



ANNUAL REPORT 2010

www.diamondsnorth.com

DIAMONDS NORTH RESOURCES LTD.

**Consolidated Financial Statements
December 31, 2010
(expressed in Canadian dollars)**

<u>Index</u>	<u>Page</u>
Independent Auditors' Report	2-3
Consolidated Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Comprehensive Loss	5
Consolidated Statements of Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-26

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Diamonds North Resources Ltd.

We have audited the accompanying consolidated financial statements of Diamonds North Resources Ltd. (the "Company") which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Diamonds North Resources Ltd. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$8,517,303 during the year ended December 31, 2010 and has an accumulated deficit of \$21,412,322. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 15, 2011

DIAMONDS NORTH RESOURCES LTD.

Consolidated Balance Sheets
December 31
(expressed in Canadian dollars)

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents (Note 12)	\$ 2,584,807	\$ 3,260,817
Marketable securities (Notes 4 & 9(f))	1,074,657	622,560
Receivables (Notes 9(a) & 9(f))	616,193	339,884
Prepaid expenses	132,120	39,453
	4,407,777	4,262,714
Deposits	69,969	55,000
Mineral properties (Note 6)	35,496,185	40,985,953
Property, plant and equipment (Note 7)	90,090	153,930
	\$ 40,064,021	\$ 45,457,597
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 204,970	\$ 98,163
Due to related parties (Note 9(e))	86,578	98,987
	291,548	197,150
Future income taxes (Note 13)	4,081,000	4,177,000
	4,372,548	4,374,150
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	52,195,833	50,644,677
Contributed surplus	3,653,836	3,525,134
Option compensation	1,166,871	435,112
Accumulated other comprehensive income (loss)	87,255	(626,457)
Deficit	(21,412,322)	(12,895,019)
	35,691,473	41,083,447
	\$ 40,064,021	\$ 45,457,597

Nature of Operations and Going Concern (Note 1)
Commitment (Note 10)
Subsequent Events (Note 14)

Approved by the Directors:

“Mark Kolebaba”
Mark Kolebaba

“Bernard H. Kahlert”
Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31
(expressed in Canadian dollars)

	2010	2009
General and administrative expenses		
Accounting and audit	\$ 83,730	\$ 94,468
Administration fees	40,275	38,400
Amortization	46,775	73,248
Annual report and meeting	12,052	11,382
Bad debts expense	-	28,531
Consulting fees	3,537	15,935
Directors' fees (Note 9(d))	62,500	40,000
Filing fees	17,414	10,030
Insurance	36,797	51,679
Interest	2,644	26,875
Investor relations and promotion	192,683	204,785
Legal fees	15,904	24,928
Office and miscellaneous	47,310	52,059
Rent and storage	116,850	123,232
Stock-based compensation (Note 8(e))	861,034	160,521
Transfer agent fees	16,641	13,724
Wages and benefits	548,305	581,017
	(2,104,451)	(1,550,814)
Other income (expenses)		
Interest income	13,205	91,388
General exploration	(52,271)	-
Property investigation recoveries	30,026	31,337
Realized loss on marketable securities	(244,126)	(224,005)
Loss on disposal of equipment	(19,168)	-
Write down of mineral properties (Note 6)	(6,352,038)	(2,568,159)
Loss before income taxes	(8,728,823)	(4,220,253)
Future income tax recovery (Note 13)	211,520	1,185,000
Net loss for the year	(8,517,303)	(3,035,253)
Other comprehensive income		
Reversal of previously recognized unrealized losses	241,616	243,385
Unrealized gain on marketable securities	472,096	143,810
Other comprehensive income	713,712	387,195
Comprehensive loss	\$ (7,803,591)	\$ (2,648,058)
Basic and diluted loss per share	\$ (0.10)	\$ (0.04)
Weighted average number of common shares outstanding	82,256,035	75,348,534

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

	2010		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	1,636,147	2,888,000	455,220
Exercise of options	50,000	8,750	-	-
Exercise of warrants	52,500	15,750	10,000	3,000
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 year	86,869,808	52,195,833	78,057,308	50,644,677
Contributed surplus				
Balance at the beginning of the year		3,525,134		468,519
Fair value of broker warrants issued during the year		5,456		-
Fair value of options cancelled during the year		123,246		3,056,615
Balance at the end of the year		3,653,836		3,525,134
Option compensation				
Balance at the beginning of the year		435,112		3,331,206
Stock-based compensation expense		861,034		160,521
Reallocated to share capital		(6,029)		-
Reallocated to contributed surplus		(123,246)		(3,056,615)
Balance at the end of the year		1,166,871		435,112
Deficit				
Balance at the beginning of the year		(12,895,019)		(9,859,766)
Net loss for the year		(8,517,303)		(3,035,253)
Balance at the end of the year		(21,412,322)		(12,895,019)
Accumulated other comprehensive income (loss)				
Balance at the beginning of the year		(626,457)		(1,013,652)
Other comprehensive income		713,712		387,195
Balance at the end of the year		87,255		(626,457)
TOTAL SHAREHOLDERS' EQUITY	86,869,808	\$ 35,691,473	78,057,308	\$ 41,083,447

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

	2010	2009
Cash flows from (applied to) operating activities		
Net loss for the year	\$ (8,517,303)	\$ (3,035,253)
Items not involving cash:		
Amortization	46,775	73,248
Stock-based compensation	861,034	160,521
Future income taxes	(211,520)	(1,185,000)
Realized loss on sale of marketable securities	244,126	224,005
Loss on disposal of equipment	19,168	-
Write down of mineral properties	6,352,038	2,568,159
	(1,205,682)	(1,194,320)
Net change in non-cash working capital items:		
Receivables	(61,458)	450,465
Prepaid expenses	(85,667)	(1,003)
Accounts payable and accrued liabilities	60,046	24,702
Due to related parties	(12,409)	59,982
	(1,305,170)	(660,174)
Cash flows from (applied to) investing activities		
Proceeds from sale of marketable securities, net of commissions	24,990	39,265
Mineral property acquisition and exploration costs, net of recoveries	(1,084,621)	(1,594,575)
Accounts payable and accrued liabilities related to mineral properties	46,761	(1,136,065)
Deposits	(14,969)	45,703
Purchase of equipment	(9,104)	(1,486)
	(1,036,943)	(2,647,158)
Cash flows from financing activity		
Shares issued for cash, net of issue costs	1,666,103	458,220
Decrease in cash and cash equivalents	(676,010)	(2,849,112)
Cash and cash equivalents, beginning of year	3,260,817	6,109,929
Cash and cash equivalents, end of year	\$ 2,584,807	\$ 3,260,817

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(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 year ended December 31, 2010, the Company reported net loss of \$8,517,303 (2009 - \$3,035,253). The Company has a history of losses and an accumulated deficit of \$21,412,322 (2009 - \$12,895,019). Management believes its \$4,116,229 (2009 - \$4,065,564) working capital is sufficient to meet administrative, exploration and property obligations for the upcoming 2011 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 were deferred under the terms above. Subsequent to December 31, 2010, the senior employees' debt was repaid in cash.

