



**DIAMONDS NORTH**  
RESOURCES LTD.

**CLARITY**



**DILIGENCE**



**PERSISTENCE**



## Letter from the President

Mark Kolebaba

This past year was a turning point for Diamonds North Resources. Exploration successfully shifted from land acquisition to discovery. Through our clarity, diligence and perseverance the Diamonds North team has achieved several significant milestones, unprecedented in the industry which brings us closer to our goal of discovering an Ekati or Diavik size deposit.

Our achievements have clearly differentiated Diamonds North from its peers and our property portfolio positions us, in our opinion, as the company most likely to discover Canada's next major diamond deposit.

Clarity, diligence and perseverance, are the drivers for Diamonds North's success.



**Clarity** for us is categorically understanding our exploration target and the path to discovery. This is paramount in our business. An Ekati or Diavik size deposit (\$10 billion in-situ value) is the target, and the path we have chosen is science, innovation and partnerships. This clarity has successfully increased the number of opportunities, while reducing both financial and technical risk for our shareholders.

We further demonstrated our clarity of purpose when we transferred Diamond North's uranium assets to Uranium North Resources Corp. through a Plan of Arrangement. The successful completion of this transfer realized shareholder value by unleashing the merit of our uranium assets and enabled Diamonds

North to remain focused on the objective of discovering economic diamond deposits.

**Diligence**, a methodical approach to exploration and business, has been one of our strengths. It is diligence that allowed us to rapidly and effectively evaluate large tracts of prospective land. In 2002, Diamonds North started with approximately 1 million acres of land in its portfolio and, by 2005 we had evaluated over 300 million acres leading to the acquisition of over 27 million acres. As the second largest holder of mineral rights in Canada (after De Beers), Diamonds North diligently focused this diverse portfolio to what we believe are 8 million acres of the most prospective diamond terrain in Canada.

Diligence is a fundamental building block for Diamonds North and remains the most important pillar of our business plan. Our diligence is reflected by the management team's ability to identify and overcome challenges. Diamonds North has assembled an elite team of diamond explorers, complemented by a management team and board of directors with expertise in finance, business management, exploration and mining—collectively bringing together an intelligent alchemy of science, business and experience.

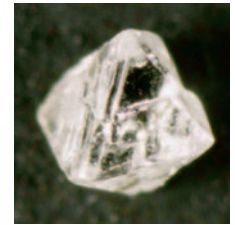
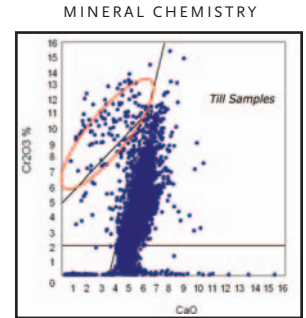
**Perseverance** has been maintained by focusing on the target and not deviating from the corporate plan. The Company has isolated 4 key projects, 3 of which we believe have Ekati or Diavik size potential. This year Diamonds North will focus on its 3 main opportunities:

- 1) Amaruk and surrounding partnerships
- 2) Hepburn
- 3) Banks Island

## Amaruk

A good example of management's clarity, diligence and perseverance in 2006 is our consolidation of a 100% interest in the Amaruk property. In early 2006, our senior partner, who was operating and sole funding exploration on Amaruk, informed Diamonds North of its intention to cease sole funding and retain a participating 50% interest in the property. Through a twist of business acumen, Diamonds North obtained a 51% controlling interest and negotiated the partner to a 0% interest subject to a 2% royalty. As a result our shareholders now own 100% of this opportunity.

Within two months of acquiring full ownership of Amaruk, Diamonds North received a third party report written by Dr. John Gurney of Mineral Services which reported on the exceptional characteristics of the diamonds from the property. This report confirms our confidence that the property has economic potential. The Company rapidly re-evaluated the existing geophysics to identify high priority targets, obtained land-use permits for drilling, contracted a drill and by August drilled the first 5 kimberlites on the property.



