

## **DIAMONDS NORTH RESOURCES LTD.**

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

<u>Index</u>	<u>Page</u>
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Comprehensive Income	3
Consolidated Statements of Shareholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-18

### **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 three months ended March 31, 2008, 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)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,989,807	\$ 4,039,853
Cash, exploration funds (Note 14)	2,056,983	3,924,759
Marketable securities (Note 4 & 10(d))	1,387,390	1,653,005
Accounts receivable (Notes 10(a) & (d))	942,470	1,459,743
Prepaid expenses	104,172	39,819
Field supplies	243,101	243,101
Loan and interest receivable (Note 5)	330,336	326,593
	9,054,259	11,686,873
Deposits	55,000	55,000
Mineral properties (Note 7)	27,393,294	25,488,983
Property, plant and equipment (Note 8)	235,837	171,200
	\$ 36,738,390	\$ 37,402,056
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 917,968	\$ 2,022,135
Due to related parties (Note 10(c))	5,719	4,106
	923,687	2,026,241
Future income taxes (Note 14)	2,319,228	2,409,856
	3,242,915	4,436,097
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	37,853,935	38,263,819
Contributed surplus	141,184	141,184
Option compensation	2,861,499	2,844,831
Accumulated other comprehensive income	343,587	518,574
Deficit	(7,704,730)	(8,802,449)
	33,495,475	32,965,959
	\$ 36,738,390	\$ 37,402,056

Nature of Operations and Going Concern (Note 1)  
Commitment (Note 11)  
Subsequent Event (Note 15)

Approved by the Directors:

\_\_\_\_\_  
*"Mark Kolebaba"*  
Mark Kolebaba

\_\_\_\_\_  
*"Bernard H. Kahlert"*  
Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Operations and Comprehensive Income  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

	<b>For the Three Months Ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>General and administrative expenses</b>		
Accounting and audit*	\$ 18,844	\$ 20,554
Administration fees*	16,325	17,896
Amortization	15,715	8,320
Annual report and meeting	2,317	1,604
Consulting fees*	-	28,970
Directors' fees*	119,259	78,024
Filing fees	13,080	7,504
Insurance	11,153	14,487
Interest	705	32,944
Investor relations and promotion*	130,516	183,153
Legal fees	3,989	1,846
Office and miscellaneous	29,744	20,557
Rent and storage	23,236	20,293
Transfer agent fees	3,440	3,057
Wages and benefits*	312,528	318,138
	(700,851)	(757,347)
<b>Other income (expenses)</b>		
Interest income	70,343	104,757
Mineral property transactions	-	690
Property investigation	(5,973)	
Write down of mineral properties	-	(1,055,554)
Unrealized loss on convertible loan	-	(20,774)
Realized gain on marketable securities	-	536,859
<b>Loss before income taxes</b>	(636,481)	(1,191,369)
<b>Future income tax recovery</b> (Note 9(b))	1,734,200	3,502,418
<b>Net income for the period</b>	1,097,719	2,311,049
<b>Other comprehensive income</b>		
Unrealized gain (loss) on marketable securities	(265,615)	511,250
Future income tax recovery (expense)	90,628	(83,675)
<b>Other comprehensive income (loss)</b>	(174,987)	427,575
<b>Comprehensive Income</b>	\$ 922,732	\$ 2,738,624
<b>Basic income per share</b>	\$ 0.02	\$ 0.05
<b>Diluted income per share</b>	\$ 0.01	\$ 0.04
<b>Basic, weighted average number of shares outstanding</b>	60,602,852	51,621,053
<b>Diluted, weighted average number of shares outstanding</b>	68,538,952	62,949,442
<b>* Stock-based compensation expense</b> (Note 9(d)) is included above, as follows:		
Accounting and audit	\$ 3,844	\$ 9,974
Administration fees	5,125	8,296
Consulting fees	-	24,405
Directors' fees	109,259	68,024
Investor relations and promotions	11,656	29,008
Wages and benefits	181,710	170,073
	\$ 311,594	\$ 309,780

