

DIAMONDS NORTH RESOURCES LTD.

Consolidated Financial Statements
September 30, 2010
(expressed in Canadian dollars)

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DIAMONDS NORTH RESOURCES LTD.

NOTICE – No Auditor Review of the Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of Diamonds North Resources Ltd. (“the Company”), for the nine months ended September 30, 2010, have been prepared by management and have not been the subject of a review by the Company’s external independent auditor.

DIAMONDS NORTH RESOURCES LTD.

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,972,396	\$ 3,260,817
Cash, exploration funds (Note 13)	394,073	-
Marketable securities (Notes 4, 5(a) & 9(e))	565,814	622,560
Receivables (Notes 9(a) & 9(e))	792,891	339,884
Prepaid expenses	135,962	39,453
	4,861,136	4,262,714
Deposits	86,984	55,000
Mineral properties (Note 6)	41,643,142	40,985,953
Property, plant and equipment (Note 7)	109,881	153,930
	\$ 46,701,143	\$ 45,457,597
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 640,018	\$ 98,163
Due to related parties (Note 9(d))	82,634	98,987
	722,652	197,150
Future income taxes	4,177,000	4,177,000
	4,899,652	4,374,150
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	52,201,289	50,644,677
Contributed surplus	3,648,380	3,525,134
Option compensation	1,119,888	435,112
Accumulated other comprehensive loss	(414,087)	(626,457)
Deficit	(14,753,979)	(12,895,019)
	41,801,491	41,083,447
	\$ 46,701,143	\$ 45,457,597

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

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
(Unaudited – See Notice)
(expressed in Canadian dollars)

	For the Three Months Ended September 30 th		For the Nine Months Ended September 30 th	
	2010	2009	2010	2009
General and administrative expenses				
Accounting and audit	\$ 11,720	\$ 15,000	\$ 33,470	\$ 50,108
Administration fees	11,475	9,600	30,675	28,800
Amortization	9,370	18,323	35,059	54,661
Annual report and meeting	-	(582)	12,052	11,382
Consulting fees	2,308	1,969	5,069	7,094
Directors' fees	15,625	10,000	46,875	30,000
Filing fees	4,409	505	16,865	10,555
Insurance	8,453	12,764	33,980	38,916
Interest	669	361	1,810	1,064
Investor relations and promotion	44,562	39,546	143,763	154,049
Legal fees	6,322	3,165	11,707	20,392
Office and miscellaneous	17,626	7,842	36,598	34,098
Rent and storage	21,580	29,850	91,166	93,729
Stock-based compensation (Note 8(e))	113,601	72,025	814,051	88,496
Transfer agent fees	4,356	2,670	13,840	9,562
Wages and benefits	123,386	121,309	385,796	442,737
	(395,462)	(344,347)	(1,712,776)	(1,075,643)
Other income (expenses)				
Interest income	3,163	7,883	10,519	85,475
Mineral property transactions	2,995	-	30,026	-
Property investigation recoveries	(45,843)	6,833	(50,091)	31,337
Realized loss on marketable securities	-	(7,000)	(244,126)	(45,300)
Loss on sale of equipment	-	-	(8,032)	-
Loss before income taxes	(435,147)	(336,631)	(1,974,480)	(1,004,131)
Future income tax recovery	-	-	115,520	3,057,192
Net income (loss) for the period	(435,147)	(336,631)	(1,858,960)	2,053,061
Other comprehensive gain (loss)				
Reversal of previously recognized unrealized losses	-	-	241,616	-
Unrealized gain (loss) on marketable securities	100,440	1,900	(29,246)	182,891
Other comprehensive income	100,440	1,900	212,370	182,891
Comprehensive income (loss)	\$ (334,707)	\$ (334,731)	\$ (1,646,590)	\$ 2,235,952
Basic and diluted income (loss) per share				
- Basic	\$ (0.01)	\$ -	\$ (0.02)	\$ 0.03
- Diluted	\$ (0.01)	\$ -	\$ (0.02)	\$ 0.03
Weighted average number of common shares outstanding				
- Basic	85,735,902	76,948,623	80,701,206	75,255,796
- Diluted	85,735,902	76,948,623	80,701,206	87,371,096

