

DIAMONDS NORTH RESOURCES LTD.

**Consolidated Financial Statements
September 30, 2007**

<u>Index</u>	<u>Page</u>
Notice	2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Other Comprehensive Loss	4
Consolidated Statements of Shareholders' Equity and Deficit	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-18
Management Discussion and Analysis	19

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 nine months ended September 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)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,876,859	\$ 4,340,398
Cash, exploration funds (Note 13)	4,693,059	7,315,991
Marketable securities (Note 4)	1,447,000	566,201
Accounts receivable (Note 9(a)&(d))	706,549	1,376,034
Prepaid expenses	334,009	217,331
Field supplies	161,196	93,201
Deposits, in-trust	66,207	15,000
	12,284,879	13,924,156
Loan and interest receivable (Note 5)	322,815	311,596
Mineral properties (Note 6)	25,754,584	16,023,782
Property, plant and equipment (Note 7)	183,287	117,408
	\$ 38,545,565	\$ 30,376,942
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,196,828	\$ 585,734
Due to related parties (Note 9(c))	8,400	51,359
	3,205,228	637,093
Future income taxes	824,910	753,385
	4,030,138	1,390,478
SHAREHOLDERS' EQUITY		
Share capital	37,111,267	34,713,764
Contributed surplus	126,145	126,133
Option compensation	2,412,470	1,677,584
Accumulated other comprehensive income	347,715	-
Deficit	(5,482,170)	(7,531,017)
	34,515,427	28,986,464
	\$ 38,545,565	\$ 30,376,942

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

Approved by the Directors:

“Mark Kolebaba”
Mark Kolebaba

“Bernard Kahlert”
Bernard H. Kahlert

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

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

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
General and administrative expenses				
Accounting and audit*	\$ 17,185	\$ 14,411	\$ 59,784	\$ 46,004
Administration fees*	12,042	9,959	41,979	38,218
Amortization	14,257	8,965	33,001	19,102
Annual report and meeting	-	-	11,433	37,617
Bad debt expense	-	-	24,728	-
Bank charges and interest	2,418	1,183	36,770	17,940
Consulting fees*	2,524	6,895	38,886	29,581
Directors' fees*	104,206	33,106	282,694	100,385
Filing fees	6,634	315	21,987	10,506
Insurance	11,277	14,486	40,251	40,408
Investor relations and promotion*	103,196	89,608	473,994	237,443
Legal fees	5,939	(102,367)	18,516	48,268
Office and miscellaneous	15,193	29,073	55,407	94,426
Rent and storage	22,695	22,495	65,518	65,877
Transfer agent fees	7,240	14,591	16,216	24,661
Wages and benefits*	231,319	198,868	772,902	480,257
	(556,125)	(341,588)	(1,994,066)	(1,290,693)
Other income (expenses)				
Interest income	100,946	66,763	301,340	144,945
Mineral property transactions	(167)	78,335	341,731	78,335
Property investigation	(109)	4,116	(384)	(1,294)
Write down of marketable securities	-	(30,000)	-	(30,000)
Write down of mineral properties	-	-	(1,055,554)	(385,841)
Gain on sale of marketable securities	-	235,746	953,362	396,209
Income (loss) before income taxes	(455,455)	13,372	(1,453,571)	(1,088,339)
Future income tax recovery (Note 8(c))	-	1,114,018	3,502,418	1,967,078
Income (loss) for the period	\$ (455,455)	\$ 1,127,390	\$ 2,048,847	\$ 878,739
Other comprehensive loss				
Unrealized loss on marketable securities	(758,115)	-	(180,565)	-
Unrealized loss on convertible loan	(9,571)	-	(47,778)	-
Future income tax recovery	135,832	-	193,905	-
Other Comprehensive loss	\$ (631,854)	\$ -	\$ (34,438)	\$ -
Basic earnings per share	\$ (0.01)	\$ 0.03	\$ 0.04	\$ 0.02
Diluted earnings per share	\$ (0.01)	\$ 0.02	\$ 0.03	\$ 0.02
Weighted average number of shares outstanding				
-Basic	55,914,592	43,042,730	53,298,300	40,723,493
-Diluted	55,914,592	53,870,656	61,153,089	51,551,419
* Stock-based compensation expense (Note 8(e)) included above, as follows:				
Accounting and audit	\$ 3,255	\$ 6,716	\$ 16,484	\$ 13,434
Administration fees	2,442	5,854	13,179	11,708
Consulting fees	2,524	14,395	33,196	28,789
Directors' fees	94,206	33,106	252,694	100,385
Investor relations and promotions	20,362	19,240	61,814	30,564
Wages and benefits	126,812	97,800	413,803	193,295
	\$ 249,601	\$ 177,111	\$ 791,170	\$ 378,175

