TALMORA DIAMOND INC.

2011 ANNUAL REPORT

AND

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

AND

MANAGEMENT INFORMATION CIRCULAR

May 25, 2012

Message to the Shareholders

Talmora Diamond Inc. ("Talmora") was ready to drill in 2008 but the global financial crisis made financing impossible. The market improved in early 2011 and we hoped that we might finally drill into a kimberlite. A financing of just over $1 million was undertaken in London and the initial response was positive. At first the Royal Wedding was a priority in people's minds but we soon had tentative subscriptions of $700,000. Unfortunately the media focussed on the financial crisis in Greece, the European investors got the jitters and the subscription list stalled. New investors were eventually found that might have made up the shortfall but it was then too late in the year to mount a successful drill program in the high Arctic. Many of the tentative subscribers who were banking on a 2011 drill program backed out and we closed the financing at $400,000.

Drilling our targets remains a priority and the only work we are doing is work necessary to maintain the property in good standing. We are investigating means of accessing the property without the need for a helicopter in order to reduce costs. It is planned to have all approvals and permits in place before we next seek financing for drilling.

Management believes that the company's Horton River project has the potential of producing a major diamond field hosting as many kimberlites as Lac Du Gras. There is evidence that Talmora's property is the source of numerous and widespread kimberlite indicator minerals (KIMs) and diamonds found by others in the Lena West area, west of Talmora. The property has numerous magnetic anomalies and most of those sampled down-ice show a strong correlation with KIMs. The KIMs closely match those to the west which show good diamond association chemistry. The only difference is that Talmora has very few garnets and there are no G-10 varieties among them. This is caused by a geological situation relatively unique in Canada but common in warm climates. Pre-glacial soils in the area were affected by laterite formation that destroys kimberlitic garnets and appears to destroy G-10 garnets preferentially. Glaciation has removed most but not all the laterite layer and KIMs normally found in glacial tills and used to prioritize drill targets have either been partially or completely destroyed in the laterite.

The aim of Talmora's initial drill program is twofold. It must first drill a kimberlite at minimal cost to prove that the area has potential and to facilitate a major financing for a follow-up program in the current poor economic conditions. It must also obtain fresh kimberlite from as many targets as possible in order to prioritize individual targets for major sampling and evaluation drilling. Overburden is relatively thin so it is feasible to use a light-weight drill for the initial program, a drill that is very mobile and can be transported from site to site by ATV. Holes need only be deep enough to obtain sufficient fresh kimberlite for KIM and micro diamond analyses.

A kimberlite discovery is the next step and should do a lot for the market value of the company.

Raymond Davies
President

May 25, 2012

CORPORATE PROFILE

Talmora Diamond Inc. ("Talmora") is a junior exploration company (formed by the amalgamation of Talmora Resources Inc. and Canadian Diamond Limited). Talmora holds 211 claims (68,784 acres) in the Horton River area south of Paulatuk in the Northwest Territories. The claims were acquired in 2007, 2009 and 2011 to cover magnetic anomalies that have characteristics of kimberlite pipes.

An orientation survey was carried out in 2004. Follow-up work in 2007 included an airborne magnetic survey, staking of magnetic anomalies and further sampling to outline drill targets. The 2007 work shows a close relation between kimberlite indicator minerals and magnetic anomalies with characteristics of kimberlite pipes.

Claims were again staked in 2009, on prospective ground that came open that year. The new claims were traversed with an airborne magnetometer and additional samples were collected. Additional claims were staked in 2011 on a permit due to lapse in January 2012 and samples were collected and spectrometer readings recorded in order to ground truth ASTER satellite images of the property.

Talmora is currently focussed on securing financing to test the Horton River kimberlite targets with drilling.

