



**INTERIM REPORT**  
**FOR THE THREE MONTHS ENDED**  
**MARCH 31, 2009**

[www.diamondsnorth.com](http://www.diamondsnorth.com)

## **DIAMONDS NORTH RESOURCES LTD.**

**Consolidated Financial Statements**  
**March 31, 2009**  
**(expressed in Canadian dollars)**

<b><u>Index</u></b>	<b><u>Page</u></b>
<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	6-16

### **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, 2009, 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  
(expressed in Canadian dollars)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,195,958	\$ 3,602,896
Cash, exploration funds (Note 13)	2,115,123	2,507,033
Marketable securities (Note 4 & 9(e))	480,269	498,635
Receivables (Notes 9(a) & 9(e))	337,253	954,898
Prepaid expenses	28,280	38,450
Field supplies	533,962	533,962
	6,690,845	8,135,874
Deposits	180,000	180,000
Mineral properties (Note 6)	41,282,604	41,181,730
Property, plant and equipment (Note 7)	207,587	225,692
	\$ 48,361,036	\$ 49,723,296
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 222,377	\$ 1,209,526
Due to related parties (Note 9(d))	55,078	39,005
	277,455	1,248,531
Future income taxes	2,814,000	2,814,000
	3,091,455	4,062,531
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	49,677,266	52,734,458
Contributed surplus	588,539	468,519
Option compensation	3,219,422	3,331,206
Accumulated other comprehensive loss	(1,032,018)	(1,013,652)
Deficit	(7,183,628)	(9,859,766)
	45,269,581	45,660,765
	\$ 48,361,036	\$ 49,723,296

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

Approved by the Directors:

“Mark Kolebaba”

Mark Kolebaba

“Bernard H. Kahlert”

Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Operations and Comprehensive Income  
(expressed in Canadian dollars)

	<b>For the Three Months Ended March 31, 2009</b>	<b>For the Three Months Ended March 31, 2008</b>
<b>General and administrative expenses</b>		
Accounting and audit	\$ 15,000	\$ 15,000
Administration fees	9,600	11,200
Amortization	18,104	15,715
Annual report and meeting	-	2,317
Consulting fees	2,807	-
Directors' fees	10,000	10,000
Filing fees	6,800	13,080
Insurance	13,076	11,153
Interest	401	705
Investor relations and promotion	70,330	118,860
Legal fees	6,134	3,989
Office and miscellaneous	18,388	29,744
Rent and storage	35,424	23,236
Transfer agent fees	2,324	3,440
Stock-based compensation (Note 8(d))	8,236	311,594
Wages and benefits	199,971	130,818
	(416,595)	(700,851)
<b>Other income (expenses)</b>		
Interest income	35,541	70,343
Property investigation recoveries (expense)	-	(5,973)
<b>Loss before income taxes</b>	(381,054)	(636,481)
<b>Future income tax recovery</b>	3,057,192	1,734,200
<b>Net income for the period</b>	2,676,138	1,097,719
<b>Other comprehensive loss</b>		
Unrealized loss on marketable securities	(18,366)	(265,615)
Future income tax recovery	-	90,628
<b>Other comprehensive loss</b>	(18,366)	(174,987)
<b>Comprehensive income</b>	\$ 2,657,772	\$ 922,732
<b>Income per share:</b>		
- Basic	\$ 0.04	\$ 0.02
- Diluted	\$ 0.03	\$ 0.01
<b>Weighted average number of common shares outstanding:</b>		
- Basic	75,159,308	60,602,852
- Diluted	86,094,266	68,538,952

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**

Consolidated Statements of Shareholders' Equity  
(expressed in Canadian dollars)

