



DIAMONDS NORTH
RESOURCES LTD.

ANNUAL REPORT 2005

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DIAMONDS NORTH RESOURCES LTD.

**Annual Report
December 31, 2005**

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of Diamonds North Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

"Mark Kolebaba" (signed)

Mark Kolebaba
President and Chief Executive Officer

Vancouver, Canada
March 24, 2006

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AUDITORS' REPORT

To the Shareholders of Diamonds North Resources Ltd.

We have audited the consolidated balance sheets of Diamonds North Resources Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the year December 31, 2003 were audited by another auditor who expressed an opinion without reservation on those statements in his report dated March 30, 2004.

"Smythe Ratcliffe" (signed)

Chartered Accountants

Vancouver, Canada
March 24, 2006

Consolidated Financial Statements
Year Ended December 31, 2005

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Operations and Deficit

For the Years Ended December 31

(expressed in Canadian dollars)

	2005	2004	2003
General and administrative expenses			
Accounting and audit	\$ 69,575	\$ 60,118	\$ 68,179
Administration fees	74,496	85,760	70,996
Amortization	18,672	12,893	6,407
Annual report and meeting	27,417	33,086	16,882
Bad debts	-	-	34,319
Bank charges and interest	3,135	4,855	22,388
Consulting fees	9,590	9,292	31,766
Filing fees	13,283	8,498	6,747
Insurance	52,139	33,064	5,625
Investor relations and promotion	272,282	266,528	272,270
Legal fees	31,427	46,074	47,075
Office and miscellaneous	78,749	88,193	66,582
Rent	83,816	41,241	49,876
Stock-based compensation	452,373	374,277	451,173
Transfer agent fees	14,935	11,248	14,012
Wages and benefits	365,449	245,382	246,137
	(1,567,338)	(1,320,509)	(1,410,434)
Other income (expenses)			
Interest income	47,788	60,773	69,982
Mineral property transactions	-	171,116	3,119
Property investigation	(95,405)	(680,701)	(147,293)
Write down of marketable securities	(3,975)	(31,075)	(21,750)
Write down of mineral properties	(722,009)	(279,547)	(505,834)
Gain on sale of marketable securities	-	3,436	-
Loss before income taxes	(2,340,939)	(2,076,507)	(2,012,210)
Future income tax recovery (expense) (Note 13)	1,758,186	(365,921)	(471,130)
Loss for the year	(582,753)	(2,442,428)	(2,483,340)
Deficit, beginning of year	(5,981,847)	(3,539,419)	(1,056,079)
Deficit, end of year	\$ (6,564,600)	\$ (5,981,847)	\$ (3,539,419)
Basic and diluted loss per share	\$ (0.02)	\$ (0.09)	\$ (0.14)
Weighted average number of shares outstanding	32,349,717	26,110,244	17,986,142

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Consolidated Statements of Cash Flows
For the Years Ended December 31
(expressed in Canadian dollars)

	2005	2004	2003
Cash flows from (applied to) operating activities			
Loss for the year	\$ (582,753)	\$ (2,442,428)	\$ (2,483,340)
Items not involving cash:			
Amortization	18,672	12,893	6,407
Stock-based compensation	452,373	374,277	451,173
Write down of marketable securities	3,975	31,075	21,750
Write down of mineral properties	722,009	279,547	505,834
Future income tax (recovery) expense	(1,758,186)	365,921	471,130
Gain on sale of marketable securities	-	(3,436)	-
	(1,143,910)	(1,382,151)	(1,027,046)
Net change in non-cash working capital items:			
Accounts receivable	(279,146)	(73,070)	275,967
Prepaid expenses	4,500	13,026	(95,451)
Field supplies	14,792	133,899	(111,530)
Bid deposits	500,838	(144,146)	(356,692)
Accounts payable and accrued liabilities	30,803	(1,561)	(20,552)
Due to related parties	(5,667)	(20,386)	(134,195)
	(877,790)	(1,474,389)	(1,469,499)
Cash flows from (applied to) investing activities			
Proceeds from the sale of marketable securities	-	15,336	-
Mineral property acquisition and exploration costs, net of recoveries	(2,753,094)	(6,958,152)	(3,051,617)
Accounts payable and accrued liabilities related to mineral properties	(227,178)	364,188	(408,912)
Cash, exploration funds	(1,578,903)	(793,822)	1,498,685
Purchase of equipment	(12,991)	(32,232)	(50,138)
	(4,572,166)	(7,404,682)	(2,011,982)
Cash flows from (applied to) financing activities			
Note payable	-	-	(13,920)
Shares issued for cash, net of issue costs	8,845,444	5,164,509	7,315,464
	8,845,444	5,164,509	7,301,544
Increase (decrease) in cash and cash equivalents	3,395,488	(3,714,562)	3,820,063
Cash and cash equivalents, beginning of year	320,373	4,034,935	214,872
Cash and cash equivalents, end of year	\$ 3,715,861	\$ 320,373	\$ 4,034,935

Supplemental Cash Flow Information (Note 12)

See Accompanying Notes to the Consolidated Financial Statements

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(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. The Company is in the process of actively exploring and developing its mineral properties and has not yet determined whether these properties contain ore reserves which 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 December 31, 2005, the Company had an accumulated deficit of \$6,564,600 and had working capital of \$6,523,526 which will be sufficient to achieve the Company's planned business objectives for fiscal 2006.

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

These 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.

(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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(c) Financial instruments

The fair values of the Company's cash, cash exploration funds, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying amounts because of the immediate or short-term to maturity of these financial instruments. Due to their nature and the absence of a market for such instruments, it is not practical to determine the fair value of the amount due to related parties.

The fair value of marketable securities is disclosed in Note 4.

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

(d) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities of three months or less from the date of acquisition.

(e) Marketable securities

Marketable securities are carried at the lower of cost or quoted market value on a specific stock basis. When market value of a security is below its cost, any unrealized loss is charged to income.

(f) Mineral properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

These costs are depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to income.

Management's estimates of mineral prices, recoverable proven and probable reserves, and operating, capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on the declining balance basis at annual rates of 20% on office furniture and 30% on computer equipment, from the date of acquisition. Leasehold improvements are amortized on a straight-line basis over six years, from the start of the lease.

(h) Asset retirement obligations

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA"), Section 3110 "Asset Retirement Obligations". This statement establishes standards for accounting for the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As at December 31, 2005 the Company did not have any asset retirement obligations.

(i) Impairment of long-lived assets

The Company has adopted CICA Section 3063 "Impairment of Long-Lived Assets". This statement establishes standards for the recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. The adoption of this standard did not have a material impact on its financial position or results of operations.

(j) Flow-through shares

The Company adopted the CICA accounting pronouncement EIC-146, relating to flow-through shares, for all flow-through share agreements dated after March 18, 2004. Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to the subscribers. The tax impact to the Company of the renunciation is recorded on the date that the renunciation is filed with taxation authorities, through a decrease in share capital and the recognition of a future tax liability.

(k) Stock-based compensation

The Company follows CICA Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" to account for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004. Under this standard, stock-based payments are recorded as an expense in the period the option vests or when the awards or rights are granted, by a corresponding increase to option compensation under shareholders' equity. When stock options are exercised, the corresponding fair value, previously recognized, is transferred to share capital or when stock options are forfeited, cancelled or expire, the corresponding fair value is transferred to contributed surplus.

(l) Income taxes

Income taxes are calculated using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax amounts (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(m) Consolidation of variable interest entities

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities," which became effective for fiscal years beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership based on voting equity. The Company adopted the accounting guideline on January 1, 2005. The adoption of this guideline did not have any impact on these consolidated financial statements.

(n) Loss per share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. However, diluted loss per share has not been presented as the potential exercise of options and warrants outstanding would have the effect of reducing the loss per share. Therefore, basic and diluted loss per share are the same.

3. Certain Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

4. Marketable Securities

During the year, marketable securities were written down by \$3,975 (2004 - \$31,075; 2003 - \$21,750) to a carrying value of \$166,275 (2004 - \$65,250). The quoted market value of marketable securities at December 31, 2005 is \$385,050 (2004 - \$155,175).

5. Bid Deposits

In fiscal 2004, the Company filed applications for permits with the Mining Recorder's Office in Nunavut and Northwest Territories and was required to place bid deposits totalling \$500,838. The prospecting permits were not granted and the Company received a refund of the deposits less application fees in fiscal 2005.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

6. Mineral Properties

As at December 31, 2005 and 2004, the Company's mineral properties are comprised of properties located in Canada. Expenditures incurred on mineral properties are as follows:

	Blue Ice, Hadley Bay, White Ice (1)	Amaruk JV, NU	Washburn, NU	Wellington, NU	Tasiq, NU (2)	Banks Island, NWT (3)	Hepburn, NWT (3)	Kennap NWT (3)	Kidme, NWT	Manitoba Highlands (3)	Northern Recon.	Other Properties	Total
Balance at													
December 31, 2004	\$4,001,975	\$1,505,718	\$ 681,421	\$ -	\$ 422,294	\$ 109,714	\$ 869,383	\$ 162,505	\$ 337,889	\$ 334,876	\$2,278,107	\$ 1,770,512	\$12,474,394
Additions during the period:													
Acquisition costs	-	-	10	-	8,613	-	912,271	227	-	20,000	-	130,016	1,071,137
Exploration:													
Project admin.	-	-	-	32	-	28	125	31	5,979	-	-	-	6,195
Airborne geoph.	179,947	15,925	3,741	2,771	-	-	-	-	-	7,133	656	9,398	219,571
Environment	4,719	-	-	15,315	-	-	-	-	-	-	-	5,161	25,195
Geochemistry	171,489	17,762	20,319	-	81,549	259,868	919,690	171,383	8,755	733	459,340	362,967	2,473,855
Geology	79,934	13,245	7,616	9,522	1,860	5,497	8,670	6,368	4,752	7,411	2,681	18,061	165,617
Ground geoph.	1,200	3,961	-	341	-	-	1,335	-	57,795	3,500	-	4,306	72,438
Mobilization	-	-	-	-	12,518	1,500	-	-	-	-	21,948	6,745	42,711
Permitting	5,760	-	-	-	-	-	2,874	10	-	-	-	-	8,644
Property	870	1,790	23,088	15,829	216	12,073	584	-	-	10	200	-	54,660
Trenching	13,951	-	-	-	-	297	-	-	-	-	-	-	14,248
	457,870	52,683	54,764	43,810	96,143	279,263	933,278	177,792	77,281	18,787	484,825	406,638	3,083,134
Less:													
Recoveries	(540,794)	(18,387)	-	(15,829)	-	(183,820)	-	-	-	(77,549)	(9,797)	(660,001)	(1,506,177)
Write downs	-	-	-	-	-	-	-	-	-	(296,114)	(425,895)	-	(722,009)
	(540,794)	(18,387)	-	(15,829)	-	(183,820)	-	-	-	(373,663)	(435,692)	(660,001)	(2,228,186)
Net additions	(82,924)	34,296	54,774	27,981	104,756	95,443	1,845,549	178,019	77,281	(334,876)	49,133	(123,347)	1,926,085
Balance at													
December 31, 2005	\$3,919,051	\$1,540,014	\$ 736,195	\$ 27,981	\$ 527,050	\$ 205,157	\$ 2,714,932	\$ 340,524	\$ 415,170	\$ -	\$2,327,240	\$ 1,647,165	\$14,400,479

