

## **DIAMONDS NORTH RESOURCES LTD.**

**Consolidated Financial Statements  
June 30, 2007**

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

The accompanying unaudited interim consolidated financial statements of Diamonds North Resources Ltd. ("the Company"), for the six months ended June 30, 2007, have been prepared by management and have not been the subject of a review by the Company's external independent auditor.

**DIAMONDS NORTH RESOURCES LTD.**

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

	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 8,296,594	\$ 4,340,398
Cash, exploration funds (Note 13)	2,040,836	7,315,991
Marketable securities (Note 4)	2,214,687	566,201
Accounts receivable (Note 9(a))	502,397	1,376,034
Prepaid expenses	372,434	217,331
Field supplies	-	93,201
Deposits, in-trust	66,207	15,000
	13,493,155	13,924,156
Loan and interest receivable (Note 5)	319,034	311,596
Mineral properties (Note 6)	18,237,137	16,023,782
Property, plant and equipment (Note 7)	145,618	117,408
	\$ 32,194,944	\$ 30,376,942
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,210,263	\$ 585,734
Due to related parties (Note 9(c))	56,812	51,359
	1,267,075	637,093
Future income taxes	960,760	753,385
	2,227,835	1,390,478
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	31,725,259	34,713,764
Contributed surplus	126,133	126,133
Option compensation	2,162,881	1,677,584
Accumulated other comprehensive income	979,549	-
Deficit	(5,026,715)	(7,531,017)
	29,967,107	28,986,464
	\$ 32,194,942	\$ 30,376,942

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 Other Comprehensive Income  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>General and administrative expenses</b>				
Accounting and audit*	\$ 22,045	\$ 21,463	\$ 42,599	\$ 31,593
Administration fees*	12,041	19,749	29,937	28,259
Amortization	10,424	5,832	18,744	10,137
Annual report and meeting	9,829	37,617	11,433	37,617
Bad debt expense	24,728	-	24,728	-
Bank charges and interest	1,408	1,275	34,352	16,757
Consulting fees*	7,392	22,158	36,362	22,686
Directors' fees*	100,464	52,091	178,488	67,279
Filing fees	7,849	4,001	15,353	10,191
Insurance	14,487	12,961	28,974	25,922
Investor relations and promotion*	187,645	82,535	370,798	147,835
Legal fees	10,731	143,014	12,577	150,635
Office and miscellaneous	19,657	37,131	40,214	65,353
Rent and storage	22,530	21,423	42,823	43,382
Transfer agent fees	5,919	7,048	8,976	10,070
Wages and benefits*	223,445	159,109	541,583	281,389
	(680,594)	(627,407)	(1,437,941)	(949,105)
<b>Other income (expenses)</b>				
Interest income	95,637	33,682	200,394	78,182
Mineral property transactions	341,208	-	341,898	-
Property investigation	(275)	(2,802)	(275)	(5,410)
Write down of mineral properties	-	(173,506)	(1,055,554)	(385,841)
Gain on sale of marketable securities	408,253	90,254	953,362	160,463
<b>Income (loss) before income taxes</b>	164,229	(679,779)	(998,116)	(1,101,711)
<b>Future income tax recovery</b> (Note 8(b))	-	-	3,502,418	853,060
<b>Income for the period</b>	\$ 164,229	\$ (679,779)	\$ 2,504,302	\$ (248,651)
Other comprehensive income				
Unrealized gain on marketable securities	66,100	-	577,350	-
Unrealized loss on convertible loan	(17,433)	-	(38,207)	-
Future income tax	25,638	-	(58,037)	-
<b>Other Comprehensive income</b>	\$ 74,305	\$ -	\$ 481,106	\$ -
<b>Basic earnings per share</b>	\$ -	\$ (0.02)	\$ 0.05	\$ (0.01)
<b>Diluted earnings per share</b>	\$ -	\$ (0.02)	\$ 0.04	\$ (0.01)
<b>Weighted average number of shares outstanding</b>				
-Basic	52,312,074	39,547,148	51,968,472	39,544,655
-Diluted	63,555,463	39,547,148	63,211,861	39,544,655
<b>* Stock-based compensation expense (Note 8(d)) included above, as follows:</b>				
Accounting and audit	\$ 3,255	\$ 6,718	\$ 13,229	\$ 6,718
Administration fees	2,441	5,854	10,737	5,854
Consulting fees	6,267	14,394	30,672	14,394
Directors' fees	90,464	52,091	158,488	67,279
Investor relations and promotions	12,444	11,324	41,452	11,324
Wages and benefits	116,918	68,917	286,991	95,495
	\$ 231,789	\$ 159,298	\$ 541,569	\$ 201,064

