

DIAMONDS NORTH RESOURCES LTD.

**Condensed Consolidated Interim Financial Statements
September 30, 2011
(Unaudited – See Notice)
(Expressed in Canadian dollars)**

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DIAMONDS NORTH RESOURCES LTD.

General Information

Directors:

Mark Kolebaba (President and CEO)
Bernard H. Kahlert, B.Sc., P. Eng.
Maynard E. Brown, LL.B.
Yale R. Simpson, B.Sc.
Terry A. Lyons, B.Sc., M.B.A.
Bill Zimmerman, B.Sc., P. M.B.A.

Corporate Secretary:

Janice Davies

Registrar & Trust Agent:

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

Corporate Legal Counsel:

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

Auditor:

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

DIAMONDS NORTH RESOURCES LTD.

NOTICE – No Auditor Review of the Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Diamonds North Resources Ltd. ("the Company"), for the nine months ended September 30, 2011, have been prepared by management, approved by the audit committee and board of directors and authorized for issuance on November 22, 2011. These condensed consolidated interim financial statements have not been the subject of a review by the Company's external independent auditor.

DIAMONDS NORTH RESOURCES LTD.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

Notes	September 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	\$ 1,850,701	\$ 2,584,807	\$ 3,260,817
Marketable securities	753,451	1,074,657	622,560
Receivables	269,722	616,193	339,884
Prepaid expenses	204,158	132,120	39,453
	3,078,032	4,407,777	4,262,714
Non-current assets			
Deposits	69,370	69,969	55,000
Equipment	76,353	90,090	153,930
Total Assets	\$ 3,223,755	\$ 4,567,836	\$ 4,471,644
Liabilities			
Current liabilities			
Accounts payables and accrued liabilities	\$ 611,632	\$ 291,548	\$ 197,150
Shareholders' Equity			
Share capital	53,776,696	52,599,910	50,927,778
Share compensation reserve	1,112,728	1,166,871	435,112
Deficit	(52,277,301)	(49,490,493)	(47,088,396)
	2,612,123	4,276,288	4,274,494
Total Liabilities and Shareholders' Equity	\$ 3,223,755	\$ 4,567,836	\$ 4,471,644

Corporate Information and Going Concern (Note 1 & 2.2)

Commitments (Note 9)

Subsequent Event (Note 15)

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.

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
General and administrative expenses					
Accounting and auditing		\$ 22,435	\$ 11,720	\$ 33,231	\$ 33,470
Administration fees		9,600	11,475	28,800	30,675
Amortization		7,469	9,370	20,961	35,059
Annual report and meeting		1,381	-	10,669	12,052
Consulting fees		873	2,308	3,437	5,069
Directors' fees		15,625	15,625	46,875	46,875
Filing fees		1,199	4,409	13,831	16,865
Insurance		8,412	8,453	30,952	33,980
Interest		663	669	1,775	1,810
Investor relations and promotion		30,844	44,562	104,075	143,763
Legal fees		6,225	6,322	19,354	11,707
Office and miscellaneous		10,636	17,626	28,230	36,598
Rent and storage		26,163	21,580	72,717	91,166
Share-based compensation	11	7,977	113,601	165,976	814,051
Transfer agent fees		1,864	4,356	6,779	13,840
Wages and benefits		100,034	123,386	551,770	385,796
		(251,400)	(395,462)	(1,139,432)	(1,712,776)
Other income (expense)					
Interest income		2,835	3,163	13,088	10,519
Loss on disposal of equipment		-	-	-	(8,032)
Mineral property exploration	14	(1,000,452)	(1,085,200)	(1,559,377)	(707,280)
Property investigation recoveries		-	2,995	-	30,026
Realized loss in marketable securities		-	-	-	(244,126)
Reversal of previously recognized unrealized losses		-	-	-	241,616
Unrealized loss on marketable securities		(16,077)	100,440	(321,206)	(29,246)
		(1,013,694)	(978,602)	(1,867,495)	(706,523)
Loss and comprehensive loss for the period		\$ 1,265,094	\$ 1,374,064	\$ 3,006,927	\$ 2,419,299
Basic and diluted loss per share		\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)
Weighted average number of common shares		94,376,603	85,735,902	89,582,726	80,701,206

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

	Notes	Number of Common shares	Share Capital	Reserves	Deficit	Total
Balance at January 1, 2011		86,869,808	\$ 52,599,910	\$ 1,166,871	\$ (49,490,493)	\$ 4,276,288
Common shares issued for:						
Private placements, net of issue costs		7,812,500	1,176,786	-	-	1,176,786
Share-based compensation expense			-	165,976	-	165,976
Cancellation of share-based options			-	(220,119)	220,119	-
Loss for the period			-	-	(3,006,927)	(3,006,927)
Balance at September 30, 2011		94,682,308	\$ 53,776,696	\$ 1,112,728	\$ (52,277,301)	\$ 2,612,123

	Notes	Number of Common shares	Share capital	Reserves	Deficit	Total
Balance at January 1, 2010		78,057,308	\$ 50,927,778	\$ 435,112	\$ (47,088,396)	\$ 4,274,494
Common shares issued for:						
Share subscription		8,710,000	1,641,603	-	-	1,641,603
Exercise of options		50,000	8,750	-	-	8,750
Exercise of warrants		52,500	15,750	-	-	15,750
Exercise of options, share-based compensation			6,029	(6,029)	-	-
Share-based compensation expense			-	814,051	-	814,051
Loss for the period			-	-	(2,419,299)	(2,419,299)
Balance at September 30, 2010		86,869,808	\$ 52,599,910	\$ 1,243,134	\$ (49,507,695)	\$ 4,335,349

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – See Notice)