*Above: Weatherhavs located on the Amaruk project; Right: Micro diamond recovered from a sample taken from Amaruk in 2005.*



In addition, in its first year of operation, the Company doubled the amount of geophysical surveying that had been completed on the property in the two previous years, and collected an additional 1700 till samples. The Diamonds North team has identified 580 targets within a 90 by 30-kilometre area in the central portion of the Amaruk property. Parts of the property with diamond potential peripheral to the 580 targets have been optioned out to other companies and land with no apparent diamond potential has been relinquished.

What a difference a year can make! Diamonds North has greatly reduced its financial commitment on Amaruk and progressed the project from till sampling to mini-bulk sampling in just one year. Diamond results from the first kimberlite discovered by Diamonds North are very encouraging, as predicted by the mineral chemistry. The recovery of 606 diamonds from 457 kilograms from the Qavvik kimberlite warrants a 5 to 10 tonne mini-bulk sample as the next phase of exploration.

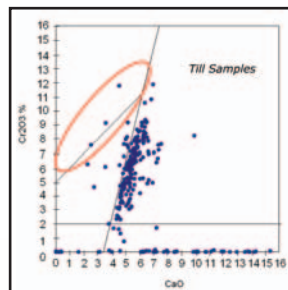
## Hepburn

During 2006 Diamonds North also experienced exploration success on the 100% owned Hepburn property which is approximately 200 kilometres northwest of the Ekati Diamond Mine and is located along the western margin of the Slave Craton. The Slave Craton is one of the most prolific diamond producing terrains in North and South America. Over 200 geophysical targets have been identified from an airborne survey covering only 30% of the property. These targets range in size from 1 to 8 hectares and are associated with kimberlite indicator minerals including G10 and eclogitic garnets often found in highly diamondiferous kimberlite.



*Above: Mobilizing camp on Hepburn.*

MINERAL CHEMISTRY



## DIAMOND FACTS

Diamonds North Resources recognizes the potential associated with discovering Canada's next diamond mine and is positioned to seize that opportunity. With increased consumption and supply shortages anticipated, the potential for profit in the diamond industry will surpass expectations.

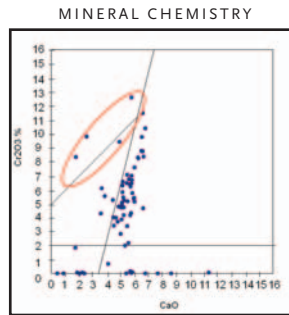
- The current level of demand for diamonds, particularly for those of high colour and quality, is not being met by the world's producing diamond mines, nor are there any known available stockpiles.
- A new Ekati sized diamond mine would have to be brought on stream every two years to meet the current level of demand.
- New demand from Asia and the Middle East is expected to drive consumption to exceed production as early as 2008.
- Rough diamonds recovered from the Fox kimberlite at the Ekati diamond mine were valued at \$125/carats prior to 1998. BHP Billiton has recently reported that those same diamonds are now valued at \$270/carats, more than a 100% increase in less than 10 years.
- Aber Diamond Corp. (30% owner of the Diavik Diamond Mine) announced an increase in net earnings by 28.3% and an 11% increase in sales compared to their previous fiscal year.
- African producers are reporting record prices for rough and increases as high as 30% from 2005.
- DeBeers, the world's primary diamond seller increased rough prices 10% in 2003, 14% in 2004 and 9.5% in 2005.
- Retail sales of diamond jewellery in the United States increased 6.1% in 2006 to \$35.2 billion in 2006, a \$2 billion increase over 2005 sales of \$33.2 billion.
- World rough diamond production of US\$12.9 billion becomes US\$19.3 billion in polished diamonds and ultimately, it progresses to US\$64.5 billion in worldwide diamond jewellery sales.

