

**TALMORA DIAMOND INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
THREE MONTHS ENDED  
MARCH 31, 2012  
(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.

**TALMORA DIAMOND INC.**  
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TALMORA DIAMOND INC.  
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)  
(UNAUDITED) MARCH 31, 2012

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	Notes	As at March 31, 2012 \$	As at December 31, 2011 \$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	6	89,890	36,172
Sundry receivables	12	16,114	56,013
Refundable Performance Bond	7	<u>88,394</u>	<u>88,394</u>
<b>Total Assets</b>		<u>194,398</u>	<u>180,579</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities		32,030	20,000
<b>SHAREHOLDERS EQUITY</b>			
Share capital	8	2,377,469	2,307,471
Warrant reserve	8	67,126	67,126
Share-based payment reserve	9	148,962	133,144
Accumulated deficit		<u>(2,431,189)</u>	<u>(2,347,162)</u>
Total Shareholders' equity		<u>162,368</u>	<u>160,579</u>
<b>Total liabilities and shareholders' equity</b>		<u>194,398</u>	<u>180,579</u>

Going Concern (Note 1)  
Commitments and contingences (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 THREE MONTHS ENDED MARCH 31, 2012

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	Three Months Ending March 31	
	2012 \$	2011 \$
<b>EXPENSES</b>		
Administration( Note 13)	16,419	67,723
Exploration Expenditures and evaluation expenditures (Note 7)	39,326	33,551
Share –Based Payments (Note 9)	15,818	1,146
Professional Fees	12,495	4,423
Bank Charges	<u>59</u>	<u>18</u>
<b>(Loss) before the under-noted</b>	(84,086)	(106,861)
Interest income	<u>59</u>	<u>0</u>
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	(84,027)	(106,861)
(Deficit), beginning of period	<u>(2,347,162)</u>	<u>(1,940,826)</u>
(Deficit), end of period	<u>(2,431,189)</u>	<u>(2,047,687)</u>
<b>NET (LOSS) per share – basic and diluted</b>	<u>(0.00)</u>	<u>(0.00)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted</b>	<u>46,831,639</u>	<u>36,982,679</u>

## CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

UNAUDITED FOR THE THREE MONTHS ENDED MARCH 31, 2012

	Note	Share Capital	Share- payment reserve	Warrant reserve	Deficit	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2011		1,945,766	127,124	92,292	(1,940,826)	224,356
Share-based payments			1,146			1,146
Net loss and comprehensive loss for the period					(106,861)	(106,861)
Balance at March 31, 2011		1,945,766	128,270	92,292	(2,047,687)	118,641
Private placement	8	336,793		50,826		387,619
Share-based payments	9		7,336			7,336
Tax effect of expired warrants					(10,700)	(10,700)
Expired Warrants				(75,992)	75,992	
Options		24,912	(2,462)			22,450
Net loss and comprehensive loss for the period					(364,767)	(364,767)
Balance at December 31, 2011		2,307,471	133,144	67,126	(2,347,162)	160,579
Private placement		69,998				69,998
Share-based payments			15,818			15,818
Net loss and comprehensive loss for the period					(68,209)	(68,209)
Balance at March 31, 2012		2,377,469	148,962	67,126	(2,431,189)	162,368

TALMORA DIAMOND INC.  
CONDENSED INTERIM STATEMENTS OF CHANGES IN CASH FLOWS  
(Expressed in Canadian Dollars)  
UNAUDITED FOR THE THREE MONTHS ENDED MARCH 31, 2012

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	Three Months Ending March 31,	
	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) for the period	(84,027)	(106,861)
Changes not involving cash		
Income Tax (recovery)	-	-
Share-based payments	<u>15,818</u>	<u>1,146</u>
Changes in non-cash working capital balances:		
Decrease (increase) in sundry receivables	39,899	(14,044)
Increase in accounts payable and accrued liabilities	<u>12,030</u>	<u>46,766</u>
Cash Flows from operating activities	<u>(16,280)</u>	<u>(72,993)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Private Placement	<u>69,998</u>	<u>-</u>
Cash flows from financing activities	<u>69,998</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	53,718	(72,993)
Cash and cash equivalents, beginning of period	<u>36,172</u>	<u>145,311</u>
Cash and cash equivalents, end of period	<u>89,890</u>	<u>72,318</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.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on May 28, 2012.

The Company is in the business of exploring and evaluating mineral exploration 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 March 31, 2012, the Company had cash and cash equivalents totaling \$89,890 and working capital of \$162,368. 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 of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). They were prepared in accordance with International Accounting Standard ("IAS") 1, Presentation of Financial Statement.