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
December 31, 2010 and 2009
(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.

(d) Financial instruments - Recognition and measurement

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

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Marketable securities	Available-for-sale
Receivables	Loans and receivables
Deposits	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

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

(e) Financial instruments - Disclosures and presentation

The Canadian Institute of Chartered Accountants ("CICA") Section 3862 and 3863 require entities to provide disclosure of quantitative and qualitative information in their financial statements that enable the user to evaluate:

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) Financial instruments - Disclosures and presentation (continued)

Entities are required to disclose the measurement basis or bases used and the criteria used to determine classification for different types of instruments and their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of fair value 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 assets or liabilities either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The required disclosures of this section for the different types of instruments and the levels of fair values are in Note 5.

(f) Capital disclosures

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

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

The required disclosures of this section are in Note 5.

(g) Mineral properties

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

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Mineral properties (continued)

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

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

(h) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at annual rates of 20% on office furniture, 30% on computer and equipment and 100% on computer software, from the date of acquisition.

(i) Asset retirement obligations

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

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

(j) Share capital

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

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

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(k) Stock-based compensation

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

(l) Income taxes

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

(m) Comprehensive income (loss)

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

(n) Loss per share

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

(o) Goodwill and Intangible Assets

Goodwill represent the excess of the purchase price of a business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition. Goodwill and intangible assets with indefinite useful lives are not amortized but rather are subject to an annual impairment review or more frequently if circumstances exist that might indicate their value is impaired. Should the carrying value exceed faire value of goodwill or intangible assets the carrying value will be written down to the fair value. Amortization is recorded for limited life intangible assets.

(p) Certain comparative figures

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

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.

4. Marketable Securities

	Cost	Unrealized Gain	Fair Value
Available-for-sale securities at December 31, 2010	\$ 880,732	\$ 193,925	\$ 1,074,657

	Cost	Unrealized Loss	Fair Value
Available-for-sale securities at December 31, 2009	\$ 1,192,231	\$ (569,671)	\$ 622,560

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.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

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 December 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,584,807	\$ -	\$ -	\$ 2,584,807
Marketable securities	-	1,074,657	-	1,074,657
	\$ 2,584,807	\$ 1,074,657	\$ -	\$ 3,659,464

The following table illustrates the classification of the Company's financial instruments carried at fair value within the fair value hierarchy as at December 31, 2009:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,260,817	\$ -	\$ -	\$ 3,260,817
Marketable securities	-	622,560	-	622,560
	\$ 3,260,817	\$ 622,560	\$ -	\$ 3,883,377

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 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.

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.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

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

(b) Risk management (continued)

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.

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
December 31, 2010 and 2009
(expressed in Canadian dollars)

6. Mineral Properties

As at December 31, 2010 and 2009, 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
Additions during the year:										
Acquisition costs	-	-	-	-	-	-	-	-	106,856	106,856
Exploration:										
Airborne geophysics	5,820	-	84	-	591	-	42	-	675	7,212
Camp costs	187,859	-	-	-	336,485	66,662	-	-	14,962	605,968
Camp heli. (incl. fuel)	27,051	-	-	-	24,609	-	(7,571)	-	19,074	63,163
Drilling - Core	595	-	-	-	24,000	-	-	-	-	24,595
Drilling - Percussion	641,403	295	-	590	-	-	295	-	341	642,924
Geochemistry	50	126	-	-	3,670	-	8,641	-	80	12,567
Geology	155,906	8,637	3,661	9,456	20,443	3,636	16,125	2,573	36,740	257,177
Ground geophysics	5,379	506	-	-	-	-	-	-	-	5,885
Permitting	5,119	-	-	-	552	14,009	5,419	-	90,232	115,331
Property	41,305	-	-	-	-	-	-	-	2,262	43,567
Prospecting	276,021	-	-	-	-	-	433	-	178,144	454,598
	1,346,508	9,564	3,745	10,046	410,350	84,307	23,384	2,573	342,510	2,232,987
Less:										
Recoveries	(137,429)	-	-	-	(689,250)	-	(570,004)	(4,742)	(68,648)	(1,470,073)
Option payments	-	(7,500)	-	-	-	-	-	-	-	(7,500)
Write downs	-	(367,222)	(175,403)	(460,608)	-	(4,524,838)	-	(537,800)	(286,167)	(6,352,038)
	(137,429)	(374,722)	(175,403)	(460,608)	(689,250)	(4,524,838)	(570,004)	(542,542)	(354,815)	(7,829,611)
Net additions	1,209,079	(365,158)	(171,658)	(450,562)	(278,900)	(4,440,531)	(546,620)	(539,969)	94,551	(5,489,768)
Balance at										
December 31, 2010	\$25,196,040	\$ -	\$ -	\$ -	\$ 1,077,904	\$ -	\$ 8,678,765	\$ -	\$ 543,476	\$35,496,185

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

6. Mineral Properties (continued)

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	Tunerq, NU	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Other Properties (1)	Total
Balance at											
December 31, 2008	\$ 22,266,482	\$ 370,686	\$ 163,246	\$ 397,141	\$ 1,276,569	\$ 4,441,629	\$ 2,513,877	\$ 9,003,735	\$ 526,110	\$ 222,255	\$ 41,181,730
Additions during the year:											
Acquisition costs	-	-	-	-	-	-	-	-	-	87,780	87,780
Exploration:											
Airborne geophysics	30,883	8,142	-	380	1,392	-	-	4,993	1,501	125,413	172,704
Camp costs	222,630	9,044	4,271	50,768	43,937	1,033	3,663	14,846	-	243	350,435
Camp heli. (incl. fuel)	222,730	8,680	1,652	21,945	10,763	-	-	543	-	-	266,313
Drilling - Core	217,823	-	-	-	-	-	-	-	-	-	217,823
Drilling - Percussion	487,551	-	-	-	-	-	-	(650)	-	-	486,901
Geochemistry	47,664	2,638	-	15,333	-	-	2,531	3,686	-	-	71,852
Geology	552,203	22,934	3,270	6,538	19,395	1,551	8,608	40,736	1,511	47,718	704,464
Ground geophysics	101,444	3,102	-	-	2,135	-	-	3,300	-	31	110,012
Permitting	8,601	535	535	7,505	-	2,034	1,017	3,226	-	3,051	26,504
Property	77,588	11,935	3,579	15,402	2,613	-	-	70,667	10,847	76,989	269,620
Prospecting	150,187	6,960	-	-	-	-	-	80,303	-	29,309	266,759
	2,119,304	73,970	13,307	117,871	80,235	4,618	15,819	221,650	13,859	282,754	2,943,387
Less:											
Recoveries	(398,825)	(79,498)	(4,895)	(64,450)	-	(5,716)	(32,479)	-	-	(72,922)	(658,785)
Write downs	-	-	-	-	-	-	(2,497,217)	-	-	(70,942)	(2,568,159)
	(398,825)	(79,498)	(4,895)	(64,450)	-	(5,716)	(2,529,696)	-	-	(143,864)	(3,226,944)
Net additions	1,720,479	(5,528)	8,412	53,421	80,235	(1,098)	(2,513,877)	221,650	13,859	226,670	(195,777)
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

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

6. Mineral Properties (continued)

Acquisitions

The Company has taken steps, in accordance with industry standards, to verify title to mineral properties in which it has an interest. However, there can be no assurance that such title will ultimately be secured.