1. Disclosed as separate projects in 2004 but have been combined under an option granted to Teck Cominco Limited.
2. Included under "Northern Recon." in 2004.
3. Included under "Other Properties" in 2004.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

6. Mineral Properties (continued)

	Blue Ice	Hadley Bay	Wellington	Washburn	Kidme	White Ice	Amaruk JV*	Northern Recon.	Other Properties	Total
Balance at										
December 31, 2003	\$ 2,871,345	\$ 310,257	\$ 1,955	\$ 648,287	\$ 190,884	\$ 284,835	\$ 658,641	\$ -	\$ 808,785	\$ 5,774,989
Additions during the year:										
Acquisition costs	5,085	3,395	10,366	-	66,026	-	2,225,207	-	1,739,754	4,049,833
Exploration:										
Project admin.	45	45	15	15	6,804	23	1,215	-	379	8,541
Airborne geoph.	9,920	157	172,607	-	18,931	-	526,205	-	263,209	991,029
Drilling	190,623	21,442	-	-	-	-	-	-	-	212,065
Environment	5,066	-	699	-	-	-	-	-	1,398	7,163
Geochemistry	26,152	2,992	185	-	19,397	-	55,424	1,261,669	704,175	2,069,994
Geology	56,607	13,954	10,378	4,089	11,958	8,682	76,107	14,952	33,364	230,091
Ground geoph.	74,425	6,467	345	1,814	56,096	1,807	2,717	-	8,615	152,286
Mobilization	-	-	-	-	-	-	-	33,700	50,217	83,917
Permitting	8,777	72	-	-	-	-	-	216,991	14,569	240,409
Property	19,385	43,302	39,445	30,050	846	-	-	1,191,824	237,237	1,562,089
Trenching	43,008	175	-	-	-	-	-	-	-	43,183
	434,008	88,606	223,674	35,968	114,032	10,512	661,668	2,719,136	1,313,163	5,600,767
Less:										
Recoveries	-	(6,068)	(235,995)	(2,834)	(33,053)	-	(2,039,798)	(18,735)	(335,165)	(2,671,648)
Net additions	439,093	85,933	(1,955)	33,134	147,005	10,512	847,077	2,700,401	2,717,752	6,978,952
Write downs	-	-	-	-	-	-	-	-	(279,547)	(279,547)
Balance at										
December 31, 2004	\$ 3,310,438	\$ 396,190	\$ -	\$ 681,421	\$ 337,889	\$ 295,347	\$ 1,505,718	\$ 2,700,401	\$ 3,246,990	\$ 12,474,394

* The Amaruk and Pelly Bay projects, included in Other Properties in 2003, were merged in 2004.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

6. Mineral Properties (continued)

Acquisitions

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify title to mineral properties in which it has an interest. Although the Company has taken every precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

Environmental expenditures

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries.

(a) Blue Ice, Hadley Bay and White Ice Victoria Island, Nunavut

The Company holds a 100% interest in the Blue Ice, Hadley Bay and White Ice Projects. In fiscal 2003, the Company entered into a Participation Agreement with Teck Cominco Limited ("Teck Cominco") whereby Teck Cominco could earn up to a 70% interest in the Blue Ice Project. On March 24, 2004, Teck Cominco elected under the June 18, 2003 Participation Agreement to take up the initial option to earn a 30% interest in the Blue Ice Project.

In fiscal 2004, the Company and Teck Cominco entered into an agreement (the "2004 Amending Agreement") to allow Teck Cominco to expand the Participation Agreement to include the Company's adjoining Hadley Bay and White Ice properties. In consideration for the option, Teck Cominco paid the Company \$55,000 and increased the 2004 expenditure requirement by \$1,000,000. Before December 31, 2004, Teck Cominco elected to add the Hadley Bay and White Ice properties to the Participation Agreement and paid the Company another \$55,000 and increased the initial 30% interest aggregate expenditure requirements before August 31, 2007, from \$9,500,000 to \$11,500,000.

Subsequent to December 31, 2005, the companies mutually agreed to terminate the Blue Ice Agreement prior to Teck Cominco earning any interest. To satisfy certain obligations under the agreement, Teck Cominco paid the Company \$650,000 in cash and assigned the future benefit of any bonds recovered to the Company, see Note 14(a).

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(b) Amaruk JV, Nunavut

On May 10, 2004, the Company and BHP Billiton Diamonds Inc. ("BHP Billiton") entered into an agreement to merge the Amaruk and Pelly Bay JV Projects along with approximately 3.5 million acres of land held by BHP Billiton. This project covers approximately 8.0 million acres around the town of Kugaaruk, Nunavut with each party holding a 50% interest in the project.

BHP Billiton initiated the first option which would have allowed BHP Billiton to earn an additional 10% interest (for an aggregate 60% interest) by sole funding the project to feasibility before May 10, 2011. After completing the first option, BHP Billiton could have elected to earn an additional 5% interest (for an aggregate 65% interest) by arranging the Company's portion of financing to production.

Over the next three years, at the election of the Company, BHP Billiton could subscribe to three separate private placements of up to \$1,000,000 each. Each private placement would consist of common shares of the Company at a price with a 20% premium to the market price. The Company made one election (Note 8(c)(i)).

Subsequent to December 31, 2005, the Company completed the acquisition of BHP Billiton's remaining 50% interest the property in consideration for a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on all other minerals, see Note 14(b).

(c) Washburn, Victoria Island, Nunavut

The Company holds a 100% interest in the Washburn property subject to a 2% gross overriding royalty.

(d) Wellington, Victoria Island, Nunavut

The Company holds a 100% interest in the Wellington Project. In 2002, an option was granted to Majescor Resources Inc. ("Majescor"), whereby Majescor could earn a 50% interest in the property in consideration of expending \$2,250,000 on the property by December 31, 2006. By mutual agreement, the companies have elected to terminate the option agreement.

(e) Tasiq, Nunavut

The Company holds a 100% interest in the 449,000 acre Tasiq property. Tasiq is located within the De Beers Canada Inc. 4.0 million acre permit block south of Baker Lake, Nunavut.

(f) Banks Island, Northwest Territories

The Company holds a 50% interest in the 1.2 million acre Banks Island property. In 2003, the Company entered into an alliance with Majescor to jointly explore for regional projects on a 50/50 cost sharing basis in three areas, one of which was Banks Island.

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Notes to Consolidated Financial Statements
December 31, 2005 and 2004
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6. Mineral Properties (continued)

(g) Hepburn, Northwest Territories

The Company holds a 100% interest in the 3.6 million acre Hepburn property located approximately 300 kilometres north of Yellowknife. Subsequent to December 31, 2005, the Company allowed approximately 1.8 million acres to lapse.

(h) Kennap, Northwest Territories

The Company holds a 100% interest in the 162,000 acre Kennap property. Kennap is located 235 kilometres northeast of Yellowknife.

(i) 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(l)(i)). SouthernEra Resources Ltd., 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 covering prospective geophysical anomalies. This new land position is held on a 50/50 basis by the two companies.

(j) Manitoba NE Highlands, Manitoba

On May 7, 2004, the Company acquired eight mineral exploration licenses totaling 874,000 acres in northern Manitoba. Five licenses were granted to the Company through the license application process and a 100% interest in three additional licenses were acquired from a private company, Indicator Explorations Ltd. ("Indicator Explorations"). Upon signing the agreement, the Company paid \$10,000 in cash and issued Indicator Explorations 20,000 common shares. Additional optional cash payments in the aggregate of \$530,000 are payable to Indicator Explorations in stages to May 7, 2008. The first anniversary payment of \$40,000 was paid on May 25, 2005.

On April 20, 2005, the Company and Stornoway Diamond Corporation ("Stornoway") announced that the companies entered into an agreement to explore the Manitoba Highlands project on a 50/50 joint venture basis. Under the terms of a joint venture finalized on April 18, 2005, Stornoway and the Company have agreed to fund the original acquisition and exploration costs and all future exploration work on the project equally.

Subsequent to December 31, 2005, the Company and Stornoway mutually agreed to terminate the joint venture and offered to return the property to Indicator Explorations pursuant to the terms of the May 7, 2004 agreement. Accordingly, the carrying value of the Manitoba property was written down by \$296,114 to \$Nil (2004 - \$334,876).

(k) Northern Recon, Nunavut and Northwest Territories

The Northern Recon Initiative comprises numerous Canadian grassroots projects within the Company's property portfolio. In 2004, the Company acquired exploration permits for these projects and during 2005, the Company continued to develop and evaluate these projects.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
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6. Mineral Properties (continued)

(I) Other Properties

(i) Misty Lake, Northwest Territories

The Company holds approximately a 40% interest in the Misty Lake Joint Venture. At December 31, 2005, the carrying value of the Misty Lake property is \$279,204 (2004 - \$279,204).

(ii) GTEN, Northwest Territories

In fiscal 2004, the Company held a 35% interest in four claims in the Drybones Bay area. An option was granted to Snowfield Development Corp. ("Snowfield"), whereby the optionee could earn a 50% interest in the Company's interest in the project by expending \$950,000 on the claims by 2004 and issuing 250,000 common shares to the Company over two years. After evaluating the drill program results, both companies mutually agreed not to take the claims to lease and have allowed the claims to lapse.