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)

	Nine Months Ended September 30, 2007		Year Ended December 31, 2006	
	<u>Number of Shares</u>		<u>Number of Shares</u>	
Share capital				
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	4,551,000	4,305,828	10,633,422	9,451,626
Exercise of options	1,071,500	457,641	77,300	27,375
Exercise of warrants	210,000	180,180	1,339,500	1,232,107
Issued for other consideration				
Plan of arrangement	-	-	-	(1,065,195)
Mineral property acquisition	1,000,000	900,000	-	-
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
Balance at the end of the period	58,411,820	37,111,267	51,579,320	34,713,764
Contributed surplus				
Balance at the beginning of the year		126,133		63,522
Fair value of options cancelled during the period		12		62,611
Balance at the end of the period		126,145		126,133
Option compensation				
Balance at the beginning of the year		1,677,584		1,211,198
Stock-based compensation expense		791,170		555,287
Reallocated to share capital		(56,272)		(26,290)
Reallocated to contributed surplus		(12)		(62,611)
Balance at the end of the period		2,412,470		1,677,584
Deficit				
Balance at the beginning of the year		(7,531,017)		(6,564,600)
Net income (loss) for the period		2,048,847		(966,417)
Balance at the end of the period		(5,482,170)		(7,531,017)
Accumulated Other Comprehensive Income				
Adjustment to opening balance – change in accounting policy (Note 3)		1,200,902		-
Unrealized loss on available for sale marketable securities		(180,565)		-
Unrealized loss on conversion of loan receivable		(47,778)		-
Reclassification of gains on marketable securities, transferred to net income		(553,301)		-
Future income tax		(71,543)		-
Balance at the end of the period		347,715		-
TOTAL SHAREHOLDERS' EQUITY	58,411,820	\$ 34,515,427	51,579,320	\$ 28,986,464

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 Nine Months Ended	
	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2007	Sept. 30, 2006
Cash flows from (applied to) operating activities				
Income (loss) for the period	\$ (455,455)	\$ 1,127,390	\$ 2,048,847	\$ 878,739
Items not involving cash:				
Amortization	14,257	8,965	33,001	19,102
Stock-based compensation	249,601	177,111	791,170	378,175
Write down of mineral properties	-	-	1,055,554	385,841
Future income taxes	-	(1,114,018)	(3,502,418)	(1,967,078)
Marketable securities received under mineral property transactions	-	-	(341,040)	-
Write down of marketable securities	-	30,000	-	30,000
Gain on sale of marketable securities	-	(235,746)	(953,362)	(396,209)
	(191,597)	(6,298)	(868,248)	(671,430)
Net change in non-cash working capital items:				
Accounts receivable	(204,152)	(1,339,004)	669,485	(1,237,620)
Prepaid expenses	38,425	(47,333)	(116,678)	(75,357)
Field supplies	(161,196)	-	(67,995)	-
Deposits	-	429,336	(51,207)	(15,000)
Accounts payable and accrued liabilities	(46,317)	(51,405)	(228,800)	(40,953)
Due to related parties	(48,412)	43,132	(42,959)	40,736
	(613,249)	(971,572)	(706,402)	(1,999,624)
Cash flows from (applied to) investing activities				
Cash, flow-through exploration funds	(2,652,223)	(118,977)	2,622,932	1,445,274
Proceeds from sale of marketable securities, net	-	276,176	1,042,842	482,389
Mineral property acquisition and exploration costs, net of recoveries	(6,617,447)	(2,374,715)	(10,096,356)	(4,143,542)
Accounts payable and accrued liabilities related to mineral properties	2,032,883	(152,477)	2,839,895	(8,663)
Loan and interest receivable	(3,781)	(307,815)	(11,219)	(307,815)
Purchase of equipment	(51,926)	(15,181)	(98,880)	(75,058)
	(7,292,494)	(2,692,989)	(3,700,786)	(2,607,415)
Cash flows from financing activity				
Shares issued for cash, net of issue costs	4,486,008	3,800,566	4,943,649	3,805,079
Increase (decrease) in cash and cash equivalents				
	(3,419,735)	136,005	536,461	(801,960)
Cash and cash equivalents, beginning of period				
	8,296,594	2,777,896	4,340,398	3,715,861
Cash and cash equivalents, end of period				
	\$ 4,876,859	\$ 2,913,901	\$ 4,876,859	\$ 2,913,901