(Expressed in Canadian Dollars)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Cash flows from operating activities					
Loss for the period		\$ (1,265,094)	\$ (1,374,064)	\$ (3,006,927)	\$ (2,419,299)
Items not affecting cash:					
Amortization		7,469	9,370	20,961	35,059
Share-based compensation		7,977	113,601	165,976	814,051
Loss on disposal of equipment		-	-	-	8,032
Realized loss on sale of marketable securities		-	-	-	244,126
Reversal of previously recognized unrealized losses		-	-	-	(241,616)
Unrealized loss on marketable securities		16,077	(100,440)	321,206	29,246
		(1,233,571)	(1,351,533)	(2,498,784)	(1,530,401)
Changes in non-cash working capital items:					
Receivables		7,775	(432,924)	346,471	(453,007)
Prepaid expenses		(25,584)	(80,614)	(72,038)	(89,509)
Accounts payables and accrued liabilities		281,848	514,923	320,084	525,503
		(969,532)	(1,350,148)	(1,904,267)	(1,547,414)
Cash flows from investing activities					
Proceeds from the sale of marketable securities, net of commissions		-	-	-	24,990
Deposits		(100)	(1,350)	599	(31,984)
Leasehold improvements		-	158,893	-	-
Purchase of equipment		(2,545)	(6,043)	(7,224)	(6,043)
		(2,645)	151,500	(6,625)	(13,037)
Cash flows from financing activity					
Shares issued for cash, net of issue costs		707,267	1,205,603	1,176,786	1,666,103
Increase (decrease) in cash and cash equivalents		(264,910)	6,955	(734,106)	105,652
Cash and cash equivalents, beginning of period		2,115,611	3,359,514	2,584,807	3,260,817
Cash and cash equivalents, end of period		\$ 1,850,701	\$ 3,366,469	\$ 1,850,701	\$ 3,366,469

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011

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1. Corporate Information

The condensed consolidated interim financial statements of Diamonds North Resources Ltd. (“Diamonds North” or “the Company”) for the nine months ended September 30, 2011 were authorized for issue in accordance with a resolution of the directors on November 22, 2011. Diamonds North 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”).

Diamonds North is in the process of actively exploring its mineral property interests and has not yet determined whether any of these projects contain an ore reserve that is economically recoverable. The Company is considered to be in the exploration stage and does not have operating cash flow.

Diamonds North’s head office and principal address is 1100 – 1111 Melville Street, Vancouver, British Columbia, Canada, V6E 3V6.

2. Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Diamonds North’s transition date to IFRS is January 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles (“GAAP”). Historical results and balances have been restated under IFRS. These consolidated interim financial statements should be read in conjunction with the Company’s 2010 GAAP annual audited financial statements for the year ended December 31, 2010, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in Note 16. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these interim financial statements or in Diamonds North’s most current annual GAAP financial statements.

2.1 Basis of Consolidation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts are presented in Canadian dollars unless otherwise specified.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Diamonds North’s wholly-owned subsidiary, SamX Ventures Inc. was incorporated on December 17, 2003, see Note 10.

The financial statements of the subsidiary are prepared for the same reporting period as the Diamonds North financial statements, using consistent accounting policies. All significant intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions have been eliminated.

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2.2 Going Concern

For the nine months ended September 30, 2011, Diamonds North reported a loss of \$3,006,927 and has a history of losses with an accumulated deficit of \$52,277,301. Management believes its \$2,466,400 working capital is sufficient to meet administrative, exploration and property obligations for the 2011 year and to cover fiscal 2012 administrative and tenure costs.

These consolidated financial statements have been prepared by management on a going concern basis which assumes that Diamonds North will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As noted above, the Company has incurred ongoing losses. A number of alternatives including, but not limited to selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of Diamonds North are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should Diamonds North be unable to continue in existence.

2.3 Use of Estimates

The preparation of the Diamonds North's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of receivables, valuation and depreciation of property, plant and equipment, impairment of assets, contingencies, valuation of share-based payments, recognition of deferred income tax amounts and provision for restoration, rehabilitation and environmental costs.

2.4 Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents consists of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without a significant risk of change in value.

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2.4 Significant Accounting Policies (continued)

(b) *Financial Instruments*

Financial assets

Diamonds North classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss: This category comprises derivatives, held for trading and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. This category includes cash and cash equivalents and marketable securities held in publicly traded companies.

The Company evaluated its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets or management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. This category includes receivables and deposits.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

Diamonds North classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss: This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method and includes accounts payables and accrued liabilities.

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2.4 Significant Accounting Policies (continued)

(c) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at annual rates set-out below, except in the year of acquisition where half the annual rate is used:

Furniture and fixtures	20%
Computer equipment	30%
Computer software	100%
Equipment	20%

(d) Mineral Property Exploration

The Company charges to operations all exploration and evaluation expenses relating to mineral property interests incurred prior to the determination of economically recoverable reserves. These costs would also include periodic fees such as license and maintenance fees and advance royalty payments.

The Company capitalizes expenditures incurred following the determination that the property has economically recoverable reserves and a development decision has been made. These costs are amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned, or when impairment in value has been determined to have occurred. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Where the Company has a joint interest in a mineral property with other parties, the Company only records its proportionate share of costs in relation to its interest. If the Company acts as operator of a jointly held mineral property interest, any reimbursements of costs is applied against direct costs incurred as operator. As operator, the Company may also charge a fee to recover certain indirect costs and overheads which are recognized as a cost recovery, through the profit or loss.

Any payments received by the Company from third parties pursuant to farm-out or other arrangements or tax credits refunded to the Company are credited to the exploration expenditure to which they relate.

DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

2.4 Significant Accounting Policies (continued)

(e) Impairment of Non-financial Assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(f) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation Provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the project location.

Diamonds North's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

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2.4 Significant Accounting Policies (continued)

(g) Flow-through Shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow through features at the time of issue is credit to other liabilities which is reversed into profit or loss when eligible expenditures have been made.

(h) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(i) Share-based Compensation

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital.