	<b>For the Three Months Ended March 31, 2009</b>		<b>For the Year Ended December 31, 2008</b>	
	<u>Number of Shares</u>		<u>Number of Shares</u>	
<b>Share capital</b>				
Balance at the beginning of the year	75,159,308	\$ 52,734,458	59,746,820	\$ 38,263,819
Common shares issued for cash				
Private placements, net of issue costs	-	-	14,048,799	14,800,811
Exercise of options	-	-	708,700	504,479
Exercise of warrants	-	-	654,989	577,621
Issued for other consideration				
Income tax effect on flow-through share renouncement (Note 8(b))	-	(3,057,192)	-	(1,734,200)
Exercise of options, stock-based compensation	-	-	-	321,928
Balance at the end of the period	75,159,308	49,677,266	75,159,308	52,734,458
<b>Contributed surplus</b>				
Balance at the beginning of the year		468,519		141,184
Fair value of broker warrants issued during the period		-		262,604
Fair value of options cancelled during the period		120,020		64,731
Balance at the end of the period		588,539		468,519
<b>Option compensation</b>				
Balance at the beginning of the year		3,331,206		2,844,831
Stock-based compensation expense		8,236		873,034
Reallocated to share capital		-		(321,928)
Reallocated to contributed surplus		(120,020)		(64,731)
Balance at the end of the period		3,219,422		3,331,206
<b>Deficit</b>				
Balance at the beginning of the year		(9,859,766)		(8,802,449)
Net income (loss) for the period		2,676,138		(1,057,317)
Balance at the end of the period		(7,183,628)		(9,859,766)
<b>Accumulated other comprehensive loss</b>				
Balance at the beginning of the year		(1,013,652)		518,574
Other comprehensive loss		(18,366)		(1,532,226)
Balance at the end of the period		(1,032,018)		(1,013,652)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>75,159,308</b>	<b>\$ 45,269,581</b>	<b>75,159,308</b>	<b>\$ 45,660,765</b>

See Accompanying Notes to the Consolidated Financial Statements

**DIAMONDS NORTH RESOURCES LTD.**Consolidated Statements of Cash Flows  
(expressed in Canadian dollars)

	<b>For the Three Months Ended March 31, 2009</b>	<b>For the Three Months Ended March 31, 2008</b>
<b>Cash flows from (applied to) operating activities</b>		
Net income for the period	\$ 2,676,138	\$ 1,097,719
Items not involving cash:		
Amortization	18,104	15,715
Stock-based compensation	8,236	311,594
Future income taxes	(3,057,192)	(1,734,200)
	(354,714)	(309,172)
Net change in non-cash working capital items:		
Receivables	415,564	517,273
Prepaid expenses	10,170	(64,353)
Accounts payable and accrued liabilities	(22,543)	(1,104,167)
Due to related parties	16,073	1,613
	64,550	(958,806)
<b>Cash flows from (applied to) investing activities</b>		
Cash, exploration funds	391,910	1,867,776
Mineral property acquisition and exploration costs, net of recoveries	101,208	(1,020,663)
Accounts payable and accrued liabilities related to mineral properties	(964,606)	(883,648)
Loan and interest receivable	-	(3,743)
Purchase of equipment	-	(80,352)
	(471,488)	(120,630)
<b>Cash flows from financing activity</b>		
Shares issued for cash, net of issue costs	-	1,029,390
<b>Decrease in cash and cash equivalents</b>	(406,938)	(50,046)
<b>Cash and cash equivalents, beginning of period</b>	3,602,896	4,039,853
<b>Cash and cash equivalents, end of period</b>	\$ 3,195,958	\$ 3,989,807

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 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 three months ended March 31, 2009, the Company reported net income of \$2,676,138, largely due to a future income tax adjustment. However, the Company has a history of losses and an accumulated deficit of \$7,183,628. Management believes its \$6,413,390 working capital is sufficient to meet administrative, exploration and property obligations for the 2009 year.

For 2009, management exploration budget will be funded by the remaining flow-through expenditure obligations carried over from the 2008 financing. In 2008, the Company implemented cash preservation measures whereby, senior employees, a consultant have mutually agreed to defer 10% of their salaries or fees and the independent directors agreed to defer their retainer. These amounts will accrue as a debt owing by the Company and shall not bear interest. At the Company's election, this debt can be satisfied in cash and/or common shares.

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 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  
March 31, 2009  
(expressed in Canadian dollars)

---

### 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 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 or redeemable features of three months or less from the date of acquisition, and readily convertible to known amounts of cash without a significant risk of change in value.

### 3. Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments.

#### (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 did not impact the Company.

#### **New Accounting Pronouncements Not Yet Adopted:**

Below is 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.

#### (b) 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.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

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

#### (c) 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.

### 4. Marketable Securities

	Cost	Unrealized Gain/(Loss)	Fair Value
Available-for-sale securities at March 31, 2009	\$ 1,405,617	\$ (925,348)	\$ 480,269

Included in the carrying value of available-for-sale marketable securities are 1,050,000 common shares of Uranium North Resources Corp. ("Uranium North"), 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. At March 31, 2009, the closing price of Uranium North was \$0.09 per share.

