

**TALMORA DIAMOND INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
NINE MONTHS ENDED  
SEPTEMBER 30, 2011  
(EXPRESSED IN CANADIAN DOLLARS)  
(UNAUDITED)**

## **TALMORA DIAMOND INC.**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

### **STATEMENT OF COMPLIANCE WITH IAS 34**

These interim financial statements are in full compliance with Interim Financial Reporting (IAS 34).

Readers are also referred to the Company's March 31, 2011, interim financial statements for detailed disclosure of its compliance with IFRS requirements as a first time reporter.

**TALMORA DIAMOND INC.**  
**Table of Contents**  
**Nine months ended September 30, 2011**

Condensed interim statement of financial position .....	1
Condensed interim statements of Operations and Deficit .....	2
Condensed interim statements of changes in equity .....	3
Condensed interim statements of cash flows .....	4
Notes to the condensed interim financial statements.....	5-21

TALMORA DIAMOND INC.  
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)  
(UNAUDITED) SEPTEMBER 30, 2011

1

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		As at Sept. 30, 2011 \$	As At Dec. 31, 2010 \$
ASSETS			
CURRENT			
Cash and cash equivalents	6	175,077	145,311
Sundry receivables		<u>39,016</u>	<u>11,861</u>
		214,093	157,172
DEPOSIT			
	7	<u>88,394</u>	88,394
		<u>302,487</u>	<u>245,566</u>
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		68,437	21,210
SHAREHOLDERS' EQUITY			
Share capital	8	2,307,849	1,945,766
Warrant reserve	8	122,959	92,292
Share –based payment reserve	9	130,809	127,124
Accumulated deficit		<u>(2,327,567)</u>	<u>(1,940,826)</u>
		<u>234,050</u>	<u>224,356</u>
		<u>302,487</u>	<u>245,566</u>

Going concern (Note 1)

Commitments and contingencies (Notes 7 and 14)

/s/ Raymond Davies  
Director

s/Richard Hogarth  
Director

TALMORA DIAMOND INC.  
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND DEFICIT  
(Expressed in Canadian Dollars)  
UNAUDITED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

2

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2010	2011	2010	2011
	\$	\$	\$	\$
<b>EXPENSES</b>				
Administration (Note 13)	18,681	33,430	80,710	147,647
Exploration expenditures	9,729	175,981	34,233	222,732
Share-based payments(Note 9)	21,693	1,527	28,038	3,685
Professional fees	360	2,734	360	12,803
Bank charges	<u>99</u>	<u>49</u>	<u>194</u>	<u>196</u>
<b>(Loss) before the under-noted</b>	(50,562)	(213,721)	(143,535)	(387,063)
Interest income	<u>630</u>	<u>322</u>	<u>711</u>	<u>322</u>
<b>( Loss) before income taxes</b>	(49,932)	(213,399)	(142,834)	(386,741)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	(49,932)	(213,399)	(142,834)	(386,741)
(Deficit), beginning of period	<u>(1,858,955)</u>	<u>(2,114,168)</u>	<u>(1,766,053)</u>	<u>(1,940,826)</u>
(Deficit), end of period	<u>(1,908,887)</u>	<u>(2,327,567)</u>	<u>(1,908,887)</u>	<u>(2,327,567)</u>
<b>NET (LOSS) PER SHARE – basic and diluted</b>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted</b>	<u>33,682,679</u>	<u>44,982,679</u>	<u>33,682,679</u>	<u>44,982,679</u>

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

UNAUDITED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

	Note	Share Capital	Share- payment reserve	Warrant reserve	Deficit	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2010		1,798,266	121,600	75,992	(1,766,054)	229,804
Share-based payments			28,038			28,038
Net loss and comprehensive loss for the period					(142,834)	(142,834)
Balance at Sept. 30, 2010		1,798,266	149,638	75,992	(1,908,888)	115,008
Private placement	8	147,500		16,300		163,800
Share-based payments	9		(22,514)			(22,514)
Net loss and comprehensive loss for the period					(31,938)	(31,938)
Balance at December 31, 2010		1,945,766	127,124	92,292	(1,940,826)	224,356
Private placement		323,550		69,200		392,750
Share-based payments			3,685			3,685
Expired warrants		38,533		(38,533)		0
Net loss and comprehensive loss for the period					(386,741)	(386,741)
<u>Balance at Sept. 30, 2011</u>		<u>2,307,849</u>	<u>130,809</u>	<u>122,959</u>	<u>(2,327,567)</u>	<u>234,050</u>