TALMORA DIAMOND INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual meeting (the "**Meeting**") of the shareholders ("**Shareholders**") of Talmora Diamond Inc. (the "**Corporation**") will be held at **390 Bay Street, Suite 806, Toronto, Ontario M5H 2Y2** on Tuesday, June 26, 2012, at 11:00 a.m. (Toronto time) for the following purposes:

1. To receive and consider the audited financial statements of the Corporation for the year ended December 31, 2011, together with a report of the auditors thereon;

2. To elect the directors of the Corporation of the ensuing year;

3. To appoint McGovern, Hurley, Cunningham, LLP, Chartered Accountants as the auditors of the Corporation for the ensuing year and to authorize the directors to fix their remuneration; and

4. To transact such other business as may properly come before the Meeting or any adjournments or postponements thereof.

The nature of the business to be transacted at the Meeting is described in further detail in the accompanying management information circular.

The record date for the determination of Shareholders entitled to receive notice of, and to vote at, the Meeting or any adjournments or postponements thereof is May 25, 2012 (the "**Record Date**"). Shareholders whose names have been entered in the register of shareholders at the close of business on the Record Date will be entitled to receive notice of, and to vote, at the Meeting or any adjournments or postponements thereof.

A Shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournments or postponements thereof in person are requested to complete, date, sign and return the accompanying form of proxy for use at the Meeting or any adjournments or postponements thereof. To be effective, the enclosed form of proxy must be mailed or faxed so as to reach or be deposited with the Corporation at 6 Willowood Court, Toronto, Ontario, M2J 2M3, Fax: 416.499.5187 or Computershare Investor Services Inc., Proxy Dept., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Fax: 888.453.0330 not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournments or postponements thereof.

DATED at Toronto, Ontario this 25th day of May, 2012.

BY ORDER OF THE BOARD

(Signed): "*Raymond Davies*"

RAYMOND DAVIES – PRESIDENT AND CHIEF EXECUTIVE OFFICER

TALMORA DIAMOND INC.

6 Willowood Court
Toronto, Ontario M2J 2M3

MANAGEMENT INFORMATION CIRCULAR

This management information circular (the "**Circular**") is furnished in connection with the annual meeting (the "**Meeting**") of the holders (the "**Shareholders**") of common shares (the "**Common Shares**") of Talmora Diamond Inc. ("**Talmora**" or the "**Corporation**") to be held on Tuesday June 26, 2012 at 11:00 a.m. (Toronto time) at **390 Bay Street, Suite 806, Toronto, Ontario, Ontario, M5H 2Y2**, and at any continuation thereof after an adjournment.

In this Circular, unless otherwise indicated, all dollar amounts "$" are expressed in Canadian dollars.

The information contained herein is given as of May 25, 2012, except as otherwise stated.

SECTION I - VOTING INFORMATION

Solicitation of Proxies

The enclosed proxy is being solicited by or on behalf of the management of the Corporation. The mailing to Shareholders of this Circular will be on or about June 5, 2012. The cost of soliciting proxies will be borne by the Corporation. While most proxies will be solicited by mail only, regular employees of the Corporation may also solicit proxies by telephone or in person. Such employees will receive no additional compensation for these services other than their regular salaries, but will be reimbursed for their reasonable expenses.

The Corporation will provide proxy materials to brokers, custodians, nominees and fiduciaries and will request that such materials be promptly forwarded to the beneficial owners of Common Shares registered in the names of such brokers, custodians, nominees and fiduciaries. The Corporation will reimburse brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses incurred in forwarding proxy materials to beneficial owners of Common Shares.

Voting Common Shares

The board of directors (the "**Board**") of Talmora has fixed May 25, 2012 as the record date for the purpose of determining Shareholders entitled to receive notice of the Meeting (the "**Meeting Record Date**").

The Corporation will prepare, no later than ten (10) days following the Meeting Record Date, a list of Shareholders entitled to vote as of the Meeting Record Date, showing the number of Common Shares held by each such Shareholder. Each person named on the list of Shareholders is entitled to one (1) vote for each Common Share held, except to the extent that: (i) the Shareholder has transferred any Common Shares after the Meeting Record Date; and (ii) the transferee of those Common Shares produces properly endorsed share certificates or otherwise establishes ownership of those Common Shares and requests not later than ten (10) days before the date of the Meeting that the transferee's name be included on such list before the Meeting, in which case the transferee is entitled to vote those Common Shares at the Meeting.