(iii) Holman, Victoria Island, Northwest Territories

The Company holds a 100% interest in the Holman Project. An option had been granted to Serengeti Resources Inc. ("Serengeti"), whereby Serengeti could have earned a 50% interest in the property. On March 15, 2004, by mutual agreement, the companies elected to terminate the option agreement. At December 31, 2005, the carrying value of the Holman Project is \$93,120 (2004 - \$93,287).

(iv) Yankee, Victoria Island, Nunavut

The Company holds a 90% interest in the Yankee Project. By a letter agreement dated April 25, 2003, the Company and Hawkeye Gold & Diamond Inc. ("Hawkeye") agreed to settle a property interest dispute, debt and all other outstanding issues relating to the Yankee Project by Hawkeye agreeing to reduce its interest from 33 1/3% to a 10% carried interest until May 31, 2004. On June 1, 2004, the carried interest was automatically converted to a 10% working interest, which is subject to dilution. During 2004, the carrying value of the Yankee property was written down by \$208,879 to \$Nil (2004 - \$Nil).

(v) Arnaq, Nunavut

On July 8, 2004, the Company entered into an agreement with Kennecott Canada Exploration Inc. ("Kennecott") to merge land holdings in Nunavut. The 956,000-acre property, named "Arnaq" is located immediately south of the Company's Amaruk project. The Arnaq property now includes 616,000 acres of permits acquired by Kennecott, approximately 140,000 acres of claims (subject to a 2% royalty payable to BHP Billiton) staked by the Company and 200,000 acres of claims staked by the Company and paid for by Kennecott. Under the terms of the agreement, Kennecott holds a 74% interest and the Company holds a 26% interest in the Arnaq property.

Kennecott must solely fund the first \$5,500,000 in exploration costs over the next four years or its entire interest reverts to a 1% royalty on the 616,000 acres of permits only. Upon Kennecott completing their commitment, the Company will be required to pay its pro-rata share of expenditures made thereafter or be subject to dilution. This agreement is subject to the Nunavut Mining Recorder awarding the Company 80% or more of the 140,000-acre claim block. At December 31, 2005, the carrying value of the Arnaq project is \$68,782 (2004 - \$49,179). Subsequent to December 31, 2005, approximately 480,000 acres of permits were allowed to lapse.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
(expressed in Canadian dollars)

6. Mineral Properties (continued)

(I) Other Properties (continued)

(vi) Thelon, Nunavut and Northwest Territories

On April 14, 2005, the Company signed a memorandum of understanding ("MOU") with Pathfinder Resources Ltd. ("Pathfinder"), whereby Pathfinder can earn an 80% interest in uranium rights in the Company's Thelon exploration permits (2.5 million acres) by making a cash payment of \$100,000 (received); staged issuance of 2 million shares (1 million shares received); and exploration expenditures of \$4 million over 3 years. The Company will retain a 20% interest which is carried to completion of a bankable feasibility study on any uranium deposits found on the property. At December 31, 2005, the carrying value of the Thelon Project is \$315,300.

(vii) Other Properties

The Company holds a minimum of 40% to 100% interest in various other properties located in Nunavut and the Northwest Territories. The Company has also conducted exploration work on project areas located in Nunavut, the Northwest Territories and Quebec, with a view to potential acquisition, should the properties prove of merit.

7. Property, Plant and Equipment

	Cost	Accumulated Amortization	2005 Net Book Value
Furniture and fixtures	\$ 32,960	\$ 10,672	\$ 22,288
Computer equipment	45,795	21,362	24,433
Leasehold improvements	31,595	7,899	23,696
	<u>\$ 110,350</u>	<u>\$ 39,933</u>	<u>\$ 70,417</u>

	Cost	Accumulated Amortization	2004 Net Book Value
Furniture and fixtures	\$ 31,317	\$ 5,305	\$ 26,012
Computer equipment	34,447	13,323	21,124
Leasehold improvements	31,595	2,633	28,962
	<u>\$ 97,359</u>	<u>\$ 21,261</u>	<u>\$ 76,098</u>

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

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
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8. Share Capital**(a) Authorized:**

Unlimited common shares without par value (2004 -100,000,000).

(b) Issued:

	Number of Shares	Amount
Balance at December 31, 2003	23,596,263	13,054,351
Issued for cash		
Private placement, net of issue costs (Note 8(c))	3,466,857	4,010,709
Exercise of options	219,050	110,563
Exercise of warrants	1,151,151	1,043,237
Issued for other consideration		
Exercise of options, stock-based compensation	-	73,112
For mineral property	20,000	20,800
Balance at December 31, 2004	28,453,321	18,312,772
Issued for cash		
Private placement, net of issue costs (Note 8(c))	10,045,927	8,043,814
Exercise of options	159,850	105,630
Exercise of warrants	870,000	696,000
Issued for other consideration		
Income tax effect on flow-through share renouncement (Note 8(d))	-	(1,310,816)
Exercise of options, stock-based compensation	-	47,221
Balance at December 31, 2005	39,529,098	\$ 25,894,621

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004
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8. Share Capital (continued)

(c) Private placements

- (i) On January 21, 2005, the Company completed a \$1,000,000 non-brokered private placement with BHP Billiton consisting of 970,874 common shares at \$1.03 per share.
- (ii) On February 9, 2005, the Company completed a \$60,000 non-brokered private placement with Teck Cominco consisting of 58,253 common shares at a price of \$1.03 per share.
- (iii) On July 22, 2005, the Company completed a non-brokered private placement of 4,000,000 units at a price of \$0.75 per unit. Each consists of one common share and one non-transferable share purchase warrant. The warrant attached to the unit entitles the holder to purchase one additional common share, exercisable for two years, at a price of \$1.00 during the first year until July 19, 2006 and at \$1.50 during the second year until July 19, 2007. The units have a forced warrant conversion if the Company's stock price trades at \$1.30 or higher for 10 consecutive days in the first year. Finder's fees of \$124,125 in cash and 198,600 in warrants were paid to non-related third parties in connection with the financing.
- (iv) On December 14, 2005, the Company completed a brokered private placement consisting of 2,577,500 flow-through common shares at a purchase price of \$0.97 per share and 2,439,300 units at a purchase price of \$0.82 per unit for total gross proceeds of \$4.5 million dollars. Each unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at a price of \$0.95 per common share until December 13, 2006. Finder's fees of \$270,024 in cash and 351,176 in warrants were paid to non-related third parties in connection with the financing.
- (v) On June 17, 2004, the Company completed a non-brokered private placement with BHP Billiton and Teck Cominco of 392,857 common shares at a price of \$1.40 per share for gross proceeds of \$550,000. Share issue costs of \$3,250 were paid in connection with this private placement.
- (vi) On July 2, 2004, the Company completed a brokered private placement of 2,400,000 flow-through common shares at a price of \$1.25 per share for gross proceeds of \$3,000,000. An aggregate of 168,000 Agents' Warrants to purchase up to 168,000 common shares at a price of \$1.35 per share for a period of one year were granted to Agents of the financing. Fees totaling \$185,000 and other share issue costs of \$35,540 were paid in connection with the financing.
- (vii) On July 28, 2004, the Company completed a non-brokered private placement with Teck Cominco for 144,000 flow-through common shares at \$1.25 per share for gross proceeds of \$180,000. Share issue costs of \$1,555 were paid in connection with this private placement.
- (viii) On December 23, 2004, the Company completed a non-brokered private placement of 500,000 flow-through common shares and 30,000 common shares both at a price of \$1.00 per share for gross proceeds of \$530,000. Agents' Warrants to purchase up to 23,950 common shares at a price of \$1.00 per share for a period of one year were issued. Fees totaling \$20,220 and other share issue costs of \$3,726 were paid in connection with the financing.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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8. Share Capital (continued)**(d) Income tax effect on flow-through share renouncement**

In February 2005, the Company renounced \$3,680,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$1,310,816, which was 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. This decrease in the valuation allowance has resulted in a future income tax recovery of \$1,310,816 disclosed on the Statement of Operations under future income taxes (see Note 13).

(e) 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 6,102,459 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 December 31, 2005, the Company had stock options outstanding for the purchase of 3,964,800 common shares with an average remaining contractual life of 2.87 years, of which 3,827,300 stock options were exercisable at December 31, 2005.

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	2,338,700	\$0.60
Granted	1,320,000	\$1.10
Exercised	(219,050)	\$0.50
Cancelled	(15,000)	\$0.70
Outstanding at December 31, 2004	3,424,650	\$0.80
Granted	852,500	\$0.95
Exercised	(159,850)	\$0.66
Cancelled	(152,500)	\$1.16
Outstanding at December 31, 2005	3,964,800	\$0.82

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
 December 31, 2005 and 2004
 (expressed in Canadian dollars)

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

The following summarizes information about stock options outstanding at December 31, 2005:

Number of Shares	Exercise Price	Expiry Date
52,300	\$0.25	September 11, 2006
9,500	\$0.25	January 10, 2007
1,062,300	\$0.50	July 15, 2007
50,000	\$0.80	December 19, 2007
477,200	\$0.80	February 20, 2008
100,000	\$0.80	March 4, 2008
65,000	\$0.80	May 22, 2008
136,000	\$0.70	October 6, 2008
200,000	\$1.19	March 30, 2009
100,000	\$1.19	April 4, 2009
560,000	\$1.10	August 8, 2009
300,000	\$1.00	October 18, 2009
50,000	\$1.00	January 27, 2010
252,500	\$1.15	March 22, 2010
550,000	\$1.00	May 17, 2010
3,964,800		

Subsequent to December 31, 2005, 100,000 stock options were cancelled. For stock options exercised after December 31, 2005, see Note 14(d).

(f) 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 December 31, 2005:

	2005	2004
Risk-free interest rate	2.88%	2.98%
Expected dividend yield	-	-
Expected stock price volatility	83%	85%
Expected option life in years	2.5	2.5

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 year.

