation	3,331,206	2,844,831
Accumulated other comprehensive income (loss)	(1,013,652)	518,574
Deficit	(9,859,766)	(8,802,449)
	45,660,765	32,965,959
	\$ 49,723,296	\$ 37,402,056

Nature of Operations and Going Concern (Note 1)  
Commitment (Note 11)

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 Comprehensive Loss  
For the Years Ended December 31  
(expressed in Canadian dollars)

	2008	2007	2006
<b>General and administrative expenses</b>			
Accounting and audit	\$ 100,975	\$ 97,080	\$ 70,665
Administration fees	38,400	38,400	35,510
Amortization	73,075	47,736	28,067
Annual report and meeting	14,568	11,433	37,617
Bad debts expense	-	24,728	-
Consulting fees	8,700	6,090	18,263
Directors' fees	40,000	40,000	40,000
Filing fees	17,963	22,017	11,111
Insurance	50,157	51,404	54,895
Interest	22,698	191,423	19,523
Investor relations and promotion	391,484	519,358	253,692
Legal fees	15,409	21,698	64,945
Office and miscellaneous	87,594	82,751	105,282
Rent and storage	100,332	86,670	99,675
Transfer agent fees	20,571	17,921	35,553
Stock-based compensation (Note 9(e))	873,034	1,250,531	555,286
Wages and benefits	655,763	518,354	422,148
	(2,510,723)	(3,027,594)	(1,852,232)
<b>Other income (expenses)</b>			
Interest income	253,663	394,233	216,054
Mineral property transactions	-	676,995	135,301
Property investigation recoveries (expense)	126,484	18,933	(3,591)
Write down of marketable securities	-	-	(30,000)
Write down of mineral properties (Note 7)	(256,797)	(2,410,578)	(385,841)
Unrealized loss on convertible loan	-	(47,778)	-
Realized gain on marketable securities	-	953,362	464,536
<b>Loss before income taxes</b>	(2,387,373)	(3,442,427)	(1,455,773)
<b>Future income tax recovery</b> (Note 14)	1,330,056	2,123,217	489,356
<b>Net loss for the year</b>	(1,057,317)	(1,319,210)	\$ (966,417)
<b>Other comprehensive income (loss)</b>			
Unrealized gain (loss) on marketable securities	(1,532,226)	25,421	-
Future income tax recovery (expense)	-	(4,337)	-
<b>Other comprehensive income (loss)</b>	(1,532,226)	21,084	-
<b>Comprehensive loss</b>	\$ (2,589,543)	\$ (1,298,126)	-
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.02)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>	67,814,839	54,701,763	42,451,985

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Shareholders' Equity  
For the Years Ended December 31  
(expressed in Canadian dollars)

	2008		2007	
	Number of Shares		Number of Shares	
<b>Share capital</b>				
Balance at the beginning of the year	59,746,820	\$ 38,263,819	51,579,320	\$ 34,713,764
Common shares issued for cash				
Private placements, net of issue costs	14,048,799	14,800,811	5,836,000	5,567,680
Exercise of options	708,700	504,479	1,121,500	491,941
Exercise of warrants	654,989	577,621	210,000	180,180
Issued for other consideration				
Mineral property acquisition	-	-	1,000,000	900,000
Income tax effect on flow-through share renouncement (Note 9(c))	-	(1,734,200)	-	(3,673,018)
Exercise of options, stock-based compensation	-	321,928	-	83,272
Balance at the end of the year	75,159,308	52,734,458	59,746,820	38,263,819
<b>Contributed surplus</b>				
Balance at the beginning of the year		141,184		126,133
Fair value of broker warrants issued during the year		262,604		15,039
Fair value of options cancelled during the year		64,731		12
Balance at the end of the year		468,519		141,184
<b>Option compensation</b>				
Balance at the beginning of the year		2,844,831		1,677,584
Stock-based compensation expense		873,034		1,250,531
Reallocated to share capital		(321,928)		(83,272)
Reallocated to contributed surplus		(64,731)		(12)
Balance at the end of the year		3,331,206		2,844,831
<b>Deficit</b>				
Balance at the beginning of the year		(8,802,449)		(7,531,017)
Adjustment to opening balance, net of future income taxes – change in accounting policies		-		47,778
Net loss for the year		(1,057,317)		(1,319,210)
Balance at the end of the year		(9,859,766)		(8,802,449)
<b>Accumulated other comprehensive income (loss)</b>				
Balance at the beginning of the year		518,574		-
Adjustment to opening balance, net of future income taxes – change in accounting policies		-		1,050,610
Other comprehensive income (loss)		(1,532,226)		21,084
Reclassification of gains on marketable securities, transferred to net income		-		(553,120)
Balance at the end of the year		(1,013,652)		518,574
<b>TOTAL SHAREHOLDERS' EQUITY</b>	75,159,308	\$ 45,660,765	59,746,820	\$ 32,965,959

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Cash Flows  
For the Years Ended December 31  
(expressed in Canadian dollars)

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from (applied to) operating activities</b>			
Net loss for the year	\$ (1,057,317)	\$ (1,319,210)	\$ (966,417)
Items not involving cash:			
Amortization	73,075	47,736	28,067
Stock-based compensation	873,034	1,250,531	555,286
Write down of marketable securities	-	-	30,000
Write down of mineral properties	256,797	2,410,578	385,841
Unrealized loss on convertible loan	-	47,778	-
Future income taxes	(1,330,056)	(2,123,217)	(489,356)
Marketable securities received under mineral property transactions	-	(341,040)	-
Realized gain on sale of marketable securities	-	(953,362)	(464,536)
	(1,184,467)	(980,206)	(921,115)
Net change in non-cash working capital items:			
Receivables	893,301	(83,709)	(852,805)
Prepaid expenses	1,369	137,512	(129,449)
Field supplies	(290,861)	(149,900)	(93,201)
Accounts payable and accrued liabilities	(289,284)	1,436,401	125,785
Due to related parties	34,899	(47,253)	41,413
	(835,043)	312,845	(1,829,372)
<b>Cash flows from (applied to) investing activities</b>			
Cash, exploration funds	1,417,726	3,391,232	(4,815,816)
Proceeds from sale of marketable securities, net	-	1,042,842	559,610
Mineral property acquisition and exploration costs, net of recoveries	(16,378,000)	(12,567,105)	(3,519,072)
Accounts payable and accrued liabilities related to mineral properties	(523,325)	1,381,326	(80,267)
Loan and interest receivable	(11,263)	(14,997)	(311,596)
Deposits	(125,000)	-	(15,000)
Purchase of equipment	(127,567)	(101,528)	(75,058)
	(15,747,429)	(6,868,230)	(8,257,199)
<b>Cash flows from financing activity</b>			
Shares issued for cash, net of issue costs	16,145,515	6,254,840	10,711,108
<b>Increase (decrease) in cash and cash equivalents</b>	(436,957)	(300,545)	624,537
<b>Cash and cash equivalents, beginning of year</b>	4,039,853	4,340,398	3,715,861
<b>Cash and cash equivalents, end of year</b>	\$ 3,602,896	\$ 4,039,853	\$ 4,340,398

Supplemental Cash Flow Information (Note 13)

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(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 and does not have operating cash flow.

The recoverability of amounts shown for mineral property interests in Note 7 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.

For the year ended December 31, 2008, the Company reported net loss of \$1,057,317 (2007 - \$1,319,210), has a history of losses and an accumulated deficit of \$9,859,766 (2007 - \$8,802,449). Management believes its \$6,887,343 (2007 - \$9,660,632) working capital is sufficient to meet administrative and property obligations for the 2009 year.

For 2009, management has prepared a \$2 million dollar exploration budget, a significant decrease from the 2008 year's \$16 million exploration programs. The budget will be funded by the remaining flow-through expenditure obligations from the 2008 financing. Further, senior employees and a consultant of the Company have mutually agreed to defer 10% of their salaries or fees and the independent directors' of the Company deferred their Q4 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.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, 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 reflect adjustments in the carrying value of the assets and liabilities, the reported expenses, and the balance sheet classifications used, that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations, and that such adjustment could be material.

### 2. Significant Accounting Policies

#### (a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the functional currency is the Canadian dollar. These consolidated financial statements include the accounts of the Company and its wholly-owned integrated 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  
December 31, 2008 and 2007  
(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 determining the fair value of marketable securities, collectability of receivables, the impairment of assets and rates for amortization, accrued liabilities, future income tax balances and the inputs used in calculating stock-based compensation. While management believes the estimates are reasonable, actual results may differ from those estimates and may impact future results of operations and cash flows.