(j) Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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2.5 New Standards Yet Adopted

In November 2009, the IASB published IFRS 9, “Financial Instruments”, which covers the classification and measurement of financial assets as part of its project to replace IAS 39, “Financial Instruments: Recognition and Measurement.” In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact the Company upon implementation of the issued standard.

3. Cash and Cash Equivalents

Diamonds North cash and cash equivalents are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Cash on hand	\$ 842,160	\$ 1,076,343	\$ 1,252,422
Demand deposits	1,000,000	1,500,000	-
Short-term deposits and guaranteed investment certificates	8,541	8,464	2,008,395
Total	\$ 1,850,701	\$ 2,584,807	\$ 3,260,817

4. Marketable Securities

Diamonds North marketable securities are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Cost	\$ 880,732	\$ 880,732	\$ 1,192,231
Unrealized gain (loss)	(127,281)	193,925	(569,671)
Total	\$ 753,451	\$ 1,074,657	\$ 622,560

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5. Receivables

Diamonds North receivables are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Other receivables	\$ 10,375	\$ 50,886	\$ 52,573
HST receivables	54,285	-	8,209
Mineral property receivables	161,758	438,758	148,907
Related party receivables	43,304	126,549	130,195
Total	\$ 269,722	\$ 616,193	\$ 339,884

Other receivables relate to recoveries of shared office expenses and rent from companies which Diamond North entered into sub-lease agreements with, see Note 9(a). Security deposits are held in-trust in case of default. Generally, the amounts are non-interest bearing and on terms of 30 days or less.

HST receivables relate to input tax credit refunds from the Government of Canada.

Mineral property receivables relate to mineral exploration recoveries for projects under option or joint venture agreements with partners. The balance at September 30, 2011, is secured by assignment of bond refunds receivable from the Mining Recorder of Canada.

Related party receivables include recoveries for shared office expense and exploration projects. Generally, the amounts are non-interest bearing and on terms of 30 days or less.

Generally, when an amount is deemed to be 'well-past due', Diamonds North will determine the uncollectable portion and expense the amount through 'bad debts' on the profit or loss versus accruing an allowance for doubtful accounts.

6. Deposits

Diamonds North deposits are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Office lease deposit	\$ 54,370	\$ 54,969	\$ 40,000
Exploration deposit	15,000	15,000	15,000
Total	\$ 69,370	\$ 69,969	\$ 55,000

Office lease deposit is non-interest-bearing and held by the landlord in accordance with the head lease noted in Note 9. The office lease deposit also includes deposits for access and security cards which vary from time to time, depending on the number of employees.

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7. Equipment

	Furniture and fixtures	Computer equipment	Computer software	Equipment	Leasehold improvement	Total
Cost:						
Balance at January 1, 2010	\$ 36,167	\$ 113,376	\$ 10,439	\$ 220,126	\$ 35,882	\$ 415,990
Additions	2,373	6,731	-	-	-	9,104
Disposals	-	(68,411)	-	(28,874)	-	(97,285)
Balance at December 31, 2010	38,540	51,696	10,439	191,252	35,882	327,809
Additions	-	3,038	4,186	-	-	7,224
Disposals	-	-	(10,439)	-	(35,882)	(46,321)
Balance at September 30, 2011	\$ 38,540	\$ 54,734	\$ 4,186	\$ 191,252	\$ -	\$ 288,712
Accumulated depreciation:						
Balance at January 1, 2010	\$ 25,458	\$ 78,426	\$ 9,784	\$ 116,751	\$ 31,641	\$ 262,060
Depreciation	2,379	11,494	655	28,006	4,241	46,775
Disposals	-	(57,275)	-	(13,841)	-	(71,116)
Balance at December 31, 2010	27,837	32,645	10,439	130,916	35,882	237,719
Depreciation	1,603	4,509	1,274	13,575	-	20,961
Disposals	-	-	(10,439)	-	(35,882)	(46,321)
Balance at September 30, 2011	\$ 29,440	\$ 37,154	\$ 1,274	\$ 144,491	\$ -	\$ 212,359
Carrying amounts:						
As at December 31, 2010	\$ 10,703	\$ 19,051	\$ -	\$ 60,336	\$ -	\$ 90,090
As at September 30, 2011	\$ 9,100	\$ 17,580	\$ 2,912	\$ 46,761	\$ -	\$ 76,353

8. Accounts Payable and Accrued Liabilities

Diamonds North accounts payables and accrued liabilities are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Trade payables	\$ 133,860	\$ 82,622	\$ 29,091
HST payable	-	11,860	-
Accrued liabilities	238,000	110,486	69,072
Related party payables	239,772	86,578	98,987
Total	\$ 611,632	\$ 291,546	\$ 197,150

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8. Accounts Payable and Accrued Liabilities (continued)

Trade payables are normally settled within 30 days or less of receipt of the original invoice. Invoices from northern suppliers are often received several weeks past the invoice date and the amount is accrued as a liability for the reporting period the service was received in.

HST payable relates to HST collected on project administration fees in excess of input tax credits. The amount is payable to the Government of Canada and settled within 30 days or less from the reporting end date.

Accrued liabilities are based on estimates accrued as of the financial statement date and often become trade payables once the invoice is received.

Related party payables include deferred wages and expense re-imbursements owed to senior management or for shared office and exploration costs incurred on behalf of Diamonds North. In addition, an accrual of \$150,000 at September 30, 2011, relating to amounts owing to the President pursuant to a former employment agreement which was renewed, see Note 9(b). The amount is payable in two installments of \$75,000, on each of April 1st of 2012 and 2013.

9. Commitments

Diamonds North commitments are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Within one year	\$ 517,700	\$ 297,500	\$ -
After one year but not more than five years	1,221,606	1,134,500	-
Total	\$ 1,739,306	\$ 1,432,000	\$ -

	September 30, 2011	December 31, 2010	January 1, 2010
Office lease	\$ 1,210,106	\$ 1,432,000	\$ -
Employment agreement	529,200	-	-
Total	\$ 1,739,306	\$ 1,432,000	\$ -

(a) 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 partially recovered through subleases with four other companies in proportion to the area occupied. Two of these companies are related by virtue of common directors. The Company's proportionate share of the \$1,210,106 estimated remainder of the lease is approximately \$285,948.