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

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

	<b>Six Months Ended June 30, 2007</b>		<b>Year Ended December 31, 2006</b>	
	<u>Number of Shares</u>		<u>Number of Shares</u>	
<b>Share capital</b>				
Balance at the beginning of the year	51,579,320	\$ 34,713,764	39,529,098	\$ 25,894,621
Common shares issued for cash				
Private placements, net of issue costs	-	-	10,633,422	9,451,626
Exercise of options	1,071,500	457,641	77,300	27,375
Exercise of warrants	-	-	1,339,500	1,232,107
Issued for other consideration				
Plan of arrangement	-	-	-	(1,065,195)
Income tax effect on flow-through share renouncement (Note 8(b))	-	(3,502,418)	-	(853,060)
Exercise of options, stock-based compensation	-	56,272	-	26,290
<b>Balance at the end of the period</b>	<b>52,650,820</b>	<b>31,725,259</b>	<b>51,579,320</b>	<b>34,713,764</b>
<b>Contributed surplus</b>				
Balance at the beginning of the year		126,133		63,522
Fair value of options cancelled during the period		-		62,611
<b>Balance at the end of the period</b>		<b>126,133</b>		<b>126,133</b>
<b>Option compensation</b>				
Balance at the beginning of the year		1,677,584		1,211,198
Stock-based compensation expense		541,569		555,287
Reallocated to share capital		(56,272)		(26,290)
Reallocated to contributed surplus		-		(62,611)
<b>Balance at the end of the period</b>		<b>2,162,881</b>		<b>1,677,584</b>
<b>Deficit</b>				
Balance at the beginning of the year		(7,531,017)		(6,564,600)
Net income (loss) for the period		2,504,302		(966,417)
<b>Balance at the end of the period</b>		<b>(5,026,715)</b>		<b>(7,531,017)</b>
<b>Accumulated Other Comprehensive Income</b>				
Adjustment to opening balance – change in accounting policy (Note 3)		1,200,902		-
Unrealized gain on available for sale marketable securities		577,530		-
Unrealized loss on conversion of loan receivable		(38,207)		-
Reclassification of gains on marketable securities, transferred to net income		(553,301)		-
Future income tax		(207,375)		-
<b>Balance at the end of the period</b>		<b>979,549</b>		<b>-</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>52,650,820</b>	<b>\$ 29,967,107</b>	<b>51,579,320</b>	<b>\$ 28,986,464</b>

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>Cash flows from (applied to) operating activities</b>				
Income (loss) for the period	\$ 164,229	\$ (679,779)	\$ 2,504,302	\$ (248,651)
Items not involving cash:				
Amortization	10,424	5,832	18,744	10,137
Stock-based compensation	231,789	159,298	541,569	201,064
Write down of mineral properties	-	173,506	1,055,554	385,841
Future income taxes	-	-	(3,502,418)	(853,060)
Marketable securities received under mineral property transactions	(341,040)	-	(341,040)	-
Gain on sale of marketable securities	(408,253)	(90,254)	(953,362)	(160,463)
	(342,851)	(431,397)	(676,651)	(665,132)
Net change in non-cash working capital items:				
Accounts receivable	351,763	(257,246)	873,637	101,384
Prepaid expenses	(125,550)	(30,155)	(155,103)	(28,024)
Field supplies	-	-	93,201	-
Deposits	(51,207)	(444,336)	(51,207)	(444,336)
Accounts payable and accrued liabilities	(2,492)	37,014	(182,484)	10,452
Due to related parties	32,869	7,121	5,453	(2,396)
	(137,468)	(1,118,999)	(93,154)	(1,028,052)
<b>Cash flows from (applied to) investing activities</b>				
Cash, flow-through exploration funds	3,164,891	774,176	5,275,155	1,564,251
Proceeds from sale of marketable securities, net	430,003	113,429	1,042,842	206,213
Mineral property acquisition and exploration costs, net of recoveries	(1,052,611)	(1,880,861)	(3,478,909)	(1,768,827)
Accounts payable and accrued liabilities related to mineral properties	469,790	445,304	807,012	143,814
Loan and interest receivable	(3,738)	300,295	(7,437)	-
Purchase of equipment	(42,053)	(58,200)	(46,954)	(59,877)
	2,966,282	(305,857)	3,591,709	85,574
<b>Cash flows from financing activity</b>				
Shares issued for cash, net of issue costs	438,438	-	457,641	4,513
<b>Increase in cash and cash equivalents</b>	<b>3,267,252</b>	<b>(1,424,856)</b>	<b>3,956,196</b>	<b>(937,965)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>5,029,342</b>	<b>4,202,752</b>	<b>4,340,398</b>	<b>3,715,861</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,296,594</b>	<b>\$ 2,777,896</b>	<b>\$ 8,296,594</b>	<b>\$ 2,777,896</b>