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

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

	For the Three Months Ended March 31, 2008		For the Year Ended December 31, 2007	
	Number of Shares		Number of Shares	
<b>Share capital</b>				
Balance at the beginning of the year	59,746,820	\$ 38,263,819	51,579,320	\$ 34,713,764
Common shares issued for cash				
Private placements, net of issue costs	-	-	5,836,000	5,567,680
Exercise of options	633,700	451,769	1,121,500	491,941
Exercise of warrants	654,989	577,621	210,000	180,180
Issued for other consideration				
Mineral property acquisition	-	-	1,000,000	900,000
Income tax effect on flow-through share renouncement (Note 9(b))	-	(1,734,200)	-	(3,673,018)
Exercise of options, stock-based compensation	-	294,926	-	83,272
Balance at the end of the period	61,035,509	37,853,935	59,746,820	38,263,819
<b>Contributed surplus</b>				
Balance at the beginning of the year		141,184		126,133
Fair value of broker warrants issued during the period		-		15,039
Fair value of options cancelled during the period		-		12
Balance at the end of the period		141,184		141,184
<b>Option compensation</b>				
Balance at the beginning of the year		2,844,831		1,677,584
Stock-based compensation expense		311,594		1,250,531
Reallocated to share capital		(294,926)		(83,272)
Reallocated to contributed surplus		-		(12)
Balance at the end of the period		2,861,499		2,844,831
<b>Deficit</b>				
Balance at the beginning of the year		(8,802,449)		(7,531,017)
Adjustment to opening balance, net of future income taxes – change in accounting policies		-		47,778
Net income (loss) for the period		1,097,719		(1,319,210)
Balance at the end of the period		(7,704,730)		(8,802,449)
<b>Accumulated other comprehensive income</b>				
Adjustment to opening balance, net of future income taxes – change in accounting policies		518,574		1,050,610
Other comprehensive income (loss)		(174,987)		21,084
Reclassification of gains on marketable securities, transferred to net income		-		(553,120)
Balance at the end of the period		343,587		518,574
<b>TOTAL SHAREHOLDERS' EQUITY</b>	61,035,509	\$ 33,495,475	59,746,820	\$ 32,965,959

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

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

	<b>For the Three Months Ended</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from (applied to) operating activities</b>		
Net income for the period	\$ 1,097,719	\$ 2,311,049
Items not involving cash:		
Amortization	15,715	8,320
Stock-based compensation	311,594	309,780
Write down of mineral properties	-	1,055,554
Unrealized loss on convertible loan	-	20,774
Future income taxes	(1,734,200)	(3,502,418)
Realized gain on sale of marketable securities	-	(536,859)
	(309,172)	(333,800)
Net change in non-cash working capital items:		
Accounts receivable	517,273	521,874
Prepaid expenses	(64,353)	(29,553)
Field supplies	-	93,201
Accounts payable and accrued liabilities	(1,104,167)	(179,992)
Due to related parties	1,613	(27,416)
	(958,806)	44,314
<b>Cash flows from (applied to) investing activities</b>		
Cash, exploration funds	1,867,776	2,110,264
Proceeds from sale of marketable securities, net	-	612,839
Mineral property acquisition and exploration costs, net of recoveries	(1,020,663)	(2,426,298)
Accounts payable and accrued liabilities related to mineral properties	(883,648)	337,222
Loan and interest receivable	(3,743)	(3,699)
Purchase of equipment	(80,352)	(4,901)
	(120,630)	625,427
<b>Cash flows from financing activity</b>		
Shares issued for cash, net of issue costs	1,029,390	19,203
<b>Increase (decrease) in cash and cash equivalents</b>	(50,046)	688,944
<b>Cash and cash equivalents, beginning of period</b>	4,039,853	4,340,398
<b>Cash and cash equivalents, end of period</b>	\$ 3,989,807	\$ 5,029,342

Supplemental Cash Flow Information (Note 13)

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 1. Nature of Operations and Going Concern

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

The recoverability of amounts shown for mineral property interests in Note 7 is dependent upon one or more of the following:

- the discovery of economically recoverable reserves;
- the ability of the Company to obtain financing to complete development; and
- future profitable production from the properties or proceeds from disposition.

For the three months ended March 31, 2008, the Company reported net income of \$1,097,719, due to a future income tax adjustment and has an accumulated deficit of \$7,704,730. Management believes its \$8,130,572 working capital is sufficient to meet administrative and property obligations for the coming year but may not cover all the budgeted exploration expenditures. Subsequent to March 31, 2008, the Company’s marketable securities decreased in value, reducing working capital. Management does have the ability to adjust exploration budgets to work within its working capital. Subsequent to the March 31, 2008, the Company received \$52,660 from the exercise of stock options (Note 15 (a)).