Environmental expenditures

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

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

(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 to the Company and incurring \$3,000,000 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 its 30% 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 also 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.

The Company has no significant exploration plans for the project in the near future and accordingly, the carrying value has been written down to \$Nil.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(c) Sakari - Amaruk Project, Nunavut

On July 31, 2006, the Company and Shear Diamonds 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. The Company has no significant exploration plans for the project in the near future and accordingly, the carrying value has been written down to \$Nil.

(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. The Company has no significant exploration plans for the project in the near future and accordingly, the carrying value has been written down to \$Nil.

(e) Tunerq – Amaruk Project, Nunavut

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

On March 1, 2010, the Company 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 within four years and completing a pre-feasibility study on any nickel or base metal deposit that might be identified on Amaruk within ten years.

(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. The Company has no significant exploration plans for the project in the near future and accordingly, the carrying value has been written down to \$Nil.

(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. The Company has no significant exploration plans for the project in the near future and accordingly, the carrying value has been written down to \$Nil.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(i) Other properties

The Company holds interests in various other properties located in Nunavut and the Northwest Territories. The Company has no significant exploration plans for some early stage projects included under other properties in the near future and accordingly, their carrying values have been written down to \$Nil.

(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.

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	2010 Net Book Value
Furniture and fixtures	\$ 38,539	\$ 27,837	\$ 10,702
Computer equipment	51,696	32,645	19,051
Equipment	191,252	130,915	60,337
	<u>\$ 281,487</u>	<u>\$ 191,397</u>	<u>\$ 90,090</u>

	Cost	Accumulated Amortization	2009 Net Book Value
Furniture and fixtures	\$ 36,167	\$ 25,458	\$ 10,709
Computer equipment	113,376	78,426	34,950
Computer software	10,439	9,784	655
Equipment	220,126	116,751	103,375
Leasehold improvements	35,882	31,641	4,241
	<u>\$ 415,990</u>	<u>\$ 262,060</u>	<u>\$ 153,930</u>

Computer software and leasehold improvements reported in the prior year and have been fully amortized.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

8. Share Capital

(a) Authorized

Unlimited common shares without par value.

(b) Private placements

- i) On July 8, 2010 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. A fair value of \$4,956 was assigned to these warrants issued and added to contributed surplus.

The fair value of the above compensatory warrants were estimated using the Black-Scholes option pricing model with a risk-free interest rate of 0.88%, an expected life of 1 year, expected volatility of 72% and an expected dividend yield of Nil%.

- ii) On July 14, 2010, 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. A fair value of \$501 was assigned to these warrants issued and added to contributed surplus.

The fair value of the above compensatory warrants were estimated using the Black-Scholes option pricing model with a risk-free interest rate of 0.63%, an expected life of 1 year, expected volatility of 74% and an expected dividend yield of Nil%.

- iii) On July 22, 2010, the Company 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 \$12,716 were paid.
- iv) On August 4, 2009, the Company completed a non-brokered private placement of \$462,080 from the issuance of 2,888,000 flow-through shares at \$0.16 per share. Finders' fees of \$3,800 and other share issue costs of \$3,060 were paid in cash.

(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.

In February 2009, the Company renounced \$10,190,639 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$2,548,001, which was deducted from share capital.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

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 December 31, 2010, the Company had stock options outstanding for the purchase of 8,742,000 common shares which 8,742,000 stock options were exercisable.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	7,649,000	\$ 0.87
Granted	8,410,000	\$0.27
Cancelled	(5,686,500)	\$0.87
Expired	(1,307,000)	\$0.94
Outstanding at December 31, 2009	9,065,500	\$ 0.31
Cancelled	(273,500)	\$ 0.83
Exercised	(50,000)	\$ 0.18
Outstanding at December 31, 2010	8,742,000	\$ 0.29

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

Subsequent to December 31, 2010, 150,000 stock options with an exercise price of \$0.848 expired unexercised on April 12, 2011 and 125,000 options with an exercise price of \$0.175 with an expiry date of May 28, 2014 and 445,000 options with an exercise price of \$0.30 with an expiry date of December 23, 2014, were cancelled.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

8. Share Capital (continued)

(e) Stock-based and option compensation

Stock-based compensation recognized for options vested during the year was \$861,034 (2009 - \$160,521). For stock options granted during 2009, the fair value of \$0.175 per option was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009
Risk-free interest rate	2.03%
Expected dividend yield	-
Expected stock price volatility	92%
Expected option life in years	5.00

(f) Warrants

At December 31, 2010, the Company had outstanding warrants to purchase an aggregate of 173,350 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at December 31, 2010
\$0.30	January 9, 2010	1,906,800	-	(15,000)	(1,891,800)	-
\$0.30	January 9, 2010	608,000	-	(37,500)	(570,500)	-
\$0.30	January 9, 2010	253,500	-	-	(253,500)	-
\$ 0.25	July 7, 2011	-	157,850	-	-	157,850
\$0.25	July 13, 2011	-	17,500	-	-	17,500
		2,768,300	175,350	(52,500)	(2,715,800)	175,350

The following summarizes the warrants outstanding at December 31, 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 \$3,842 (2009 - \$22,025) owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) For the year ended December 31, 2010, an officer of the Company has been paid \$40,275 (2009 - \$38,400) for corporate secretarial services, which has been expensed as administration fees.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

9. Related Party Transactions (continued)

- (c) For the year ended December 31, 2010, a director of the Company has been paid \$20,460 (2009 - \$19,330) for geological consulting, which has been charged to mineral properties.
- (d) For the year ended December 31, 2010, the four independent directors were paid an aggregate of \$40,000 in directors' fees with the members of the audit committee paid an additional \$7,500 per annum for a total of \$62,500 (2009 - \$40,000).
- (e) Amounts due to related parties, totalling \$86,578 (2009 - \$98,987), consist of deferred salaries (Note 1) and reimbursement of expenses owed to officers of the Company.
- (f) As at December 31, 2010, the Company held less than 10% of the issued common shares of Uranium North. Included in receivables is \$122,707 (2009 - \$108,170) 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 Company has entered into sublease agreements with other companies as the cost of the entire premises is shared in proportion to the area occupied. Approximately 75% of the office lease is recoverable from these subleases. Two of the sublease companies are related by virtue of common directors. The estimated value of the entire office lease is approximately \$1,432,000.