(b) On May 17, 2011, the Company entered into a new employment agreement with the President, whereby the President receives \$17,640 per month from April 1, 2011 to March 31, 2014. The agreement is subject to certain payouts if terminated without cause or in the event of a change of control. A portion of the monthly salary is recovered from a company related by common directors.

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10. Related Party Disclosures

The consolidated financial statements include the financial statements of Diamonds North and its wholly owned subsidiary which has been inactive since incorporation, as follows:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest		
		September 30, 2011	December 31, 2010	January 1, 2010
SamX Venture Inc.	Canada	100%	100%	100%

Diamonds North entered into the following transactions with other related parties:

- (a) Included in receivables at September 30, 2011 in Note 5, is \$2,292 (2010 - \$5,219) owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) Included in receivables at September 30, 2011 in Note 5, is \$41,313 (2010 - \$315,650) owed by Uranium North Resources Ltd., a company related by virtue of a common directors and officers, for shared office costs and exploration expenditures recovery.
- (c) Included in accounts payables at September 30, 2011 in Note 8, is \$234,237 (2010 - \$Nil) owed to Uranium North Resources Ltd., a company related by virtue of a common directors and officers, for exploration expenditures made on behalf of the Company.
- (d) For the nine months ended September 30, 2011, an officer of Diamonds North has been paid \$28,800 (2010 - \$30,675) for corporate secretarial services, which has been expensed as administration fees.
- (e) For the nine months ended September 30, 2011, a director of the Company has been paid \$12,985 (2010 - \$13,820) for geological consulting, which has been expensed as mineral property exploration.
- (f) For the nine months ended September 30, 2011, the four independent directors were paid an aggregate of \$30,000 (2010 - \$30,000) in directors' fees with the members of the audit committee paid an additional \$1,875 per quarter for a total of \$16,875 (2010 - \$16,875).

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10. Related Party Disclosures (continued)

The remuneration of directors and key management personnel as follows:

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2011	30, 2010	30, 2011	30, 2010
Director fees	\$ 15,625	\$ 15,625	\$ 46,875	\$ 46,875
Share-based compensation (i)	-	98,256	136,676	700,603
Wages and benefits (ii)	111,940	116,669	572,787	467,505
Total	\$ 127,565	\$ 230,550	\$ 756,338	\$ 1,214,983

(i) Share-based payments are the fair value of options granted to directors and key management personnel.

(ii) Wage and benefits include amounts expensed as mineral property exploration.

11. Share Capital

(a) Authorized share capital

As at September 30, 2011, the authorized share capital of Diamonds North is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

(b) Issued share capital

- i) On June 17, 2011, Diamonds North completed a non-brokered private placement of \$500,000 through the sale of 3,125,000 flow-through shares at a price of \$0.16 per share. A due diligence fee of \$25,000 and other share issue costs of \$5,734 were paid.
- ii) On July 6, 2011, Diamonds North completed a non-brokered private placement of \$750,000 through the sale of 4,687,500 flow-through shares at a price of \$0.16 per share. Finders' fees of \$32,500 and other share issue costs of \$9,979 were paid.

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11. Share Capital (continued)

(c) 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, Diamonds North 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.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	9,065,500	\$0.31
Cancelled	(273,500)	\$0.83
Expired	(50,000)	\$0.18
Outstanding at December 31, 2010	8,742,000	\$0.29
Granted	1,545,000	\$0.15
Cancelled	(720,000)	\$0.27
Expired	(225,000)	\$0.91
Outstanding at September 30, 2011	9,342,000	\$0.26

The following summarizes information about stock options outstanding and exercisable at September 30, 2011:

Number of Shares	Exercise Price	Expiry Date
97,000	\$ 0.770	February 27, 2012
60,000	\$ 0.880	February 14, 2013
1,925,000	\$ 0.175	May 28, 2014
5,715,000	\$ 0.300	December 23, 2014
1,545,000	\$ 0.155	April 14, 2016
9,342,000		

(d) Share-based compensation

During the nine months ended September 30, 2011, Diamonds North granted 1,545,000 stock options with a fair value of \$168,624 or \$0.11 per option.

During the nine months ended September 30, 2010, Diamonds North did not grant any stock options.

Share-based compensation recognized for options vested during the nine months ended September 30, 2011 was \$165,976 (2010 - \$814,051).

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11. Share Capital (continued)

(e) Warrants

At September 30, 2011, the Company did not have any outstanding warrants to purchase common shares. A schedule of expired warrants:

Exercise Price	Expiry Date	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at September 30, 2011
\$ 0.25	July 7, 2011	157,850	-	-	(157,850)	-
\$0.25	July 13, 2011	17,500	-	-	(17,500)	-
		175,350	-	-	175,350	-

12. Segment Information

The Company operates in one reportable operating segment, being mineral exploration in Canada.

13. Financial Risk Management

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are not based on observable market data.

The fair value of the Company's receivables, deposits, and accounts payable and accrued liabilities approximate their carrying values. Diamonds North's other financial instruments, being cash and cash equivalents and marketable securities, are measured at fair value using Level 1 inputs.

Diamonds North is exposed to varying degrees to a variety of financial instrument related risks:

Credit Risk

Credit risk is the risk of an unexpected loss if a customer, tenant, related party or a third party to a financial instrument fails to meet its contractual obligations.

Diamonds North's cash and cash equivalents are held with major Canadian financial institutions. The Company has no investment in asset backed commercial paper.

The Company's receivables are disclosed in Note 5.