#### (c) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities or redeemable features of three months or less from the date of acquisition, and readily convertible to known amounts of cash without a significant risk of change in value.

#### (d) Financial instruments – Recognition and measurement

The Company classifies all financial instruments as either held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the Statements of Operations.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Marketable securities	Available-for-sale
Receivables	Loans and receivables
Loan and interest receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

As a result of adopting this accounting policy for fiscal 2007, the Company recognized an adjustment to opening accumulated other comprehensive income and marketable securities of \$1,050,610 to recognize the fair value of marketable securities on adoption. The Company also recognized an adjustment to opening deficit and marketable securities of \$47,778 to recognize the fair value of an embedded derivative.

The Company is entitled to varying royalties on various exploration projects and properties which may be characterized as a financial instrument in the future. No value has been assigned to such instruments as there is no reliable measurement basis to determine value until properties are in production, the mining feasibility stage or proven economically recoverable reserves have been determined.

#### (e) Mineral properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs, and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 2. Significant Accounting Policies (continued)

#### (e) Mineral properties (continued)

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying value amounts of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares issued for mineral property interests pursuant to the terms of the relevant agreement. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date, less write-downs, and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

#### (f) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at annual rates of 20% on office furniture, 30% on computer and equipment and 100% on computer software, from the date of acquisition. Leasehold improvements are amortized on a straight-line basis over six years, from the start of the lease.

#### (g) Asset retirement obligations

The Company accounts for the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment, and mineral properties when those obligations result from the acquisition, construction, development or normal operations of the assets. When determinable, a liability for future site reclamation costs, or other obligations, would be recorded at fair value and the corresponding increase in the assets carrying value would then be amortized over the remaining useful life of the asset.

Management has reviewed the Company's likely retirement costs of its property, plant and equipment, and mineral properties for known obligations under contract, common practices or laws and regulations in effect or anticipated. The Company has determined that there are no known or quantifiable significant assets retirement obligations and accordingly, these financial statements do not include any provision related to future asset retirement.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 2. Significant Accounting Policies (continued)

#### (h) Share capital

Share capital is comprised of proceeds from share issuances, net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date of issue.

Canadian tax legislation permits a Company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investor(s) rather than the Company. The Company records a future income tax liability and a reduction in share capital for the estimated tax benefit transferred to the investor(s).

When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of valuation allowance, will be offset against related future income tax liabilities and recognized as a recovery of future income taxes in the Statement of Operations.

#### (i) Stock-based compensation

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense in the period the option vests or when the awards or rights are granted, with a corresponding increase to option compensation under shareholders' equity. When stock options are exercised, the corresponding fair value, previously recognized, is transferred to share capital or when stock options are forfeited, cancelled or expire, the corresponding fair value is transferred to contributed surplus.

#### (j) Income taxes

Income taxes are calculated using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax amounts (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

#### (k) Comprehensive income

This standard requires certain gains and losses that would otherwise be recorded as part of net income (loss) to be presented in "other comprehensive income" until it is considered appropriate to recognize into net income (loss). This standard requires the presentation of comprehensive income and its components in a separate statement that is displayed with the same prominence as the other financial statements. Accumulated other comprehensive income is presented as a new category in shareholders' equity.

#### (l) Loss per share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. However, diluted loss per share has not been presented separately as the effects of outstanding options and warrants is anti-dilutive.

## **DIAMONDS NORTH RESOURCES LTD.**

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### **2. Significant Accounting Policies** (continued)

#### **(m) Certain comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

### **3. Changes in Accounting Policies**

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

#### **(a) Assessing Going Concerns**

CICA Section 1400 has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of this section resulted in additional disclosure in Note 1.

#### **(b) Capital Disclosures**

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

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

The adoption of this section has resulted in the addition of Note 6.

#### **(c) Inventories**

CICA Section 3031 (supersedes Section 3030) prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this section did not impact the Company.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 3. Changes in Accounting Policies (continued)

#### (d) Financial Instruments Disclosures and Presentation

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

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

Entities will be required to disclose the measurement basis or bases used and the criteria used to determine classification for different types of instruments. The adoption of this section has been disclosed in Note 6.

#### (e) Income Statement Presentation of Tax Loss Carryforward

Effective October 1, 2008, the Company adopted EIC-172 "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income". This abstract provides guidance on whether the tax benefit from the recognition of tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale marketable securities, should be recognized in net income or in other comprehensive income. The EIC concluded that the tax benefit should be recorded in net income.

#### New Accounting Pronouncements Not Yet Adopted:

##### (a) Goodwill and Intangible Assets

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

##### (b) 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 3. Changes in Accounting Policies (continued)

#### (c) International Financial Reporting Standards ("IFRS")

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

### 4. Marketable Securities

	Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities at December 31, 2008	\$ 1,406,117	\$ (907,482)	\$ 498,635

	Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities at December 31, 2007	\$ 1,027,761	\$ 625,244	\$ 1,653,005

Included in the carrying value of available-for-sale marketable securities are 1,050,000 common shares of Uranium North Resources Corp. ("Uranium North"), which are subject to escrow. As escrow shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become "free trading", the fair value will be determined at quoted market prices. At December 31, 2008, the closing price of Uranium North was \$0.09 per share.

### 5. Loan and Interest Receivable

In 2006, the Company advanced a working capital loan in the amount of \$300,000 to Uranium North. The loan was repayable in whole or in part, on demand, and accrued interest at 5% per annum. The loan and accrued interest or any portion thereof, was convertible at the sole discretion and option of the Company into securities of Uranium North at a per share conversion price equal to \$0.75 per share.

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

The companies agreed not to proceed with the amendment and entered into a Debt Settlement Agreement dated October 1, 2008 pursuant to which the outstanding loan and accrued interest was converted into common shares of Uranium North. Uranium North issued 1,689,281 common shares to the Company, at a price of \$0.20 per share to settle an aggregate of \$337,856 in debt.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 6. Financial Instruments, Risk Management and Capital Disclosures

#### (a) Fair value of financial instruments

The Company's financial instruments at December 31, 2008 include cash and cash equivalents, cash exploration funds, receivables, deposits, accounts payable and accrued liabilities, and amounts due to related parties and are recognized on the balance sheet at their fair value which approximated their carrying value due to their short-term nature. Marketable securities are carried at their fair value based on quoted market prices in an active market with the exception of shares subject to escrow, as disclosed in Note 4.

#### (b) Risk management

##### *Credit Risk*

The Company is exposed to credit risk with respect to its cash, cash equivalents, cash exploration funds and receivables. To minimize this risk, cash, cash equivalents and cash exploration funds have been placed with major Canadian financial institutions. Receivables include GST and Government of Canada bond refunds which have low risk of default.

The current financial crisis increases 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, to be released on completion of the contract.

##### *Equity Market Risk*

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available for sale.

##### *Interest Rate Risk*

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

##### *Liquidity Risk*

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

The current financial crisis 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 which could be difficult to sell in depressed markets.

##### *Foreign Exchange Risk*

The Company is not exposed to significant foreign exchange risk as it operates in Canada and makes few US dollar purchases.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 6. Financial Instruments, Risk Management and Capital Disclosures (continued)

#### (c) 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, see Note 1. As an exploration stage company, the Company is currently unable to self-finance its operations.

Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable. The current financial crisis has increased market volatility and placed downward pressure on stock prices.