## Banks Island

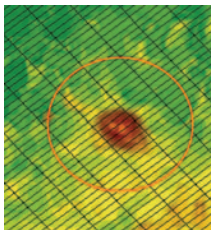
Banks Island, our least developed project, also shows promise. In 2006, Diamonds North and partner, Majescor Resources Inc., completed an airborne survey covering about 10% of the property. A total of 65 targets have been identified including a high priority target estimated at 12 to 14 hectares in size. High quality indicator minerals with numerous targets make this project our newest potential Ekati or Diavik size opportunity.

We have been successful in leveraging our property assets through option agreements. Of the \$45 million spent on developing our property portfolio prior to mid 2006, about \$30 million was funded by partners and the balance by the Company. This has enabled us to explore much larger tracts of land and more projects while minimizing dilution of the Company's shares. The majority of \$15 million spent by Diamonds North was recovered through the formation of Uranium North which generated about \$15 million in value for Diamonds North shareholders.

Building on the success of this model, in 2006 we entered into agreements with International Samuel Exploration Corp. to fund exploration on the Ualliq property, located on the western portion of the Pelly Bay Diamond District; Shear Minerals Ltd. to fund exploration expenditures on the Sakari property, and Arctic Star Diamonds Corp. to fund exploration of the Siku property, both located in the Franklin kimberlite district. Part of our leveraging strategy includes receiving significant equity positions in other companies. Diamonds North currently holds marketable securities of 6 public companies all valued at approximately \$ 6 million at the end of 2006.



**Left:** 12-hectare geophysical target identified on Banks Island. **Right:** Stream sampling on Banks Island in 2005.



## Looking Ahead

Diamonds North has made exceptional progress over the past year defining Amarak, Hepburn and Banks Island as our key properties that offer Ekati or Diavik size opportunities. As we move into the value adding stage, we believe that through our \$10 million budget, plans to drill over 100 targets and collect at least 1 mini-bulk sample, we will create significant value in 2007.

At Amarak, we plan to evaluate over 200 targets with detailed geophysics and drill test the best 60 targets. Using a core drill we anticipate collection of a 5 to 10 tonne mini-bulk sample from the Qavvik kimberlite.

In addition, we will be working with our joint venture partners to explore the Siku and Sakari projects to determine if the recently discovered neighbouring Franklin kimberlite field extends on to either of the properties. At Ualliq, we will be conducting an exploration program with the aim of discovering an entirely new kimberlite field immediately northwest of Amarak.

At Hepburn, we plan to evaluate half of the 200 targets identified, drill test at least 20 of the best targets and complete geophysical surveys over the remaining 70 percent of the property.

On Banks Island, drill targets will be qualified using detailed geophysics and the remaining 90% of the property not covered by geophysics will be surveyed for additional target generation.

We are eager to embark on an aggressive drill testing program this year, and anticipate more kimberlite discoveries on our properties in 2007. This is an exciting time for the Company, and we are working on many fronts to deliver enhanced shareholder wealth. We look forward to reporting further positive developments on the Company's projects during the coming months. We are well-positioned to take full advantage of the growing demand for diamonds and discover Canada's next diamond mine.

Thank you all for your continued support.  
On behalf of the Board of Directors,

Mark Kolebaba,  
President, CEO and Director

### MANAGEMENT

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President & Director

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VP, Operations

Bruce Kienlen,  
VP, Exploration

Nancy Curry,  
VP, Corporate  
Communications

Bernard Kahlert,  
Director

Maynard Brown,  
Director

Terry Lyons,  
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Yale Simpson,  
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William Zimmerman,  
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Michael Lee,  
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Janice Davies,  
Corporate Secretary

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### SHARE STRUCTURE

Trading Symbol: **DDN-TSX** Venture  
Shares Issued: ≈ 51.6 million  
Fully Diluted: ≈ 62.9 million  
Cash & Securities: ≈ \$14 million

**For a complete Annual Report and more details on our property portfolio, please contact us or visit our website.**

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