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

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

The Company's financial instruments at December 31, 2008 include cash and cash equivalents, cash exploration funds, receivables, deposits, accounts payable and accrued liabilities, and amounts due to related parties and 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.

#### (b) Risk management

##### *Credit Risk*

The Company is exposed to credit risk with respect to its cash, cash equivalents, cash exploration funds and receivables. To minimize this risk, cash, cash equivalents and cash exploration funds have been placed with major Canadian financial institutions. Receivables include GST which has low risk of default.

The current financial crisis increases credit risk, as service providers may not always be able to perform in accordance with the terms of a contract. To help mitigate this risk with contracts that require large advances, the Company may place funds in-trust with a lawyer.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

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

#### *Equity Market Risk*

The Company is exposed to equity price risk arising from its marketable securities, which are classified as available for sale.

#### *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, 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.

The current financial crisis increases liquidity risk, 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 which could be difficult to sell in depressed markets.

#### *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 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, see Note 1. As an exploration stage company, the Company is currently unable to self-finance its operations.

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 current financial crisis has increased market volatility and placed downward pressure on stock prices.

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

March 31, 2009

(expressed in Canadian dollars)

### 6. Mineral Properties

As at March 31, 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(1)	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
Exploration:											
Airborne geophysics	8,522	-	-	380	-	-	-	3,896	-	-	12,798
Camp costs	492	-	-	3,245	3,164	116	3,595	2,602	-	-	13,214
Drilling - Core	24,720	-	-	-	-	-	-	-	-	-	24,720
Drilling - Percussion	10,198	-	-	-	-	-	-	-	-	-	10,198
Geochemistry	3,736	-	-	-	-	-	2,530	1,612	-	-	7,878
Geology	42,091	6,502	1,653	2,123	2,141	1,075	1,639	12,497	-	146	69,867
Ground geophysics	2,148	-	-	-	-	-	-	3,300	-	-	5,448
Permitting	3,888	535	535	535	-	-	535	2,139	-	535	8,702
Property	283	6,337	-	-	-	-	-	-	-	-	6,620
	96,078	13,374	2,188	6,283	5,305	1,191	8,299	26,046	-	681	159,445
Less:											
Recoveries	(4,726)	(24,467)	(81)	(215)	-	(551)	(28,531)	-	-	-	(58,571)
Net additions	91,352	(11,093)	2,107	6,068	5,305	640	(20,232)	26,046	-	681	100,874
Balance at March 31, 2009	\$ 22,357,834	\$ 359,593	\$ 165,353	\$ 403,209	\$ 1,281,874	\$ 4,442,269	\$ 2,493,645	\$ 9,029,781	\$ 526,110	\$ 222,936	\$ 41,282,604

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  
March 31, 2009  
(expressed in Canadian dollars)

---

### 6. Mineral Properties (continued)

#### (a) Amaruk Project, Nunavut

The Amaruk property is in close proximity to 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.

#### (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 2,000,000 common shares to the Company (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 and contiguous with the Amaruk and Ualliq properties. The Company is the project operator.

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

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

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

On October 4, 2006, the Company and Arctic Star Diamond Corp. ("Arctic Star") entered into an agreement covering an area within the southwest portion of the Company's Amaruk Project. Arctic Star earned a 50% interest in the Siku project by issuing 1,500,000 shares to the Company, funding approximately \$956,000 in bonds on the claims 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.

#### (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. 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 Washburn is subject to a 2% GOR, both on diamonds.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

### 6. Mineral Properties (continued)

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

The Company holds a 100% interest in the Banks Island property.

On July 5, 2007, the Company acquired Majescor Resources Inc. ("Majescor") 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 July 18, 2009. 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 Hepburn property located approximately 300 kilometres north of Yellowknife.

#### (i) Kidme, Northwest Territories

The Company holds a 100% interest in the Kidme project. In 2008, the Company purchased SouthernEra Diamonds Inc. the co-owner of the property's 60% interest for \$20,000.

#### (j) Other properties

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

##### (i) Arnaq, Nunavut

The Arnaq property 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, 2009, the carrying value of the Arnaq project is \$70,942.

##### (ii) 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.

##### (iii) 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  
March 31, 2009  
(expressed in Canadian dollars)

### 7. Property, Plant and Equipment

			2009
	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 36,167	\$ 23,450	\$ 12,717
Computer equipment	113,376	67,192	46,184
Computer software	8,953	5,596	3,357
Equipment	220,126	83,523	136,603
Leasehold improvements	35,882	27,156	8,726
	\$ 414,504	\$ 206,917	\$ 207,587

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

### 8. Share Capital

#### (a) Authorized

Unlimited common shares without par value.