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, 2007. 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, 2007.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 2. Significant Accounting Policies (continued)

#### (a) Basis of presentation (continued)

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

#### (b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas of estimate include determining the fair value of marketable securities, collectability of accounts receivable, 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.

### 3. Changes in Accounting Policies

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

#### (a) Accounting Changes

CICA Section 1506.30 requires companies to provide disclosure in the financial statements when there are new accounting pronouncements which have been issued but not yet effective. The adoption of this section has been disclosed in Note 3.

#### (b) Assessing Going Concerns

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

#### (c) Capital Disclosures

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

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

The adoption of this section has been disclosed in Note 6.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

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

#### (d) Inventories

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

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

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

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

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

#### New Accounting Pronouncements Not Yet Adopted:

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

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

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

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 4. Marketable Securities

	Carrying Value	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities	\$ 1,027,761	\$ 359,629	\$ 1,387,390

Included in the carrying value of available-for-sale marketable are 2,100,000 common shares of Uranium North, which are subject to escrow. As escrow shares are not quoted in an active market, the fair value is deemed to be cost. Once the shares are released from escrow and become “free trading”, the fair value will be determined at quoted market prices. Uranium North shares resulting from the conversion of the loan receivable (Note 5) are subject to the same escrow terms.

### 5. Loan and Interest Receivable

In 2006, the Company completed a Plan of Arrangement with Uranium North. Incidental to the Plan of Arrangement, 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 at a per share conversion price equal to \$0.75 per share.

Prior to maturity, the Company and Uranium North agreed to amend the terms of the loan agreement by extending the due date for repayment of the principal and interest to December 31, 2008. The amendment further provides that the conversion price under the loan agreement be reduced from \$0.75 per share to \$0.54 per share. Uranium North will pay an administration fee in the amount of \$6,000 to the Company. The amendment to the loan agreement is subject to acceptance by the Exchange.

The conversion feature of the loan is considered an embedded derivative and as such, has been classified as held-for-trading. At March 31, 2008, the conversion price exceeded the trading price.

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

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

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

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

#### (b) Risk management

##### *Credit Risk*

The Company is exposed to credit risk with respect to its cash, cash equivalents, cash exploration funds and accounts receivable. To minimize this risk, cash, cash equivalents and cash exploration funds have been placed with major Canadian financial institutions.

##### *Interest Rate Risk*

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

##### *Liquidity Risk*

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

#### (c) Capital management

The Company considers its capital structure to include working capital and shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern.

Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable.

The 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  
 Period Ended March 31, 2008  
 (Unaudited – See Notice)  
 (expressed in Canadian dollars)

### 7. Mineral Properties

As at March 31, 2008, the Company's mineral properties are comprised of properties located in Canada. Expenditures incurred on mineral properties are as follows:

	Amaruk, NU	Ualliq, NU	Sakari, NU	Siku, NU	Tunerq, NU(1)	Victoria Island NU/NWT	Banks Island, NWT	Hepburn, NWT	Kidme, NWT	Northern Recon.	Other Properties	Total
Balance at December 31, 2007	\$ 11,319,082	\$ -	\$ 19,084	\$ -	\$ 26,064	\$ 4,145,442	\$ 1,831,525	\$ 7,157,418	\$ 447,426	\$ 270,709	\$ 272,233	\$ 25,488,983
Exploration:												
Airborne geophysics	(3,793)	5,381	1,519	3,842	274	-	6,204	2,440	-	-	-	15,867
Camp costs	178,861	-	-	4,575	48,574	-	-	43,793	-	-	-	275,803
Camp heli. (incl. fuel)	662	-	-	-	113,181	-	-	245,327	-	-	-	359,170
Drilling - Core	(14,638)	-	-	-	626	-	-	-	-	-	-	(14,012)
Drilling - RC	65,641	-	-	1,192	-	-	-	-	-	-	-	66,833
Geochemistry	20,864	142	-	-	2,647	-	745	2,502	-	-	-	26,900
Geology	33,903	10,232	894	2,032	110	195	9,353	16,063	-	2,017	-	74,799
Ground geophysics	17,247	2,549	-	626	10,093	-	447	4,165	-	-	-	35,127
Permitting	4,983	797	855	1,481	-	2,983	1,761	-	-	-	-	12,860
Property	389,625	120,400	-	-	-	5,653	87,103	455,626	-	-	-	1,058,407
	693,355	139,501	3,268	13,748	175,505	8,831	105,613	769,916	-	2,017	-	1,911,754
Less:												
Recoveries	(6,209)	(95)	(97)	(1,042)	-	-	-	-	-	-	-	(7,443)
Net additions	687,146	139,406	3,171	12,706	175,505	8,831	105,613	769,916	-	2,017	-	1,904,311
Balance at March 31, 2008	\$ 12,006,228	\$ 139,406	\$ 22,255	\$ 12,706	\$ 201,569	\$ 4,154,273	\$ 1,937,138	\$ 7,927,334	\$ 447,426	\$ 272,726	\$ 272,233	\$ 27,393,294