Registered Shareholders

Registered Shareholders are Shareholders whose Common Shares are held in their own name and they will have received a proxy form in their own name.

Non-Registered/Beneficial Shareholders

Beneficial Shareholders are Shareholders who do not hold their Common Shares in their own name, but rather in the name of a nominee - this could be a bank, trust company, securities broker or other financial institution (and is known as holding in "street form").

If you are a non-registered Shareholder, there are two (2) ways you can vote your Common Shares held by your nominee. Your nominee is required to seek voting instructions from you in advance of the Meeting in accordance with securities laws, and so you will receive, or will have already received from your nominee, a request for voting instructions or a proxy form for the number of Common Shares you hold. Every nominee has its own mailing procedures and provides its own signing and return instructions. Therefore, please follow them in order to make sure that your Common Shares are voted.

Alternatively, if you wish to vote in person at the Meeting, please insert your own name in the space provided on the "Request for Voting Instructions" or proxy form to appoint yourself as proxyholder and follow the signing and return instructions of your nominee. Non-registered Shareholders who appoint themselves as proxyholders should, at the Meeting, present themselves to a representative of Computershare Investor Services Inc.

Appointment of Proxy Holders

The persons named in the enclosed form of proxy are directors and/or officers of Talmora. A Shareholder has the right to appoint some other person (who need not be a Shareholder) to attend and to act for and on behalf of such Shareholder at the Meeting. To exercise this right, the Shareholder must either insert the name of the desired person in the blank space provided in the proxy and strike out the other names or submit another proper form of proxy and, in either case, deliver the completed proxy by post or other form of delivery to Talmora Diamond Inc. at 6 Willowood Court, Toronto, Ontario, M2J 2M3, Fax: 416.499.5187 or to the transfer agent for the Common Shares, Computershare Investor Services Inc., Proxy Dept., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Fax: 888.453.0330, in either case to be received not later than 48 hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournments or postponements thereof.

All Common Shares represented by a properly executed and deposited proxy will be voted or withheld from voting on the matters identified in the Notice of Meeting in accordance with the instructions of the Shareholder as specified thereon.

If you have appointed a person who was designated by Talmora to vote on your behalf as provided in the enclosed form of proxy and you do not provide any instructions concerning any matter identified in the Notice of Meeting, the Common Shares represented by such proxy will be voted:

(1) FOR the election of the persons nominated for election as directors of Talmora;

(2) FOR the re-appointment of McGovern, Hurley, Cunningham, LLP, Chartered Accountants, as auditors of Talmora and to authorize the Board to fix the remuneration of the auditors.

The enclosed form of proxy, when properly signed, confers discretionary authority on the person or persons named to vote on any amendment to matters identified in the Notice of Meeting and on any other matter properly coming before the Meeting. Management of the Corporation is not aware of any such matter; however, if such matter properly comes before the Meeting, the proxies will be voted at the discretion of the person or persons named therein. The persons named in the form of proxy are either officers or directors of Talmora.

Revocability of Proxies

A proxy given pursuant to this solicitation may be revoked at any time prior to its use. A Shareholder who has given a proxy may revoke the proxy by:

(i) completing and signing a proxy bearing a later date and depositing it at the offices of the Corporation or Computershare Investor Services Inc., Proxy Dept., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1;

(ii) depositing an instrument in writing executed by the Shareholder or by the Shareholder's attorney duly authorized in writing or, if the Shareholder is a body corporate, under its corporate seal or, by a duly authorized officer or attorney either with the Corporation or Computershare Investor Services Inc., Proxy Dept., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 at any time up to and including the last business day preceding the day of the Meeting or any adjournment(s) or postponement(s) thereof or with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment(s) or postponement(s) thereof; or

(iii) in any other manner permitted by law.