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended June 30, 2007  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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### 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.

The recoverability of amounts shown for mineral property interests 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.

At June 30, 2007, the Company had an accumulated deficit of \$5,026,715 and had working capital of \$12,226,080, which will be sufficient to achieve the Company’s planned business objectives for fiscal 2007.

These consolidated financial statements have been prepared on a going concern basis, 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 include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

### 2. Significant Accounting Policies

#### (a) Basis of presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada with respect to the preparation of interim consolidated financial statements. Accordingly, they do not include all of the information and disclosure required by Canadian GAAP in the preparation of annual consolidated financial statements. The accounting policies used in the preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in the audited consolidated financial statements and the notes thereto for the year ended December 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements including the notes thereto for the year ended December 31, 2006.

These interim consolidated financial statements include the accounts of the Company and its wholly-owned 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  
Period Ended June 30, 2007  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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

#### **(b) Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas of estimate include the impairment of assets and rates for amortization, accrued liabilities, future income tax balances and the inputs used in calculating stock-based compensation. Actual results may differ from those estimates and may impact future results of operations and cash flows.

### **3. Change in Accounting Policies**

#### **(a) Comprehensive Income**

The CICA issued CICA Section 1530 “Comprehensive Income,” which became effective for fiscal years beginning on or after October 1, 2006. Comprehensive income is the change in shareholders’ equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in “other comprehensive income” until it is considered appropriate to recognize into net income. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

The Company has adopted this standard and accordingly, the Company now reports a consolidated statement of comprehensive income (loss) and includes the account “accumulated other comprehensive income” in the shareholders’ equity section of the consolidated balance sheet.

#### **(b) Financial Instruments**

The CICA issued CICA Section 3855 “Financial Instruments - Recognition and Measurement” and Section 3860 “Financial Instruments – Disclosure and Presentation,” which both became effective for fiscal years beginning on or after October 1, 2006. These standards require all financial instruments within its scope, including derivatives, to be included on a Company’s balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income. The Company has adopted and retroactively applied both standards from the beginning of the fiscal year.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company’s outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair value of assets and liabilities prior to January 1, 2007, are recognized by adjusting the opening deficit or opening accumulated other comprehensive income.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended June 30, 2007  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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

#### (b) Financial Instruments (continued)

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net income (loss) in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net income (loss) in the period in which they arise.

In accordance with the new standards, the Company has classified its financial instruments as follows:

- Marketable securities are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with the unrealized gains or losses recorded in other comprehensive income. At the time securities are sold or otherwise disposed of, gains or losses are included in net income (loss).
- The principle and interest portion of the loan receivable from Uranium North is classified as held-to-maturity. The loan receivable contains an embedded derivative requiring separation from the host contract and measurement of at fair value. The unrealized gains arising on the election of the Company's conversion option into common shares (see Note 5) has been recorded in other comprehensive income.
- The Company is entitled to varying royalties on various exploration projects and properties. Once an economic ore reserve can be determined on a project or property, the royalty may be characterized as a financial instrument.