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

#### (a) Amaruk Project, Nunavut

The Amaruk property covers approximately 3.4 million acres around the community of Kugaaruk, Nunavut. Portions of the property have been optioned to other diamond exploration companies as described below. The property is subject to a 2% gross overriding royalty (“GOR”) on diamonds and a 2% net smelter royalty (“NSR”) on other minerals except gold, payable to BHP Billiton Diamonds Inc. (“BHP Billiton”).

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

On July 26, 2006, the Company and International Samuel Exploration Corp. (“International Samuel”) entered into an agreement covering approximately 871,000 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 subsequent to March 31, 2008, the final 500,000 common shares were received) and incurring \$3,000,000 in expenditures on the property on or before December 31, 2009. In addition, for each of the first four kimberlite bodies discovered on the property, International Samuel shall issue 250,000 common shares to the Company.

In 2007, the Company and International Samuel entered into an agreement to form a 50/50 partnership on claims that were staked called the Ualliq West property. The 250,000 acres of new claims are contiguous with the Amaruk and Ualliq properties. The Company is the project operator.

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

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

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

On October 4, 2006, the Company and Arctic Star Diamond Corp. (“Arctic Star”) entered into an agreement covering 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 is the project operator.

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

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

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

The Company holds a 100% interest in the Blue Ice, Hadley Bay, Holman, Mariner, Washburn, Wellington and White Ice projects, which are collectively referred to as “Victoria Island”. The projects consist of various claims and permits, which are either adjoined or are within close proximity of each other, covering approximately 285,000 acres. The Company views the land position as a single package but may re-parcel portions of Victoria Island into individual projects, in the future. Portions of the Victoria Island properties are subject to a 1% GOR and the Washburn property is subject to a 2% GOR, both on diamonds.

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

The Company holds a 100% interest in the 1.2 million acre Banks Island property, which was originally acquired jointly with Majescor Resources Inc. (“Majescor”) on a 50/50 cost sharing basis.

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

#### (h) Hepburn, Northwest Territories

The Company holds a 100% interest in the 1.3 million-acre Hepburn property located approximately 300 kilometres north of Yellowknife.

#### (i) Kidme, Northwest Territories

The Company owns 40% of the 63,000 acre Kidme Project and SouthernEra Diamonds Inc., the co-owner of the property, owns 60% of the property.

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

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 7. Mineral Properties (continued)

#### (k) Other properties

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

##### (i) 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 March 31, 2008, the carrying value of the Arnaq project is \$70,875.

##### (ii) Tasiq, Nunavut

As part of the Uranium North Arrangement described in Note 1, the Company transferred its 100% interest (except for diamonds, which are reserved unto the Company) in the 449,000-acre Tasiq property to Uranium North. The Company retains a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

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

As part of the Uranium North arrangement described in Note 1, the Company transferred substantially all of its interest in the property pursuant to a memorandum of understanding ("MOU") dated April 14, 2005, with Pathfinder Resources Ltd. ("Pathfinder"). In August 2006, Pathfinder amalgamated with Bayswater Uranium Corporation. The Company retains the right to receive future share issuances under the MOU, a 2% NSR with respect to metals (except for uranium) and a 5% uranium royalty.

### 8. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 36,167	\$ 20,271	\$ 15,896
Computer equipment	103,988	49,198	54,790
Equipment	191,252	40,807	150,445
Leasehold improvements	35,882	21,176	14,706
	<u>\$ 367,289</u>	<u>\$ 131,452</u>	<u>\$ 235,837</u>

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

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 9. Share Capital

#### (a) Authorized

Unlimited common shares without par value.