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13. Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 13.1.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices.

a) Interest rate

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

b) Foreign exchange

The Company does not have any balances denominated in a foreign currency and believes it not exposed to significant foreign exchange risk.

c) Commodity and equity prices

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

The Company is exposed to equity price risk arising from its marketable securities, which are classified as held for trading and carried at quoted market prices in Note 4. There can be no assurance that the Company can exit these equity positions if required, resulting in proceeds approximating the carrying value of these marketable securities.

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13.1 Capital Risk Management

Diamonds North's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral projects, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

Currently, the Company's share capital is not subject to any externally imposed capital requirements. There were no changes in Diamonds North approach to capital management during the period.

14. Mineral Property Exploration

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, title to all of its properties, are properly registered and in good standing.

Diamonds North mineral property exploration by type, as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Airborne geophysics	\$ 78,642	\$ 5,018	\$ 154,087	\$ 5,018
Camp costs	315,457	121,613	571,662	593,964
Camp helicopter & fuel	120,670	35,193	150,890	61,953
Drilling – Core	-	-	4,412	24,595
Drilling – Percussion	-	504,238	53,936	554,962
Geochemistry	4,874	1,266	28,840	12,567
Geology	382,348	103,103	479,816	275,966
Ground geophysics	173,353	594	173,353	1,357
Permitting	952	1,330	40,893	102,979
Property	16,324	41,488	74,046	41,563
Prospecting	1,259	411,197	2,329	417,170
	1,093,879	1,225,040	1,734,264	2,092,094
Recoveries	(93,427)	(139,840)	(174,887)	(1,384,814)
Total	\$ 1,000,452	\$ 1,085,200	\$ 1,559,377	\$ 707,280

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14. Mineral Property Exploration (continued)

Diamonds North mineral property exploration by location, as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Nunavut ("NU")	\$ 630,800	\$ 1,093,171	\$ 1,184,760	\$ 1,262,273
Northwest Territories ("NWT")	369,652	(7,971)	374,617	(554,993)
Total	\$ 1,000,452	\$ 1,085,200	\$ 1,559,377	\$ 707,280

Diamonds North mineral property exploration by project, as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Amaruk, NU	\$ 91,854	\$ 797,444	\$ 384,425	\$ 1,077,783
Banks Island, NWT	(9,450)	-	(10,650)	-
Barrow, NU	-	-	187	-
Blue Ice, NU	142,097	66,347	357,142	78,592
Boothia, NU	57,786	137,448	67,108	257,817
Esker, NU	185,769	-	190,430	-
Genex	550	45,843	(45,584)	50,091
Halkett, NU	21,038	4,429	63,709	13,933
Hepburn, NWT	379,102	(7,971)	385,267	(552,824)
Henik, NU	2,977	39,319	19,444	22,103
Hyde, NU	-	2,870	1,315	4,251
Kidme, NWT	-	-	-	(2,169)
Nanunk, NU	-	-	-	(51,434)
Tunerq, NU	265	(529)	4,354	(202,084)
Sakari, NU	-	-	314	-
Siku, NU	-	-	-	2,163
Ualliq, NU	-	-	3,884	9,058
Recon – 2011, NU	128,464	-	138,032	-
Total	\$ 1,000,452	1,085,200	\$ 1,559,377	\$ 707,280

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14. Mineral Property Exploration (continued)

(a) Amaruk Project, Nunavut

The Company, jointly with other participants, own certain exploration and evaluation assets. The Amaruk property is located near the community of Kugaaruk, Nunavut. Portions of the property have been joint ventured to other exploration companies, 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.

(i) Ualliq 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 to the Company and incurring \$3.0 million in expenditures on the property on or before December 31, 2010. 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 earned a fully vested 30% joint venture interest in the Ualliq Project, as the Company accepted the issuance of 50,000 common shares 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.

(ii) Sakari 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.

(iii) Siku 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.

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14. Mineral Property Exploration (continued)

(b) Farm-out and Earn-in Arrangements

(i) Tunerq 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. For subsequent events, see Note 15.

(ii) Barrow Project, Nunavut

On March 4, 2011, the Company and Indicator Minerals Inc. ("Indicator Minerals") entered into an agreement covering the diamond interest on Indicator Mineral's Barrow Property in Nunavut. The Company may earn up to sixty percent (60%) interest in any diamond discovery on the Barrow Property by incurring \$2,000,000 in expenditures on the Property over five years. To earn an initial 51% interest, the Company must incur \$1,000,000 in expenditures by December 31, 2015, of which \$50,000 must be incurred before the end of the current year and a total of \$200,000 must be incurred by December 31, 2013. To earn an additional 9% interest (for 60%), the Company must incur an additional \$1,000,000 in expenditures (for aggregate of \$2,000,000) by December 31, 2016.

(c) Other Projects

(i) 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.

(ii) Hepburn, Northwest Territories

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

(iii) Kidme, Northwest Territories

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

(iv) Other Properties

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

(i) Thelon, Nunavut and Northwest Territories

The Company holds the right to a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty with respect to the Thelon property.

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14. Mineral Property Exploration (continued)

(ii) Northern Recon, Nunavut and Northwest Territories

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

(iii) Recon - 2011, Nunavut

In 2011, the Company acquired several prospective gold properties through permitting and claim staking in Southern Nunavut. The projects are KL, Fox, Kaminak, McQuiod, Yandle & River and Esker. With the exception of Esker, these grass-projects are collectively grouped together and called "Recon – 2011".

15. Subsequent Event

- i) On November 1, 2011, Minerals and Metals Group ("MMG") notified the Company of its withdrawal from the Tunerq Project. As MMG had not completed the earn-in conditions, no interest was earned and the Company retains a 100% interest in nickel and other base metal on the project.

16. First Time Adoption of IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with GAAP. For periods, on or after January 1, 2011, the Company's financial statements are prepared and reported in accordance with IFRS.