#### (c) Hedges

The CICA issued CICA Section 3865 "Hedges," which became effective for fiscal years beginning on or after October 1, 2006. This standard specifies the circumstances which hedge accounting is permissible and how hedge accounting may be performed. The Company has adopted this standard and it did not have any impact on these consolidated financial statements. The Company does not have any hedges.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended June 30, 2007  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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### 4. Marketable Securities

	Carrying Value	Unrealized Gain	Fair Value
Available-for-sale	\$ 1,027,743	\$ 1,177,373	\$ 2,205,116
Conversion of loan receivable	-	9,571	9,571
	<u>\$ 1,027,743</u>	<u>\$ 1,186,944</u>	<u>\$ 2,214,687</u>

Included in the carrying value of available-for-sale marketable are 2,625,000 common shares of Uranium North Resources Corp. (“Uranium North”) which are subject to escrow. As these shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become ‘free trading’, the fair value will be determined at quoted market prices. Uranium North shares resulting from the conversion of the loan receivable (Note 5) and/or exercise of any warrants will be subject to the same escrow terms.

### 5. Loan and Interest Receivable

The Company advanced a working capital loan in the amount of \$300,000 to Uranium North. The loan is repayable in whole or in part on demand and bears interest at 5% per annum. The entire loan plus accrued interest shall be repaid in cash on March 15, 2008, or at the option of Uranium North, may be repaid earlier, provided 30 days notice is given to the Company.

At any time prior to repayment, whether before or after a notice of prepayment has been given, the loan and accrued interest or any portion thereof, may be convertible at the sole discretion and option of the Company into securities of Uranium North as follows:

- i) prior to December 7, 2007, the loan and accrued interest or any portion thereof may be converted into units (“Unit”) at a price of \$0.75 per Unit, with each Unit consisting of one common share of Uranium North and one share purchase warrant entitling the Company to purchase one additional common share of Uranium North at a price equal to \$0.90, up to December 6, 2007, whereupon any unexercised warrants will expire; and
- ii) on and after December 7, 2007, the loan and accrued interest or any portion thereof may be converted into common shares of Uranium North at a per share conversion price equal to \$0.75 per share.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
 Period Ended June 30, 2007  
 (Unaudited – See Notice)  
 (expressed in Canadian dollars)

### 6. Mineral Properties

As at June 30, 2007, the Company's mineral properties are comprised of properties located in Canada. Expenditures incurred on mineral properties are as follows:

	Amaruk, NU	Ualliq, NU(1)	Sakari, NU(1)	Siku, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Northern Recon.	Other Properties	Total
Balance at											
December 31, 2006	\$4,416,007	\$ 15,393	\$ 2,162	\$ 31,931	\$4,106,319	\$ 282,598	\$ 3,905,253	\$ 447,426	\$1,549,630	\$ 1,267,063	\$16,023,782
Additions during the period:											
Acquisition costs	-	-	-	-	-	-	1,200	-	-	-	1,200
Exploration:											
Project admin.	15,619	3,184	394	1,991	113	647	10,373	-	3,679	-	36,000
Airborne geoph.	350,813	1,292	29,868	340,306	377	133,446	1,303,175	-	1,564	-	2,160,841
Camp costs	1,191,961	72,034	56,583	613,978	-	24,172	199,649	-	4,474	-	2,162,851
Drilling	473,653	435	-	75	-	-	416,435	-	-	-	890,598
Geochemistry	104,279	87,277	-	-	309	-	72,013	-	1,600	-	265,478
Geology	107,100	5,654	760	3,390	3,997	3,815	11,744	-	-	-	136,460
Ground geoph.	88,241	-	-	-	-	-	10,901	-	-	-	99,142
Mobilization	47,299	-	-	1,000	-	-	9,266	-	-	-	57,565
Permitting	386	-	-	-	-	2,075	4,464	-	-	-	6,925
Prospecting	25,825	-	-	-	-	-	-	-	-	-	25,825
Property	56,791	41,787	-	193,006	8,730	3,948	564,220	-	55,893	-	924,375
	2,461,967	211,663	87,605	1,153,746	13,526	168,103	2,602,240	-	67,210	-	6,766,060
Less:											
Recoveries	(154,978)	(1,086,476)	(171,310)	(1,994,881)	-	(66,523)	-	-	(24,183)	-	(3,498,351)
Write downs	-	-	-	-	-	-	-	-	(689,896)	(365,658)	(1,055,554)
	(154,978)	(1,086,476)	(171,310)	(1,994,881)	-	(66,523)	-	-	(714,079)	(365,658)	(4,553,905)
Net additions	2,306,989	(874,813)	(83,705)	(841,135)	13,526	101,580	2,603,440	-	(646,869)	(365,658)	2,213,355
Balance at											
June 30, 2007	\$6,722,996	\$ (859,420)	\$ (81,543)	\$ (809,204)	\$4,119,845	\$ 384,178	\$ 6,508,693	\$ 447,426	\$ 902,761	\$ 901,405	\$18,237,137