TALMORA DIAMOND INC.  
CONDENSED INTERIM STATEMENTS OF CHANGES IN CASH FLOWS  
(Expressed in Canadian Dollars)  
UNAUDITED FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

4

	Nine Months Ending September 30,	
	2010	2011
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) for the period	(142,834)	(386,741)
Changes not involving cash		
Income Tax (recovery)	-	-
Share-based payments	28,038	3,685
Changes in non-cash working capital balances: (increase)/decrease in sundry receivables	13,578	(27,155)
(Decrease) increase in accounts payable and accrued liabilities	<u>(16,390)</u>	<u>47,227</u>
Cash flows from operating activities	(117,608)	(362,984)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Private Placements	<u>69,619</u>	<u>392,750</u>
Cash flows from financing activities	<u>69,619</u>	<u>392,750</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Short-term investment	(100,000)	(100,000)
Cash flows from investing activities	<u>(100,000)</u>	<u>(100,000)</u>
(Decrease) increase in cash and cash equivalents	(147,989)	(70,234)
Cash and cash equivalents, beginning of period	<u>172,878</u>	<u>145,311</u>
Cash and cash equivalents, end of period	<u><u>24,889</u></u>	<u><u>75,077</u></u>

**1. CORPORATE INFORMATION AND GOING CONCERN**

Talmora Diamond Inc. (the "Company" or "Talmora") was incorporated on April 18, 1996 under the Canada Business Corporations Act. The Company is publicly traded with its shares listed on the Canadian National Stock Exchange. The Company's registered and head office is located at 6 Willowood Court, Toronto, Ontario Canada M2J 2M3.

The Company is in the business of exploring and evaluating mineral properties. Substantially all of the Company's efforts are devoted to financing and developing their mineral properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves, which are economically recoverable.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts and political uncertainty.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

As at September 30, 2011, the Company had cash and cash equivalents totaling \$175,077 and working capital of \$106,640. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due. However, over the longer term, the Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is some doubt about the ability of the Company to continue as a going concern. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.



## **2. BASIS OF PRESENTATION**

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010 and its March 31, 2011, interim statements as a first time IFRS-compliant reporter. Where material, the condensed interim financial statements also include required annual IFRS disclosures if the same disclosure was not previously made under Canadian GAAP.

The financial statements have been prepared on the historical cost basis except for cash equivalents, which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

## **3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Updates that are not applicable or are not consequential to the Company have been excluded from the list below.

IFRS 7 Financial instruments - Disclosures ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011.

IFRS 9 Financial Instruments ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 13 Fair Value Measurement converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company has not yet determined the impact of the above standards on its financial statements.

#### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of these unaudited condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of sundry receivables that are included in the condensed interim statement of financial position;
- the inputs used in accounting for share-based payment transactions;
- Management assumption of no material restoration, rehabilitation and environmental obligations, based on the facts and circumstances that existed during the period; and
- Management's position that there is no income tax considerations required within these unaudited condensed interim financial statements.

#### **5. SIGNIFICANT ACCOUNTING POLICIES**

##### **Functional and presentation currency**

The Company's presentation and functional currency is the Canadian dollar ("C\$"). The Company does not have any foreign operations. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period end exchange rates are recognized in the statement of comprehensive loss.

##### **Flow through shares**

The Company finances a portion of its Horton River project exploration and evaluation activities through the issuance of flow-through shares. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the fair value of the Company's common shares is allocated to liabilities. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized through operations.

## **5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction, the Company offsets the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through operations in the reporting period.

### **Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The Company currently operates in one business segment, being the exploration and evaluation of resource properties. All of the Company's assets are located in Canada.