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

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

#### (c) Stock options

Options to purchase common shares have been granted to directors, officers, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. Under the Company's stock option plan, 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 March 31, 2008, the Company had stock options outstanding for the purchase of 7,824,000 common shares with an average remaining contractual life of 3.30 years, of which 6,751,500 stock options were exercisable at March 31, 2008.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2007	7,027,700	\$ 0.85
Granted	1,430,000	\$0.88
Exercised	(633,700)	\$ 0.71
Outstanding at March 31, 2008	7,824,000	\$ 0.86

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

Number of Shares	Exercise Price	Expiry Date
60,000	\$ 0.686	May 22, 2008
111,000	\$ 0.600	October 6, 2008
200,000	\$ 1.021	March 30, 2009
545,000	\$ 0.944	August 8, 2009
300,000	\$ 0.858	October 18, 2009
50,000	\$ 0.858	January 27, 2010
247,500	\$ 0.987	March 22, 2010
550,000	\$ 0.729	May 17, 2010
1,660,000	\$ 0.848	April 12, 2011
113,500	\$ 1.021	July 13, 2011
1,620,000	\$ 0.770	February 27, 2012
600,000	\$ 1.010	May 3, 2012
337,000	\$ 1.030	May 9, 2012
1,430,000	\$ 0.880	February 14, 2013
7,824,000		

For stock options exercised after March 31, 2008, see Note 15(a).

**DIAMONDS NORTH RESOURCES LTD.**

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

**9. Share Capital (continued)****(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 March 31, 2008:

---

Risk-free interest rate	2.97%
Expected dividend yield	-
Expected stock price volatility	72%
Expected option life in years	3.45

---

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

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

---

Accounting and audit	\$	3,844
Administration fees		5,125
Consulting fees		-
Directors' fees		109,259
Investor relations and promotions		11,656
Wages and benefits		181,710
Stock-based compensation expense	\$	311,594

---

**(e) Warrants**

At March 31, 2008, the Company had outstanding warrants to purchase an aggregate of 122,100 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2007	Issued	Exercised	Expired	Outstanding at March 31, 2008
\$ 0.858	February 16, 2008	515,789	-	(515,789)	-	-
\$ 1.000	August 15, 2008	231,300	-	(109,200)	-	122,100
\$ 1.000	August 22, 2008	30,000	-	(30,000)	-	-
		777,089	-	(654,989)	-	122,100

---

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 10. Related Party Transactions

Related party transactions are in the normal course of business, recorded at the carrying amount and have 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 accounts receivable is \$20,848 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) For the three months ended March 31, 2008, a director of the Company has been paid a total of \$4,725 for consulting fees, which has been charged to mineral properties. In addition, the Company has paid a retainer of \$10,000, in aggregate, to the four independent directors of the Company.
- (c) Amounts due to related parties, totalling \$5,719, consist of fees and reimbursement of expenses owed to directors and officers of the Company.
- (d) As at March 31, 2008, the Company held 12.9% of the issued common shares of Uranium North. Included in accounts receivable is \$1,605 owed by Uranium North, a company related by virtue of other common directors, for mineral property and office costs.

### 11. Commitment

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

### 12. Segmented Information

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

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

### 13. Supplemental Cash Flow Information

---

Financing activities		
Income tax effect on flow-through share renouncement (Note 9(b))	\$	1,734,200
Accounts payable included in mineral properties		(883,648)
Stock-based compensation		(294,926)
	\$	555,626
<hr/>		
Other cash flow information:		
Interest received	\$	33,871
Interest paid	\$	-
Income taxes paid	\$	-

---

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
Period Ended March 31, 2008  
(Unaudited – See Notice)  
(expressed in Canadian dollars)

---

### 14. 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 share gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances, which have not been spent as at March 31, 2008 and are held by the Company for such expenditures. As at March 31, 2008, the amount of flow-through proceeds remaining to be expended is \$2,056,983.

### 15. Subsequent Event

Except as disclosed elsewhere in these financial statements, the Company had the following subsequent events:

- (a) The Company issued 75,000 common shares for proceeds of \$52,660 pursuant to the exercise of stock options.