1. Included under "Amaruk Property" in 2006.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended June 30, 2007  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

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### 6. Mineral Properties (continued)

#### (a) Amaruk Project, Nunavut

The Amaruk property covers approximately 3.6 million acres around the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other diamond exploration companies as described below. The Company holds a 100% interest in the project, subject to a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on other minerals except gold, payable to BHP Billiton Diamonds Inc. (“BHP Billiton”).

#### (b) Ualliq - Amaruk Project, Nunavut

On July 26, 2006, the Company and International Samuel Exploration Corp. (“International Samuel”) entered into an agreement covering more than 1 million acres predominantly within the western portion of the Company’s Amaruk project. International Samuel has an option to earn a 30% interest in the Ualliq project by issuing 2,000,000 common shares to the Company (1,500,000 received) and incurring \$3,000,000 in expenditures on the property on or before December 31, 2009. In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company. The Company will operate the project.

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

On July 31, 2006, the Company and Shear Minerals Ltd. (“Shear”) entered into an agreement covering approximately 42,000 acres of claims located within the southwest portion of the Company’s Amaruk project. Shear has an option to earn a 50% interest in the Sakari project by making a payment of \$97,000 in refundable deposits (completed) and incurring \$185,940 in expenditures on the property on or before June 30, 2007. The Company will operate the project.

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

On October 4, 2006, the Company and Arctic Star Diamond Corp. (“Arctic Star”) entered into an agreement covering approximately 455,000 acres of claims located within the southwest portion of the Company’s Amaruk project. Arctic Star has an option to earn a 50% interest in the Siku project by issuing 1,500,000 shares to the Company (received), funding approximately \$956,000 in bonds on the claims (completed) and incurring \$2,500,000 in expenditures on the property on or before September 30, 2009. In addition, for each of the first five kimberlite bodies discovered on the property, Arctic Star shall issue 100,000 common shares to the Company. The Company will operate the project.

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

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Holman, Washburn, Wellington and White Ice projects, which are collectively referred to as “Victoria Island”. The projects consist of various claims and permits, which are either adjoined or are within close proximity of each other. The Company views the land position as a single package but may re-parcel portions of Victoria Island into individual projects, in the future. Portions of the Victoria Island properties are subject to a 1% gross overriding royalty and the Washburn property is subject to a 2% gross overriding royalty, both on diamonds.

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### 6. Mineral Properties (continued)

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

The Company held a 50% interest in the 1.2 million acre Banks Island property which was acquired jointly with Majescor Resources Inc. (“Majescor”) on a 50/50 cost sharing basis. On July 5<sup>th</sup>, the Company reported the acquisition of Majescor interest in the Banks Island project, see Note 14(b).

#### (g) Hepburn, Northwest Territories

The Company holds a 100% interest in the 1.5 million acre Hepburn property located approximately 300 kilometres north of Yellowknife.

#### (h) Kidme, Northwest Territories

The Company owns 40% of the 87,000 acre Kidme Project situated adjacent to the eastern border of the Misty Lake property (Note 6(j)(i)). SouthernEra Diamonds Inc., the co-owner of the property, owns 60% of the property. In 2004, the Company staked an additional 80,000 acres of claims to the south of the original block and this additional land position is held on a 50/50 basis by the two companies.

#### (i) Northern Recon, Nunavut and Northwest Territories

The Northern Recon Initiative comprises various Canadian grassroots projects within the Company's property portfolio. In 2004, the Company acquired exploration permits for these projects and the Company continues to develop and evaluate these projects. In 2006, some projects were transferred to Uranium North whereby the Company retains varying royalties, which include a 2% gross overriding royalty with respect to diamonds, a 2% net smelter return royalty with respect to metals (except for uranium) and a 5% uranium royalty.