## **2. BASIS OF PRESENTATION (Continued)**

The preparation of financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The financial statements have been prepared on the historical cost basis except for cash equivalents, which are measured at fair value. In addition, these 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 the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after December 31, 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 the Company's financial statements for the period beginning July 1, 2012.

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, 2015, with earlier adoption permitted. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015.

IFRS 11 Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previously jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

### **3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)**

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairments of Assets. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning January 1, 2013.

IFRS 13 Fair Value Measurement ("IFRS 13") 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 intends to adopt IFRS 13 in its financial statements for the annual period beginning January 1, 2013.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company intends to adopt IAS 1 in its financial statements for the annual period beginning January 1, 2013.

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 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 financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

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 and refundable performance bonds included in the statements of financial position. In the determination of carrying values and impairment charges, management looks at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- The inputs used in accounting for share-based payment transactions. Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.
- Management assumption of no material restoration, rehabilitation and environmental obligations, based on the facts and circumstances that existed during the period. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## 5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 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 loss and 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.

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.

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

### **Deferred tax**

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 recognized 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.

### **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. The issued and outstanding stock options and warrants were not included in the calculation of diluted loss per share for the periods presented, as their effect would be anti-dilutive.

### **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position are comprised of 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 and warrants are shown in equity as a deduction, net of tax benefits received, if any, from proceeds.

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

### **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.

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 December 31, 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.

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

### **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 are classified 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. The Company's cash, sundry receivables and refundable performance bonds have been classified as loans and receivables. The Company has classified its cash equivalents as fair value through profit or loss.

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 are classified 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. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

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.

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 ("GIC"s) that are cashable at any time.

	As at March 31, 2012 \$	As at December 31, 2011 \$	As at March 31, 2011 \$
Cash and cash equivalents are composed of:			
Cash	89,890	36,172	61,936
GIC bearing interest at 1.25%	<u>-</u>	<u>-</u>	<u>10,382</u>
	<u>89,890</u>	<u>36,172</u>	<u>72,318</u>

## 7. EXPLORATION AND EVALUATION EXPENDITURES

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

	March 31, 2012 \$	Three months ended March 31, 2011 \$
Staking costs	-	-
Exploration and evaluation expenditures	39,326	33,551
<b>Total</b>	<b>39,326</b>	<b>33,551</b>

## EXPLORATION AND EVALUATION EXPENDITURES

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

	2011 \$
<u>Exploration and Evaluation Expenditures</u>	
Balance, beginning of the year	<u>1,339,995</u>
Field communications	1,175
Conference	124
Equipment rental & purchase	12,289
Freight	2,380
Aircraft charter (helicopter and fixed wing)	82,996
Aircraft fuel	9,252
Travel (aircraft, taxi etc.)	11,930
Travel (accommodation and meals)	5,714
Field accommodation and meals	6,755
Professional fees (exploration)	100,025
Contract labour wages	4,200
Sample sorting and analysis	10,992
Staking	5,100
Office services	764
Legal & WCB	5,830
Licences, permits etc.	540
Field communications	1,175
Other	<u>10,273</u>
Expenditures for the year	<u>260,066</u>



TALMORA DIAMOND INC  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
(UNAUDITED) MARCH 2012

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Less: acquisition costs included in the above	(40,678)
Exploration and evaluation expenditures incurred during the year	219,388
Balance, end of year	1,413,482
Total cumulative balance, January 1, 2012	1,600,061
Travel	2,150
Sample sorting and analyses	10,072
Ground geophysics	9,600
Office services	1,911
Field reporting	15,563
Legal	30
Balance, March 31, 2012	\$1,639,387

During the three months ended March 31, 2012, the Company's exploration and evaluation expenditures on the Horton River, NWT, property was \$39,326 (March 31, 2011 - \$33,551). Total cumulative exploration activity incurred on the Horton River, NWT, property to March 31, 2012, amounted to \$1,639,387 (December 31, 2011 - \$1,600,061; March 31, 2011 - \$1,461,940).

The property is 120 kilometres south of Paulatuk, a village located on the Arctic coast, about 400 kilometres east of Inuvik. As at March 31, 2012 the Company held 211 claims (68,784.15 acres) in the Horton River area, south of Paulatuk in the Northwest Territories. All eleven permits it held at last year-end lapsed or were allowed to lapse on January 31, 2012. Most of the claims (207 covering 63,619.15 acres) are in the Inuvialuit Settlement Area and 4 of the claims ((5,165 acres) are in the adjoining Sahtu Settlement Area. All are on crown land.