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

	For the Nine Months Ended September 30, 2010		For the Year Ended December 31, 2009	
	Number of Shares		Number of Shares	
Share capital				
Balance at the beginning of the year	78,057,308	\$ 50,644,677	75,159,308	\$ 52,734,458
Common shares issued for cash				
Private placements, net of issue costs	8,710,000	1,641,603	2,888,000	455,220
Exercise of options	50,000	8,750	-	-
Exercise of warrants	52,500	15,750	10,000	3,000
Share subscription	-	-	-	-
Issued for other consideration				
Income tax effect on flow-through share renouncement (Note 8(c))	-	(115,520)	-	(2,548,001)
Exercise of options, stock-based compensation	-	6,029	-	-
Balance at the end of the period	86,869,808	52,201,289	78,057,308	50,644,677
Contributed surplus				
Balance at the beginning of the year		3,525,134		468,519
Fair value of options cancelled during the period		123,246		3,056,615
Balance at the end of the period		3,648,380		3,525,134
Option compensation				
Balance at the beginning of the year		435,112		3,331,206
Stock-based compensation expense		814,051		160,521
Reallocated to share capital		(6,029)		-
Reallocated to contributed surplus		(123,246)		(3,056,615)
Balance at the end of the period		1,119,888		435,112
Deficit				
Balance at the beginning of the year		(12,895,019)		(9,859,766)
Net loss for the period		(1,858,960)		(3,035,253)
Balance at the end of the period		(14,753,979)		(12,895,019)
Accumulated other comprehensive loss				
Balance at the beginning of the year		(626,457)		(1,013,652)
Other comprehensive income		212,370		387,195
Balance at the end of the period		(414,087)		(626,457)
TOTAL SHAREHOLDERS' EQUITY	86,869,808	\$ 41,801,491	78,057,308	\$ 41,083,447

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

	For the Three Months Ended September 30 th		For the Nine Months Ended September 30 th	
	2010	2009	2010	2009
Cash flows from (applied to) operating activities				
Net income (loss) for the period	\$ (435,147)	\$ (336,631)	\$ (1,858,960)	\$ 2,053,061
Items not involving cash:				
Amortization	9,370	18,323	35,059	54,661
Stock-based compensation	113,601	72,025	814,051	88,496
Future income taxes	-	-	(115,520)	(3,057,192)
Realized loss on sale of marketable securities	-	7,000	244,126	45,300
Loss on sale of equipment	-	-	8,032	-
	(312,176)	(239,283)	(873,212)	(815,674)
Net change in non-cash working capital items:				
Receivables	(432,924)	47,873	(378,213)	424,185
Prepaid expenses	(80,614)	(64,711)	(96,509)	(36,998)
Field supplies	-	116,804	-	116,804
Accounts payable and accrued liabilities	(86,552)	129,829	(43,717)	92,518
Due to related parties	27,430	30,813	(16,353)	72,067
	(884,836)	21,325	(1,408,004)	(147,098)
Cash flows from (applied to) investing activities				
Cash, exploration funds	41,927	1,221,409	(394,073)	2,406,841
Proceeds from sale of marketable securities, net of commissions	-	24,780	24,990	39,265
Proceeds from sale of equipment	-	-	7,000	-
Mineral property acquisition and exploration costs, net of recoveries	(1,039,357)	(1,476,675)	(731,983)	(1,500,826)
Accounts payable and accrued liabilities related to mineral properties	574,045	246,159	585,573	(636,061)
Deposits	(1,350)	125,000	(31,984)	125,000
Leasehold improvements allowance	158,893	-	-	-
Purchase of equipment	(6,043)	(706)	(6,043)	(1,486)
	(271,885)	139,967	(546,520)	432,733
Cash flows from financing activity				
Shares issued for cash, net of issue costs	1,205,603	455,220	1,666,103	455,220
Increase (decrease) in cash and cash equivalents				
	48,882	616,512	(288,421)	740,855
Cash and cash equivalents, beginning of period				
	2,923,514	3,727,239	3,260,817	3,602,896
Cash and cash equivalents, end of period				
	\$ 2,972,396	\$ 4,343,751	\$ 2,972,396	\$ 4,343,751

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited – See Notice)
(expressed in Canadian dollars)

1. Nature of Operations and Going Concern

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

The recoverability of amounts shown for mineral property interests in Note 6 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 nine months ended September 30, 2010, the Company reported net loss of \$1,858,960. The Company has a history of losses and an accumulated deficit of \$14,753,979. Management believes its \$4,138,484 working capital is sufficient to meet administrative, exploration and property obligations for the 2010 year.