### **Share-based payment**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note.

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## **5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Loss per share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

### **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks, on hand, short-term deposits with an original maturity of three months or less, and guaranteed investment certificates which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates that are available on demand by the Company for its programs. The Company does not invest in any asset-backed deposits/investments.

### **Share capital**

Common shares are classified as equity. Costs directly attributable to the issue of new shares, warrants or stock options are shown in equity as a deduction, net of tax, from proceeds.

### **Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The timing of recognition and quantification of the liability requires the application of judgment to existing facts and circumstances, which can be subject to change. A change in estimate of a recognized provision or liability would result in a charge or credit to operations in the period in which the change occurs, with the exception of decommissioning and restoration costs described below.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time referred to as "unwinding of discount" is recognized within finance costs.

#### *Decommissioning and restoration provisions*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of operations as a finance cost.

## **5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of operations.

The Company does not currently have any such significant legal or constructive obligations and therefore no decommissioning liabilities have been recorded as at September 30, 2011, December 31, 2010 and January 1, 2010.

### **Contingencies**

Contingent assets are not recognized in the financial statements but they are disclosed by way of note if they are deemed probable.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. Contingent liabilities are recognized in the financial statements unless the possibility of an outflow of economic resources is considered remote, in which case they are disclosed in the notes to the financial statements.

### **Exploration and evaluation expenditures**

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and evaluation activity.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

### **Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through net loss and comprehensive loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment.

### **Financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period.

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

### Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of cash on hand, balances with banks, and guaranteed investment certificates that are cashable at any time.

	As at September, 30 2011 \$	As at December 31, 2010 \$
Cash and cash equivalents are composed of		
Cash	75,077	134,930
Guaranteed Investment Certificate, bearing interest at 1.25% (December 31, 2010 1.25%)	<u>100,000</u>	<u>10,381</u>
	<u>175,077</u>	<u>145,311</u>

## 7. EXPLORATION AND EVALUATION EXPENDITURES

The exploration and evaluation expenditures incurred by the Company are as follows:

	Nine months ended September 30	
	2011	2010
	\$	\$
Exploration activities	222,732	34,233

During the three months ended September 30, 2011, the Company's exploration and evaluation expenditures on the Horton River, NWT Property was \$175,981 (September 30, 2010 - \$9,729).

The sub-total Balance, at September 30, 2011, \$1,505,220 of which \$40,678 was attributed to staking (from Assessment Report calculation).

Total cumulative exploration activities incurred on the Horton River, NWT Property to September 30, 2011 amounted to \$1,651,121 (December 31, 2010 - \$1,428,389 and January 1, 2010 - \$1,347,804).



## 7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

The cumulative exploration and evaluation expenditures are broken down as follows:

<u>Acquisition costs</u>	\$
Balance, January 1, 2010, December 31, 2010 and September 30., 2011	85,952
Staking 2009	59,949
Staking 2011	<u>40,678</u>
Balance, September 30, 2011	186,579
 <u>Exploration Expenditures</u>	
Balance, January 1, 2010	<u>1,201,903</u>
Licences and permits	32,580
Exploration	24,825
Field reports	9,735
Wages	5,600
Sample sorting and analysis	4,276
Travel	2,124
Remote sensing	1,419
Post-mail courier	<u>26</u>
Balance, December 31, 2010	1,282,488
Travel	10,900
Sample sorting and analysis	14,259
Conference	124
Field Reports & Assessment	37,725
Professional Services	24,713
Licences and permits	389
Wages	4,200
Equipment rental	10,540
Freight	780
Communication	1,072
Helicopter and Fixed wing	83,320
Accommodation and food	6,755
Staking	4,556
Ground geophysics	9,600
Office services	710
Exploration Professional Services	8,239
Legal Services	1,400
Program planning	<u>3,450</u>
* Sub-total Exploration includes staking charges	* 1,505,220
* Less staking charges (from Assessment Report calculation)	* <u>(40,678)</u>
Balance, September 30, 2011	<u>1,464,542</u>
Total Balance, September 30, 2011	<u>1,651,121</u>