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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 7. Mineral Properties

As at December 31, 2008 and 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	Sakari, NU	Siku, NU	Tunerq, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Northern Recon.	Other Properties	Total
Balance at												
December 31, 2007	\$ 11,319,082	\$ -	\$ 19,084	\$ -	\$ 26,064	\$ 4,145,442	\$ 1,831,525	\$ 7,157,418	\$ 447,426	\$ 270,709	\$ 272,233	\$ 25,488,983
Additions during the period:												
Acquisition costs	-	-	-	-	-	-	-	-	20,000	-	-	20,000
Exploration:												
Airborne geophysics	762,979	192,987	2,995	102,374	274	-	6,330	38,799	-	-	-	1,106,738
Camp costs	1,855,890	75,959	72,466	171,480	272,429	5,852	226,109	193,583	-	-	-	2,873,768
Camp heli. (incl. fuel)	906,034	422,417	27,440	109,922	205,948	-	125,692	393,357	-	2,106	-	2,192,916
Drilling - Core	4,105,215	-	-	-	-	-	-	-	-	-	-	4,105,215
Drilling - Percussion	1,812,559	328,005	88,622	309,369	187,188	-	-	-	-	-	-	2,725,743
Geochemistry	216,170	569	-	1,270	2,813	4,096	8,889	255,052	-	-	-	488,859
Geology	163,106	6,520	4,412	15,230	90,027	3,485	1,729	26,307	-	2,583	68	313,467
Ground geophysics	669,889	180,264	79,478	290,291	395,436	1,667	173,155	482,634	-	358	-	2,273,172
Permitting	6,420	20,202	3,385	3,385	17,310	260,509	14,613	2,625	30,419	525	-	359,393
Prospecting	59,085	24,132	2,958	9,853	72,401	-	38,732	52,936	-	8,416	-	268,513
Property	417,727	172,797	4,231	26,676	6,679	20,578	87,103	455,806	36,878	16,649	-	1,245,124
	10,975,074	1,423,852	285,987	1,039,850	1,250,505	296,187	682,352	1,901,099	67,297	30,637	68	17,952,908
Less:												
Recoveries	(27,674)	(1,013,166)	(141,825)	(642,709)	-	-	-	(54,782)	(8,613)	(94,595)	-	(1,983,364)
Option payments	-	(40,000)	-	-	-	-	-	-	-	-	-	(40,000)
Write downs	-	-	-	-	-	-	-	-	-	(81,285)	(175,512)	(256,797)
	(27,674)	(1,053,166)	(141,825)	(642,709)	-	-	-	(54,782)	(8,613)	(175,880)	(175,512)	(2,280,161)
Net additions	10,947,400	370,686	144,162	397,141	1,250,505	296,187	682,352	1,846,317	78,684	(145,243)	(175,444)	15,692,747
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	\$ 125,466	\$ 96,789	\$ 41,181,730

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 7. Mineral Properties (continued)

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	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	1,397	16,610	-	-	-	900,000	1,200	-	-	25,830	945,037
Exploration:											
Airborne geoph.	1,418,591	470,453	113,093	894,222	377	448,642	1,664,512	-	1,564	-	5,011,454
Camp costs	1,007,192	84,012	14,926	173,906	-	15,435	123,354	-	-	-	1,418,825
Camp heli. (incl. fuel)	1,564,828	180,660	54,432	607,619	-	42,471	107,331	-	3,228	-	2,560,569
Drilling - Core	383,687	-	-	-	-	-	-	-	-	-	383,687
Drilling - RC	1,628,831	109,197	38,189	127,370	-	-	638,923	-	-	-	2,542,510
Geochemistry	354,765	87,537	-	-	309	143,339	77,955	-	25,304	-	689,209
Geology	215,038	30,199	3,219	12,145	5,614	12,284	36,546	-	4,512	58	319,615
Ground geoph.	210,413	31,749	2,343	27,469	-	7,714	11,302	-	-	-	290,990
Mobilization	73,865	6,261	-	7,549	-	35,059	9,266	-	-	-	132,000
Permitting	4,405	-	-	-	396	2,075	-	-	-	-	6,876
Prospecting	135,197	7,458	-	10,783	-	4,483	5,580	-	-	-	163,501
Property	59,844	53,409	-	211,367	8,802	3,948	576,196	-	194,531	17,937	1,126,034
	7,056,656	1,060,935	226,202	2,072,430	15,498	715,450	3,250,965	-	229,139	17,995	14,645,270
Less:											
Recoveries	(154,978)	(1,025,438)	(209,280)	(1,961,861)	(62,264)	(66,523)	-	-	(24,184)	-	(3,504,528)
Option payments	-	(67,500)	-	(142,500)	-	-	-	-	-	-	(210,000)
Re-grouping of project	-	-	-	-	85,889	-	-	-	-	(85,889)	-
Write downs	-	-	-	-	-	-	-	-	(1,457,812)	(952,766)	(2,410,578)
	(154,978)	(1,092,938)	(209,280)	(2,104,361)	23,625	(66,523)	-	-	(1,481,996)	(1,038,655)	(6,125,106)
Net additions	6,903,075	(15,393)	16,922	(31,931)	39,123	1,548,927	3,252,165	-	(1,252,857)	(994,830)	9,465,201
Balance at											
December 31, 2007	\$ 11,319,082	\$ -	\$ 19,084	\$ -	\$ 4,145,442	\$ 1,831,525	\$ 7,157,418	\$ 447,426	\$ 296,773	\$ 272,233	\$ 25,488,983

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

#### Acquisitions

The Company has taken steps, in accordance with industry standards, to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

#### Environmental expenditures

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries.

#### (a) Amaruk Project, Nunavut

The Amaruk property is in close proximity to the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other diamond exploration companies as described below. The property is subject to a 2% gross overriding royalty ("GOR") on diamonds and a 2% net smelter royalty ("NSR") on other minerals except gold, 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 an area predominantly within the western portion of the Company's Amaruk Project. International Samuel has an option to earn a 30% interest in the Ualliq project by issuing 2,000,000 common shares to the Company (received) and incurring \$3,000,000 in expenditures on the property on or before December 31, 2009. In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

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

#### (c) Sakari - Amaruk Project, Nunavut

On July 31, 2006, the Company and Shear Minerals Ltd. ("Shear") entered into an agreement covering an area within the southwest portion of the Company's Amaruk Project. Shear earned a 50% interest in the Sakari project by making a payment of \$97,000 in refundable deposits and incurring \$185,940 in expenditures on the property before June 30, 2007. The Company is the project operator.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

#### (d) Siku - Amaruk Project, Nunavut

On October 4, 2006, the Company and Arctic Star Diamond Corp. ("Arctic Star") entered into an agreement covering an area within the southwest portion of the Company's Amaruk Project. Arctic Star earned a 50% interest in the Siku project by issuing 1,500,000 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.

#### (e) Tunerq – Amaruk Project, Nunavut

The Company holds a 100% interest in the Tunerq nickel prospect located on the Amaruk property.

#### (f) Victoria Island, Nunavut and Northwest Territories

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Holman, Mariner, Washburn, Wellington and White Ice projects, which are collectively referred to as "Victoria Island". The projects consist of various claims and permits, which are 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% GOR and the Washburn property is subject to a 2% GOR, both on diamonds.

#### (g) Banks Island, Northwest Territories

The Company holds a 100% interest in the Banks Island property, which was originally acquired jointly with Majescor Resources Inc. ("Majescor") on a 50/50 cost sharing basis.

On July 5, 2007, the Company acquired Majescor's 50% interest in the Banks Island project in consideration for 1,000,000 common shares of the Company, a two-year warrant to purchase up to 1,000,000 common shares at \$1.50 per share and a 1.5% royalty on diamonds, metals and other minerals of which half of the royalty may be purchased by the Company at anytime for \$1,000,000. The warrant is only exercisable if a designated target is proven to be a kimberlite pipe of at least 200 metres in diameter and at which time the warrant will expire at the earlier of six months from the date of such proof or July 18, 2009. The warrants will be issued at such time that the target is proved.

#### (h) Hepburn, Northwest Territories

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

#### (i) Kidme, Northwest Territories

At the beginning of the 2008 year, the Company owned 40% of the Kidme Project and SouthernEra Diamonds Inc., the co-owner of the property, owned 60% of the property. During the year, the Company purchased SouthernEra Diamonds Inc. 60% interest for \$20,000, resulting in the Company owning 100% of the project.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

#### (j) 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% GOR with respect to diamonds, a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

#### (k) Other properties

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

##### (i) Arnaq, Nunavut

The Arnaq property 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 December 31, 2008, the carrying value of the Arnaq project is \$70,942 (2007 - \$70,875).

##### (ii) Tasiq, Nunavut

As part of the Uranium North arrangement completed in 2006, the Company transferred its 100% interest (except for diamonds, which are reserved unto the Company) in the Tasiq property to Uranium North. The Company retains a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

##### (iii) Thelon, Nunavut and Northwest Territories

As part of the Uranium North arrangement completed in 2006, the Company transferred substantially all of its interest in the property pursuant to a memorandum of understanding ("MOU") dated April 14, 2005, with Pathfinder Resources Ltd. ("Pathfinder"). In August 2006, Pathfinder amalgamated with Bayswater Uranium Corporation. The Company retains the right to a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

### 8. Property, Plant and Equipment

	2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 36,167	\$ 22,780	\$ 13,387
Computer equipment	113,376	63,447	49,929
Computer software	8,953	4,477	4,476
Equipment	220,126	72,447	147,679
Leasehold improvements	35,882	25,661	10,221
	<u>\$ 414,504</u>	<u>\$ 188,812</u>	<u>\$ 225,692</u>

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 8. Property, Plant and Equipment (continued)

			2007
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 36,167	\$ 19,434	\$ 16,733
Computer equipment	99,989	44,917	55,072
Equipment	114,899	31,705	83,194
Leasehold improvements	35,882	19,681	16,201
	<u>\$ 286,937</u>	<u>\$ 115,737</u>	<u>\$ 171,200</u>

Leasehold improvements costs are in connection with the office premises (Note 11).