In 2008, the Company implemented a cash preservation measure whereby, senior employees and a consultant mutually agreed to defer 10% of their salaries or fees and the independent directors agreed to defer their retainer. These amounts accrued as a debt owing by the Company and did not bear interest. At the Company’s election, this debt can be satisfied in cash and/or common shares. The debts arising out of 2008 and 2009 have been paid. Commencing January 1, 2010, 10% of the senior employees’ salaries will be deferred under the terms above with repayment to be reviewed later in the year.

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 (“GAAP”) 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
September 30, 2010
(Unaudited – See Notice)
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(b) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP 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 of three months or less or redeemable features from the date of acquisition, and readily convertible to known amounts of cash without a significant risk of change in value.

3. Changes in Accounting Policies

New Accounting Pronouncements Not Yet Adopted:

A summary of new Canadian GAAP pronouncements which may affect the financial disclosure and results of operations of the Company for future interim and annual periods.

(a) 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.

(b) International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board 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.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited – See Notice)
(expressed in Canadian dollars)

4. Marketable Securities

	Cost	Unrealized Loss	Fair Value
Available-for-sale securities at September 30, 2010	\$ 873,232	\$ (307,418)	\$ 565,814

Marketable securities are common shares in other junior exploration companies received via property or option agreements and from the conversion of the Uranium North Resources Corp. (“Uranium North”) loan in 2008.

5. Financial Instruments, Risk Management and Capital Disclosures

(a) Fair value of financial instruments

The Company’s cash and cash equivalents and marketable securities are recognized on the balance sheet at their fair value. The carrying value of receivables, accounts payable and accrued liabilities, and due to related parties approximates their fair value due to their short-term nature. Marketable securities are carried at their fair value based on quoted market prices on the TSX Venture Exchange.

The following table illustrates the classification of the Company’s financial instruments carried at fair value within the fair value hierarchy as at September 30, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,972,396	\$ -	\$ -	\$ 2,972,396
Cash, exploration funds	394,073	-	-	394,073
Marketable securities	-	565,814	-	565,814
	\$ 3,366,469	\$ 565,814	\$ -	\$ 3,932,283

As it may be difficult to sell the Company’s marketable securities position without impacting the quoted market price and the market may not be considered active, the marketable securities have been classified as Level 2.

(b) Risk management

Credit Risk

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

Over the last two years, 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.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited – See Notice)
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5. Financial Instruments, Risk Management and Capital Disclosures (continued)

(b) Risk management (continued)

Equity Market Risk

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available for sale and carried at quoted market prices.

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 holdings 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.

Over the last two years, 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 in junior resource companies, which could be difficult to sell in low volume trading.

Foreign Exchange Risk

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

(c) Capital management

The Company considers its capital structure to consist of the components of 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.

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
September 30, 2010
(Unaudited – See Notice)
(expressed in Canadian dollars)