As at September 30, 2011, the Company held eleven prospecting permits and 175 claims in the Horton River area of the Northwest Territories. The property is 120 kilometers south of Paulatuk, a village located on the Arctic coast, about 400 kilometers east of Inuvik. All the Company's permits and claims are located on Crown Land straddling the boundary between the Inuvialuit and Sahtu Settlement Regions of the Northwest Territories. One of the permits and all of the claims are in the Inuvialuit Settlement Area and ten of the permits are in the adjoining Sahtu Settlement Area. During the period ended March 31, 2011, the Company allowed two of the permits in the Inuvialuit Settlement Area to lapse. The permits require a deposit paid in advance, refundable when equivalent exploration work has been performed. As at September 30, 2011, the Company had deposits of \$88,394 (December 31, 2010 - \$88,394; January 1, 2010 - \$59,729) with the Mining Recorder. The claims are in good standing until August 13, 2011 or later. Claims can be staked within the permits at any time so long as the permits are in good standing.

In January 2010, the Mining Recorder had granted Talmora a one year extension on all ten permits in the Sahtu Settlement Area and in January 2011, the Mining Recorder granted a further one year extension on eight of the permits. Two of the ten permits had sufficient work credits for their remaining one year work period. Future cash deposits of \$144,868 or work of equal value are required by January 31, 2012 to maintain the eight permits to their expiry dates.

A report on the airborne geophysics and sampling carried out in 2009 will be submitted to the Mining Recorder to fulfill the assessment work requirements of the 125 claims with current expiry date of August 13, 2011 which should keep them in good standing for at least another year.

Application to Record 36 new claims covering 13,997.15 acres was made and were recorded by the Mining Recorder's Office at September 22, 2011.

## 8. SHARE CAPITAL AND WARRANT RESERVE

### Authorized

The authorized share capital consists of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

### Common shares issued

	<i>Common Shares</i> <i>#</i>	<i>Amount</i> <i>\$</i>
Balance, January 1, 2010	33,682,679	1,798,266
Common shares (Series VI) issued for cash	2,100,000	105,000
Flow-through common (Series VI) shares issued for cash	1,200,000	60,000
Warrant valuation (Series VI) (i)	-	(16,300)
Share issue costs (i)	-	(1,200)
Balance, December 31, 2010	36,982,679	1,945,766
Expired warrants (Series IV)		38,533
Common shares (Series VII) issued for cash	4,000,000	200,000
Flow-through common shares (Series VII) issued for cash	4,000,000	200,000
Warrant valuation Series VII	-	( 69,200)
Share issue costs	-	(7,250)
Balance September 30, 2011	<u>44,982,679</u>	<u>2,307,849</u>

On July 8, 2011 the Company closed a private placement financing for 8,000,000 Units, comprised of 4,000,000 Hard Dollar Units and 4,000,000 Flow-Through Units that were sold at \$0.05 per Unit, for gross proceeds of \$400,000 effective July 8, 2011. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant ("Warrant") entitles the holder to acquire one common share for \$0.10 until July 8, 2013. If during the term of the Warrants the common shares of Talmora trade at or above Can. \$0.20 for a period of 20 consecutive trading days, the Company may notify the warrant holder to exercise the Warrants at a date no later than 30 calendar days after this notification date or forfeit any unexercised Warrants at that time. (Series VII)

All securities issued pursuant to the financing are subject to a four month hold period which expires on November 9, 2011. A cash commission of \$7,250 was paid on the brokered part of the financing. Insiders acquired a total of 2,549,820 Units.

The grant date fair value of the warrants of \$69,200 or \$0.10 per whole warrant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 97%; risk free interest rate of 1.69%; and expected life of two years.

On December 28, 2010, the Company closed a private placement financing for 2,100,000 non-flow-through units and 1,200,000 flow-through units at a price of \$0.05 per unit for total gross proceeds of \$165,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at \$0.16 per common share until December 28, 2012. (Series VI)

The grant date fair value of the warrants of \$16,300 or \$0.01 per whole warrant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 97%; risk free interest rate of 1.69%; and expected life of two years. In connection with the financing, the Company incurred legal fees of \$1,200.