Voting Shares and Principal Shareholders

The authorized capital of the Corporation consists of an unlimited number of Common Shares. As at the date hereof, there were 48,431,679 Common Shares outstanding. Each Common Share carries the right to one (1) vote on any matter properly coming before the Meeting. A quorum for the meeting of Shareholders must have two (2) persons present in person or by proxy.

The following table shows, as of the date of this Circular, each person who is known to the Corporation, or its directors and officers, to beneficially own, directly or indirectly, or to exercise control or direction over securities carrying more than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation entitled to be voted at the meeting.

Name of Shareholder(1)	Number of Common Shares(2)(3)	Percentage of Common Shares(2)(3)
Raymond Davies	9,821,866	20.28%

Notes:
(1) Mr. Davies is President, CEO and a director of the Corporation.
(2) The information as to Common Shares beneficially owned, controlled or directed, not being within the knowledge of the Corporation, has been obtained by the Corporation from publicly disclosed information and/or furnished by the Shareholder listed above.
(3) Based on a total of 48,431,679 issued and outstanding Common Shares as at the date hereof.

SECTION II - BUSINESS OF THE MEETING

1. Financial Statements and Auditor's Report

The Shareholders will receive and consider the audited financial statements of the Corporation for the fiscal year ended December 31, 2011, together with the auditor's report thereon.

2. Election of Directors

The articles of Talmora provide that the Board shall consist of a minimum of three (3) and a maximum of 10 directors. The Board has set the number of directors to be elected at the Meeting at four (4).

The nominees for election as directors of Talmora are listed below. The persons proposed for election are, in the opinion of the Board and management of the Corporation, well qualified to act as directors for the forthcoming year.

Such nominees, if elected, will serve until the next annual meeting of Shareholders or until his/her successor is duly elected or appointed. Management of the Corporation has been informed that each nominee is willing to serve as a director, if elected. Management of the Corporation recommends a vote for all nominees for election as directors of the Corporation.

Unless the Shareholder has specifically instructed in the enclosed form of proxy that the Common Shares represented by such proxy are to be withheld, the persons named in the accompanying proxy will vote FOR the election of the directors named below.

The following table sets out the names of the four (4) nominees, their principal occupation or employment and the year from which each has continually served as a director of Talmora. The table also sets out, as at the date hereof, the number of Common Shares owned by each of them or over which control or direction is exercised by each of them.

NOMINEES FOR ELECTION AS DIRECTORS

Name, Province or State and Country of Residence	Date First Became a Director	Present Principal Occupation	Number of Common Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Direction is Exercised(1)
Richard M. Hogarth(2)(3)(4)(5) *Ontario, Canada*	January, 2007	Retired stock broker	400,000
Raymond Davies *Ontario, Canada*	January, 2007	President and Chief Executive Officer of Talmora	9,821,866
Joan Fiset(2)(3)(4)(5) *Ontario, Canada*	January, 2007	Tax Consultant	50,000
Leslie C. Little(2)(3)(4)(5) *Surrey, England*	January, 2007	Retired Company Secretary	Nil

Notes:

(1) The information with respect to the Common Shares beneficially owned, controlled or directed is not within the direct knowledge of the Corporation and has been furnished by the respective individuals.

(2) Member of the Audit Committee. Ms. Fiset is the Chair.

(3) Member of the Nominating and Corporate Governance Committee. Ms. Fiset is the Chair.

(4) Member of the Compensation Committee. Ms. Fiset is the Chair.

(5) Member of the Occupational Health & Safety Committee. Ms. Fiset is the Chair.

As a group, the proposed directors beneficially own, control or direct, directly or indirectly, 10,271,866 Common Shares, representing approximately 21.2% of the issued and outstanding Common Shares as of the date hereof.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No individual set forth in the above table is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

(a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days that was issued while such individual was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after such individual ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while such proposed director was acting in the capacity as director, chief executive officer or chief financial officer.

No individual set forth in the above table (or any personal holding company of any such individual) is, as of the date of this Circular, or has been within ten (10) years before the date of this Circular, a director or executive officer of any company (including the Corporation) that, while such individual was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No individual as set forth in the above table (or any personal holding company of any such individual) has, within the ten (10) years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such individual.