6. Mineral Properties

As at September 30, 2010, 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	Victoria Island NU/NWT	Hepburn, NWT	Kidme, NWT	Other Properties	Total
Balance at										
December 31, 2009	\$ 23,986,961	\$ 365,158	\$ 171,658	\$ 450,562	\$ 1,356,804	\$ 4,440,531	\$ 9,225,385	\$ 539,969	\$ 448,925	\$ 40,985,953
Exploration:										
Airborne geophysics	5,018	-	-	-	-	-	-	-	-	5,018
Camp costs	176,264	-	-	-	336,076	66,662	-	-	14,962	593,964
Camp heli. (incl. fuel)	33,728	-	-	-	17,747	-	(7,571)	-	18,049	61,953
Drilling - Core	595	-	-	-	24,000	-	-	-	-	24,595
Drilling - Percussion	553,782	295	-	590	-	-	295	-	-	554,962
Geochemistry	50	126	-	-	3,670	-	8,641	-	80	12,567
Geology	142,015	8,637	-	1,573	19,648	3,636	14,718	2,573	33,075	225,875
Ground geophysics	1,357	-	-	-	-	-	-	-	-	1,357
Permitting	3,658	-	-	-	552	8,294	1,097	-	89,378	102,979
Property	41,305	-	-	-	-	-	-	-	258	41,563
Prospecting	251,018	-	-	-	5,058	-	-	-	161,094	417,170
	1,208,790	9,058	-	2,163	406,751	78,592	17,180	2,573	316,896	2,042,003
Less:										
Recoveries	(131,085)	-	-	-	(608,835)	-	(570,004)	(4,742)	(70,148)	(1,384,814)
Net additions	1,077,705	9,058	-	2,163	(202,084)	78,592	(552,824)	(2,169)	246,748	657,189
Balance at										
September 30, 2010	\$ 25,064,666	\$ 374,216	\$ 171,658	\$ 452,725	\$ 1,154,720	\$ 4,519,123	\$ 8,672,561	\$ 537,800	\$ 695,673	\$ 41,643,142

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
September 30, 2010
(Unaudited – See Notice)
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(a) Amaruk Project, Nunavut

The Amaruk property is near the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other 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.

(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 100,000 common shares (post consolidation of 20 to 1) to the Company (received) and incurring \$3,000,000 in expenditures on the property on or before December 31, 2010 (one year extension granted, previously December 31, 2009). In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

On September 20, 2010, the parties entered into an agreement whereby International Samuel will earn a fully vested 30% joint venture interest in the Ualliq Project, as the Company will accept the issuance of 50,000 common shares (received after the quarter end) of International Samuel and its \$2.7 million in aggregate exploration expenditures as satisfactory completion of the original \$3.0 million exploration expenditure total.

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.

(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 common shares to the Company, funding approximately \$956,000 in bonds on the claims and incurring \$2,500,000 in expenditures on the property 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.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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(Unaudited – See Notice)
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6. Mineral Properties (continued)

(e) Tunerq – Amaruk Project, Nunavut

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

On March 8, 2010, the Company announced that it has signed a Letter of Intent with Minerals and Metals Group ("MMG") whereby MMG may earn 75% of the nickel and other base metals on the Amaruk Property in Nunavut, by spending \$6,000,000 and completing a pre-feasibility study on any nickel or base metal deposit that might be identified on Amaruk.

(f) Victoria Island, Nunavut and Northwest Territories

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Wellington and White Ice projects, which are collectively referred to as "Victoria Island". The projects consist of various leases, which are either adjoined or are within close proximity of each other. Portions of the Victoria Island properties are subject to a 1% GOR and Washburn is subject to a 2% GOR, both on diamonds.

(g) Hepburn, Northwest Territories

The Company holds a 100% interest in the Hepburn project.

(h) Kidme, Northwest Territories

The Company holds a 100% interest in the Kidme project.

(i) Other properties

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

(i) 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 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.

(ii) Northern Recon, Nunavut and Northwest Territories

The Company has acquired various exploration permits for grass-roots projects and 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.

DIAMONDS NORTH RESOURCES LTD.

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(Unaudited – See Notice)
(expressed in Canadian dollars)

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	2010 Net Book Value
Furniture and fixtures	\$ 38,539	\$ 27,182	\$ 11,357
Computer equipment	117,046	86,565	30,481
Computer software	10,439	10,275	164
Equipment	191,252	123,373	67,879
	<u>\$ 357,276</u>	<u>\$ 247,395</u>	<u>\$ 109,881</u>

Leasehold improvements reported in the previous quarter were in connection with the new office premises (Note 10) and recovered under a tenant improvement allowance.

8. Share Capital

(a) Authorized

Unlimited common shares without par value.