	2010	2009
Current portion	\$ 297,500	\$ -
Remainder, from 2012 to 2015	1,134,500	-
Total	\$ 1,432,000	\$ -

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
December 31, 2010 and 2009
(expressed in Canadian dollars)

12. Supplemental Cash Flow Information

	2010	2009
Investing activities:		
Field supplies charged to mineral properties	\$ -	\$ 533,962
Sale of equipment for credit	\$ 7,000	\$ -
Deposits charged to properties	\$ -	\$ 79,297
	2010	2009
Financing activities:		
Income tax effect on flow-through share renouncement	\$ 115,520	\$ 2,548,001
Broker warrants charge to share capital	\$ 5,456	\$ -
Receivables included in mineral properties recoveries	\$ 438,758	\$ 223,907
Accounts payable and accrued liabilities included in mineral properties	\$ 64,606	\$ 17,845
Cash and cash equivalents:		
Cash	\$ 2,576,342	\$ 1,252,422
Cash equivalents	8,465	2,008,395
	\$ 2,584,807	\$ 3,260,817
Other cash flow information:		
Interest received	\$ 16,218	\$ 148,287
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

13. Income Taxes

The Company has accumulated non-capital losses for Canadian income tax purposes of \$8,300,000. The losses may be carried forward to reduce taxable income in future years and, unless utilized, will expire beginning 2010 through to 2030.

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

	2010	2009
	28.50%	30.00%
Income tax recovery computed at Canadian statutory rates	\$ 2,487,715	\$ 1,266,076
Temporary differences not recognized in year	(1,919,290)	(859,624)
Permanent differences not recognized	(153,879)	75,075
Tax benefits not recognized and other	(203,026)	731,613
Change in tax rates	-	(28,140)
Future income tax recovery	\$ 211,520	\$ 1,185,000

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2010 and 2009
(expressed in Canadian dollars)

13. Income Taxes (continued)

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

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses carried forward	\$ 2,072,000	\$ 2,166,000
Mineral properties	(6,364,000)	(7,287,000)
Other assets	211,000	944,000
Future income tax liabilities, net	\$ (4,081,000)	\$ (4,177,000)

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 December 31, 2010, the amount of flow-through proceeds remaining to be expended is \$202,517.

14. Subsequent Events

- (a) 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.
- (b) On April 15, 2011, the Company granted incentive stock options under the Company's stock option plan to directors, officers, employees and consultants to purchase an aggregate of 1,545,000 common shares. The options are exercisable for a period of five years at a price of \$0.155 per share.



Table of Contents

<i>1.1 Description of Business and Report Date</i>	- 28 -
<i>1.2 Company Overview and Projects</i>	- 28 -
(a) Highlights for the Year Ended December 31, 2010	- 29 -
(b) Events Subsequent to December 31, 2010	- 29 -
(c) Amaruk Project – Nunavut, Canada	- 30 -
i) Diamonds Prospects	- 30 -
ii) Gold Prospects (100% owned)	- 31 -
(d) Tunerq - Amaruk Nickel Project (100% owned).....	- 32 -
(e) Ualliq – Amaruk Project, Nunavut	- 32 -
(f) Mineral Property Expenditures Table	- 33 -
<i>1.3 Selected Annual Information</i>	- 34 -
<i>1.4 Results of Operations</i>	- 34 -
(a) Current Quarter	- 34 -
(b) Year Ended December 31, 2010	- 34 -
<i>1.5 Summary of Quarterly Results</i>	- 36 -
<i>1.6 Liquidity</i>	- 37 -
<i>1.7 Capital Management</i>	- 37 -
<i>1.8 Off-Balance Sheet Arrangements</i>	- 37 -
<i>1.9 Related Party Transactions</i>	- 37 -
<i>1.10 Proposed Transactions</i>	- 38 -
<i>1.11 Changes in Accounting Policies</i>	- 38 -
<i>1.12 New Accounting Pronouncements</i>	- 38 -
<i>1.13 Financial Instruments</i>	- 39 -
<i>1.14 Certification of Annual Filing</i>	- 40 -
<i>1.15 Other MD&A Requirements</i>	- 40 -



1.1 Description of Business and Report Date

Diamonds North Resources Ltd. (“Diamonds North” or “the Company”) is an exploration stage company engaged in the acquisition and exploration of diamond and precious metal properties in Canada. The principal properties are located in northern Canada throughout Nunavut (“NU”) and the Northwest Territories (“NWT”). The Company trades as a Tier One company on the TSX Venture Exchange (“Exchange”) under the symbol “DDN” and is a reporting issuer in British Columbia and Alberta. The following discussion and analysis of the financial position and results of operations for the Company should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2010.

This Management Discussion and Analysis (“MD&A”) may contain forward-looking statements that involve risks and uncertainties. Words such as “anticipate,” “believe,” “estimates,” “expects,” and similar expressions are used throughout this report to identify these statements. Forward-looking statements in this MD&A are only made as of April 15th, 2011 (the “Report Date”). Please keep in mind that statements which describe the Company’s proposed plans, objectives, and budgets may differ materially from actual results. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration success, continued availability of capital, and general economic, market or business conditions.

Bruce Kienlen (P.Geol) and Graham Gill (P. Geo) are the Company's qualified persons reviewing the exploration projects described throughout the MD&A. They are responsible for the design and conduct of the exploration programs and the verification and quality assurance of analytical results.

1.2 Company Overview and Projects

For 2011, Diamonds North will utilize an innovative electromagnetic (EM) geophysical method that is interpreted to penetrate the conductive overburden ‘clay’ in the region. This EM targeting has led to the identification of sizable circular targets (greater than 400 metres in diameter) with kimberlite indicator mineral support on the Amarak Property located in the Pelly Bay, Nunavut, Canada.

Due to the presence of this conductive overburden, previous interpretation of airborne EM has been ineffective in targeting kimberlites. The Company has relied on magnetic data with geochemistry, which has led to the discovery of 25 kimberlites and drilling has confirmed that Amarak is a diamondiferous kimberlite field.