The following summarizes information about option compensation:

	2005	2004
Option compensation, beginning of year	\$ 863,837	\$ 568,403
Stock-based compensation	452,373	374,277
Reallocated to share capital	(47,222)	(73,111)
Reallocated to contributed surplus	(57,790)	(5,732)
Option compensation, end of year	\$ 1,211,198	\$ 863,837

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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8. Share Capital (continued)

(g) Warrants

At December 31, 2005, the Company had outstanding warrants to purchase an aggregate of common shares as follows:

Exercise Price	Expiry Date	Outstanding at December 31, 2004	Issued	Exercised	Expired	Outstanding at December 31, 2005
\$0.80	February 28, 2005	495,000	-	495,000	-	-
\$0.80	March 19, 2005	375,000	-	375,000	-	-
\$1.35	July 4, 2005	168,000	-	-	(168,000)	-
\$1.00	December 23, 2005	23,590	-	-	(23,590)	-
\$1.00/\$1.50*	July 19, 2006/2007	-	4,000,000	-	-	4,000,000
\$1.00/\$1.50*	July 19, 2006/2007	-	198,600	-	-	198,600
\$0.95	December 13, 2006	-	1,219,650	-	-	1,219,650
\$0.95	December 13, 2006	-	351,176	-	-	351,176
		1,061,590	5,769,426	870,000	(191,590)	5,769,426

*Warrants are subject to a forced exercise provision in year one, if the Company's stock price trades at \$1.30 or higher for 10 consecutive days.

9. Related Party Transactions

The Company had the following related party transactions and balances:

- (a) Fees in the aggregate of \$Nil (2004 - \$16,229) for legal services have been paid to a law firm of which a director of the Company is a principal. Of this amount, \$Nil (2004 - \$11,229) has been charged to legal expense and \$Nil (2004 - \$5,000) to share capital.
- (b) As at December 31, 2005, two directors of the Company have been paid or are owed a total of \$18,900 (2004 - \$25,350) for consulting fees. Of this amount, \$17,325 (2004 - \$16,475) has been charged to deferred exploration expenditures and \$1,575 (2004 - \$8,875) has been expensed.
- (c) Included in accounts receivable is \$8,758 (2004 - \$41,700) owed by Commander Resources Ltd. ("Commander"), a company related by virtue of a common director, for a work deposit refund on a property purchased from Commander in fiscal 2002 and shared office costs.
- (d) Amounts due to related parties, totalling \$9,946 (2004 - \$15,613), consist of fees and expenses owed to directors and shared administrative expenses owed to a company related by virtue of a common director.

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. One of the companies is related by virtue of a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately \$84,000.

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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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, which were earned in Canada.

12. Supplemental Cash Flow Information

	2005	2004	2003
Significant non-cash operating, investing and financing activities:			
Investing activities			
Marketable securities received in settlement of accounts receivable	\$ -	\$ 51,475	\$ -
Mineral properties acquired with shares	-	20,800	-
Marketable securities received for option payments	105,000	-	(64,000)
	<u>\$ 105,000</u>	<u>\$ 72,275</u>	<u>\$ (64,000)</u>
Financing activities			
Loan payment paid with shares	\$ -	\$ -	\$ 170,000
Income tax effect on flow-through share renouncement	(1,310,816)	-	-
Stock-based compensation	47,221	73,112	55,147
	<u>\$ (1,263,595)</u>	<u>\$ 73,112</u>	<u>\$ 225,147</u>
Other cash flow information:			
Interest received	\$ 23,307	\$ 86,506	\$ 45,024
Interest paid	\$ -	\$ -	\$ 18,543
Income taxes paid	\$ -	\$ -	\$ -

13. Income Taxes

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately \$4,019,718. The losses may be carried forward to reduce taxable income in future years and, unless utilized, expire by 2015.

2009	\$ 869,376
2010	986,744
2011	861,188
2015	1,302,410
	<u>\$ 4,019,718</u>

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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13. Income Taxes (continued)

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2005	2004	2003
	34.12%	35.62%	37.62%
Income tax computed at Canadian statutory rates	\$ 798,728	\$ 739,652	\$ 756,993
Temporary differences not recognized in period	(167,251)	(187,444)	(385,780)
Permanent difference not recognized	(154,350)	-	-
Change in tax rates	(29,757)	(186,287)	99,917
	447,370	(365,921)	(471,130)
Future income tax arising from flow-through share renouncements (Note 8(d))	1,310,816	-	-
Future income tax recovery (expense)	\$ 1,758,186	\$ (365,921)	\$ (471,130)

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2005	2004	2003
Future income tax assets (liabilities)			
Non-capital losses carried forward	\$ 1,371,775	\$ 445,593	\$ 661,150
Temporary differences on mineral properties	(1,790,680)	(1,307,109)	(1,146,392)
Temporary differences on other assets	29,224	24,465	14,112
	(389,681)	(837,051)	(471,130)
Valuation allowance	-	-	-
Future income tax liabilities, net	\$ (389,681)	\$ (837,051)	\$ (471,130)

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 December 31, 2005 and which are held by the Company for such expenditures. As at December 31, 2005, the amount of flow-through proceeds remaining to be expended is \$2,500,175 (2004 - \$921,272).

DIAMONDS NORTH RESOURCES LTD.

Notes to Consolidated Financial Statements
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14. Subsequent Events

- (a) On January 25, 2006, the Company reported that the Company and Teck Cominco mutually agreed to terminate the Blue Ice Agreement prior to Teck Cominco earning any interest. To satisfy certain obligations under the agreement, Teck Cominco paid the Company \$650,000 in cash and assigned the future benefit of any bonds recovered, to the Company. The Company holds a 100% interest in the project.
- (b) On February 2, 2006, the Company reported that the acquisition of BHP Billiton's remaining 50% interest in the Amaruk property in consideration for a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on all other minerals. The Company holds a 100% interest in the project.
- (c) On March 16, 2006, the Company announced a proposal to form a separate company, Uranium North Resources Corp. ("Uranium North"), to focus on exploring approximately 3 million acres of prospective uranium land currently held by the Company. Under the terms of the proposed arrangement, the Company's shares will be restructured into New Common Shares and Reorganization Shares on the basis that for each six common shares held on the completion date, six New Common Shares and one Reorganization Share will be issued to the shareholder. By a tax free share exchange, the holders of the Company's Reorganization Shares will receive shares in Uranium North on the basis that one share of Uranium North will be issued to the shareholder for each Reorganization Share exchanged.

Initial working capital has been provided by a \$300,000 loan from the Company, which will be convertible by the Company into Uranium North securities at a conversion price equal to the planned prospectus offering price. The Company will be issued approximately 1,500,000 shares of Uranium North as a bonus for the foregoing loan and to provide a measure of control over this new company. On completion of the reorganization and prospectus financing, it is estimated the Company will hold approximately 10% of Uranium North.

The proposed reorganization is subject to shareholder approval by resolution approved by 66 and 2/3rds of the votes cast. The Company expects to present the matter to shareholders at the next annual general meeting to be held May 10, 2006 and anticipates that the reorganization and listing of Uranium North to be completed shortly thereafter. The reorganization is also subject to approval of the Supreme Court of British Columbia and to acceptance by the TSX Venture Exchange.

- (d) Subsequent to December 31, 2005, the Company issued 18,050 common shares for proceeds of \$4,512 pursuant to the exercise of stock options.

Management Discussion and Analysis
Year Ended December 31, 2005

**Description of Business and Report Date**

Diamonds North Resources Ltd. (“the Company”) is an exploration-stage company engaged in the acquisition and exploration of diamond mineral properties in Canada. The principal properties are located primarily in northern Canada throughout Nunavut (“NU”) and the Northwest Territories (“NWT”). The Company trades on the TSX Venture Exchange under the symbol DDN and is listed as a Tier One reporting issuer in British Columbia and Alberta. The following discussion and analysis of the financial position and results of operations for the Company should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2005.

Forward-Looking Information

This Management Discussion and Analysis (“MD&A”) may contain forward-looking statements that involve risks and uncertainties. Words such as “anticipate,” “believe,” “estimates,” “expects,” and similar expressions are used throughout this report to identify these statements. (Forward-looking statements in this MD&A are only made as of April 6, 2006 (the “Report Date”). Please keep in mind that statements which describe the Company’s proposed plans, objectives, and budgets may differ materially from actual results.

Highlights for the Year Ended December 31, 2005

- In January, the Company reported the staking of the 162,000 acre Kennap property located 235 kilometres northeast of Yellowknife, NWT.
- In February, the Company was awarded 13 million acres of exploration permits in NU and NWT.
- In April, the Company completed the acquisition of the 3.6 million-acre claim and permit blocks forming the Hepburn project, 300 kilometres north of Yellowknife.
- In April, the Company reported that several large diamonds, including one stone weighing 0.74 carats, were recovered from the King Eider kimberlite. For details, see the Blue Ice Project.
- In April, the Company optioned its uranium rights on the Thelon Project to Pathfinder Resources Ltd. in exchange for a \$100,000 cash payment and staged issuance of 2 million shares (1 million shares received). For details, see Thelon Project.
- In May, shareholders at the Company’s Annual General Meeting approved all items set forth in the proxy including an increase in the number of allowable stock options to a maximum of 6,102,459, adoption of new articles of incorporation, and increased the authorized share capital to unlimited. Copies of the documents can be found on www.sedar.com.
- In June, the Company completed the acquisition of Ascot Resources Ltd. 48% interest in the Washburn property, in consideration for a 2% gross overriding royalty.
- In September, the Company announced the discovery of the Umingmak kimberlite and more than 15 other discrete kimberlite float occurrences on the Amaruk Project, NU.
- During the year, the Company raised \$8,845,444 in equity financings and is funded for 2006. For details, see Liquidity.
- Extensive assessment of the property portfolio has allowed the Company to focus in on 17 million acres in the core project areas. As well it has advanced five projects including Hepburn to the drill ready stage.

**Events Subsequent to December 31, 2005**

- On January 25, 2006, the Company reported that the Company and Teck Cominco mutually agreed to terminate the Blue Ice Agreement prior to Teck Cominco earning any interest. To satisfy certain obligations under the agreement, Teck Cominco paid the Company \$650,000 in cash and assigned the future benefit of any bonds recovered, to the Company.
- On February 2, 2006, the Company reported that the acquisition of the 50% interest in the Amaruk property held by BHP Billiton in consideration for a 2 gross overriding royalty on diamonds and a 2% net smelter royalty on all other minerals.
- On February 7, 2006, the Company reported diamond results from four kimberlite float occurrences (WMC, WCA, WA1 & WA2) and the Umingmak kimberlite (U-SW & U-NE) confirming that Amaruk Project is Canada's newest diamond bearing field. For details, see Amaruk Project.
- On March 16, 2006, the Company announced a proposal to form a separate company, Uranium North Resources Corp., to focus on exploring approximately 3 million acres of prospective uranium land currently held by the Company. For details, see Proposed Transactions.