### 9. Share Capital

#### (a) Authorized

Unlimited common shares without par value.

#### (b) Private placements

- i) On July 7, 2008, the Company completed a \$12.5 million bought deal financing, led by Canaccord Capital Corporation and including Dundee Securities Corporation, GMP Securities L.P. and Haywood Securities Inc. (collectively, the "Underwriters") consisted of 3,833,600 units (the "Units") at a price of \$1.05 per Unit and 7,083,700 flow-through common shares ("Flow-Through Shares") at a price of \$1.20 per Flow-Through Share for aggregate proceeds of \$12,525,720 (the "Offering"). A Unit consists of one common share and one-half of one transferable common share purchase warrant (a "Warrant"). Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.30 per share, on or before July 7, 2009.

In consideration for their efforts, the Underwriters were paid a cash commission of \$751,543 and received 655,038 non-transferable Underwriters' warrants ("Underwriters' Warrants"). Each Underwriters' Warrant entitles the holder to purchase one common share at a price of \$1.30 per share, on or before July 7, 2009. A fair value of \$243,912 was assigned to these warrants issued and added to contributed surplus. In addition, the Company incurred additional costs of \$114,313 in relation to the financings.

Concurrently, the Company closed the first tranche of the non-brokered private placement for gross proceeds of \$2,946,799 from the issuance of 1,391,666 Flow-Through Shares and 1,216,000 Units. Finders' fees were paid consisting of \$65,745 cash and the issuance of share purchase warrants entitling finders to purchase up to 24,000 common shares at a price of \$1.30 per share on or before July 7, 2009. A fair value of \$8,936 was assigned to these warrants issued and added to contributed surplus.

The fair value of the above compensatory warrants were estimated using the Black-Scholes option pricing model with a risk-free interest rate of 2.13%, an expected life of 1 year, expected volatility of 100% and an expected dividend yield of Nil%.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 9. Share Capital

#### (b) Private placements (continued)

- ii) On July 10, 2008, the Company closed the second tranche of the non-brokered private placement for gross proceeds of \$552,500 from the issuance of 16,833 Flow-Through Shares and 507,000 Units. A Unit consists of one common share and one-half of one transferable common share purchase warrant (a "Warrant"). Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.30 per share, on or before July 9, 2009.

Finders' fees were paid consisting of \$30,051 cash and the issuance of share purchase warrants entitling finders to purchase up to 28,620 common shares at a price of \$1.30 per share, on or before July 9, 2009. A fair value of \$9,756 was assigned to these warrants issued and added to contributed surplus.

The fair value of the compensatory warrants was estimated using the Black-Scholes option pricing model with a risk-free interest rate of 2.13%, an expected life of 1 year, expected volatility of 100% and an expected dividend yield of Nil%.

- iii) On August 16, and 23, 2007, the Company completed the first and second tranches of a non-brokered private placement of 4,551,000 flow-through common shares at a price of \$1.00 per share. Finder's fee and share issue costs of \$253,281 in cash were paid and 261,300 warrants to purchase up to 261,300 common shares at a price of \$1.00 were issued, of which 231,300 warrants expire on August 15, 2008 and 30,000 warrants expire on August 22, 2008. Using the Black-Scholes option pricing model, a fair value of \$15,039 was assigned to these warrants issued and added to contributed surplus.
- iv) On November 30, 2007, the Company completed a non-brokered private placement of 1,285,000 flow-through common shares at a price of \$1.00 per share.

#### (c) Income tax effect on flow-through share renouncements

In January 2008, the Company renounced \$5,336,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$1,734,200, which is deducted from share capital.

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.

In November 2007, the Company renounced \$500,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$170,600, which is deducted from share capital.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 9. Share Capital (continued)

#### (d) Stock options

Options to purchase common shares have been granted to directors, officers, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. Under the Company's stock option plan, the Company may grant stock options for the purchase of up to 12,189,700 common shares (2007 - 10,325,500). Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. As at December 31, 2008, the Company had stock options outstanding for the purchase of 7,649,000 common shares (2007 - 7,027,700) which 7,614,000 stock options (2007 - 6,793,450) were exercisable at December 31, 2008.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	5,582,500	\$ 0.76
Granted	2,567,000	\$ 0.86
Exercised	(1,121,500)	\$ 0.44
Expired	(300)	\$ 0.43
Outstanding at December 31, 2007	7,027,700	\$ 0.85
Granted	1,500,000	\$ 0.88
Exercised	(708,700)	\$ 0.71
Expired	(170,000)	\$ 0.67
Outstanding at December 31, 2008	7,649,000	\$ 0.87

The following summarizes information about stock options outstanding at December 31, 2008:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 1.021	March 30, 2009
545,000	\$ 0.944	August 8, 2009
300,000	\$ 0.858	October 18, 2009
50,000	\$ 0.858	January 27, 2010
247,500	\$ 0.987	March 22, 2010
550,000	\$ 0.729	May 17, 2010
1,660,000	\$ 0.848	April 12, 2011
113,500	\$ 1.021	July 13, 2011
1,565,000	\$ 0.770	February 27, 2012
600,000	\$ 1.010	May 3, 2012
337,000	\$ 1.030	May 9, 2012
1,411,000	\$ 0.880	February 14, 2013
70,000	\$ 0.820	September 2, 2013
7,649,000		

Subsequent to December 31, 2008, 200,000 stock options with an exercise price of \$1.021 expired unexercised on March 30, 2009 and 140,000 stock options with an expiry date of February 14, 2013 were cancelled.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 9. Share Capital (continued)

#### (e) 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 using a weighted average fair value of \$0.51 per option granted based on the following weighted average assumptions at December 31, 2008:

	2008	2007	2006
Risk-free interest rate	3.22%	2.93%	2.87%
Expected dividend yield	-	-	-
Expected stock price volatility	67%	72%	77%
Expected option life in years	5.00	3.20	2.51

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.

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

	2008	2007	2006
Accounting and audit	\$ 17,730	\$ 23,172	\$ 20,152
Administration fees	20,502	18,195	17,561
Consulting fees	-	46,070	54,410
Directors' fees	259,413	429,429	122,267
Investor relations and promotion	36,258	86,887	49,804
Wages and benefits	539,131	646,778	291,092
<b>Stock-based compensation expense</b>	<b>\$ 873,034</b>	<b>\$ 1,250,531</b>	<b>\$ 555,286</b>

#### (f) Warrants

At December 31, 2008, the Company had outstanding warrants to purchase an aggregate of 3,485,958 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2007	Issued	Exercised	Expired	Outstanding at December 31, 2008
\$ 0.858	February 16, 2008	515,789	-	(515,789)	-	-
\$ 1.00	August 15, 2008	231,300	-	(109,200)	(122,100)	-
\$ 1.00	August 22, 2008	30,000	-	(30,000)	-	-
\$1.30	July 7, 2009	-	1,916,800	-	-	1,916,800
\$1.30	July 7, 2009	-	608,000	-	-	608,000
\$1.30	July 7, 2009	-	24,000	-	-	24,000
\$1.30	July 7, 2009	-	655,038	-	-	655,038
\$1.30	July 9, 2009	-	253,500	-	-	253,500
\$1.30	July 9, 2009	-	28,620	-	-	28,620
		<b>777,089</b>	<b>3,485,958</b>	<b>(654,989)</b>	<b>(122,100)</b>	<b>3,485,958</b>

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

---

### 10. Related Party Transactions

Related party transactions are in the normal course of business, recorded at the exchange amount and bear no interest or stated terms of repayment. In addition to items disclosed elsewhere in these statements, the Company had the following related party transactions and balances:

- (a) Included in receivables is \$2,510 (2007 - \$6,089) owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) For the year ended December 31, 2008, an officer of the Company has been paid a total of \$38,400 (2007 - \$38,400) for corporate secretarial services, which has been expensed as administration fees.
- (c) For the year ended December 31, 2008, a director of the Company has been paid a total of \$18,900 (2007 - \$18,900) for consulting fees, which has been charged to mineral properties.
- (d) Amounts due to related parties, totalling \$39,005 (2007 - \$4,106), consist of fees and reimbursement of expenses owed to directors and officers of the Company.
- (e) As at December 31, 2008, the Company held 12.1% (2007 - 12.9%) of the issued common shares of Uranium North. Included in receivables is \$12,542 (2007 - \$356,790) owed by Uranium North, a company related by virtue of other common directors, for mineral property, administrative and office costs.