The Crown owns both mineral and surface rights to the claim areas, the exploration and exploitation of which is governed by the Canada Mining Regulations. Prospecting permits, claims, mining leases and work permits are dealt with under the Regulations. The Land Settlement Agreements deal with environmental matters, creates environmental agencies and related procedures, and provides the Inuvialuit and Sahtu with equal representation on the agencies. Those who conduct economic activity in the Region need their approval.

Permits require a deposit paid in advance, refundable when equivalent exploration work has been performed, of \$0.10/acre for the first work period, \$0.20/acre for the second work period and \$0.40/acre for the third work period. The first and second work periods are 2 years north of 68°N latitude and 1 year south of 68°N latitude. Areas of interest within the permits may be staked by the permit holder before the expiration of the permits but may not be staked by the permit holder for 1 year after the expiration of the permits.

Claims require assessment work of \$4.00/acre for the first two years and \$2.00/acre for each year thereafter.

Work done on the older claims prior to 2009 was approved and credits amounting to \$36,669 were applied to certain of the older claims. Application has been made to apply credits, for work done in 2009 and 2011, to certain permits and claims and if approved should result in the refund of cash deposits (performance bond) amounting to \$88,394 (December 31, 2011 and 2010 - \$88,394; January 1, 2010 – \$59,729) on permits and keep the newer claims in good standing for various lengths of time but at least to August 2013.

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## 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

	Number #	Amount \$
Balance, January 1, 2010	33,682,679	1,798,266
Common shares issued for cash (i)	2,100,000	105,000
Flow-through common shares issued for cash (i)	1,200,000	60,000
Warrant valuation (i)	-	(16,300)
Share issue costs (i)	-	(1,200)
Balance, December 31, 2010	36,982,679	1,945,766
Common shares issued for cash (ii)	4,000,000	200,000
Flow-through common shares issued for cash (ii)	4,000,000	200,000
Warrant valuation (ii)	-	(52,449)
Common shares issued on exercise of options	449,000	24,912
Share issue costs (ii)		(10,758)
Balance, December 31, 2011	45,431,679	2,307,471
Proceeds from private placement*	1,399,960	69,998
Balance, March 31, 2012	46,831,639	2,377,469

\$69,998 were partial funds received to March 31<sup>st</sup> from a  
Private placement initiated on February 29<sup>th</sup> and closed on April 16, 2012,  
See the details of the financing under Note 14 – Subsequent Event.

(i) 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 consisted 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 29, 2012.

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.

(ii) On July 8, 2011, the Company closed a private placement financing for 8,000,000 units, comprised of 4,000,000 non-flow-through units and 4,000,000 flow-through units that were sold at \$0.05 per unit, for gross proceeds of \$400,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share for \$0.10 until July 9, 2013. If during the term of the warrants, the common shares of Talmora trade at or above \$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.

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The grant date fair value of the warrants of \$52,449 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 95%; risk free interest rate of 1.51%; and expected life of two years. A cash commission of \$7,250 was paid on the brokered part of the financing.

Directors and officers of the Company acquired a total of 2,549,820 units pursuant to this financing, for gross proceeds of \$127,491.

## 8. SHARE CAPITAL AND WARRANT RESERVE (Continued)

### 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 (i)	<u>1,650,000</u>	0.16	<u>16,300</u>
Balance, December 31, 2010	7,603,872	0.16	92,292
Expired	(5,953,872)	0.16	(75,992)
Issued, net of costs of \$1,623 (ii)	<u>4,000,000</u>	0.10	<u>50,826</u>
Balance, December 31, 2011 and March 31, 2012	<u>5,650,000</u>	0.13	<u>67,126</u>

As at March 31, 2012, the following warrants were issued and outstanding:

Number of warrants	Exercise Price	Value	Expiry Date
#	\$	\$	
1,650,000	0.16	16,300	28-Dec-12
4,000,000	0.10	50,826	08-July-13
5 650,000		67,126	

The warrants outstanding and exercisable as at March 31, 2012 have a weighted average remaining contractual life of 1.12 years (December 31, 2011 – 1.36 years). Of the warrants outstanding, 200,000 warrants expiring July 9, 2013 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	0.08
Granted, May 1, 2011	100,000	0.05
Exercised	(449,000)	0.05
Granted, December 16, 2011	1,500,000	0.05
Balance, March 31, 2012	4,201,000	0.08