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 September 30, 2007
(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.

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 September 30, 2007, the Company had an accumulated deficit of \$5,482,170 and had working capital of \$9,079,651, 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 September 30, 2007
(Unaudited – See Notice)
(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 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 September 30, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

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 September 30, 2007
(Unaudited – See Notice)
(expressed in Canadian dollars)

4. Marketable Securities

	Carrying Value	Unrealized Gain/(loss)	Fair Value
Available-for-sale	\$ 1,027,743	\$ 419,257	\$ 1,447,000
Conversion of loan receivable	-	-	-
	<u>\$ 1,027,743</u>	<u>\$ 419,257</u>	<u>\$ 1,447,000</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. At September 30, 2007, the Uranium North convertible units were out of the money.

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 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 September 30, 2007
 (Unaudited – See Notice)
 (expressed in Canadian dollars)

6. Mineral Properties

As at September 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	1,397	16,610	-	-	-	900,000	1,200	-	-	-	919,207
Exploration:											
Project admin.	29,511	3,184	2,074	5,675	113	663	11,505	-	3,679	58	56,462
Airborne geoph.	1,449,218	446,076	100,558	1,293,788	377	324,125	1,565,674	-	1,564	-	5,181,380
Camp costs	992,529	120,731	7,857	286,973	-	57,906	241,211	-	7,702	-	1,714,909
Drilling - Core	767,479	-	-	-	-	-	-	-	-	-	767,479
Drilling - RC	2,011,592	161,120	16,120	165,790	-	-	667,394	-	-	-	3,022,016
Geochemistry	131,641	87,537	-	-	309	93,012	77,241	-	24,394	-	414,134
Geology	168,486	5,654	5,760	83,390	4,752	9,139	21,915	-	-	-	299,096
Ground geoph.	620,767	20,100	2,343	32,468	-	7,714	11,302	-	-	-	694,694
Mobilization	79,246	-	-	7,549	-	35,059	9,266	-	-	-	131,120
Permitting	386	-	-	-	-	2,075	-	-	-	-	2,461
Prospecting	116,941	13,773	6,582	10,783	-	4,483	5,580	-	-	-	158,142
Property	56,791	53,409	-	203,006	8,802	3,948	564,220	-	55,893	17,937	964,006
	6,424,587	911,584	141,294	2,089,422	14,353	538,124	3,175,308	-	93,232	17,995	13,405,899
Less:											
Recoveries	(154,978)	(1,076,558)	(171,310)	(1,994,881)	-	(66,523)	-	-	(61,405)	(13,095)	(3,538,750)
Write downs	-	-	-	-	-	-	-	-	(689,896)	(365,658)	(1,055,554)
	(154,978)	(1,076,558)	(171,310)	(1,994,881)	-	(66,523)	-	-	(751,301)	(378,753)	(4,594,304)
Net additions	6,271,006	(148,364)	(30,016)	94,541	14,353	1,371,601	3,176,508	-	(658,069)	(360,758)	9,730,802
Balance at											
September 30, 2007	\$ 10,687,013	\$ (132,971)	\$ (27,854)	\$ 126,472	\$ 4,120,672	\$ 1,654,199	\$ 7,081,761	\$ 447,426	\$ 891,561	\$ 906,305	\$ 25,754,584

1. Included under "Amaruk Property" in 2006.

DIAMONDS NORTH RESOURCES LTD.

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

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 (completed). 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.

DIAMONDS NORTH RESOURCES LTD.

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

6. Mineral Properties (continued)

(f) 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 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.

(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 September 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 September 30, 2007, the carrying value of the Arnaq project is \$70,875.

DIAMONDS NORTH RESOURCES LTD.