#### (j) Other Properties

The Company holds a 40% to 100% interest in various other properties located in Nunavut and the Northwest Territories.

##### (i) Misty Lake, Northwest Territories

The Company holds approximately a 40% interest in the Misty Lake properties. At June 30, 2007, the carrying value of the Misty Lake property is \$279,204.

##### (ii) Arnaq, Nunavut

The Arnaq property consists of approximately 33,000 acres of claims (subject to a 2% royalty payable to BHP Billiton) and is located immediately south of the Company's Amaruk project. Under an agreement dated July 8, 2004, with Kennecott Canada Exploration Inc. (“Kennecott”), Kennecott holds a 74% interest and the Company holds the remaining 26% interest. At June 30, 2007, the carrying value of the Arnaq project is \$69,149.

##### (iii) Kennap, Northwest Territories

The Company held a 100% interest in the 162,000 acre Kennap property located 235 kilometres northeast of Yellowknife. The Company allowed the claims to lapse and accordingly the carrying value has been written down to \$Nil.

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### 7. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 35,360	\$ 17,352	\$ 18,008
Computer equipment	96,584	36,565	60,019
Equipment	64,536	16,136	48,400
Leasehold improvements	35,882	16,691	19,191
	<u>\$ 232,362</u>	<u>\$ 86,744</u>	<u>\$ 145,618</u>

Leasehold improvements costs are in connection with the office premises (Note 10).

### 8. Share Capital

#### (a) Authorized:

Unlimited common shares without par value.

For share issuance after June 30, 2007, see Notes 14(a), (b), (c) and (d).

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

In February 2007, the Company renounced \$10,265,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$3,502,418, which is deducted from share capital. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets equal to the amount of the future tax liability, which resulted in a future income tax recovery of \$3,502,418.

#### (c) Stock options

Options to purchase common shares have been granted to directors, 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 10,325,500 common shares. Vesting of stock options is made at the discretion of the board of directors at the time the options are granted. As at June 30, 2007, the Company had stock options outstanding for the purchase of 7,078,000 common shares with an average remaining contractual life of 3.42 years, of which 5,526,500 stock options were exercisable at June 30, 2007.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	5,582,500	\$ 0.76
Granted	2,567,000	\$ 0.86
Exercised	(1,071,500)	\$ 0.43
Outstanding at June 30, 2007	<u>7,078,000</u>	<u>\$ 0.85</u>

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**8. Share Capital (continued)****(c) Stock options (continued)**

The following summarizes information about stock options outstanding at June 30, 2007:

Number of Shares	Exercise Price	Expiry Date
300	\$ 0.429	July 15, 2007
50,000	\$ 0.686	December 19, 2007
482,200	\$ 0.686	February 20, 2008
100,000	\$ 0.686	March 4, 2008
60,000	\$ 0.686	May 22, 2008
111,000	\$ 0.600	October 6, 2008
200,000	\$ 1.021	March 30, 2009
560,000	\$ 0.944	August 8, 2009
300,000	\$ 0.858	October 18, 2009
50,000	\$ 0.858	January 27, 2010
252,500	\$ 0.987	March 22, 2010
550,000	\$ 0.729	May 17, 2010
1,660,000	\$ 0.848	April 12, 2011
135,000	\$ 1.021	July 13, 2011
1,630,000	\$ 0.770	February 27, 2012
600,000	\$ 1.010	May 3, 2013
337,000	\$ 1.030	May 9, 2013
<hr/> 7,078,000 <hr/>		

Subsequent to June 30, 2007, 300 stock options with an exercise price of \$0.429 expired on July 15, 2007, unexercised.

**(d) Stock-based and option compensation**

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following weighted average assumptions at June 30, 2007:

Risk-free interest rate	2.80%
Expected dividend yield	-
Expected stock price volatility	72.26%
Expected option life in years	2.65

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

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### 8. Share Capital (continued)

#### (d) Stock-based and option compensation

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

Accounting and audit	\$	13,229
Administration fees		10,737
Consulting fees		30,672
Directors' fees		158,488
Investor relations and promotions		41,452
Wages and benefits		286,991
Stock-based compensation expense	\$	541,569

#### (e) Warrants

At June 30, 2007, the Company had outstanding warrants to purchase an aggregate of 4,165,389 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2006	Issued	Exercised	Expired	Outstanding at June 30, 2007
\$ 0.858	July 12, 2007	210,000	-	-	-	210,000
\$ 1.286	July 19, 2007	3,250,000	-	-	-	3,250,000
\$ 1.286	July 19, 2007	189,600	-	-	-	189,600
\$ 0.858	February 16, 2008	515,789	-	-	-	515,789
		4,165,389	-	-	-	4,165,389

For warrants issued and exercised after June 30, 2007, see Notes 14(b), (c) and (d).