As at March 31, 2012, the following options were issued and outstanding:

Options Granted #	Options Exercisable #	Exercise Price \$	Expiry date	Remaining Contractual Life (years)
1,600,000	1,600,000	0.10	April 25, 2012	0.07
50,000	50,000	0.05	March 1, 2015	2.92
951,000	951,000	0.05	June 9, 2015	3.19
100,000	33,332	0.05	May 1, 2016	4.08
<u>1,500,000</u>	<u>-</u>	0.05	December 16, 2016	4.71
<u>4,201,000</u>	<u>2,634,332</u>	0.07		2.80

The weighted average exercise price of options exercisable at March 31, 2012 is \$0.07 (December 31, 2011 - \$0.08, January 1, 2011 - \$0.09).

## **9. STOCK OPTIONS (Continued)**

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.

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.

On December 9, 2011, 449,000 stock options were exercised at \$0.05 for cash proceeds of \$22,450.

On December 16, 2011, the Company granted stock options to acquire 1,500,000 common shares of the Company at an exercise price of \$0.05 per share, which expire on December 16, 2016 and vest as to 16.67% every three months beginning March 16, 2012 and ending June 16, 2013.

The weighted average grant date fair value of the options issued during the year ended March 31, 2012 is \$0.03 (2011 - \$0.03). 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% (2010 - 0%); expected volatility of 156% (2010 - 105%); risk free interest rate of 1.27% (2010 - 2.65%); and expected life of five years (2010 - 5 years).

## **10. CAPITAL MANAGEMENT**

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 years ended December 31, 2011 and 2010. The Company is not subject to any externally imposed capital requirements.

## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### 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 Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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.

The Company's financial instruments that are carried at fair value consist of cash equivalents and are classified as Level 2 within the fair value hierarchy.

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 March 31, 2012 Carrying Value \$	Approximate fair value \$	As at December 31, 2011 Carrying Value \$	Approximate fair value \$	As at December 31, 2010 Carrying Value \$	Approximate fair value \$
<b>Loans and receivables</b>						
Cash	89,890	89,890	36,172	36,172	134,930	134,930
Sundry receivables	16,114	16,114	56,013	56,013	11,861	11,861
Deposit	88,394	88,394				
<b>Other financial liabilities</b>						
Accounts payable and accrued liabilities	32,030	32,030	20,000	20,000	21,210	21,210

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 years ended December 31, 2011 and 2010.

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

### **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 March 31, 2012, the Company had a cash and cash equivalents balance of \$89,890 (December 31, 2011 - \$36,172; December 31, 2010 - \$146,311) to settle current liabilities of \$32,030 (December 31, 2011 - \$20,000; December 31, 2010 - \$21,210).

### **Credit Risk**

The Company's credit risk is primarily attributable to cash equivalents and sundry receivables. 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 an amount due from an officer of the Company and 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 sundry receivables 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.

### **Property risk**

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

### **Sensitivity Analysis**

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

## 12. 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:

	Years ended March 31	
	2012 \$	2011 \$
Salaries and benefits	36,821	71,320

The amount of \$36,821 in 2012 reflects time incurred by key management personnel.

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.

Included in amounts receivable as at March 31, 2012, is \$7,774 (December 31, 2011 \$9,260 and January 1, 2011 - \$Nil), advanced to an officer of the Company. This amount is unsecured, non-interest bearing and due on demand.

See Note 8 for details on related party private placement unit subscriptions.

## 13. CONTINGENCIES AND COMMITMENTS

### Flow-Through Shares

Subsequent to December 31, 2011, the Company renounced flow-through expenditures in the amount of \$200,000 to investors with an effective date of December 31, 2011. Of this amount, \$171,600 was incurred to December 31, 2011. The remaining balance of \$28,400 is required to be spent by December 31, 2012; the remaining balance of expenditures were incurred to March 31, 2012.

The Company had agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that become payable by them, if the Company failed to meet its expenditure commitments.

### Environmental Contingencies

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.



#### **14. SUBSEQUENT EVENT**

Subsequent to December 31, 2011, the Company completed a private placement of 3,000,000 units comprised of 1,200,000 hard-dollar units and 1,800,000 flow-through units at \$0.05 per unit for gross proceeds of \$150,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share for \$0.10 until April 16, 2014. Directors and officers of the Company acquired a total of 1,500,000 units in the financing. The Company paid a cash commission of \$1,500 on the brokered portion of the placement.