The potential of this innovative EM method prompted Diamonds North’s recent partnership with Indicator Minerals Inc. on their adjacent Barrow Property (See [1.2\(b\) Events Subsequent to December 31, 2010](#)) and provides Diamonds North with the opportunity to expand the application of this EM targeting system over a larger prospective region. Our 2011 Amarak program will focus on the identification and testing EM targets for kimberlites.

In 2010, Diamonds North collected a 19 tonne kimberlite sample from the Beluga-3 kimberlite on the hypothesis that a large sample would have a more representative macro diamond population distribution. Results were below expectations. The Company is looking for a different phase of kimberlite, commonly associated with magnetic lows, as these kimberlites have historically produced larger diamonds.

**(a) Highlights for the Year Ended December 31, 2010**

- On March 1st, Diamonds North signed a Letter of Intent with MMG Minerals and Metals Group ("MMG") whereby MMG may earn 75% of the nickel and other base metals on the Amaruk Property, by spending \$6 million within four years and completing a pre-feasibility study on any nickel or base metal deposit that might be identified on Amaruk within ten years, see [1.2\(d\) Tunerg – Amaruk Nickel Project \(100% owned\)](#).
- On May 8th, Diamonds North announces that it has been granted 285,000 acres of prospecting permits on the northern part of the Amaruk property in Nunavut. These permits were acquired to expand and protect prospective unexplored land surrounding 2 significant gold prospects, the Halkett Inlet projects see [1.2\(ii\) Gold Prospects \(100% owned\)](#).
- On July 8th, Diamonds North 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.
- On July 14th, Diamonds North 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.
- 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 \$12,716 were paid. All securities issued are subject to a four month hold period and may not be traded until November 23, 2010.
- On November 4th, Diamonds North reported gold values of 7.92 g/T Au over a 4.25 metre chip sample including a 16 g/T Au assay over 0.25 metres on its 100% owned HI-1 Gold Prospect located on the Halkett Inlet project, Nunavut. Refer to the Table under [1.2\(c\)\(ii\) Gold Prospects \(100% owned\)](#).
- On November 18th, Diamonds North announced the appointment of Troy Shultz as Manager of Corporate Communications. Mr. Shultz is a graduate of the University of Saskatchewan's MBA program and brings to this position experience in marketing and corporate communications.
- On December 20th, Diamonds North reported 82 diamonds on or above the 0.85 millimetre sieve size were recovered from a 19.0 tonnes of kimberlite (certified headfeed weight) collected from the Beluga-3 kimberlite on the Amaruk property in Nunavut. Refer to the Table under [1.2\(c\)\(i\) Diamond Prospects](#).

(b) Events Subsequent to December 31, 2010

- 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.



- On April 15, 2011, the Company granted incentive stock options under the Company’s stock option plan to directors, officers, employees and consultants to purchase an aggregate of 1,545,000 common shares. The options are exercisable for a period of five years at a price of \$0.155 per share

(c) Amaruk Project – Nunavut, Canada

The Amaruk property along with the Ualliq, Sakari, Siku and Tunerq projects cover approximately 2.5 million acres around the community of Kugaaruk, Nunavut. The projects are subject to a 2% gross overriding royalty (“GOR”) on diamonds and a 2% net smelter royalty (“NSR”) on other minerals except gold, payable to BHP Billiton Diamonds Inc. Portions of the property have been optioned or in joint ventures with other exploration companies. In 2010, no significant exploration work was performed on the Ualliq, Sakari or Siku projects.

i) Diamonds Prospects

-Amaruk Exploration Program for 2010

The percussion drilling program completed 1,003 metres in drilling and the diamonds recovered from the Beluga-3 2010 kimberlite are:

Kimberlite	Weight(t)	Total	0.85mm	1.18mm	1.70mm
Beluga 3	19.0	82	50	27	5

The 5 largest stones recovered remain on the 1.70 millimetre mesh. Beluga-3 is the most subtle magnetic target we have tested to date. While Beluga-3 is not of high interest at this time, this data demonstrates that kimberlites with a subtle magnetic response contain the largest diamonds discovered on the property to date. These subtle magnetic targets will continue to be the focus of the Company’s exploration strategy.

At Amaruk, about 90% of the kimberlite bodies are diamondiferous, however, no commercial size stones have been recovered. Most of the kimberlites found to date are small hypabyssal kimberlites with strong magnetic signatures. The best diamonds to date have been recovered from Beluga 3 with a very weak magnetic kimberlite signature.

Under [1.2\(e\) Mineral Property Expenditure Table](#) Amaruk exploration expenditures for:

- Camp costs expenditures of \$187,859 relate to the camp costs to support the drill and prospecting programs conducted on Amaruk;
- Drilling – percussion expenditures of \$641,403 relate to the Beluga-3 kimberlite which was drilled with a low cost, light weight bulk sampling drill that utilizes flood reverse circulation without percussion to reduce and/or eliminate significant diamond breakage; and
- Prospecting expenditures of \$271,021 related to gold prospecting.

- Diamond Prospects Future Developments

The 2011 Amaruk program will focus on the identification and testing EM targets for kimberlites.

Management Discussion and Analysis
For the Year Ended December 31, 2010

ii) Gold Prospects (100% owned)

-H-1 Gold Prospects, Halkett Inlet

The HI-1 Gold Prospect is located in the north-western part of the Halkett Inlet permit block. A continuous rock chip sample across an oxidized sulfide zone in 2009 yielded 9.4 g/T gold over 3 metres and a nearby grab sample of un-oxidized, quartz feldspar porphyry dyke (“QFP”) contained 24.3 g/T gold.

The combined 2009 and 2010 results have now increased the length of the anomalous gold bearing zone, where exposed, from 45 metres to at least 165 metres. This gold zone is located within a 450 metre long, 100 meter wide oxidized and QFP dyke-swarmed area that remains open along strike to the east and west. The gold zone is also located adjacent to a younger felsic intrusion and is associated with a prominent northwest trending structure.

HI-1 is hosted by deformed Archaean felsic and mafic rocks adjacent to a younger, undeformed, felsic intrusion. The gold bearing unit is intruded by a swarm of QFP dykes that have also returned values of up to 1.81 g/T Au from grab samples. The significance of the gold bearing QFP should not be overlooked as many Archaean gold deposits have associated QFP bodies, which are directly related to gold mineralization.

- H-2 Gold Prospects, Halkett Inlet

The HI-2 prospect is located only 5 kilometres from the coast and 25 kilometres from the HI-1 prospect

Samples collected along a 55 kilometre long iron formation reveal at least 6 areas with multiple gold values over 0.5 g/T gold including values up to 3.24 g/T gold. These areas all occur at or near the intersection of regional structures and lineaments and will be a main focus of further work proposed for 2011. Additionally, 4 other areas with anomalous gold values have been identified and require follow-up prospecting.