As stated in Note 2, the Company has prepared these financial statements which comply with IFRS applicable for the periods beginning on or after January 1, 2010. In preparing these consolidated financial statements, the Company's opening statement of financial position was prepared as at January 1, 2010, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its previous GAAP statement of financial position as at January 1, 2010 and its previously published GAAP financial statements for the year ended December 31, 2010.

(a) Exemptions Applied

IFRS 1 First Time Adoption of International Financial Reporting Standards allows first time adopters certain exemptions from the retrospective application of certain IFRS. The Company has applied the following exemption:

- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.
- IFRS 2 Share-based Payments has not been applied to equity instruments that were not vested prior to January 1, 2010.

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16. First Time Adoption of IFRS (continued)

(b) IFRS 6 Exploration for and Evaluation of Mineral Resources adjustments

Under the previous GAAP, costs associated with mineral property acquisition, exploration and evaluation were capitalized to mineral properties. Under IFRS, these costs are expensed through the profit or loss until the technical feasibility and commercial viability of extracting the mineral resources is demonstrable. Under previous GAAP, mineral properties costs included \$5,616,202 in acquisition costs and \$35,369,751 in exploration costs, resulting in \$40,985,953 expensed through opening accumulated deficit. For the year ended December 31, 2010, \$862,270 costs relating to acquisition and exploration costs have been expensed through profit or loss.

(c) Other Adjustments

(i) Reclassification of marketable securities

The Company decided to reclassify its marketable securities from available for sale to fair value through profit and loss, and accordingly, has reclassified accumulated other comprehensive income into deficit and unrealized gains and losses in other comprehensive income into net loss.

(ii) Reclassification with equity section

Under GAAP, a balance within contributed surplus existed to record the issuance of compensatory warrants and equity-settled employee benefits. Under adoption of IFRS, the balances in these accounts have been reclassified to “Reserves” and additionally, the Company has reclassified amounts relating to forfeited and expired options and warrants back into deficit or share capital where they were originally recorded.

(iii) Deferred tax

Under previous GAAP, deferred taxation assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non-current assets.

Additionally, deferred taxes have been adjusted for changes to net book values arising as a result of the adjustments for first time adoption of IFRS as discussed above.

(iv) Flow-through Shares

Under IFRS, flow-through instruments are treated as a compound instrument consisting of a liability component and an equity component. When issued at a premium, the fair value of the equity component is allocated to share capital, and the remainder is considered a liability representing the Company’s obligation to pass a tax benefits on to the shareholder. Where there is no excess value of attribute to the liability, no liability is recognized. As the Company discharges the liability by making the required mineral property expenditure, the liability is reduced into income. As at January 1, 2010 and December 31, 2010, the Company had no liability with respect to its flow through obligations. An adjustment was recorded to reverse the GAAP treatment of recognizing a share issuance cost of \$115,520 upon the renouncement of the flow through shares.

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of financial position as at January 1, 2010 (date of transition to IFRS) is provided below:

		January 1, 2010		
	Notes	GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 3,260,817	\$ -	\$ 3,260,817
Marketable securities		622,560	-	622,560
Receivables		339,884	-	339,884
Prepaid expenses		39,453	-	39,453
		4,262,714	-	4,262,714
Non-current assets				
Deposits		55,000	-	55,000
Mineral properties	16(b)	40,985,953	(40,985,953)	-
Property, plant and equipment		153,930	-	153,930
Total Assets		\$ 45,457,597	\$ (40,985,953)	\$ 4,471,644
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 197,150	\$ -	\$ 197,150
Deferred income taxes	16(c)(iii)	4,177,000	(4,177,000)	-
SHAREHOLDERS' EQUITY				
Share capital	16(c)(ii) &(iv)	50,644,677	283,101	50,927,778
Contributed surplus	16(c)(ii)	3,525,134	(3,525,134)	-
Share compensation reserve		435,112	-	435,112
Accumulated other comprehensive loss	16(c)(i)	(626,457)	626,457	-
Deficit		(12,895,019)	(34,193,377)	(47,088,396)
		41,083,447	(36,808,953)	4,274,494
Total Liabilities and Shareholders' Equity		\$ 45,457,597	\$ (40,985,953)	\$ 4,471,644

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of financial position as at September 30, 2010 is provided below:

		September 30, 2010		
	Notes	GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 3,366,469	\$ -	\$ 3,366,469
Marketable securities		565,814	-	565,814
Receivables		792,891	-	792,891
Prepaid expenses		135,962	-	135,962
		4,861,136	-	4,861,136
Non-current assets				
Deposits		86,984	-	86,984
Mineral properties	16(b)	41,643,142	(41,643,142)	-
Property, plant and equipment		109,881	-	109,881
Total Assets		\$ 46,701,143	\$ (41,643,142)	\$ 5,058,001
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 722,652	\$ -	\$ 722,652
Deferred income taxes	16(c)(iii)	4,177,000	(4,177,000)	-
SHAREHOLDERS' EQUITY				
Share capital	16(c)(ii) &(iv)	52,201,289	398,621	52,599,910
Contributed surplus	16(c)(ii)	3,648,380	(3,648,380)	-
Share compensation reserve		1,119,888	123,246	1,243,134
Accumulated other comprehensive loss	16(c)(i)	(414,087)	414,087	-
Deficit		(14,753,979)	(34,753,716)	(49,507,695)
		41,801,491	(37,466,142)	4,335,349
Total Liabilities and Shareholders' Equity		\$ 46,701,143	\$ (41,643,142)	\$ 5,058,001

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of financial position as at December 31, 2010 is provided below:

	Notes	December 31, 2010		
		GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		\$ 2,584,807	\$ -	\$ 2,584,807
Marketable securities		1,074,657	-	1,074,657
Receivables		616,193	-	616,193
Prepaid expenses		132,120	-	132,120
		4,407,777	-	4,407,777
Non-current assets				
Deposits		69,969	-	69,969
Mineral properties	16(b)	35,496,185	(35,496,185)	-
Property, plant and equipment		90,090	-	90,090
Total Assets		\$ 40,064,021	\$ (35,496,185)	\$ 4,567,836
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 291,548	\$ -	\$ 291,548
Deferred income taxes	16(c)(iii)	4,081,000	(4,081,000)	-
SHAREHOLDERS' EQUITY				
Share capital	16(c)(ii) & (iv)	52,195,833	404,077	52,599,910
Contributed surplus	16(c)(ii)	3,653,836	(3,653,836)	-
Share compensation reserve		1,166,871	-	1,166,871
Accumulated other comprehensive income	16(c)(i)	87,255	(87,255)	-
Deficit		(21,412,322)	(28,078,171)	(49,490,493)
		35,691,473	(31,415,185)	4,276,288
Total Liabilities and Shareholders' Equity		\$ 40,064,021	\$ (35,496,185)	\$ 4,567,836

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of changes in equity as at January 1, 2010 and December 31, 2010 is provided below:

	Notes	Number of Common shares	Share capital	Reserves	Deficit	Total
Balance at January 1, 2010 GAAP		78,057,308	\$ 50,644,677	\$ 3,960,246	\$ (13,521,476)	\$ 41,083,447
Acquisition costs	16(b)		-	-	(5,616,202)	(5,616,202)
Exploration costs	16(b)		-	-	(35,369,751)	(35,369,751)
Future income tax adjustment	16(c)(iii)		-	-	4,177,000	4,177,000
Reallocation of contributed surplus	16(c)(ii)		283,101	(3,525,134)	3,242,033	-
Balance at January 1, 2010 IFRS		78,057,308	\$ 50,927,778	\$ 435,112	\$ (47,088,396)	\$ 4,274,494
Balance at December 31, 2010 GAAP		86,869,808	\$ 52,195,833	\$ 4,820,707	\$ (21,325,067)	\$ 35,691,473
Adjustments for IFRS:						
Acquisition costs	16(b)		-	-	(5,616,202)	(5,616,202)
Exploration costs	16(b)		-	-	(35,369,751)	(35,369,751)
Future income tax adjustment	16(c)(iii)&(iv)		-	-	4,177,000	4,177,000
Reallocation of contributed surplus	16(c)(ii)		283,101	(3,525,134)	3,242,033	-
Exploration expenditures	16(b)		-	-	(862,270)	(862,270)
Mineral property write down	16(b)		-	-	6,352,038	6,352,038
Contributed surplus adjustment	16(c)(ii)		5,456	(128,702)	123,246	-
Future income tax adjustment	16(c)(iv)		115,520	-	(211,520)	(96,000)
Balance at December 31, 2010 IFRS		86,869,808	\$ 52,599,910	\$ 1,166,871	\$ (49,490,493)	\$ 4,276,288

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of comprehensive loss for the nine months ended September 30, 2010 is provided below:

	Notes	For the Nine Months Ended September 30, 2010		
		GAAP	Effects of transition to IFRS	IFRS
General and administrative expenses				
Accounting and audit		\$ 33,470	\$ -	\$ 33,470
Administration fees		30,675	-	30,675
Amortization		35,059	-	35,059
Annual report and meeting		12,052	-	12,052
Consulting fees		5,069	-	5,069
Directors' fees		46,875	-	46,875
Filing fees		16,865	-	16,865
Insurance		33,980	-	33,980
Interest		1,810	-	1,810
Investor relations and promotion		143,763	-	143,763
Legal fees		11,707	-	11,707
Office and miscellaneous		36,598	-	36,598
Rent and storage		91,166	-	91,166
Share-based compensation		814,051	-	814,051
Transfer agent fees		13,840	-	13,840
Wages and benefits		385,796	-	385,796
		(1,712,776)	-	(1,712,776)
Other income (expenses)				
Interest income		10,519	-	10,519
Loss on disposal of equipment		(8,032)	-	(8,032)
Mineral property exploration	16(b)	(50,091)	(657,189)	(707,280)
Property investigation recoveries		30,026	-	30,026
Realized loss on marketable securities		(244,126)	-	(244,126)
Reversal of previously recognized unrealized losses		-	241,616	241,616
Unrealized gain on marketable securities		-	(29,246)	(29,246)
		(261,704)	(444,819)	(706,523)
Loss before income taxes		(1,974,480)	-	(2,419,299)
Future income tax recovery	16(c)(iv)	115,520	(115,520)	-
Loss for the period		(1,858,960)	(560,339)	(2,419,299)
Other comprehensive income				
Reversal of previously recognized unrealized losses	16(c)(i)	241,616	(241,616)	-
Unrealized gain on marketable securities		(29,246)	29,246	-
		212,370	(212,370)	-
Loss and comprehensive loss for the period		\$ (1,646,590)	\$ (772,709)	\$ (2,419,299)

DIAMONDS NORTH RESOURCES LTD.

Notes to the Condensed Consolidated Interim Financial Statements

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16. First Time Adoption of IFRS (continued)

The reconciliation between GAAP and IFRS consolidated statement of comprehensive loss for the year ended December 31, 2010 is provided below:

	Notes	For the Year Ended December 31, 2010		
		GAAP	Effects of transition to IFRS	IFRS
General and administrative expenses				
Accounting and audit		\$ 83,730	\$ -	\$ 83,730
Administration fees		40,275	-	40,275
Amortization		46,775	-	46,775
Annual report and meeting		12,052	-	12,052
Consulting fees		3,537	-	3,537
Directors' fees		62,500	-	62,500
Filing fees		17,414	-	17,414
Insurance		36,797	-	36,797
Interest		2,644	-	2,644
Investor relations and promotion		192,683	-	192,683
Legal fees		15,904	-	15,904
Office and miscellaneous		47,310	-	47,310
Rent and storage		116,850	-	116,850
Share-based compensation		861,034	-	861,034
Transfer agent fees		16,641	-	16,641
Wages and benefits		548,305	-	548,305
		(2,104,451)	-	(2,104,451)
Other income (expenses)				
Interest income		13,205	-	13,205
Loss on disposal of equipment		(19,168)	-	(19,168)
Mineral property exploration	16(b)	(52,271)	(862,270)	(914,541)
Property investigation recoveries		30,026	-	30,026
Realized loss on marketable securities		(244,126)	-	(244,126)
Reversal of previously recognized unrealized losses		-	241,616	241,616
Unrealized gain on marketable securities		-	472,096	472,096
Write down of mineral properties		(6,352,038)	6,352,038	-
		(6,624,372)	6,203,480	(420,892)
Loss before income taxes		(8,728,823)	-	(2,525,343)
Future income tax recovery	16(c)(iv)	211,520	(211,520)	-
Loss for the year		(8,517,303)	5,991,960	(2,525,343)
Other comprehensive income				
Reversal of previously recognized unrealized losses	16(c)(i)	241,616	(241,616)	-
Unrealized gain on marketable securities		472,096	(472,096)	-
		713,712	(713,712)	-
Loss and comprehensive loss for the year		\$ (7,803,591)	\$ 5,278,248	\$ (2,525,343)

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16. First Time Adoption of IFRS (continued)

(d) Restatement of Statement of Cash Flows from the Previous GAAP to IFRS

The reconciling items between GAAP and IFRS consolidated statement of cash flow for the nine months ended September 30, 2010 is provided below:

		For the Nine Months Ended September 30, 2010		
	Notes	GAAP	Effects of transition to IFRS	IFRS
Cash flows from operating activities				
Loss for the period	16(b) & (c)(ii)	\$ (1,858,960)	\$ (560,339)	\$ (2,419,299)
Items not affecting cash:				
Amortization		35,059	-	35,059
Share-based compensation		814,051	-	814,051
Future income tax	16(c)(iv)	(115,520)	115,520	-
Loss on disposal of equipment		8,032	-	8,032
Realized loss on sale of marketable securities		244,126	-	244,126
Reversal of previously recognized unrealized losses	16(c)(i)	-	(241,616)	(241,616)
Unrealized loss on marketable securities	16(c)(i)	-	29,246	29,246
		(873,212)	(657,189)	(1,530,401)
Changes in non-cash working capital items:				
Receivables	16(b)	(378,213)	(74,794)	(453,007)
Prepaid expenses		(89,509)		(89,509)
Accounts payable and accrued liabilities	16(b)	(43,717)	569,220	525,503
Due to related parties		(16,353)	16,353	-
		(1,401,004)	(146,410)	(1,547,414)
Cash flows from investing activities				
Proceeds from sale of marketable securities, net of commissions		24,990	-	24,990
Mineral property acquisition and exploration costs, net of recoveries	16(b)	(731,983)	731,983	-
Accounts payable and accrued liabilities related to mineral properties	16(b)	585,573	(585,573)	-
Deposits		(31,984)	-	(31,984)
Purchase of equipment		(6,043)	-	(6,043)
		(159,447)	146,410	(13,037)
Cash flows from financing activity				
Shares issued for cash, net of issue costs		1,666,103	-	1,666,103
Decrease in cash and cash equivalents		105,652	-	105,652
Cash and cash equivalents, beginning of period		3,260,817	-	3,260,817
Cash and cash equivalents, end of period		\$ 3,366,469	\$ -	\$ 3,366,469

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16. First Time Adoption of IFRS (continued)

(d) Restatement of Statement of Cash Flows from the Previous GAAP to IFRS

The reconciling items between GAAP and IFRS consolidated statement of cash flow for the year ended December 31, 2010 is provided below:

	Notes	For the Year Ended December 31, 2010		
		GAAP	Effects of transition to IFRS	IFRS
Cash flows from operating activities				
Loss for the year	16(b) & (c)(ii)	\$ (8,517,303)	\$ 5,991,961	\$ (2,525,342)
Items not affecting cash:				
Amortization		46,775	-	46,775
Share-based compensation		861,034	-	861,034
Future income tax	16(c)(iii) & (iv)	(211,520)	211,520	-
Loss on disposal of equipment		19,168	-	19,168
Mineral property option payment	16(b)	-	(7,500)	(7,500)
Write down of mineral properties	16(b)	6,352,038	(6,352,038)	-
Realized loss on sale of marketable securities	16(c)(ii)	244,126	-	244,126
Reversal of previously recognized unrealized losses	16(c)(i)	-	(241,616)	(241,616)
Unrealized gain on marketable securities	16(c)(i)	-	(472,096)	(472,096)
		(1,205,682)	(869,769)	(2,075,451)
Changes in non-cash working capital items:				
Receivables	16(b)	(61,458)	(214,851)	(276,309)
Prepaid expenses		(85,667)	-	(85,667)
Accounts payable and accrued liabilities	16(b)	60,046	34,351	94,397
Due to related parties		(12,409)	12,409	-
		(1,305,170)	(1,037,860)	(2,343,030)
Cash flows from investing activities				
Proceeds from sale of marketable securities, net of commissions		24,990	-	24,990
Mineral property acquisition and exploration costs, net of recoveries	16(b)	(1,084,621)	1,084,621	-
Accounts payable and accrued liabilities related to mineral properties	16(b)	46,761	(46,761)	-
Deposits		(14,969)	-	(14,969)
Purchase of equipment		(9,104)	-	(9,104)
		(1,036,943)	1,037,860	917
Cash flows from financing activity				
Shares issued for cash, net of issue costs		1,666,103	-	1,666,103
Decrease in cash and cash equivalents		(676,010)	-	(676,010)
Cash and cash equivalents, beginning of year		3,260,817	-	3,260,817
Cash and cash equivalents, end of year		\$ 2,584,807	\$ -	\$ 2,584,807