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

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 \$3,057,192, which is deducted from share capital.

#### (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 12,189,700 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, 2009, the Company had stock options outstanding for the purchase of 7,449,000 common shares which 7,431,500 stock options were exercisable at March 31, 2009.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	7,649,000	\$ 0.87
Expired	(200,000)	\$ 1.02
Outstanding at March 31, 2009	7,449,000	\$ 0.87

**DIAMONDS NORTH RESOURCES LTD.**

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

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

The following summarizes information about stock options outstanding at March 31, 2009:

Number of Shares	Exercise Price	Expiry Date
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
1,565,000	\$ 0.770	February 27, 2012
600,000	\$ 1.010	May 3, 2012
337,000	\$ 1.030	May 9, 2012
1,411,000	\$ 0.880	February 14, 2013
70,000	\$ 0.820	September 2, 2013
<u>7,449,000</u>		

Subsequent to March 31, 2009, 140,000 stock options with an expiry date of February 14, 2013 were cancelled.

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

For stock options which vested during the period, the compensation expense is estimated using the Black-Scholes option pricing model using a weighted average fair value of \$0.47 per option granted based on the following weighted average assumptions:

	2009
Risk-free interest rate	3.08%
Expected dividend yield	-
Expected stock price volatility	65%
Expected option life in years	5.00

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, if it had been allocated to the statement of operations by expense categories:

	2009
Accounting and audit	\$ 1,176
Directors' fees	5,884
Wages and benefits	1,176
<u>Stock-based compensation expense</u>	<u>\$ 8,236</u>

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

### 8. Share Capital (continued)

#### (e) Warrants

At March 31, 2009, the Company had outstanding warrants to purchase an aggregate of 3,485,958 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2008	Issued	Exercised	Expired	Outstanding at March 31, 2009
\$1.30	July 7, 2009	1,916,800	-	-	-	1,916,800
\$1.30	July 7, 2009	608,000	-	-	-	608,000
\$1.30	July 7, 2009	24,000	-	-	-	24,000
\$1.30	July 7, 2009	655,038	-	-	-	655,038
\$1.30	July 9, 2009	253,500	-	-	-	253,500
\$1.30	July 9, 2009	28,620	-	-	-	28,620
		3,485,958	-	-	-	3,485,958

### 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 \$9,741 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, 2009, an officer of the Company has been paid \$9,600 for corporate secretarial services, which has been expensed as administration fees.
- (c) For the three months ended March 31, 2009, a director of the Company has been paid \$4,725 for geological consulting, which has been charged to mineral properties.
- (d) Amounts due to related parties, totalling \$55,078, consist of deferred salaries and retainer, fees and reimbursement of expenses owed to directors and officers of the Company.
- (e) As at March 31, 2009, the Company held 12.1% of the issued common shares of Uranium North. Included in receivables is \$12,542 owed by Uranium North, a company related by virtue of other common directors, for mineral property, administrative and office costs.

### 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 \$98,000 per year.

## DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements  
March 31, 2009  
(expressed in Canadian dollars)

---

### 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.

### 12. Supplemental Cash Flow Information

	2009
Financing activities	
Income tax effect on flow-through share renouncement	\$ (3,057,192)
Receivables included in mineral properties recoveries	186,375
Accounts payable included in mineral properties	189,304
	<hr/> \$ (2,681,513)
Cash and cash equivalents	
Cash	\$ 3,187,607
Cash equivalents	8,351
	<hr/> \$ 3,195,958
Other cash flow information:	
Interest received	\$ 34
Interest paid	\$ -
Income taxes paid	\$ -

### 13. Income Taxes

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through share gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances, which have not been spent and are held by the Company for such expenditures. As at March 31, 2009, the amount of flow-through proceeds remaining to be expended is \$2,115,123.

## **HEAD OFFICE**

Diamonds North Resources Ltd.  
Suite 510, 510 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3A8

**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*

Nancy Curry  
*VP, Corporate Communications*

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

Janice Davies  
*Corporate Secretary*

## **LISTINGS**

TSX Venture Exchange: **DDN**  
Tier One

## **CAPITALIZATION**

(as of March 31, 2009)

Shares Authorized: Unlimited

Shares Issued: 75,159,308

## **REGISTRAR & TRUST AGENT**

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

## **AUDITOR**

Davidson & Company  
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