The gold bearing iron formation occurs in a tightly folded sedimentary rock unit that extends for more than 55 kilometres in strike length. The sedimentary unit has a highly magnetic signature that is 500-1000 metres wide based on airborne geophysical surveying. Gossanous zones contained within the unit vary from 1 to 20 metres in width. Increased widths and occurrences of the gossanous zones are attributed to tight folding, faulting and the existence of multiple sedimentary horizons.

- Gold Prospects Exploration Program for 2010

On November 4th, Diamonds North reported gold values of 7.92 g/T Au over a 4.25 metre chip sample including a 16 g/T Au assay over 0.25 metres, table below.

Table – HI-1 Gold Prospects 2010 Results

Project	Sample	Width (m)	Au (g/T)
HI-1	E855092	2.00	8.64
HI-1	E855093	2.00	6.19
HI-1	E855094	0.25	16.00
Weighted Average		4.25	7.92

A 2010 drill program was deferred as there was insufficient time to process and evaluate all the 2010 samples collected before the summer ended.



Management Discussion and Analysis
For the Year Ended December 31, 2010

- Gold Prospects Future Developments

Plans for 2011 include additional prospecting, sampling and mapping along with ground geophysical surveying. Regional prospecting of additional gossanous areas located in the surrounding area is also planned.

(d) Tunerq - Amaruk Nickel Project (100% owned)

The Tunerq prospect is an oxidized sulphide bearing outcrop, approximately 20 to 30 metres wide and slopes gently into an extensive low lying area with no outcrop exposure. In 2008, percussion drill hole 2 intersected 2.49% Ni, 0.56 % Cu and 0.05% Co over 9.1 metres within a 34.8 metre zone containing 1.05% Ni and 0.26% Cu.

In March 2010, Diamonds North signed a Letter of Intent with MMG, an Australian headquartered major producer of zinc, copper, lead, gold and silver with operations in Australia and South-East Asia. For terms see [1.2\(a\) Highlights for the Year Ended December 31, 2010](#).

-Tunerq Nickel Projects Exploration Program for 2010

MMG funded a \$2.25 million exploration program that led to the identification of an additional 26 mafic-ultramafic intrusions (for a total of 50) in the project area. These represent priority targets for nickel sulfide mineralization. In addition, MMG analyzed over 3,800 geochemical till samples across the property resulting in the identification of several new areas that require follow-up exploration.

Under [1.2\(e\) Mineral Property Expenditure Table](#) Tunerq exploration expenditures for:

- Camp costs expenditures of \$336,485 relate to the spring cat train to position the drill and camp costs to support the MMG exploration; and
- Recoveries of \$689,250 from MMG for relating to the above and field supplies sold to MMG.

-Tunerq Nickel Projects Future Developments

The 2011 exploration program will commence with a geophysical survey utilizing the airborne electromagnetic AeroTEM system (EM). Areas with mafic-ultramafic intrusions and/or anomalous nickel and copper in till will be targeted with the AeroTEM survey. Targets identified by prospecting during the 2010 field program, and any new targets identified in 2011 programs will be followed-up and, if warranted, drill tested. A core drill is situated on the property for future drill testing.

(e) Ualliq – Amaruk Project, Nunavut

On September 20, 2010, Diamonds North and International Samuel Exploration Corp. (“International Samuel”) entered into an agreement whereby International Samuel earned a fully vested 30% joint venture interest in the Ualliq Project, as the Company accepted 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.



Management Discussion and Analysis
For the Year Ended December 31, 2010

(f) Mineral Property Expenditures Table

	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
Additions during the year:										
Acquisition costs	-	-	-	-	-	-	-	-	106,856	106,856
Exploration:										
Airborne geophysics	5,820	-	84	-	591	-	42	-	675	7,212
Camp costs	187,859	-	-	-	336,485	66,662	-	-	14,962	605,968
Camp heli. (incl. fuel)	27,051	-	-	-	24,609	-	(7,571)	-	19,074	63,163
Drilling - Core	595	-	-	-	24,000	-	-	-	-	24,595
Drilling - Percussion	641,403	295	-	590	-	-	295	-	341	642,924
Geochemistry	50	126	-	-	3,670	-	8,641	-	80	12,567
Geology	155,906	8,637	3,661	9,456	20,443	3,636	16,125	2,573	36,740	257,177
Ground geophysics	5,379	506	-	-	-	-	-	-	-	5,885
Permitting	5,119	-	-	-	552	14,009	5,419	-	90,232	115,331
Property	41,305	-	-	-	-	-	-	-	2,262	43,567
Prospecting	276,021	-	-	-	-	-	433	-	178,144	454,598
	1,346,508	9,564	3,745	10,046	410,350	84,307	23,384	2,573	342,510	2,232,987
Less:										
Recoveries	(137,429)	-	-	-	(689,250)	-	(570,004)	(4,742)	(68,648)	(1,470,073)
Option payments	-	(7,500)	-	-	-	-	-	-	-	(7,500)
Write downs	-	(367,222)	(175,403)	(460,608)	-	(4,524,838)	-	(537,800)	(286,167)	(6,352,038)
	(137,429)	(374,722)	(175,403)	(460,608)	(689,250)	(4,524,838)	(570,004)	(542,542)	(354,815)	(7,829,611)
Net additions	1,209,079	(365,158)	(171,658)	(450,562)	(278,900)	(4,440,531)	(546,620)	(539,969)	94,551	(5,489,768)
Balance at December 31, 2010	\$25,196,040	\$ -	\$ -	\$ -	\$ 1,077,904	\$ -	\$ 8,678,765	\$ -	\$ 543,476	\$35,496,185



Management Discussion and Analysis
For the Year Ended December 31, 2010

1.3 Selected Annual Information

Selected annual information from Diamonds North's audited consolidated financial statements for the years ended December 31, 2010, 2009, and 2008:

	2010	2009	2008
General and administrative expense	\$ (2,104,451)	\$ (1,550,814)	\$ (2,510,723)
Net loss for the year	\$ (8,517,303)	\$ (3,035,253)	\$ (1,057,317)
Basic and diluted loss per share	\$ (0.10)	\$ (0.04)	\$ (0.02)
Cash dividends per share	\$ Nil	\$ Nil	\$ Nil
Other comprehensive income (loss)	\$ 713,712	\$ 387,195	\$ (1,532,226)
Assets	\$ 40,064,021	\$ 45,457,597	\$ 49,723,296
Long-term liabilities	\$ Nil	\$ Nil	\$ Nil

1.4 Results of Operations

(a) Current Quarter

Diamonds North's cash position decreased \$781,662 to \$2,584,807 (\$2,576,342 cash and \$8,465 in money market fund). The Company used \$435,048 in cash, to decrease accounts payables and accrued liabilities incurred during the summer exploration program.