## Warrant reserve

A summary of changes in warrants is as follows:

	Warrants	Weighted Average Exercise Price	Value
	#	\$	\$
Balance, January 1, 2010	5,953,872	0.18	75,992
Issued	<u>1,650,000</u>	0.16	<u>16,300</u>
Balance, December 31, 2010	7,603,872	0.16	92,292
Warrants expired June 3, 2011	(3,059,286)		( 38,533)
Issued (Series VII)	<u>4,000,000</u>	0.10	<u>69,200</u>
Balance, Sept. 30, 2011	<u>8,544,586</u>	0.15	<u>122,959</u>

As at September 30, 2011, the following warrants were issued and outstanding:

Number of warrants #	Exercise Price \$	Value \$	Expiry Date
2,894,586	0.16	37,459	13-Nov-11
1,650,000	0.16	16,300	29-Dec-12
4,000,000	0.10	69,200	09-July-13
8,544,586		122,959	

The weighted average grant date fair value of warrants granted during the period ended September 30, 2011 was \$Nil (2010 - \$0.01). The warrants outstanding and exercisable as at September 30, 2011 have a weighted average remaining contractual life of 0.22 years (December 31, 2010 - 0.92 years). Of the warrants outstanding, 1,245,000 warrants expiring November 13, 2011 and 600,000 warrants expiring December 29, 2011 are exercisable into flow-through shares.

## 9. STOCK OPTIONS

The Company has a stock option plan under which officers, directors, employees, and consultants of the Company are eligible to receive stock options. The aggregate number of shares to be issued upon exercise of all options granted under the plan may not exceed 10% of the outstanding shares of the Company. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option is fixed by the board of directors but shall not be less than the price permitted by any stock exchange on which the Company's common shares may be listed which is generally the trading price of the Company's stock at or about the grant date of the options.

A summary of changes in stock options is as follows:

	Options #	Weighted Average Exercise Price \$
Balance, January 1, 2010	1,600,000	0.10
Granted, March 1, 2010	50,000	0.05
Granted, June 9, 2010	1,400,000	0.05
Balance, December 31, 2010	3,050,000	
Granted May 1, 2011	100,000	0.05
Balance, September 30, 2011	3,150,000	0.075

As at September 30, 2011, the following options were issued and outstanding:

Options Granted	<u>Options Exercisable</u>	Exercise Price	Expiry date	Remaining Contractual Life (years)
#	#	\$		
1,600,000	1,600,000	0.10	April 25, 2012	.569
50,000	41,666	0.05	March 1, 2015	3.40
1,400,000	933,326	0.05	June 9, 2015	3.69
<u>100,000</u>	<u>0</u>	0.05	May 1, 2016	<u>4.58</u>
<u>3,150,000</u>	<u>2,574,992</u>			<u>2.13</u>

The weighted average exercise price of options exercisable at September 30, 2011 is \$0.075 (December 31, 2010 - \$0.10, January 1, 2010 - \$0.10)

On March 1, 2010, the Company granted stock options to acquire 50,000 common shares of the Company at an exercise price of \$0.05 per share, which expire on March 1, 2015 and vest as to 16.67% every three months beginning June 2010 and ending September 2011.

On June 9, 2010, the Company granted stock options to acquire 1,400,000 common shares of the Company at an exercise price of \$0.05 per share, which expire on June 9, 2015 and vest as to 16.67% every three months beginning September 2010 and ending December 2011.

The weighted average grant date fair value of the options issued during the period ended June 30, 2011 is \$Nil, (year ended December 31, 2010 - \$0.0055). The grant date fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 105%; risk free interest rate of 2.65%; and expected life of five years.

On May 1, 2011, the Company granted stock options to acquire 100,000 common shares of the Company at an exercise price of \$0.05 per share, which expire on May 1, 2016 and vest as to 16.67% every three months beginning August 1, 2011 and ending November, 2012.

The weighted average grant date fair value of the options issued during the period ended June 30, 2011 is \$.037, (year ended December 31, 2010 - \$0.0055). The grant date fair value of the options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 163.89%; risk free interest rate of 2.34%; and expected life of five years.