### 11. 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 \$98,000 per year.

### 12. Segmented Information

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

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

**DIAMONDS NORTH RESOURCES LTD.**

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

**13. Supplemental Cash Flow Information**

	2008	2007	2006
<b>Investing activities</b>			
Mineral properties acquired with common shares	\$ -	\$ (900,000)	\$ -
Marketable securities received for option payments	40,000	551,040	525,000
Repayment of loan and interest receivable in common shares of Uranium North	337,856	-	-
Transfer of mineral properties from plan of arrangement with Uranium North	-	-	1,065,195
	<u>\$ 377,856</u>	<u>\$ (348,960)</u>	<u>\$ 1,590,195</u>
<b>Financing activities</b>			
Income tax effect on flow-through share renouncement	\$ 1,734,200	\$ 3,673,018	\$ (853,060)
Share Capital resulting from plan of arrangement	-	-	(1,065,195)
Receivables included in mineral properties recoveries	388,456	-	-
Accounts payable included in mineral properties	1,153,910	1,677,236	295,909
Fair value of broker warrants issued	262,604	15,039	-
Stock-based compensation	(321,928)	(83,272)	26,290
	<u>\$ 3,217,242</u>	<u>\$ 5,282,021</u>	<u>\$ (1,596,056)</u>
<b>Cash and cash equivalents</b>			
Cash	\$ 3,594,579	\$ 3,217,984	\$ 4,289,993
Cash equivalents	8,317	821,869	50,405
	<u>\$ 3,602,896</u>	<u>\$ 4,039,853</u>	<u>\$ 4,340,398</u>
<b>Other cash flow information:</b>			
Interest received	\$ 234,819	\$ 417,375	\$ 138,150
Interest paid	\$ 18,375	\$ 185,051	\$ 15,934
Income taxes paid	\$ -	\$ -	\$ -

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
December 31, 2008 and 2007  
(expressed in Canadian dollars)

### 14. Income Taxes

The Company has accumulated non-capital losses for Canadian income tax purposes of \$7,058,000. The losses may be carried forward to reduce taxable income in future years and, unless utilized, will expire beginning 2009 through to 2028.

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2008	2007	2006
	31.00%	34.12%	34.12%
Income tax recovery computed at Canadian statutory rates	\$ 739,980	\$ 1,174,556	\$ 496,710
Temporary differences not recognized in year	(102,260)	(561,471)	(329,551)
Permanent difference not recognized	(80,076)	(266,178)	(153,946)
Net tax effect of flow through share renunciation	-	3,251,017	476,143
Tax benefits not recognized and other	796,511	-	-
Change in tax rates	(24,099)	(1,474,707)	-
Future income tax recovery	\$ 1,330,056	\$ 2,123,217	\$ 489,356

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2008	2007
Future income tax assets (liabilities)		
Non-capital losses carried forward	\$ 1,835,000	\$ 1,263,472
Mineral properties	(5,460,000)	(4,234,729)
Other assets	811,000	561,401
Future income tax liabilities, net	\$ (2,814,000)	\$ (2,409,856)

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 share 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 December 31, 2008 and are held by the Company for such expenditures. As at December 31, 2008, the amount of flow-through proceeds remaining to be expended is \$2,507,033 (2007 - \$3,924,759).



**Table of Contents**

1.1 Description of Business and Report Date..... - 29 -

1.2 Company Overview and Projects ..... - 29 -

    (a) Highlights for the Year Ended December 31, 2008..... - 30 -

    (b) Events Subsequent to December 31, 2008..... - 31 -

    (c) Amaruk Project – Nunavut, Canada ..... - 32 -

        (i) Ualliq option to International Samuel Exploration Corp. .... - 33 -

        (ii) Sakari joint venture with Shear Minerals Ltd..... - 34 -

        (iii) Siku joint venture with Arctic Star Diamond Corp. .... - 34 -

        (iv) Tunerq - Amaruk Nickel Project (100% owned)..... - 34 -

    (d) Hepburn Project – Northwest Territories, Canada ..... - 35 -

    (e) Banks Island Project – Northwest Territories, Canada ..... - 35 -

    (f) Mineral Property Expenditures Table..... - 36 -

1.3 Selected Annual Information ..... - 37 -

1.4 Results of Operations ..... - 37 -

    (a) Current Quarter ..... - 37 -

    (b) Year Ended December 31, 2008 ..... - 37 -

1.5 Summary of Quarterly Results ..... - 39 -

1.6 Liquidity..... - 40 -

1.7 Capital Management..... - 40 -

1.8 Off-Balance Sheet Arrangements..... - 40 -

1.9 Related Party Transactions..... - 41 -

1.10 Proposed Transactions..... - 41 -

1.11 Changes in Accounting Policies ..... - 41 -

1.12 New Accounting Pronouncements..... - 42 -

1.13 Financial Instruments..... - 43 -

1.14 Certification of Annual Filing..... - 44 -

1.15 Other MD&A Requirements..... - 44 -



Management Discussion and Analysis  
For the Year Ended December 31, 2008

---

### 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 audited consolidated financial statements and the notes thereto for the year ended December 31, 2008.

This Management Discussion and Analysis ("MD&A") may contain forward-looking statements that involve risks and uncertainties. Words such as "anticipate," "believe," "estimates," "expects," and similar expressions are used throughout this report to identify these statements. Forward-looking statements in this MD&A are only made as of April 7, 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

During 2008, the Company completed the following on its 100% owned Amaruk property:

- Over 6,000 metres of diamond drilling on the Tuktu and Qavvik kimberlites, for drill results, see '1.2(b) Events Subsequent to December 31, 2008'.
- The percussion drills was utilized for testing new targets and resulted in the discovery of 7 new kimberlites.
- Over 212 ground geophysical grids and more than 600 till samples have been collected on the property.
- At Tunerq, EM and magnetic surveys, percussion drilling, mapping and an IP survey were all completed.

The Company believes in Amaruk, a project proven to host diamondiferous kimberlites. Management's strong support of Amaruk is based on comparable mineral chemistry from Lac de Gras area (includes the Diavik and Ekati mines). Moving forward, the goal will be to discover kimberlite bodies that host large diamonds. In 2009, the percussion drill will be used to test 10 to 20 targets with lab processing via dense media separation ("DMS") utilizing a 0.50 mm cut-off. The combined process is more cost effective than the traditional core drill and fire assay.

The Company routinely tests till samples for other commodities. Several potential metal projects have been identified. Much like the uranium opportunity from a few years ago, management will seek to create new shareholder value from these projects while continue to focus on diamond exploration.



**(a) Highlights for the Year Ended December 31, 2008**

- From January to May, the Company reported diamond results the **2007 Amaruk percussion drill** program diamond results, see below:

Kimberlite Name	Date Reported	Weight (in kg)	Sieve Sizes (mm)							Total
			0.106	0.150	0.212	0.300	0.425	0.600	0.850	
Qavvik-2	Jan. 14	71.20	2	3	2	-	2	-	-	9
Qavvik-3	Jan. 14	72.80	94	51	28	6	3	1	-	183
Qavvik-4	Jan. 14	65.70	73	28	21	5	1	1	-	129
Qavvik-5	Mar. 10	103.40	72	35	19	2	1	1	-	130
Qavvik-6	Mar. 10	107.70	62	39	8	7	2	-	-	118
Tuktu-1	Jan. 8	81.75	269	158	73	37	11	2	-	550
Tuktu-1B	May 27	412.15	1,693	695	270	83	70	33	6	2,850
Tuktu-2	Mar. 13	107.00	222	239	101	26	15	4	-	607
Tuktu-3	Mar. 13	37.85	81	76	41	16	4	1	-	219
Tuktu-4	Mar. 13	66.40	3	1	-	1	-	-	-	5
Ptarmigan	Jan. 14	67.30	-	-	-	-	-	-	-	-
Umingmak-2	Jan. 14	88.90	-	-	-	-	-	-	-	-
Tuktu-5	Mar. 13	111.65	11	3	4	3	-	-	-	21
Tuktu-6	Mar. 13	99.45	29	13	4	5	1	-	-	52
Tuktu-7	Mar. 13	85.90	17	10	4	2	-	-	-	33
Tuktu-8	Mar. 13	109.60	6	2	1	-	-	-	-	9
Tuktu-9	Mar. 13	97.00	8	2	1	-	-	-	-	11
Beluga-2	Mar. 10	59.40	1	1	-	-	-	1	-	3