No individual set forth in the above table (or any personal holding company of any such individual) has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

3. Re-Appointment of Auditor

Unless the Shareholder has specifically instructed in the enclosed form of proxy that the Common Shares represented by such proxy are to be withheld, the persons named in the accompanying proxy will vote FOR the appointment of McGovern, Hurley, Cunningham, LLP, Chartered Accountants as auditors of the Corporation to hold office until the next annual meeting of Shareholders or until a successor is appointed and to authorize the Board to fix the remuneration of the auditors.

OTHER BUSINESS

The form of proxy accompanying this Circular confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting or other matters which may properly come before the Meeting. Management of the Corporation knows of no matter to come before the Meeting or of any amendment or variation to matters identified in the Notice of the Meeting, other than the matters referred to in the Notice of the Meeting. However, if matters not now known to management should properly come before the Meeting, Common Shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the person voting such Common Shares.

SECTION III - EXECUTIVE COMPENSATION AND OTHER INFORMATION

Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide information about the Corporation's executive compensation philosophy, objectives, and processes and to discuss compensation decisions relating to the Corporation's Chief Executive Officer, Chief Financial Officer, and, if applicable, its three most highly compensated individuals acting as, or in a like capacity as, executive officers of the Corporation whose total compensation for the most recently completed financial year was individually equal to more than $150,000 (the "**NEOs**" or "**Named Executive Officers**"), during the Corporation's most recently complete financial year, being the financial year ended December 31, 2011 (the "**Last Financial Year**"). The only NEOs of the Corporation during the Last Financial Year were Raymond Davies, the President and Chief Executive Officer of the Corporation and Robert T. Owen, the Chief Financial Officer of the Corporation.

Report on Executive Compensation

The Compensation Committee of the Board considers compensation matters as and when required. The Compensation Committee reviews and submits recommendations to the Board with respect to the Corporation's executive compensation policies and the compensation paid to the Corporation's executive officers. The Compensation Committee also reviews the design and competitiveness of the Corporation's compensation and benefit programs generally and has the authority to recommend to the Board for its approval amendments to, and grants pursuant to, such programs.

Composition of the Compensation Committee

The Compensation Committee is composed of Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little, all of whom are independent within the meaning of Canadian Securities Administrator's National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**").

Compensation Philosophy

The Corporation's executive compensation policy is designed to provide for the enhancement of shareholder value, the successful implementation of the Corporation's business plans and a link between executive compensation and the financial performance of the Corporation.

The objectives of the Corporation's executive compensation policy are to:

(a) attract, retain and motivate executives critical to the success of the Corporation;

(b) provide fair, competitive and cost effective compensation programs to its executives;

(c) link the interests of management with those of the Shareholders; and

(d) provide rewards for outstanding corporate and individual performance.

The Compensation Committee reviews on an annual basis the cash compensation, performance and overall compensation package for each executive officer. It then submits recommendations to the Board with respect to the basic salary, bonus and participation in long-term incentive plans for each executive officer.

Basic Salary

In determining the basic salary of an executive officer, the Compensation Committee places equal weight on the following factors:

(a) the particular responsibilities related to the position;

(b) salaries paid by comparable businesses;

(c) the experience level of the executive officer; and

(d) his or her overall performance.

Bonus Payments

Executive officers are eligible for annual cash bonuses, after taking into account and giving equal weight to, financial performance, attainment of certain corporate objectives and individual performance.

In taking into account the financial performance aspect, it is recognized that executive officers cannot control certain factors, such as interest rates and the international market for precious metals. When applying the financial performance criteria, the Compensation Committee considers factors over which the executive officers can exercise control, such as meeting budget targets established by the Board of Directors at the beginning of each year, controlling costs, taking successful advantage of business opportunities and enhancing the competitive and business prospects of the Corporation. There are no pre-established payout ranges.

No bonuses were awarded to the officers of the Corporation during the Last Financial Year.