Overall, receivables decreased as collections were made in the normal course of business with the exception of the \$141,000 bond refunds receivable from the Mining Recorder. Subsequent to December 31, 2010, the Company has collected \$380,000 of the \$586,695 in receivables at December 31, 2010.

During 2010 and as part of a cash preservation measure, 10% of the senior employees' salaries were deferred and at December 31, 2010, this debt totalled \$68,595. Subsequent to December 31, 2010, the Company reinstated the senior employees' salaries and the debt was repaid in cash.

(b) Year Ended December 31, 2010

Results of operations for the year ended December 31, 2010 are discussed in comparison with the year ended December 31, 2009. General and administrative expenses of \$2,104,451 (2009 - \$1,550,814) represents a \$553,637 increase compared to the comparative fiscal period. Notable changes include:

- Filing fees of \$17,414 includes \$3,960 in fees paid to regulators for filing the Company's 2009 and 2010 stock option plans.



Management Discussion and Analysis
For the Year Ended December 31, 2010

- Investor relations and promotion of \$192,683 is broken below. The Company removed some of the 2009 cash preservation measures resulting in small increase in conferences and trade shows and promotion and advertising costs. Media costs decreased, as the prior year included a media consultant whose services were terminated in April 2009.

	2010	2009
Administration	\$ 424	\$ 729
Conferences and trade shows	54,406	46,642
Consulting, wages and benefits	113,705	121,921
Media	6,119	25,473
Promotion and advertising	18,029	10,020
	\$ 192,683	\$ 204,785

- Office and miscellaneous of \$47,310 includes a one-time costs of \$5,352 for moving and associated costs with the Company's new office at 1100 – 1111 Melville Street, Vancouver, BC. Overall costs are down, due to slightly lower staffing levels.
- Stock-based compensation expense of \$861,034 (2009 - \$160,521) increased as a greater number of stock options vested during the year than in the prior comparative period. In December 2009, the Company granted 6.2 million stock options that vested during 2010.
- Realized loss on marketable securities of \$244,126 resulted from the sale of Bayswater Uranium Corporation common shares. The shares were received under an option agreement and Diamonds North is not an insider of the company.
- Write down of mineral properties expense of \$6,352,038 of various projects noted below that the Company has no significant exploration plans for in the near future and accordingly, the carrying value has been written down to \$Nil. The write down is for accounting purposes and the Company retain exploration rights.

Ualliq, NU	\$ 367,222
Sakari, NU	175,403
Siku, NU	460,608
Victoria Island, NU/NWT	4,524,838
Kidme, NWT	537,800
Other properties	286,167
	\$ 6,352,038

- Future income tax recovery of \$211,520 (2009 - \$3,057,192) largely reflects renouncement of exploration expenditures to investors who purchased flow-through shares. Diamonds North renounced \$462,080 in flow-through financings compared to \$10,190,639 in 2009. This is a non-cash transaction.

Diamonds North's net loss for the year was \$8,517,303 (2009 - \$3,035,253) or \$0.10 per share (2009 - \$0.04), largely due to the write down of mineral properties noted above.

Other comprehensive income of \$713,712 (2009 - \$387,195) includes a \$241,616 reversal of previously recognized unrealized losses in connection with the sale of Bayswater common shares noted above and \$472,096 in unrealized gains on marketable securities due to the fair value increase of marketable securities over the previous year.



Management Discussion and Analysis
For the Year Ended December 31, 2010

1.5 Summary of Quarterly Results

The limited summary of quarterly results below are from Diamonds North's financial statements, prepared in accordance with Canadian generally accepted accounting principles and denoted in the currency of Canada.

	Q1 Mar. 31 2009	Q2 Jun. 30 2009	Q3 Sep. 30 2009	Q4 Dec. 31 2009	Q1 Mar. 31 2010	Q2 Jun. 30 2010	Q3 Sep. 30 2010	Q4 Dec. 31 2010
Mineral expenditures, net of recoveries	\$ (101,208)	\$ 125,359	\$ 1,476,675	\$ 93,749	\$ 336,343	\$ (643,717)	\$ 1,039,357	\$ 352,638
G&A expense	\$ 416,595	\$ 314,701	\$ 344,347	\$ 475,171	\$ 694,233	\$ 623,081	\$ 395,462	\$ 391,675
Stock-based comp. exp.	\$ 8,236	\$ 8,235	\$ 72,025	\$ 72,025	\$ 384,726	\$ 315,724	\$ 113,601	\$ 46,983
Net income (loss)	\$ 2,676,138	\$ (286,446)	\$ (336,631)	\$ (5,088,314)	\$ (794,508)	\$ (629,305)	\$ (435,147)	\$ (6,658,343)
Other comprehensive income (loss)	\$ (18,366)	\$ 199,357	\$ 1,900	\$ 204,304	\$ 298,137	\$ (186,207)	\$ 100,440	\$ 501,342
Income (loss) per share -basic	\$ 0.04	\$ (0.01)	\$ -	\$ (0.07)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.07)
Weighted avg. common shares outstanding -basic	75,159,308	75,159,308	76,948,623	75,348,534	78,128,645	78,156,512	85,735,902	82,256,035

Due to seasonal conditions in Canada's north, Diamonds North conducts exploration in Q2 and Q3. In Q2-2010, the credit results from expenditures recovered from a project partner and Hepburn 'work in-lieu' bond refunds from the Mining Recorder of Canada.

G&A expense for Q1-2010 and Q2-2010 increased, largely to higher stock-based compensation expense. In Q1-2010, the Company moved to graded vesting whereby a greater portion of expense is recorded in the first and second vesting periods compared to distributing the expense equally over all four vesting period. Accordingly in Q3-2010, the Company's stock-based compensation expense has decreased relative to the previous two quarters.

Diamonds North is in the exploration stage and does not have operating cash-flow. Earnings per share in Q1-2009 are anomalous and reflect adjustments to future income tax. The Company renounced exploration expenditures under its flow-through share program, resulting in future income tax recovery of \$3,057,192 in Q1-2009 and \$115,520 in Q1-2010. In Q4-2010, net loss includes \$6,352,038 in write down of mineral properties.

Other comprehensive income (loss) represents unrealized gains or losses on marketable securities composed of common shares in junior resource companies. Q1-2010 includes a \$241,616 reversal of previously recognized unrealized losses for marketable securities sold. In Q4-2010, financial markets moderately improved and the fair value of marketable securities held by the Company, increased over the previous quarter.



Management Discussion and Analysis
For the Year Ended December 31, 2010

1.6 Liquidity

To minimize liquidity risk, the Company ensures that there is sufficient capital in order to meet annual business requirements, after taking into account administrative, property holding and exploration budgets, against cash and cash equivalent holdings.