Subsequent to June 30, 2007, 3,250,000 and 189,600 warrants, both with an exercise price of \$1.286, expired on July 19, 2007, unexercised.

### 9. Related Party Transactions

The Company had the following related party transactions and balances:

- (a) Included in accounts receivable is \$15,688 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs and \$31,408 owed by Uranium North, a company related by virtue of other common directors, for mineral property and office costs.
- (b) As at June 30, 2007, a director of the Company has been paid a total of \$9,450 for consulting fees which has been charged to deferred exploration expenditures. In addition, the Company has paid a retainer of \$5,000 to each of the four independent directors of the Company.
- (c) Amounts due to related parties, totalling \$56,812, consist of fees and reimbursement of expenses owed to directors and officers of the Company.
- (d) As at June 30, 2007, the Company held 15.7% of the issued common shares of Uranium North.

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### 10. Commitment

On December 18, 2003, the Company entered into an agreement for the lease of new office premises for a six-year period, commencing on July 1, 2004 and expiring on June 30, 2010. The cost of the entire premises is shared amongst several companies in proportion to the area occupied. Two of the companies are related by virtue of common directors. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately \$90,000.

### 11. Segmented Information

The Company has one operating segment, 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 were earned in Canada.

### 12. Supplemental Cash Flow Information

Investing activities		
Marketable securities received for option payments	\$	551,040
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Financing activities		
Income tax effect on flow-through share renouncement (Note 8(b))	\$	3,502,418
Stock-based compensation		(56,272)
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	\$	3,446,146
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Other cash flow information:		
Interest received	\$	144,626
Interest paid	\$	31,436
Income taxes paid	\$	-
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### 13. Income Taxes

The Company's future income tax liability arises primarily from the renunciation of mineral exploration costs on flow-through shares issued to investors. Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchased the shares. A future income tax liability arises from the renunciation of mineral exploration costs to investors of flow-through shares.

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 gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances, which have not been spent as at June 30, 2007 and which are held by the Company for such expenditures. As at June 30, 2007, the amount of flow-through proceeds remaining to be expended is \$2,040,836.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
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### 14. Subsequent Events

- (a) On July 5, 2007, the Company acquired Majescor's 50% interest in the Banks Island project in consideration for 1 million common shares, a two year warrant to purchase up to 1 million shares at \$1.50 per share and a 1.5% royalty on diamonds, metals and other minerals of which half of the royalty may be purchased by the Company at anytime for \$1 million dollars. The warrant is only exercisable if a designated target is proven to be a kimberlite pipe of at least 200 metres in diameter and at which time the warrant will expire at the earlier of six months or two years from the date of issuance.
- (b) On August 16, 2007, the Company completed the first tranche of a non-brokered private placement of 4,001,000 flow-through common shares at a price of \$1.00 per share. Finder's fee of \$192,750 in cash and 231,300 in warrants to purchase up to 231,000 common shares at a price of \$1.00, expiring on August 15, 2008, were paid and issued to non-related third parties in connection with the financing. The flow-through common shares and warrants are subject to a hold period and may not be traded until December 16, 2007.
- (c) On August 24, 2007, the Company completed the second tranche of a non-brokered private placement of 550,000 flow-through common shares at a price of \$1.00 per share. Finder's fee of \$25,00 in cash and 30,300 in warrants to purchase up to 30,300 common shares at a price of \$1.00, expiring on August 23, 2008, were paid and issued to non-related third parties in connection with the financing. The flow-through common shares and warrants are subject to a hold period and may not be traded until December 24, 2007.
- (d) Subsequent to June 30, 2007, the Company issued 210,000 common shares for proceeds of \$180,180 pursuant to the exercise of warrants.