Mineral Properties

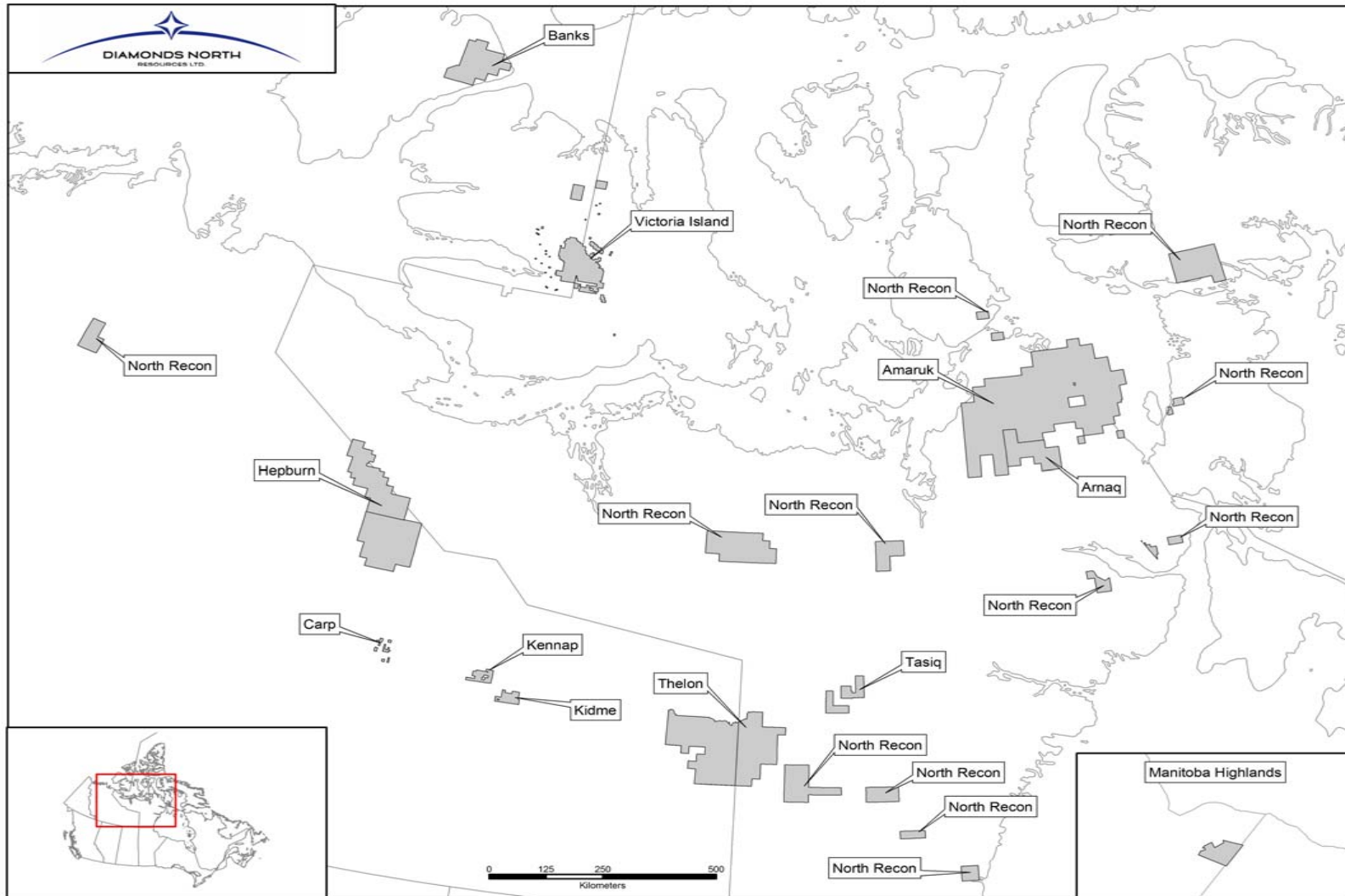
The Company controls one of the largest diamond potential land packages in northern Canada with a 17 million acres property portfolio. In 2005, management focused on advancing the 100% owned developing projects like Kennap, Hepburn, and Thelon through a second phase of till sampling. Till sampling is a cost-effective tool in early diamond exploration which allows management to evaluate the property position and focus in on prospective areas. In early 2006, management focused the Company's property portfolio to encompass 17 million acres of key land reducing future land holding costs while at the same time preserving key prospective properties.

Management mitigates the inherent risk with diamond exploration through a diversified portfolio of projects, both by location and exploration stage. Management has also recognized other commodity potential within its portfolio, most notably uranium. Prospective uranium properties include the South Baker, Thelon JV, Hepburn, Kazan, Tasiq and Amer projects. Based on a review of historic data and geochemical results from the 2004/2005 till sampling programs, the Company has identified multiple uranium showings, boulder trains and areas with elevated uranium values in till. On the South Baker project for example, the Company has identified at least 10 separate historic bedrock showings and boulder trains with U3O8 values ranging from 0.2% to greater than 5% (five occurrences ranging between 1% to 2.5% U3O8). A NI 43-101 report on the projects will be posted to Sedar in the near future.

The Company's principal properties are located in Canada's far north, which poses an inherent risk for mineral exploration due to the remoteness from populated areas, lack of surface infrastructure, and availability of skilled labour, fuel and supplies. Exploration is heavily dependent on air transportation (both fixed wing and helicopter), which is susceptible to bad weather; the unpredictability of the weather can cause delays in carrying out a planned exploration program resulting in cost overruns. The Company manages these risks by utilizing experienced project geologists who are familiar with the north and the challenges associated with working there.

The following map illustrates the diversity of the Company's projects throughout Canada's far north. Several projects which have not been included in the MD&A narrative fall under the Northern Recon initiative and Other Properties.

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In 2005, net mineral property expenditures were \$1,926,085 which includes acquisitions costs of \$1,071,137, exploration expenditures of \$3,083,134 less \$1,506,177 in recoveries and \$722,009 in write down. A breakdown as follows:

	Blue Ice, Hadley Bay, White Ice (1)	Amaruk JV, NU	Washburn, NU	Wellington, NU	Tasiq, NU (2)	Banks Island, NWT (3)	Hepburn, NWT (3)	Kennap NWT (3)	Kidme, NWT	Manitoba Highlands (3)	Northern Recon.	Other Properties	Total
Balance at													
December 31, 2004	\$4,001,975	\$1,505,718	\$ 681,421	\$ -	\$ 422,294	\$ 109,714	\$ 869,383	\$ 162,505	\$ 337,889	\$ 334,876	\$2,278,107	\$ 1,770,512	\$12,474,394
Additions during the period:													
Acquisition costs	-	-	10	-	8,613	-	912,271	227	-	20,000	-	130,016	1,071,137
Exploration:													
Project admin.	-	-	-	32	-	28	125	31	5,979	-	-	-	6,195
Airborne geoph.	179,947	15,925	3,741	2,771	-	-	-	-	-	7,133	656	9,398	219,571
Environment	4,719	-	-	15,315	-	-	-	-	-	-	-	5,161	25,195
Geochemistry	171,489	17,762	20,319	-	81,549	259,868	919,690	171,383	8,755	733	459,340	362,967	2,473,855
Geology	79,934	13,245	7,616	9,522	1,860	5,497	8,670	6,368	4,752	7,411	2,681	18,061	165,617
Ground geoph.	1,200	3,961	-	341	-	-	1,335	-	57,795	3,500	-	4,306	72,438
Mobilization	-	-	-	-	12,518	1,500	-	-	-	-	21,948	6,745	42,711
Permitting	5,760	-	-	-	-	-	2,874	10	-	-	-	-	8,644
Property	870	1,790	23,088	15,829	216	12,073	584	-	-	10	200	-	54,660
Trenching	13,951	-	-	-	-	297	-	-	-	-	-	-	14,248
	457,870	52,683	54,764	43,810	96,143	279,263	933,278	177,792	77,281	18,787	484,825	406,638	3,083,134
Less:													
Recoveries	(540,794)	(18,387)	-	(15,829)	-	(183,820)	-	-	-	(77,549)	(9,797)	(660,001)	(1,506,177)
Write downs	-	-	-	-	-	-	-	-	-	(296,114)	(425,895)	-	(722,009)
	(540,794)	(18,387)	-	(15,829)	-	(183,820)	-	-	-	(373,663)	(435,692)	(660,001)	(2,228,186)
Net additions	(82,924)	34,296	54,774	27,981	104,756	95,443	1,845,549	178,019	77,281	(334,876)	49,133	(123,347)	1,926,085
Balance at													
December 31, 2005	\$3,919,051	\$1,540,014	\$ 736,195	\$ 27,981	\$ 527,050	\$ 205,157	\$ 2,714,932	\$ 340,524	\$ 415,170	\$ -	\$2,327,240	\$ 1,647,165	\$14,400,479

1. Disclosed as separate projects in 2004 but have been combined under an option granted to Teck Cominco Limited.
2. Included under "Northern Recon." in 2004.
3. Included under "Other Properties" in 2004.



Victoria Island Project, NU/NWT

The Company holds a 100% interest in the Blue Ice, Hadley Bay, White Ice, Washburn and Wellington Projects which are located 240 kilometres northwest of Cambridge Bay, in the Central portion of Victoria Island. These projects will now jointly be referred to as the Victoria Island Project. The combined project hosts four known kimberlite trends: the Galaxy, King Eider, Snowy Owl and Apollo structural trends. All four kimberlite trends form NW - SE oriented linear features along which kimberlite dykes, blows and pipes have been emplaced.

In fiscal 2003, the Company entered into a Participation Agreement with Teck Cominco Limited ("Teck Cominco") whereby Teck Cominco could earn up to a 70% interest in the Blue Ice Project. On March 24, 2004, Teck Cominco elected under the June 18, 2003 Participation Agreement to take up the initial option to earn a 30% interest in the Blue Ice Project. In addition, the Company and Teck Cominco entered into an agreement (the "2004 Amending Agreement") to allow Teck Cominco to expand the Participation Agreement to include the Company's adjoining Hadley Bay and White Ice properties.

On January 25, 2006, the companies mutually agreed to terminate the Blue Ice Agreement prior to Teck Cominco earning any interest. To satisfy certain obligations under the agreement, Teck Cominco paid the Company \$650,000 in cash and assigned the future benefit of any bonds recovered, to the Company.