- On June 13<sup>th</sup>, the Company reported substantial nickel results from the **2008 Tunerq percussion drill** program results, see below:

Hole #	From (m)	To (m)	Interval (m)	Ni %	Cu %	Co %
08TUR001	0.9	23.8	22.9	0.83	0.19	0.02
<i>including</i>	0.9	13.1	<b>12.2</b>	<b>1.20</b>	0.26	0.03
08TUR002	1.8	36.6	<b>34.8</b>	<b>1.05</b>	0.26	0.02
<i>including</i>	1.8	6.1	<b>4.3</b>	<b>1.46</b>	0.4	0.03
<i>including*</i>	24.4	33.5	<b>9.1</b>	<b>2.49</b>	0.56	0.05
08TUR004	0.0	7.3	<b>7.3</b>	<b>1.50</b>	0.29	0.03
<i>including</i>	0.0	5.8	<b>5.8</b>	<b>1.86</b>	0.36	0.04
08TUR005	0.0	22.6	22.6	0.44	0.14	0.01
<i>including</i>	1.2	5.8	4.6	0.72	0.25	0.02
<i>including</i>	10.7	14.9	4.2	0.84	0.17	0.02

*\*Includes nickel values of 3.95%, 3.0%, 2.67%, 2.35% each over 1.5m*

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

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



Management Discussion and Analysis  
For the Year Ended December 31, 2008

- On July 10<sup>th</sup>, the Company closed the second tranche of the non-brokered private placement for gross proceeds of \$552,500 from the issuance of 16,833 flow-through shares and 507,000 units.
- On October 1<sup>st</sup>, the Company and Uranium North Resources Corp. (“Uranium North”) entered into a Debt Settlement Agreement for the repayment of a working capital loan, see ‘1.9 Related Party Transactions’.

**(b) Events Subsequent to December 31, 2008**

- On February 24<sup>th</sup>, the Company reported diamonds results from the **2008 core drill program** on Amaruk which yielded a total of 576 diamonds above the 0.5mm sieve, see below:

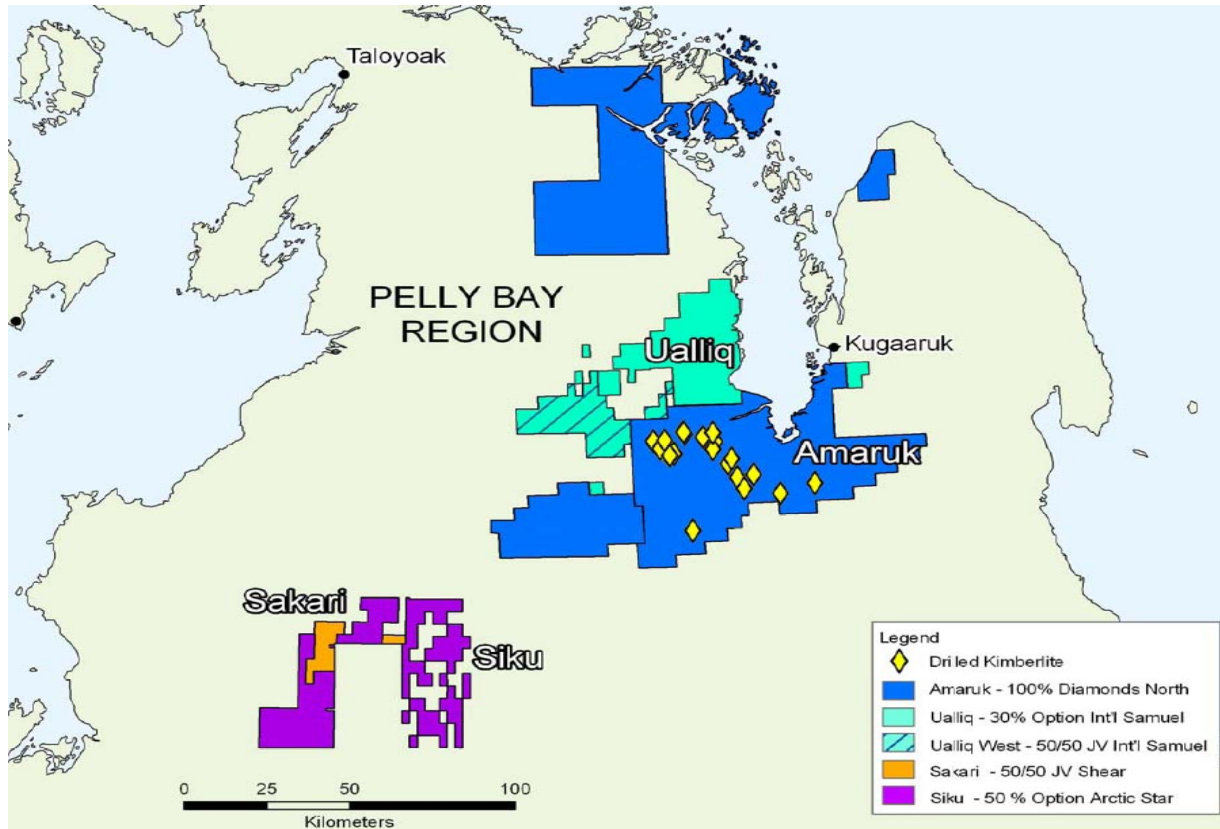
Kimberlite Name	Weight (in kg)	Sieve Sizes (mm)				Total
		0.50	0.60	0.85	1.18	
Tuktu A	1,989.5	29	16	1	-	46
Tuktu B	3,443.5	46	49	10	1	106
Tuktu C	1,317.0	15	15	1	-	31
Tuktu D	1,130.0	12	8	4	1	25
Tuktu E	520.0	9	11	-	-	20
Tuktu F	1,659.0	15	12	3	-	30
Tuktu G	3,397.5	35	25	4	2	66
Tuktu H	2,058.0	18	16	2	-	36
Tuktu I	2,137.0	19	13	1	-	33
Tuktu J	1,575.0	14	15	2	1	32
Tuktu K	2,167.0	28	24	3	-	55
Qavvik 4	2,944.0	15	22	7	1	45
Qavvik 5a	1,700.0	2	-	-	-	2
Qavvik 5b	2,653.0	10	11	3	-	24
Qavvik 5c	1,597.0	7	5	1	-	13
Qavvik 5d	2,265.5	3	1	2	1	7
Qavvik 6	2,025.0	3	1	-	1	5
Total	34,578.0	280	244	44	8	576

With the continued market volatility and financial uncertainty, the Company will continue with cash conserving measures adopted in late 2008, noted below. In Q2 2009, management will look at implementing further cash conservation measures.

- For 2009, management has prepared a \$2 million dollar exploration budget, a significant decrease from the current year’s \$16 million exploration programs. The budget will be funded by with remaining flow-through expenditure obligations from the 2008 summer financing. Final budget amounts and specifics for work to be undertaken will be determined in the spring of 2009. Budgets for work, if any, for optioned and joint venture projects will also be prepared in the spring of 2009.
- Senior employees and a consultant of the Company agreed to defer 10% of their salaries or fees and the independent directors of the Company deferred their Q4 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.

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

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



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

*-Amaruk Exploration Program for 2008*

The 2008 program included detailed geophysics, drill testing, evaluation of known kimberlites and mini-bulk sampling based on high diamond counts from the 2007 Amaruk percussion drill program for Tuktu-1, 2, & 3 kimberlites.

Results for 11 drill core samples from Tuktu-1, 2 & 3 and 6 drill core samples from Qavvik-4, 5 & 6 yielded a total of 576 diamonds above the 0.5mm sieve. The largest stones recovered from the relatively small mini-bulk samples remain on the 1.18mm sieve with the largest weighing 0.04 carats. For the complete table, see ‘1.2(a) Highlights for the Year Ended December 31, 2008’.

Based on these results, the grades of the Tuktu and Qavvik kimberlite samples are inferred to be less than 0.1 ct per tonne. Considering the diamond size distribution and grade of Tuktu-1, 2 & 3 and Qavvik-4, 5 & 6 the Company plans no further work on these kimberlites with the exception of quality control testing.

The drill core was logged in secure facilities at the Amaruk field camp by geoscientists. Samples were sealed with security tags and shipped to SGS Lakefield Laboratory for processing. The bulk sample



Management Discussion and Analysis  
For the Year Ended December 31, 2008

---

material was sorted, weighed and crushed prior to processing. A diamond concentrate was produced using a 1 tonne per hour Bateman Dense Media Separation plant with a 0.5mm screen size cut-off. Kimberlite concentrates from DMS processing were shipped in secure containers to Saskatchewan Research Council Laboratory (SRC) in Saskatoon for grease table sorting and diamond picking. SRC is accredited by the Standards Council of Canada to the ISO/IEC Guide 25 standard for specific registered tests.