(b) Private placements

- i) On July 8th, the Company completed the first tranche of a non-brokered private placement for \$882,000 from the issuance of 4,410,000 flow-through common shares at a price of \$0.20 per share. Finders' fees of \$31,750 and other share issue costs of \$26,460 were paid. In addition, 157,850 Finders' warrants were issued and exercisable at \$0.25 per warrant until July 7, 2011.
- ii) On July 14th, the Company completed the second tranche of the non-brokered private placement for \$470,000 from the issuance of 2,350,000 flow-through common shares at a price of \$0.20 per share. Other share issue costs of \$2,350 were paid. In addition, 17,500 Finders' warrants were issued and exercisable at \$0.25 per warrant until July 13, 2011.
- iii) On July 22nd, Diamonds North completed the final tranche of the non-brokered private placement for \$390,000 from the issuance of 1,950,000 flow-through common shares at a price of \$0.20 per share. Finders' fees of \$27,300 and other share issue costs of \$2,450 were paid.

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

In February 2010, the Company renounced \$462,080 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$115,520, which was deducted from share capital.

DIAMONDS NORTH RESOURCES LTD.

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September 30, 2010
(Unaudited – See Notice)
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8. 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 15,600,000 common shares. Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. At September 30, 2010, the Company had stock options outstanding for the purchase of 8,742,000 common shares which 7,177,000 stock options were exercisable, with a weighted average exercise price of \$0.30 per option.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	9,065,500	\$ 0.31
Cancelled	(273,500)	\$ 0.26
Exercised	(50,000)	\$ 0.18
Outstanding at September 30, 2010	8,742,000	\$ 0.30

The following summarizes information about stock options outstanding at September 30, 2010:

Number of Shares	Exercise Price	Expiry Date
150,000	\$ 0.848	April 12, 2011
75,000	\$ 1.021	July 13, 2011
97,000	\$ 0.770	February 27, 2012
60,000	\$ 0.880	February 14, 2013
2,100,000	\$ 0.175	May 28, 2014
6,260,000	\$ 0.300	December 23, 2014
8,742,000		

(e) Stock-based and option compensation

Stock-based compensation recognized for options vested during the period was \$814,051. The Company has moved from 'straight line' to 'graded' vesting for the recognition of stock-based compensation expense. A greater portion of expense is earlier vesting periods compared to distributing the expense equally over all vesting period. For stock options granted during 2009 and vesting in 2010, the fair value of \$0.175 per option is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010
Risk-free interest rate	2.03%
Expected dividend yield	-
Expected stock price volatility	92%
Expected option life in years	5.00

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8. Share Capital (continued)

(f) Warrants

The following summarizes the warrants outstanding at September 30, 2010:

Number of Warrants	Exercise Price	Expiry Date
157,850	\$ 0.25	July 7, 2011
17,500	\$ 0.25	July 13, 2011
175,350		

9. 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 \$5,219 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) For the nine months ended September 30, 2010, an officer of the Company has been paid \$30,675 for corporate secretarial services, which has been expensed as administration fees.
- (c) For the nine months ended September 30, 2010, a director of the Company has been paid \$13,820 for geological consulting, which has been charged to mineral properties.
- (d) Amounts due to related parties, totalling \$82,634, consist of deferred salaries (Note 1) and reimbursement of expenses owed to officers of the Company.
- (e) As at September 30, 2010, the Company held less than 10% of the issued common shares of Uranium North. Included in receivables is \$315,650 owed by Uranium North, a company related by virtue of other common directors, for mineral property, administrative and office costs.

10. Commitment

On May 4, 2010, the Company entered into an agreement to lease office premises for a period of five-years and one month, commencing on August 1, 2010 and expiring on August 31, 2015. 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 remaining rental payments for the remainder of the lease is approximately \$423,000.

11. Segmented Information

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

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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(expressed in Canadian dollars)

12. Supplemental Cash Flow Information

	2010
Financing activities:	
Income tax effect on flow-through share renouncement	\$ 115,520
Receivables included in mineral properties recoveries	\$ (74,794)
Accounts payable and accrued liabilities included in mineral properties	\$ 585,573
Stock-based compensation reallocation	\$ 6,029
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Cash and cash equivalents:	
Cash	\$ 1,463,956
Cash equivalents	1,508,440
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\$ 2,972,396	
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Other cash flow information:	
Interest received	\$ 16,178
Interest paid	\$ -
Income taxes paid	\$ -
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13. Income Taxes

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 and are held by the Company for such expenditures. As at September 30, 2010, the amount of flow-through proceeds remaining to be expended is \$394,073.