Blue Ice, Hadley Bay, White Ice Exploration Results from 2004 (Released in 2005)

A total of 434 diamonds weighing an estimated 1.32 carats were recovered from a 679.20 kilogram composite kimberlite sample KE1 of the central portion of King Eider collected from 4 drill holes. The actual carat weight of all diamonds remaining on the +0.85mm sieve is 1.09 carats, indicating that the coarse diamond content of the sample projects to 1.60 carats per tonne. A total of 102 diamonds (23%) classify as macrodiamonds measuring 0.5mm in at least one dimension. The 0.74 ct diamond is the largest stone measuring 5.5mm x 4.2mm x 3.1mm. An additional 17 diamonds were recovered from Sample KE2, a 119.55 kilogram composite sample of distinctly different kimberlite lithologies from 3 of the drill holes along the margin of King Eider.

Table 1 below shows Full Square Mesh Sieve diamond results for the KE1 and KE2 kimberlite samples:

Sieve sizes (mm)	Sample KE1 (weight 679.20kg)	Sample KE2 (weight 119.55kg)
+3.35	1	
+2.36	-	-
+1.70	2	-
+1.18	4	-
+0.850	3	-
+0.600	4	-
+0.425	23	-
+0.300	35	-
+0.212	50	-
+0.150	116	4
+0.106	196	13
	<u>434</u>	<u>17</u>

Note: Diamonds remaining on or above the +0.85mm sieve size are actually weighed. Diamond weights for stones on all smaller sieve sizes are calculated using the following formula as provided by the laboratory -- (Xmm x Ymm x Zmm x S.G. of 3.52/200mg)



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Of the 451 diamonds recovered in both samples KE1 and KE2, over 90% of the stones are described as being transparent. A total of 70 % of the transparent stones are white in color, 18% are grey and 11% are brown. One pink, transparent stone was also recovered

Blue Ice, Hadley Bay, White Ice Exploration Program from 2005

Teck Cominco informed the Company that they expended \$4.5 million on the 2005 field program for Blue Ice/Hadley Bay and White Ice which included:

- Approximately 2.8 tonnes of kimberlite from the King Eider body obtained by drilling;
- An additional 1.3 tonnes of kimberlite collected from a trench on the King Eider body;
- 10 targets tested by core drilling (King Eider plus nine (9) additional targets);
- 31 geophysical anomalies tested by reverse circulation drilling;
- 3 new kimberlite occurrences discovered;
- 11,700 line kilometres of new airborne magnetic surveying; and
- 200 till samples collected;

The objective of the 2005 King Eider kimberlite mini-bulk sample is to gain more information about the geology, geometry, diamond content and stone/size distribution of the kimberlite body. The approximately 2.8 tonnes of kimberlite was collected from 5 drill holes, of which 2.1 tonnes of split core has been submitted for diamond analysis via caustic fusion. The extraction of an additional 1.3 tonnes of King Eider kimberlite from a surface trench was funded by the Company and has been submitted for processing as a separate sample to be compared with the diamond content obtained from drill core.

Drilling at the King Eider kimberlite to date indicates that the body is at least 180 metres long, is up to 50 metres in width and remains open to depth. The summer drilling included one vertical hole which remained in kimberlite for its entire length before terminating at a depth of 253 metres and two angled holes drilled in opposing directions across the kimberlite indicating that the body is widening with depth to at least the 130 metre level.

An additional nine (9) targets were tested by core drilling resulting in the intersection of two new kimberlite occurrences. The first new occurrence (M3) is centrally located along the 20 kilometre long Galaxy trend and contained three intersections: 2.1 and 17.15 metres (true widths) of kimberlite and 5.3 metres (true width) of brecciated kimberlite. The second discovery, H18, located on the southeastern portion of the 25 kilometre long King Eider structure, consisted of multiple hypabyssal kimberlite dykes with true widths of less than one metre each. Seventy five reverse circulation drill holes also tested 31 discrete geophysical targets, many of which were located "off-trend" of the Galaxy and King Eider structures. The reverse circulation drilling resulted in the intersection of one new kimberlite (known as REF-2) located approximately 500 metres northwest of the King Eider kimberlite. The 2005 drill program has increased the number of known kimberlite occurrences on Victoria Island from 36 to 39.

Future Developments for Victoria Island

The Company is currently awaiting results from the 2005 exploration program. Once results are assessed a 2006 exploration program will be developed.



Amaruk Project, NU

On May 10, 2004, the Company and BHP Billiton Diamonds Inc. ("BHP Billiton") entered into an agreement to merge the Amaruk and Pelly Bay JV Projects. The Amaruk project covered approximately 8.0 million acres near the town of Kugaaruk, NU, with each party holding a 50% interest. BHP Billiton had initiated the first option, which would have allowed BHP Billiton to earn an additional 10% interest (for an aggregate of 60% interest) by solely funding the project to feasibility by May 10, 2011.

On February 2, 2006, the Company acquired the 50% interest in the Amaruk project held by BHP Billiton in consideration for a 2% gross overriding royalty on diamonds and a 2% net smelter royalty on all other minerals. Based on an evaluation of till and other geological data, management reduced the land position by 3 million acres. The Amaruk project now comprises more than 5 million acres of claims and permits held 100% by the Company.

Amaruk Project Exploration Program for 2005

BHP Billiton conducted a \$3.2 million exploration program which included the collection of approximately 2,300 till samples and a 12,000 line kilometre Mag/EM airborne survey. Over the last two years, a comprehensive geological database has been created consisting of 5,500 till samples and 23,000 line kilometres of airborne geophysics. Prospecting in 2005 was limited to a small portion of the 8 million acre Amaruk property but led to the discovery of multiple kimberlite float occurrences, spanning 62 kilometres. This demonstrates that Amaruk potentially contains a sizable kimberlite field with numerous kimberlite intrusions.

Amaruk Project Exploration Results for 2005

The 2005 sampling and prospecting program resulted in the discovery of the Umingmak kimberlite. Umingmak is the first confirmed in situ kimberlite in the region and is exposed in three outcrop showings within a topographically low overburden covered area. It is described as olivine rich macrocrystic kimberlite with mantle derived minerals and nodules. Two samples totaling approximately 500 kilograms from Umingmak were processed and submitted for microdiamond analysis. The size of the body has not yet been determined, however, preliminary estimates based on geophysics indicate that the body could be over three hectares.

Prospecting around selected till samples with anomalous kimberlite indicator minerals identified what the Company believes is more than 15 other discrete kimberlite float occurrences on the property. Approximate field estimated sample weights range from 25 kilograms to over 100 kilograms each. Kimberlite samples were collected from five of these occurrences for microdiamond analysis.

A 96.91 kilogram sample from the WMC kimberlite float occurrence yielded 148 diamonds. In addition to the high diamond count of nearly 15 stones per 10 kilograms, the diamond size sieve data also demonstrates a favourable diamond size distribution for the WMC kimberlite float occurrence. The diamond size frequency data for the six kimberlite samples are shown in Table 2.

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Table 2: Amaruk Diamond Sieve Sizes

Sample	Kgs	+ 0.85 mm	+ .600 mm	+ .425 mm	+ .300 mm	+ .212 mm	+ .150 mm	+ .105 mm	TOTAL
WMC	96.91	1	2	0	8	23	60	54	148
WCA	167.91	0	6	6	8	27	39	64	150
WA1	134.06	0	0	3	2	7	17	16	45
WA2	96.55	0	0	0	2	8	14	30	54
U-SW	362.69	0	1	3	8	10	41	43	106
U-NE	239.08	0	0	2	4	14	18	23	61

More than 23 kilometres east of the WMC showing, 167.91 kilograms of kimberlite material was collected from the WCA kimberlite float occurrence which returned a total of 150 diamonds, 20 of which are classified as macrodiamonds measuring 0.5 millimetres or greater in at least one dimension. The largest stones are shown in Table 3.

Table 3: Largest Stones from Float Occurrences (measurements in mm)

Sample	X	Y	Z	Sample	X	Y	Z	Sample	X	Y	Z
WMC	1.10	1.05	0.95	WCA	1.11	0.97	0.72	WA1	0.60	0.51	0.48
WMC	1.08	0.85	0.75	WCA	1.23	0.91	0.67	WA1	0.74	0.57	0.43
WMC	1.25	0.75	0.78	WCA	1.08	1.08	0.30	WA1	0.74	0.57	0.49
WMC	0.55	0.43	0.43	WCA	0.97	0.80	0.72	WA2	0.51	0.48	0.33
WMC	0.75	0.50	0.33	WCA	0.86	0.77	0.71	WA2	0.54	0.48	0.21

WA1, which is 17 kilometres west of the WMC showing, yielded six macrodiamonds and WA2 (approximately 2 kilometres from WA1) yielded two macrodiamonds measuring 0.5 millimetres in at least one direction. The presence of coarser diamonds in these two samples further supports the diamond potential of the region.

Future Developments for Amaruk Project

Exploration work for 2006 is currently being planned and include drilling high priority targets in the central kimberlite field, additional prospecting and geophysical surveying. Till sample data and detailed airborne geophysics will be used to identify the bedrock source of the kimberlite float occurrences and to prioritize targets for drilling.



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Arnaq JV, NU

On July 8, 2004, the Company entered into a joint venture agreement with Kennecott Canada Exploration Inc. ("Kennecott") to merge land holdings in Nunavut. The 974,000-acre property, named "Arnaq", is located immediately south of the Company's Amaruk project in the eastern Arctic. The property includes 626,000 acres of permits and 209,000 acres of claims acquired by Kennecott, and approximately 139,000 acres of claims (subject to a 2% royalty payable to BHP Billiton) staked at the Company's cost.

Under the terms of the agreement, Kennecott holds 74% of the Arnaq property and the Company, 26%. Kennecott must solely fund the first \$5,500,000 in exploration costs over the next four years, or its entire interest reverts to a 1% royalty on the 626,000 acres of permits only. Upon Kennecott completing their commitment, the Company will be required to pay its pro-rata share of expenditures made thereafter or be subject to dilution. During the first year of the joint venture, Kennecott committed to spending a minimum of \$1,000,000 on the property by 2005. Subsequent to December 31, 2005, approximately 480,000 acres of permits were allowed to lapse.