Overall operating exploration costs were higher in 2008 and the final program was \$1.4 million more than budgeted. High oil prices resulted in increased helicopter fuel costs along with levies and surcharges on commercial air transportation. Unlike previous years, the Company was unable to secure the majority of fuel requirements in Pelly Bay and incurred additional freight costs.

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

In preparation for the 2008 Amaruk exploration program, the kitchen/mess hall and dry were destroyed in a fire. No persons were injured, as the camp was unoccupied at the time. The incident was reported to authorities and the cause unknown. Included in Amaruk Camp costs of \$1,855,890 is approximately \$230,000 for the cost of debris removal, replacement of equipment and reconstruction of kitchen/mess hall and dry. An insurance claim was filed and a \$150,000 payment was received in August.

Property expenditures of \$417,727 include \$306,000 in bonds and \$111,000 in assessment fees paid to the Mining Recorder. Bonds have been posted in lieu of work, which may be recovered in the future, if sufficient exploration work is completed and approved by the Mining Recorder. Subsequent to the year end, the Company recovered \$232,000 in bonds posted in 2006.

*-Future Developments for Amaruk*

For the initial plan for 2009, see '1.2 Company Overview and Projects'.

**(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, 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 2008*

A total of 330 airborne geophysical targets have been identified, of which approximately 80 are rated as high to moderate priority. Significantly, 47 of the targets range in size from 2 to 7 hectares. Final costs including Ualliq West were \$1,423,852 for a summary see '1.2(f) Mineral Property Expenditure Table'.

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



**(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 2008*

The partners approved a \$310,000 budget, shared on a 50:50 basis. Actual costs were under budget at \$285,987 for a breakdown of costs see '1.2(f) Mineral Property Expenditure Table'. A total of 18 targets were ground surveyed, 3 of the targets were tested using a percussion drill. No kimberlite was intersected.

**(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.

*-Siku Exploration Program for 2008*

The partners approved a two phase field program for prospecting, ground magnetic and percussion drilling of 15 targets budgeted at \$1,140,000. Actual costs were close to budget at \$1,039,850, for a breakdown of costs see 1.2(f) Mineral Property Expenditure Table. A total of 55 targets were ground surveyed, 14 of the targets were tested using a percussion drill. No kimberlite was intersected. In addition, a 3,625 line kilometres of airborne geophysical surveying was completed and interpretation of the data is underway. A total of 304 targets still remain untested.

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

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

*-Tunerq Exploration Program for 2008*

In April/May, the Company completed detailed ground EM and magnetic surveys and a percussion drill program. For percussion drill results, see 1.2(a) Highlights for the Year Ended December 31, 2008. In September, a mapping program and Induced Polarized (IP) survey were completed. Final costs were \$1,250,505, for a breakdown see '1.2(f) Mineral Property Expenditure Table'.

**(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*

The Company completed detailed ground geophysics and till sampling programs to delineate drill targets for testing budgeted at under \$2 million. A total of 92 ground magnetic surveys were completed and over 600 till samples collected. Final costs were \$1,901,099, for a breakdown see '1.2(f) Mineral Property Expenditure Table'.

Included in 'Property expenditures' is \$455,806 for \$309,000 in bonds and \$146,000 in assessment fees paid to the Mining Recorder. Bonds have been posted in lieu of work and may be recovered in the future, if sufficient exploration work is completed and approved by the Mining Recorder.

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

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

*-Banks Island Exploration Program for 2008*

In 2008, the Company conducted a program detailed ground geophysics and prospecting to delineate targets for drill testing. The proposed budget was under \$1 million. Final costs were \$682,352, for a breakdown see '1.2(f) Mineral Property Expenditure Table'.



Management Discussion and Analysis  
For the Year Ended December 31, 2008

**(f) Mineral Property Expenditures Table**

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	Tunerq, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Northern Recon.	Other Properties	Total
Balance at												
December 31, 2007	\$ 11,319,082	\$ -	\$ 19,084	\$ -	\$ 26,064	\$ 4,145,442	\$ 1,831,525	\$ 7,157,418	\$ 447,426	\$ 270,709	\$ 272,233	\$ 25,488,983
Additions during the period:												
Acquisition costs	-	-	-	-	-	-	-	-	20,000	-	-	20,000
Exploration:												
Airborne geophysics	762,979	192,987	2,995	102,374	274	-	6,330	38,799	-	-	-	1,106,738
Camp costs	1,855,890	75,959	72,466	171,480	272,429	5,852	226,109	193,583	-	-	-	2,873,768
Camp heli. (incl. fuel)	906,034	422,417	27,440	109,922	205,948	-	125,692	393,357	-	2,106	-	2,192,916
Drilling - Core	4,105,215	-	-	-	-	-	-	-	-	-	-	4,105,215
Drilling - Percussion	1,812,559	328,005	88,622	309,369	187,188	-	-	-	-	-	-	2,725,743
Geochemistry	216,170	569	-	1,270	2,813	4,096	8,889	255,052	-	-	-	488,859
Geology	163,106	6,520	4,412	15,230	90,027	3,485	1,729	26,307	-	2,583	68	313,467
Ground geophysics	669,889	180,264	79,478	290,291	395,436	1,667	173,155	482,634	-	358	-	2,273,172
Permitting	6,420	20,202	3,385	3,385	17,310	260,509	14,613	2,625	30,419	525	-	359,393
Prospecting	59,085	24,132	2,958	9,853	72,401	-	38,732	52,936	-	8,416	-	268,513
Property	417,727	172,797	4,231	26,676	6,679	20,578	87,103	455,806	36,878	16,649	-	1,245,124
	10,975,074	1,423,852	285,987	1,039,850	1,250,505	296,187	682,352	1,901,099	67,297	30,637	68	17,952,908
Less:												
Recoveries	(27,674)	(1,013,166)	(141,825)	(642,709)	-	-	-	(54,782)	(8,613)	(94,595)	-	(1,983,364)
Option payments	-	(40,000)	-	-	-	-	-	-	-	-	-	(40,000)
Write downs	-	-	-	-	-	-	-	-	-	(81,285)	(175,512)	(256,797)
	(27,674)	(1,053,166)	(141,825)	(642,709)	-	-	-	(54,782)	(8,613)	(175,880)	(175,512)	(2,280,161)
Net additions	10,947,400	370,686	144,162	397,141	1,250,505	296,187	682,352	1,846,317	78,684	(145,243)	(175,444)	15,692,747
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	\$ 125,466	\$ 96,789	\$ 41,181,730

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



Management Discussion and Analysis  
For the Year Ended December 31, 2008

**1.3 Selected Annual Information**

Selected annual information from the Company's audited consolidated financial statements for the years ended December 31, 2008, 2007, and 2006:

	2008	2007	2006
General and administrative expense	\$ (2,510,723)	\$ (3,027,594)	\$ (1,852,232)
Net loss for the year	\$ (1,057,317)	\$ (1,319,210)	\$ (966,417)
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)	\$ (0.02)
Cash dividends per share	\$ Nil	\$ Nil	\$ Nil
Other comprehensive income (loss)	\$ (1,532,226)	\$ 21,084	
Assets	\$ 49,723,296	\$ 37,402,056	\$ 30,376,942
Long-term liabilities	\$ Nil	\$ Nil	\$ Nil

**1.4 Results of Operations**

**(a) Current Quarter**

The Company's cash position decreased from \$7,027,658 to \$3,602,896. Cash exploration funds increased from September 30<sup>th</sup>, due to recoveries from partners on the Ualliq, Sakari and Siku projects. The largest use of cash was a \$1,208,762 reduction in accounts payable and accruals and \$695,062 for mineral property acquisition and exploration cash expenditures.

As of the Report Date, approximately \$798,000 of the \$954,898 receivables at December 31<sup>st</sup> have been collected and include \$480,000 in GST filed and \$232,000 in Government of Canada bonds refunds. After the year end, the Mining Recorder approved an additional \$320,000 in bond refunds which should be received in Q2.