Management believes its \$4,116,229 in working capital is sufficient to meet administrative and tenure costs for 2011. The 2011 exploration program is forecasted at \$1.0 million. Included in working capital is \$1 million in marketable securities which is based on the fair value at December 31, 2010. Financial markets have moderately improved and the fair value of marketable securities (no change in security positions) as of the Report Date is approximately \$1.5 million.

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.

Over the last two years:

- liquidity risk increased, as other things being equal, the price of an asset will be reduced if the holder cannot sell the asset immediately. Included in marketable securities are large share positions in junior resources companies, which may be difficult to sell in low volume trading.
- credit risk increased, as service providers may not always be able to perform in accordance with the terms of a contract. To help mitigate this risk the Company has long-term relations with key vendors and if contracts require large advances, the Company may place funds in-trust.

1.7 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. As an exploration stage company, the Company is currently unable to self-finance its operations and has relied primarily on equity financings to meet its capital requirements.

The Company's share capital is not subject to any external restriction and the Company did not change its approach to capital management during the period.

1.8 Off-Balance Sheet Arrangements

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

1.9 Related Party Transactions

The Company has engaged a business owned by Janice Davies, an officer of the Company, to provide corporate secretarial services. During the year, the Company paid fees to this related party in the aggregate of \$40,275.

The four independent directors were paid an aggregate of \$40,000 in directors' fees with the members of the audit committee paid an additional \$7,500 per annum for an aggregate of \$62,500.



Management Discussion and Analysis
For the Year Ended December 31, 2010

The Company has engaged a business owned by Bernard H. Kahlert, a director of the Company, to provide project management and geological consulting. During the period, the Company paid fees to this related party in the aggregate of \$20,460.

The Company holds less than 10.0% of the issued common shares of Uranium North, a company related by virtue of other common directors. Included in accounts receivable is \$122,707 owed by Uranium North, for mineral property, administrative and office costs.

1.10 Proposed Transactions

None.

1.11 Changes in Accounting Policies

None.

1.12 New Accounting Pronouncements

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

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

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

-International Financial Reporting Standards ("IFRS")

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

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

Phases 1 and 2 have been completed. The majority of adjustments required on transitions to IFRS will be made, retrospectively, against the opening deficit as of January 1, 2010 of the first comparative balance sheet presented based on standards applicable at that time.



Management Discussion and Analysis
For the Year Ended December 31, 2010

The Canadian Accounting Standards Board ("AcSB") has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured along with the required disclosure, once all the IFRS accounting standards at the conversion date are known.

Generally, disclosure requirements under IFRS contain more breadth and depth than those required under Canadian GAAP and will result in more extensive financial statement notes.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the potential impact on the Company's consolidated financial statements.

-Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transactions with only a few differences. In Q1-2010, the Company moved from 'straight line' to 'graded' vesting for the recognition of stock-based compensation expense. A greater portion of expense is recorded in the first and second vesting periods compared to distributing the expense equally over all vesting period.

-Mineral Property Expenditures

Under IFRS 6, a mining entity has to determine an accounting policy specifying which expenditures on exploration and evaluation activities will be recorded as assets then apply that policy consistently. The Company intended to elect under the provisions in IFRS to continue the accounting practice of capitalizing all costs. On further review, the Company is looking at expensing exploration expenditures as incurred on projects through the profit or loss statement until sufficient evaluation has occurred on a project in order to establish a compliant resource.

-Related Party Disclosure

It is anticipated that related party financial statement note disclosure will expand to include names of companies (including ownership) and individuals along with senior officer compensation, whether the transaction is in the normal course of business or even if, no transaction occurred.

-Flow Through Shares

It is anticipated that flow through instruments will be treated as a compound instrument consisting of a liability component and an equity component. When issued, the fair value of the equity component is allocated to share capital and the remainder is considered as a liability representing the Company's obligation to pass a tax deduction on to the investor. Where there is no excess value to attribute to the liability (share price equal to market), no liability is recognized. As the Company discharges the liability by making the required exploration expenditures, the liability is reduced into income.

1.13 Financial Instruments

The Company is exposed to credit risk with respect to its cash and cash equivalents and marketable securities. To minimize this risk, cash has been placed with major financial institutions. The total amount of cash is available on short notice and is not invested in commercial paper or asset backed security programs.

Marketable securities are common shares in other junior exploration companies received via property or option agreements and from the conversion of the Uranium North loan in 2008. Marketable securities are carried at their fair value based on quoted market prices on the TSX Venture Exchange.



Management Discussion and Analysis
For the Year Ended December 31, 2010

Marketable securities	Cost	Unrealized Gain	Fair Value
Available-for-sale at December 31, 2010	\$ 880,732	\$ 193,925	\$ 1,074,657

The follow table illustrates the classification of the Company's financial instruments carried at fair value within the fair value hierarchy at December 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,584,807	\$ -	\$ -	\$ 2,584,807
Marketable securities	-	1,074,657	-	1,074,657
	\$ 2,584,807	\$ 1,074,657	\$ -	\$ 3,659,464

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.

1.14 Certification of Annual Filing

The Company follows BC Securities Commission 52-511 'Relief for Venture Issuers from Certification Requirements' that helps small size companies like ours, where there is a lack of segregation of duties which is an ongoing internal control weakness. The Company mitigates this risk through direct involvement of senior management in day to day operations.

1.15 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at www.sedar.com.

As of the Report Date, the Company had 86,869,808 issued common shares outstanding and the following unexercised stock options:

-Stock Options

Expiry Date	Exercise Price	Number of Shares
July 13, 2011	\$1.021	75,000
February 27, 2012	\$0.770	97,000
February 14, 2013	\$0.880	60,000
May 28, 2014	\$0.175	1,975,000
December 23, 2014	\$0.300	5,815,000
April 14, 2016	\$0.155	1,545,000
		9,567,000

-Warrants

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

HEAD OFFICE

Diamonds North Resources Ltd.
Suite 1100, 1111 Melville Street
Vancouver, British Columbia
Canada V6E 3V6

TEL: (604) 689-2010

TOLL FREE: 1-866-802-2010

FAX: (604) 484-7143

www.diamondsnorth.com
info@diamondsnorth.com

OFFICERS & DIRECTORS

Mark Kolebaba
President and Director

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

Maynard E. Brown, LL.B.
Director

Yale R. Simpson, B.Sc.
Director

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

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

Bruce Kienlen, P.GEOL
VP, Exploration

Graham Gill, P.GEO
VP, Operations

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

Janice Davies
Corporate Secretary

LISTINGS

TSX Venture Exchange: **DDN**
Tier One

CAPITALIZATION

(as of December 31, 2010)

Shares Authorized: Unlimited

Shares Issued: 86,869,808

REGISTRAR & TRUST AGENT

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

AUDITOR

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

LEGAL COUNSEL

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