Arnaq JV Exploration Program for 2005

Kennecott completed ground geophysical grids based on anomalies identified from the 2004 airborne magnetic survey. A total of 8 targets were drill tested in 2005. According to an informal update by Kennecott, no kimberlite was intersected. The Company is awaiting the final report and drill logs from Kennecott. The Company and Kennecott have agreed that no further work is required on the property and the land will be permitted to lapse.

Thelon Project, NU/NWT

On April 14, 2005, the Company signed a memorandum of understanding ("MOU") with Pathfinder, whereby Pathfinder can earn an 80% interest in uranium rights in the Company's Thelon exploration permits (2.5 million acres) by making a cash payment of \$100,000 (received); staged issuance of 2 million shares (1 million shares received); and exploration expenditures of \$4 million over 3 years. The Company will retain a 20% interest which is carried to completion of a bankable feasibility study on any uranium deposits found on the property.

Compilation of historical assessment reports on work completed on or near the claims identified an extensive, open-ended, 20 km by 3 km radioactive boulder-train. The sandstone boulders, containing elevated uranium values up to 0.13% U₃O₈, occur on the western side of the Thelon project and based on glacial movement determinations, appear to be sourced from within the property. The significance of the radioactive boulders is that they could reflect upward leakage from high-grade uranium sources at the sandstone basin/basement unconformity contact.

Based on this historical assessment and preliminary field results, the Joint Venture staked additional claims, to cover the possible up-ice uranium sources of a 20 km by 3 km radioactive sandstone boulder train and to encompass a high concentration of uranium enriched boulders over a 5 km by 3 km area near the Basin's central eastern margin. The Thelon JV has been focused to approximately 1.2 million acres.

Thelon JV Exploration Program for 2005

The Joint Venture's 2005 exploration program was designed to identify priority target areas for deep penetration airborne electromagnetic (EM) surveys to locate graphitic conductors, which may be associated with unconformity uranium deposits. During the summer, a regional till sampling program was completed over the entire project area with more detailed geochemical soil sampling over and up-ice of known radioactive sandstone boulders.



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Banks Island, NWT

On February 8, 2005, the Company reported the Banks Island Project, consisting of 1,173,466 acres of permits in NWT, was jointly acquired with Majescor Resources Inc. over a two-year period on a 50:50 basis.

Banks Island Exploration Program for 2005

A detailed stream sediment sampling program of 130 samples was conducted over four drainage catchments identified as high priority by 2004 sample results (A catchment is an area from which a river or rivers collect surface runoff). The objective of the program was to delineate areas with localized concentrations of kimberlite indicator minerals on the property.

Future Plans for Banks Island

For 2006 plans include flying airborne geophysics over high priority areas to assist in the identification of drill targets. .

Hepburn, NWT

The Company holds a 100% interest in the 1.8 million acre Hepburn property located approximately 400 kilometres north of Yellowknife. Subsequent to December 31, 2005, and based on sample results the Company reduced the property by 1.8 million acres. Based on indicator mineral data, the Company has outlined two potential kimberlite fields on the property.

Hepburn Exploration Program for 2005

The 2005 exploration program consisted primarily of till sampling. Sample results identified two potential kimberlite fields with favourable geotherm. Management's evaluation of the data allowed the Company to reduce tenure costs, noted above. In addition, a high priority magnetic target which coincides with a circular lake and kimberlite indicator minerals was discovered. This target represents a high priority drill target located in the center of one of the potential kimberlite fields. The target appears to shed indicator minerals and is associated with a clear and coincident magnetic anomaly.

Future Plans for Hepburn

Plans for 2006 include target drill testing and flying airborne geophysics to assist in prioritizing additional kimberlite targets for drill testing.

Kidme Project, NWT

The Company owns 40% of the 87,000-acre Kidme Project, situated adjacent to the eastern border of the Misty Lake Property and to the south of the De Beers/Mountain Province Gaucho Kué property. In the spring of 2004, the Company and SouthernEra Resources Limited ("SouthernEra") staked an additional 90,754 acres of claims to the south of the original Kidme property on a 50/50 basis.

Kidme Exploration Program for 2005

In 2005, SouthernEra, the Operator, conducted follow-up ground geophysical surveying and till sampling.

Future Developments for Kidme

SouthernEra has informed the company that they plan to drill 1 to 3 targets in 2006.



Manitoba NE Highlands Project, Manitoba

On May 7, 2004, the Company entered into an agreement with Indicator Explorations Ltd. (“Indicator Explorations”) to acquire three Mineral Exploration Licenses (“MEL”) and interpretative geological data. In addition, the Company acquired five MEL, resulting in a combined land position of approximately 873,000 acres. Under the agreement, the Company paid \$10,000 in cash and issued 20,000 common shares to Indicator Explorations. Staged over a four-year period and assuming the Company continues with the project, Indicator Explorations will receive cash payments totaling \$530,000 and a 1% royalty on any production from the property. The first anniversary payment of \$40,000 was paid on May 25, 2005.

Under the terms of a 50:50 joint venture finalized on April 18 2005, the Company and Stornoway Diamond Corporation (“Stornoway”) agreed to fund the original acquisition and exploration costs and all future exploration work on the project equally.

Manitoba NE Highlands Exploration Program

Several geophysical targets were identified on the property, however, after detailed modeling, no follow-up work was warranted. As of March 2006, the Company and Stornoway have agreed that no further work is required on the property and land will be permitted to lapse.

Northern Recon Initiative, NU and NWT

The Northern Recon Initiative comprises numerous Canadian grassroots projects within the Company's property portfolio. In 2004, the Company acquired exploration permits for these projects and during 2005, the Company continued to develop and evaluate these projects. Events subsequent to December 31, 2005, affecting three projects with the Northern Recon:

- On February 16, 2006, the Company and Majescor Resources Inc. divested their 50% interest in the Lena East permits. The Company assigned the 10 Lena East prospecting permits to Sanatana Diamonds Inc. in consideration for a 1.5% GOR on diamonds and a 1.5% NSR on other minerals. In addition, Sanatana Diamonds Inc. agreed to file a report of work and, when received, refund the deposit lodged on the permits to the Company. The royalty and refund will be shared on a 50/50 basis with Majescor Resources Inc.
- On March 26, 2006, the Company proposed transferring two prospective uranium projects from the Northern Recon, Kazan and Amer, into Uranium North, see Proposed Transactions.

Selected Annual Information

Selected annual information from the Company's audited financial statements for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Total Revenues	\$ Nil	\$ Nil	\$ Nil
General and administrative expense	\$ (1,567,338)	\$ (1,320,509)	\$ (1,410,434)
Loss for the year	\$ (582,735)	\$ (2,442,428)	\$ (2,483,340)
Basic and diluted loss per share	\$ (0.02)	\$ (0.09)	\$ (0.14)
Total Assets	\$ 21,464,318	\$ 14,709,482	\$ 10,884,162
Total Long-term liabilities	\$ Nil	\$ Nil	\$ Nil
Cash dividends per share	\$ Nil	\$ Nil	\$ Nil



Results of Operations

-Current Quarter Results

At December 31, 2005, the Company had \$3,715,861 in cash which represents a \$1,250,120 increase over the previous quarter due to a brokered private placement completed during the quarter. The financing consisted of \$1,636,477 cash (net) and \$2,500,175 in cash, exploration funds. For details, see Liquidity section.

General and administrative expenses of \$419,876 (Q3 - \$340,612) represent a \$79,264 increase over the previous quarter. Notable changes from the current quarter to the previous quarter include:

- Accounting and audit of \$34,667 (Q3 - \$9,901) includes a \$28,615 accrual for year end audit and corporate tax return.
- Stock-based compensation expense of \$107,099 (Q3 - \$102,347) reflects the vesting of 300,625 stock options whereas the previous quarter's expenses reflected the vesting of 288,125 stock options.

-Year Ended December 31, 2005 compared with the Year Ended December 31, 2004

General and administrative expenses of \$1,567,338 (2004 - \$1,320,509) represents a \$246,829 increase compared to the comparative fiscal year. Notable changes include:

- Accounting and audit of \$69,575 (2004 - \$60,118) increased due to higher audit fees.
- Insurance expense of \$52,139 (2004 - \$33,064) reflects increased coverage as required by the lease agreement for the new office premises and additional coverage for directors, officers and employees.
- Investor relations and promotion of \$272,282 is comparable to 2004 with a decrease in conference and trade show off-set by an increase in media. Promotion and advertising contains \$10,447 for helicopter and geophysical equipment rental to assist in a documentary filmed on Victoria Island which aired on the Discovery Channel in February 2006. A detailed breakdown is below:

	<u>2005</u>	<u>2004</u>
Administration	\$ 4,594	\$ 5,098
Conferences and trade shows	102,353	130,965
Consulting, wages and benefits	84,542	77,880
Media	28,542	21,358
Promotion and advertising	52,251	31,227
	<u>\$ 272,282</u>	<u>\$ 266,528</u>

- Rent expense of \$83,816 (2004 - \$41,241) is not comparable as the Company relocated to a newer building and received three months of free rent in 2004 to offset moving costs.
- Stock-based compensation expense of \$452,373 (2004 - \$374,277) related to the vesting of stock options that have been granted to employees, directors, and consultants of the Company.
- Write down of mineral properties expense of \$722,009 (2004 - \$279,547) for the write down of two projects within Northern Recon projects as final lab results did not warrant maintaining the projects and the Manitoba Highlands Project.



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- Future income taxes income of \$1,758,186 is largely a result of accounting pronouncement EIC-146, relating to flow-through shares. For details, see Changes in Accounting Policies.

The Company's loss for the year was \$582,753 (2004 - \$2,442,428) or \$0.02 per share (2004 - \$0.09). The Company did not pay any dividends and does not anticipate paying dividends during 2006.

From the Company's statement of cash flow for the year ended December 31, 2005, financing activities covered cash requirements for operating and investing activities. Operating activities required \$877,790 and investing activities required \$4,572,166, while financing activities provided \$8,845,444 in cash from the issuance of common shares. The net effect was a \$3,395,488 increase in cash over the previous year end. At December 31, 2005, cash and cash equivalents totalled \$3,715,861.

Under investing activities, uses of cash included \$2,753,094 in mineral property acquisition and exploration costs; a \$227,178 reduction in accounts payable related to mineral properties and a \$1,578,903 increase in cash, exploration funds.