## **10. CAPITAL AND PROPERTY RISK MANAGEMENT**

### **Capital risk**

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain appropriate returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary, in order to support the acquisition, exploration and development of its projects. The Board of Directors does not establish criteria for quantitative return on capital for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company considers its capital to be equity, which comprises share capital, warrant reserve and share-based payment reserve. The properties in which the Company currently has an interest are at the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned project related development activities and pay for exploration and administrative costs, the Company will spend its existing working capital and plans to raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There was no change to the Company's approach to capital management during the period ended March 31, 2011. The Company is not subject to any externally imposed capital requirements.

### **Property risk**

The Company's significant mineral property is the Horton River NWT (the "Mine Property"). Unless the Company acquires or develops additional significant properties, the Company will be solely dependent upon the Mine Property. If no additional mineral properties are acquired by the Company, any material development affecting the Mine Property could have a material effect on the Company's financial condition and results of operations

## **11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, and financial liability are disclosed in Note 5.

### **Categories of financial instruments and fair value measurement**

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date. When appropriate, the Company adjusts the valuation models to incorporate a measure of credit risk.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair values of derivatives are calculated using option pricing models.

## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The fair values of the Company's financial assets and financial liabilities represent management's estimates of the current market value at the financial position reporting date and are shown below with their carrying values as of the same date. The financial assets and financial liabilities are presented according to the categorization of the financial instruments:

	As at Sept. 30, 2011 Carrying Value \$	Approximate fair value \$	As at Dec. 31, 2010 Carrying Value \$	Approximate fair value
Fair value through profit and loss				
Cash equivalents	110,721	110,721	10,382	10,382
Cash	64,356	64,356	134,930	134,930
Sundry receivables				
Receivables	39,016	39,016	11,861	11,861
Other financial liabilities				
Accrued payables and accrued liabilities	68,437	68,437	21,210	21,210

The table below provides an analysis of the Company's financial assets that are measured at fair value subsequent to initial recognition, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have any Level 3 financial instruments.

## 12. FINANCIAL RISK

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risk, including price risk, interest rate and currency risk, as explained below. Risk management is carried out by the Company's management team with guidance from the Audit Committee and the Board of Directors. There were no changes in the Company's policies and procedures for managing risk during the period ended September 30, 2011.

### Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2011, the Company had a cash and cash equivalents balance of \$175,077 (December 31, 2010 - \$145,311) to settle current liabilities of \$68,437 (December 31, 2010 - \$21,210).

### Credit Risk

The Company's credit risk is primarily attributable to cash equivalents and sales tax receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial assets included in sundry receivables consist of sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments included in cash equivalents and sales tax receivable is remote.

### Market Risk

#### (a) *Interest Rate Risk*

The Company has cash equivalent balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Currently, the Company does not hedge against interest rate risk.

#### (b) *Foreign Currency Risk*

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

#### (c) *Price Risk*

The Company is exposed to price risk with respect to diamond prices. The Company closely monitors diamond prices to determine the appropriate course of action to be taken by the Company. As the Company's mineral properties are in the exploration stage and do not contain any mineral resources or mineral reserves, the Company does not hedge against price risk.

### Sensitivity Analysis

The Company does not anticipate any material fluctuations as a result of changes in interest or foreign currency rates.

### 13. RELATED PARTY DISCLOSURES

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Related party transactions conducted in the normal course of operations are measured at the transaction amount.

Remuneration of directors and key management of the Company was as follows:

	Nine months ended September 30	
	2011	2010
	\$	\$
Salaries and benefits	\$172,762	\$69,022

The amount of \$172,762 in 2011 reflects time charges incurred by key management personnel. The increase is mainly due to the field program carried out and assessment report preparation during 2011

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

### 14. CONTINGENCIES AND COMMITMENTS

The Company renounced flow-through expenditures in the amount of \$60,000 to investors with an effective date of December 31, 2010. All of these expenditures were incurred as at September 30, 2011. The Company had agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that became payable by them, if the Company failed to meet its expenditure commitments.

### 15. SUBSEQUENT EVENTS

A report on the airborne geophysics and sampling carried out in 2009 has been submitted to the Mining Recorder on November 05, 2011 to fulfill the assessment work requirements of the 125 claims with current expiry date of August 13, 2011 which should keep them in good standing for at least another year.