**(b) Year Ended December 31, 2008**

Results of operations for the year ended December 31, 2008 are discussed in comparison with the year ended December 31, 2007. General and administrative expenses of \$2,510,723 (2007 - \$3,027,594) represents a \$516,871 decrease compared to the comparative fiscal period. Notable changes include:

- Amortization expense of \$73,075 (2007 - \$47,736) increased due to exploration equipment purchased in 2007 and 2008. The Company has found it more cost effective to purchase versus renting various exploration equipment.
- Interest expense of \$22,698 (2007 - \$191,423) includes \$18,375 (2007 - \$185,051) in flow-through related interest paid to the Canada Revenue Agency.



Management Discussion and Analysis  
For the Year Ended December 31, 2008

- Investor relations and promotion of \$391,484 decreased as the comparative year included non-recurring items for an analysts site visit to the Amaruk project, Genoa Management services and a BTV television show segment. A breakdown is below:

	<b>2008</b>	<b>2007</b>
Administration	\$ 4,240	\$ 3,308
Conferences and trade shows	125,727	151,966
Consulting, wages and benefits	179,448	246,520
Media	39,642	50,493
Promotion and advertising	42,427	67,071
	<b>\$ 391,484</b>	<b>\$ 519,358</b>

- Stock-based compensation expense of \$873,034 breakdown had it been allocated to the statement of operations categories:

	<b>2008</b>	<b>2007</b>
Accounting and audit	\$ 17,730	\$ 23,172
Administration	20,502	18,195
Consulting	-	46,070
Directors fees	259,413	429,429
Investor relations	36,258	86,887
Wages and benefits	539,131	646,778
	<b>\$ 873,034</b>	<b>\$ 1,250,531</b>

- Write down of mineral properties expense of \$256,797 includes \$175,512 reflects the write down of Carp Lake, NWT project acquired for its proximity to other diamonds projects in the area and \$81,285 for the Boothia, NU.
- Future income tax recovery of \$1,330,056 (2007 - \$2,123,217) largely reflects renouncement of exploration expenditures to investors who purchased flow-through shares. In 2008, the Company renounced \$5,336,000 in flow-through financings compared to \$10,265,000 in 2007. This is a non-cash transaction.

The Company's net loss for the year was \$1,057,317 (2007 – \$1,319,210) or \$0.02 per share (2007 – \$0.02) which is not reflective of the operating deficit due to the future income tax recovery noted above.

Other comprehensive loss of \$1,532,226 represents the unrealized losses on marketable securities due to the fair value decrease of the Company's marketable securities portfolio since the beginning of the year.



Management Discussion and Analysis  
For the Year Ended December 31, 2008

**1.5 Summary of Quarterly Results**

	Q1 Mar. 31 2007	Q2 Jun. 30 2007	Q3 Sept. 30 2007	Q4 Dec. 31 2007	Q1 Mar. 31 2008	Q2 Jun. 30 2008	Q3 Sept. 30 2008	Q4 Dec. 31 2008
Mineral expenditures, net of recoveries	\$ 2,426,298	\$ 1,052,611	\$ 6,617,447	\$ 2,470,749	\$ 1,020,663	\$ 7,505,249	\$ 7,157,026	\$ 695,062
G&A expense	\$ 757,347	\$ 680,594	\$ 556,125	\$ 1,033,528	\$ 700,851	\$ 564,388	\$ 572,262	\$ 673,222
Stock-based comp. exp.	\$ 309,780	\$ 231,789	\$ 249,601	\$ 459,361	\$ 311,594	\$ 182,083	\$ 190,319	\$ 189,038
Net income (loss)	\$ 2,331,823	\$ 164,229	\$ (455,455)	\$ (3,359,807)	\$ 1,097,719	\$ (492,272)	\$ (662,604)	\$ (1,000,160)
Other comprehensive income (loss)	\$ 427,575	\$ 74,305	\$ (631,854)	\$ 151,058	\$ (174,987)	\$ (176,802)	\$ (463,456)	\$ (716,981)
Income (loss) per share -basic and diluted	\$ 0.05	\$ -	\$ (0.01)	\$ (0.06)	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted avg. common shares outstanding -basic	51,621,053	52,312,074	55,914,592	54,701,763	60,602,852	61,078,366	74,231,694	67,814,839

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, the Company conducts diamond exploration in Canada's north 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.

G&A expense has increased with the growth of the Company, in mineral projects and staff. In Q4-2008, the 10% deferral of salaries and fees commenced which will help preserve cash but the G&A expense will continue to accrue.

Stock-based compensation is a method used by junior exploration companies in retaining staff from larger producing companies which can offer more lucrative or stable employment. The Company will look to using stock-based compensation to compensate staff and directors who have made sacrifices in an effort to conserve cash.

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

Comprehensive income accounting was adopted on January 1, 2007 and other comprehensive income (loss) represents unrealized gains or losses on available-for-sale investments. The current negative trend is a reflection of the declining equity markets.



## 1.6 Liquidity

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

The current financial crisis impacts credit and liquidity risk:

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

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

In response to the ongoing market volatility and financial crisis, the Company has taken the measures as noted throughout this MD&A. Management believes its \$6,887,343 in working capital is sufficient to meet administrative and property obligations to complete the 2009 year. The 2009 exploration program will be approximately \$2 million and funded by the remaining flow-through expenditure obligations.

## 1.7 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.

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.

Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable. The current financial crisis has increased market volatility and placed downward pressure on stock prices.

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.

## 1.8 Off-Balance Sheet Arrangements

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



Management Discussion and Analysis  
For the Year Ended December 31, 2008

---

### 1.9 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 year, the Company paid fees to this related party in the aggregate of \$38,400.

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 year, the Company paid fees to this related party in the aggregate of \$18,900.

At December 31, 2008, the Company held 12.1% of the issued common shares of Uranium North, a company related by virtue of other common directors. This is an increase from the 8.5% reported in Q3, due to the debt settlement noted below. Included in accounts receivable is \$12,542 owed by Uranium North, for mineral property, administrative and office costs.

In 2006, the Company advanced a working capital loan in the amount of \$300,000 to Uranium North. The loan was repayable in whole or in part, on demand, and accrued interest at 5% per annum. The loan and accrued interest or any portion thereof, was convertible at the sole discretion and option of the Company into securities of Uranium North at a per share conversion price equal to \$0.75 per share.

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

The companies agreed not to proceed with the amendment and entered into a Debt Settlement Agreement dated October 1, 2008 pursuant to which the outstanding loan and accrued interest was converted into common shares of Uranium North. Uranium North issued 1,689,281 common shares to the Company, at a price of \$0.20 per share to settle an aggregate of \$337,856 in debt.

### 1.10 Proposed Transactions

None.

### 1.11 Changes in Accounting Policies

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

#### *-Assessing Going Concerns*

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



Management Discussion and Analysis  
For the Year Ended December 31, 2008

---

*-Capital Disclosures*

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

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

*-Inventories*

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

*-Financial Instruments Disclosures and Presentation*

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

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

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

*-Income Statement Presentation of Tax Loss Carryforward*

Effective October 1, 2008, the Company adopted EIC-172 "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain Recorded in Other Comprehensive Income". This abstract provides guidance on whether the tax benefit from the recognition of tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale marketable securities, should be recognized in net income or in other comprehensive income. The EIC concluded that the tax benefit should be recorded in net income.

## **1.12 New Accounting Pronouncements**

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

*-Goodwill and Intangible Assets*

CICA Section 3064 replaces Section 3062 "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement,



Management Discussion and Analysis  
For the Year Ended December 31, 2008

presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. The Company is evaluating this new standard and it will not likely impact the Company.

*-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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**1.13 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 December 31, 2008 is as follows:

<b>Marketable Securities</b>	<b>Cost</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>
Available-for-sale	\$ 1,406,117	\$ (907,482)	\$ 498,635

Included in the carrying value of available-for-sale marketable are 1,050,000 common shares of Uranium North, which are subject to escrow. As escrow shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become “free trading”, the fair value will be determined at quoted market prices. At December 31, 2008, the closing price of Uranium North was \$0.09 per share.



Management Discussion and Analysis  
For the Year Ended December 31, 2008

---

**1.14 Certification of Annual 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.

**1.15 Other MD&A Requirements**

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

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

*-Stock Options*

Expiry Date	Exercise Price	Number of Shares
August 8, 2009	\$0.944	545,000
October 18, 2009	\$0.858	300,000
January 27, 2010	\$0.858	50,000
March 22, 2010	\$0.987	247,500
May 17, 2010	\$0.729	550,000
April 12, 2011	\$0.848	1,660,000
July 13, 2011	\$1.021	113,500
February 27, 2012	\$0.770	1,565,000
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
		7,309,000

*-Warrants*

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

## 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 December 31, 2008)

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 LLP  
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