Summary of Quarterly Results

	Mar. 31 2004 Q1	Jun. 30 2004 Q2	Sept. 30 2004 Q3	Dec. 31 2004 Q4	Mar. 31 2005 Q1	Jun. 30 2005 Q2	Sept. 30 2005 Q3	Dec. 31 2005 Q4
Mineral expenditures, net of recoveries	\$ 2,002,690	\$ (59,660)	\$ 2,616,036	\$ 2,399,086	\$ 756,109	\$ 51,419	\$ 1,839,462	\$ 106,104
G&A Expense	\$ 326,945	\$ 255,432	\$ 301,242	\$ 436,890	\$ 391,794	\$ 415,056	\$ 340,612	\$ 419,876
Stock-based comp. exp.	\$ 120,020	\$ 12,522	\$ 84,753	\$ 156,982	\$ 115,536	\$ 127,391	\$ 102,347	\$ 107,099
Income (loss)	\$ (335,986)	\$ (385,964)	\$ (796,268)	\$ (924,210)	\$ (657,281)	\$ (399,244)	\$ (317,194)	\$ 790,966
Income (loss) per share -basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.02
Weighted avg. common shares outstanding -basic and diluted	23,912,695	24,762,980	27,758,161	26,110,244	29,571,618	30,512,298	33,686,211	32,349,717

The Company conducts diamond exploration in Canada's far north, and mineral expenditures are subject to seasonal conditions. Based on exploration results, the Company may acquire new land. In fiscal 2004, Q1 mineral expenditures reflect land acquisition costs for Amaruik which were later recovered from project partner BHP Billiton in Q2. Q3 and Q4 include exploration costs for the 2004 Northern Recon Initiative. In fiscal 2005, Q1 mineral expenditures reflect more land acquisition costs. In Q2, the Company did not incur much in exploration cost as the majority of the work was performed by project partners. In Q3, the Company conducted exploration on it's own projects and on behalf Teck Cominco. In Q4, the Company accrued a cost recovery from Teck Cominco which was collected after December 31, 2005.

Liquidity

At December 31, 2005, the Company had \$6,523,526 in working capital, which is sufficient to achieve the Company's current business objectives for fiscal 2006. The Company's primary focus will be on the Amaruik and Hepburn exploration projects. Subject to results, the Company may elect to expand its exploration focus and at that time, would require additional financing. During the year ended December 31, 2005, the Company raised \$8,845,444 via equity financings:



Management Discussion and Analysis
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- On January 21, 2005, the Company completed a \$1,000,000 non-brokered private placement with BHP Billiton consisting of 970,874 common shares at \$1.03 per share. Issue costs totaled \$5,900.
- On February 9, 2005, the Company completed a \$60,000 non-brokered private placement with Teck Cominco consisting of 58,253 common shares at a price of \$1.03 per share. Issue costs totaled \$1,000.
- On July 22, 2005, the Company completed a non-brokered private placement of 4,000,000 units at a price of \$0.75 per unit for gross proceeds of \$3,000,000. Each consists of one common share and one non-transferable share purchase warrant. Issue costs totaled \$143,618.
- On December 14, 2005, the Company completed a brokered private placement consisting of 2,577,500 flow-through common shares at a purchase price of \$0.97 per share and 2,439,300 units at a purchase price of \$0.82 per unit for total gross proceeds of \$4.5 million dollars. Each unit consists of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at a price of \$0.95 per common share until December 13, 2006. Finder's fees of \$270,024 in cash and 351,176 in warrants were paid to non-related third parties in connection with the financing.
- During the year, the exercise of stock options and warrants provided a total of \$801,630 in cash.

Capital Resources

The Company does not have operating cash flow and has relied on equity financings to meet its cash requirements. 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.

In early fiscal 2006, BHP Billiton Diamonds Inc. posted \$423,000 in bonds, as loan to the Company, to secure permits and claims on the Amaruk project. A formal loan agreement is being negotiated under the term that the Company shall pay interest on any unpaid amounts from and including June 30, 2006 to the date of actual payment in full on the outstanding amount at an interest rate per annum at the prime rate plus 3%. By offset, the Company will advance approximately \$300,000 towards the loan.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements.

Related Party Transaction

The Company has engaged a business owned by Bernard Kahlert, a director of the Company, to provide project management and geological consulting. During the year the Company paid fees to this related party in the aggregate of \$18,900 (2004 - \$21,750).

Given that the Company's directors and officers are engaged in a wide range of activities, the Company operates under the conflict of interest provisions found within the Business Corporations Act of British Columbia. In addition, management adopted a set of Corporate Governance policies which incorporated language from these provisions into the Company's Code of Business Conduct and Ethics.

Proposed Transactions



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On March 16, 2006, the Company announced a proposal to form a separate company, Uranium North Resources Corp. ("Uranium North"), to focus on exploring approximately 3 million acres of prospective uranium land within the Thelon, Baker Lake and Hornby Bay Basins currently held by the Company.

Under the terms of the proposed arrangement, the Company's shares will be restructured into New Common Shares and Reorganization Shares on the basis that for each six common shares held on the completion date, six New Common Shares and one Reorganization Share will be issued to the shareholder. By a tax free share exchange, the holders of the Company's Reorganization Shares will receive shares in Uranium North on the basis that one share of Uranium North will be issued to the shareholder for each Reorganization Share exchanged.

Initial working capital will be provided by a \$300,000 loan from the Company, which will be convertible by the Company into Uranium North securities at a conversion price equal to the planned prospectus offering price. The Company will be issued approximately 1,500,000 shares of Uranium North as a bonus for the foregoing loan and to provide a measure of control over this new company. On completion of the reorganization and prospectus financing, the Company will hold approximately 10% of Uranium North.

The proposed reorganization is subject to shareholder approval by resolution approved by 66 and 2/3rds of the votes cast. The Company expects to present the matter to shareholders at the next annual general meeting to be held May 10, 2006 and anticipates that the reorganization and listing of Uranium North to be completed shortly thereafter. The reorganization is also subject to approval of the Supreme Court of British Columbia and to acceptance by the TSX Venture Exchange.

Critical Accounting Estimates

The most significant accounting estimates for the Company relate to the carrying value of its mineral property assets. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to identify any conditions that may indicate impairment. A provision is made for impairment in value when the carrying value of a property exceeds its net recoverable amount, estimated by quantifiable evidence of an economic geological resource or reserve joint venture expenditure commitments, or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs.

Management's estimates of mineral prices, recoverable proven and probable reserves, and operating, capital and reclamation costs are all subject to certain risks and uncertainties that may affect the recoverability of mineral property costs. Although management has made its best estimates of these factors, it is possible that changes could occur in the near term that could adversely affect the Company's estimates of the net cash flow to be generated from its properties.

Another significant accounting estimate relates to accounting for stock-based compensation. The Company uses the Black-Scholes Option Pricing Model. 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 single, reliable measure of the fair value of the Company's stock options granted/vested during the year.

Changes in Accounting Policies

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities," which became effective for fiscal years beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership based on voting equity. The Company adopted the accounting guideline on January 1, 2005. The adoption of this guideline did not have any impact on these consolidated financial statements.



Management Discussion and Analysis
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The Company adopted the CICA accounting pronouncement EIC-146, relating to flow-through shares, for all flow-through shares agreements dated after March 18, 2004. In February 2005, the Company renounced \$3,680,000 of exploration expenditures under its flow-through share program, resulting in a future tax liability of \$1,310,816, which was deducted from share capital. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets of \$1,310,816. The resulting decrease in the valuation allowance has been shown as a future income tax recovery on the Statement of Operations.

Recent Changes in Accounting Standards

The CICA has issued Section 1530, "Comprehensive Income," which introduces new standards for reporting and display of comprehensive income. (Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distribution to owners.) This Section applies to fiscal years beginning on or after October 1, 2006, but early adoption is permitted at the beginning of a fiscal year after December 31, 2004. The Company has not elected the early adoption of this Section for the upcoming 2006 fiscal year.

The CICA has issued Section 3855, "Financial Instruments – Recognition and Measurement," which prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount – sometimes using fair value, other times using cost-based measures. The Section also specifies how financial instrument gains and losses are to be presented. This Section applies to fiscal years beginning on or after October 1, 2006, but early adoption is permitted at the beginning of a fiscal year after December 31, 2004. The Company has not elected the early adoption of this Section for the upcoming 2006 fiscal year.

Financial Instruments

The Company is exposed to credit risk with respect to its cash. To minimize this risk, cash and cash equivalents have been placed with major financial institutions. Marketable securities are carried at the lower of cost or quoted market value. When the market value of a security is below its cost, any unrealized loss is charged to income. During the year, marketable securities were written down \$3,975 (2004 - \$31,075). The quoted market value of marketable securities at December 31, 2005 was \$385,050 (2004 - \$155,175).

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.



Management Discussion and Analysis
For the Year Ended December 31, 2005

Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at www.sedar.com.

As of the Report Date, the Company had 39,547,148 issued common shares outstanding and the following unexercised stock options and warrants:

-Stock Options

Expiry Date	Exercise Price	Number of Shares
September 11, 2006	\$0.25	34,250
January 10, 2007	\$0.25	9,500
July 15, 2007	\$0.50	1,062,300
December 19, 2007	\$0.80	50,000
February 20, 2008	\$0.80	477,200
March 4, 2008	\$0.80	100,000
May 22, 2008	\$0.80	65,000
October 6, 2008	\$0.70	136,000
March 30, 2009	\$1.19	200,000
August 8, 2009	\$1.10	560,000
October 18, 2009	\$1.00	300,000
January 27, 2010	\$1.00	50,000
March 22, 2010	\$1.15	252,500
May 17, 2010	\$0.85	550,000
		3,846,750

-Warrants

Expiry Date	Exercise Price	Number of Shares
July 19, 2006/2007 *	\$1.00/\$1.50	4,000,000
July 19, 2006/2007 *	\$1.00/\$1.50	198,600
December 13, 2006	\$0.95	1,219,650
December 13, 2006	\$0.95	351,176
		5,769,426

* Warrants are subject to a forced exercise provision in year one if it trades at a \$1.30 or higher for 10 consecutive days.

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Nancy Curry
VP, Corporate Communications

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Janice Davies
Corporate Secretary

LISTINGS

TSX Venture Exchange: **DDN**
Tier One

CAPITALIZATION

(as of December 31, 2005)

Shares Authorized: Unlimited

Shares Issued: 39,529,098

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