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

6. Mineral Properties (continued)

(j) Other Properties (continued)

(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.

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 36,167	\$ 18,353	\$ 17,814
Computer equipment	97,340	40,542	56,798
Equipment	114,899	23,920	90,979
Leasehold improvements	35,882	18,186	17,696
	<u>\$ 284,288</u>	<u>\$ 101,001</u>	<u>\$ 183,287</u>

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

8. Share Capital

(a) Authorized:

Unlimited common shares without par value.

(b) Private placements

On August 16th and 23rd, 2007, the Company completed the first and second tranches of a non-brokered private placement of 4,551,000 flow-through common shares at a price of \$1.00 per share. Finder's fee of \$217,750 in cash and 261,300 in warrants to purchase up to 261,300 common shares at a price of \$1.00 of which 231,300 warrants expire on August 15, 2008 and 30,000 warrants expire on August 22, 2008, were paid and issued to non-related third parties in connection with the financing.

All the securities issued hereunder are subject to a four month hold period as follows: 4,001,000 flow-through shares and any shares issued on exercise of 231,300 warrants may not be traded until December 16, 2007; and 550,000 flow-through shares and any shares issued on exercise of 30,000 warrants may not be traded until December 23, 2007.

(c) 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.

DIAMONDS NORTH RESOURCES LTD.

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

8. Share Capital (continued)**(d) 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 September 30, 2007, the Company had stock options outstanding for the purchase of 7,077,700 common shares with an average remaining contractual life of 3.17 years, of which 6,201,700 stock options were exercisable at September 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
Expired	(300)	\$ 0.43
Outstanding at September 30, 2007	7,077,700	\$ 0.85

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

Number of Shares	Exercise Price	Expiry Date
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
7,077,700		

DIAMONDS NORTH RESOURCES LTD.

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

8. Share Capital (continued)

(e) 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 September 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.

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

Accounting and audit	\$	16,484
Administration fees		13,179
Consulting fees		33,196
Directors' fees		252,694
Investor relations and promotions		61,814
Wages and benefits		413,803
Stock-based compensation expense	\$	791,170

(f) Warrants

At September 30, 2007, the Company had outstanding warrants to purchase an aggregate of 777,089 common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2006	Issued	Exercised	Expired	Outstanding at September 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
\$ 1.000	August 15, 2008	-	231,300	-	-	231,300
\$ 1.000	August 22, 2008	-	30,000	-	-	30,000
		4,165,389	261,300	(210,000)	(3,439,600)	777,089

DIAMONDS NORTH RESOURCES LTD.

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

9. Related Party Transactions

The Company had the following related party transactions and balances:

- (a) Included in accounts receivable is \$27,890 owed by Commander Resources Ltd., a company related by virtue of a common director, for shared office costs.
- (b) As at September 30, 2007, a director of the Company has been paid a total of \$14,175 for consulting fees which has been charged to deferred exploration expenditures. In addition, the Company has paid a retainer of \$7,500 to each of the four independent directors of the Company.
- (c) Amounts due to related parties, totalling \$8,400, consist of fees and reimbursement of expenses owed to directors and officers of the Company.
- (d) As at September 30, 2007, the Company held 14.1% of the issued common shares of Uranium North. Included in accounts receivable is \$138,949 owed by Uranium North, a company related by virtue of other common directors, for mineral property 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 \$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	\$	(551,040)
Mineral property acquired with common shares		900,000
	\$	348,960

Financing activities

Income tax effect on flow-through share renouncement (Note 8(c))	\$	3,502,418
Mineral property acquired with common shares		(900,000)
Stock-based compensation		(56,272)
	\$	2,546,146

DIAMONDS NORTH RESOURCES LTD.

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

12. Supplemental Cash Flow Information (continued)

Other cash flow information:

Interest received	\$	240,913
Interest paid	\$	31,436
Income taxes paid	\$	-

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 September 30, 2007 and which are held by the Company for such expenditures. As at September 30, 2007, the amount of flow-through proceeds remaining to be expended is \$4,693,059.

14. Subsequent Event

On November 23, 2007, the Company announced a non-brokered private placement of up to 1,250,000 flow-through common shares at a price of \$1.00 per share. The flow-through shares will be subject to a hold period of four months plus one day from the closing of the offering.