Long-Term Incentives

The grant of options pursuant to the Corporation's incentive stock option plan is an integral component of the compensation arrangements of the senior officers of the Corporation. The Board believes that the grant of options to senior officers and Common Share ownership by such officers serves to motivate such officers to strive towards achievement of the Corporation's long-term strategic objectives, which will benefit all Shareholders. Options are awarded to employees of the Corporation by the Board, based on the recommendations of the Compensation Committee. Decisions with respect to options granted are based upon the individual's level of responsibility and their contribution towards the Corporation's goals and objectives, and additionally may be awarded in recognition of the achievement of a particular goal or extraordinary service. The Board considers the overall number of options that are outstanding relative to the number of outstanding Common Shares in determining whether to make any new grants of options and the size of such grants.

During the Last Financial Year, the Board granted 1,600,000 options.

Summary Compensation Table

The following table provides information for the Last Financial Year and the years ended December 31, 2010 and December 31, 2009 regarding compensation earned by each of the following NEOs:

Name a nd principal position	Year Ended December 31	Salary ($)(1)	Share-based awards ($)	Option-based awards ($)(2) (3) (4)	Non-equity incentive plan compensation ($)		Pension value ($)	All other compensation ($)(5)	Total compensation ($)
					Annual incentive plans	Long-term incentive plans			
Raymond Davies President & Chief Financial Officer	2011	$67,969	Nil	2,582	Nil	Nil	Nil	Nil	70,551
	2010	$25,913	Nil	1,698	Nil	Nil	Nil	Nil	27,611
	2009	$50,187	Nil	Nil	Nil	Nil	Nil	Nil	50,187
Robert T. Owen Chief Financial Officer	2011	$15,082	Nil	482	Nil	Nil	Nil	Nil	15,564
	2010	$14,053	Nil	593	Nil	Nil	Nil	Nil	14,646
	2009	$11,630	Nil	Nil	Nil	Nil	Nil	Nil	11,630

Notes:

(1) Salary data is presented on an annualized basis.

(2) The weighted average grant date fair value of the options issued during the year ended December 31, 2011 is $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%; expected volatility of 156%; risk free interest rate of 1.27%; and expected life of five years.

(3) The weighted average grant date fair value of the options issued during the year ended December 31, 2010 is $0.0055. The 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.

(4) The aggregate value of all other compensation paid to the NEOs did not exceed $50,000 or 10% of the total of such officers' respective salary and bonuses in any year.

Incentive Plan Awards

The following tables provide information regarding the incentive plan awards for each NEO outstanding as of December 31, 2011.

Outstanding Share Awards and Option Awards

	Option-based Awards				Share-based Awards	
Name	**Number of Common Shares underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share awards that have not vested ($)**
Raymond Davies	838,000 425,000	0.05 0.10	December 16, 2016 April 25, 2012	Nil Nil	N/A	N/A
Robert T. Owen	105,000 149,000 210,000	0.05 0.05 0.10	December 16, 2016 June 9, 2015 April 25, 2012	Nil Nil Nil	Nil	Nil

Incentive Plan Awards – Value Vested or Earned During the Year

Name	Option-based awards – Value vested during the year[(1)] ($)	Share-based awards – Value vested ($)	Non-equity incentive plan compensation – Value earned during the year ($)
Raymond Davies	Nil	N/A	N/A
Robert T. Owen	Nil	N/A	N/A

Notes:

(1) Aggregate dollar value that would have been realized if the options had been exercised on the vesting date (computed based on the difference between the market price of shares at exercise and the exercise price of the options on the vesting date).

Pension Plan Benefits

As at the date of this Circular, the Corporation does not have any pension plans.

Termination and Change of Control Benefits

As at the date of this Circular, the Corporation does not have any contracts, agreements, plans or arrangements that provides for payments to an NEO at, following or connection with any termination, resignation, retirement, change in control of the Corporation or a change in a NEO's responsibilities.

Directors' and Officers' Liability Insurance

The Corporation does not maintain liability insurance for the benefit of the Corporation, its related companies and their directors and officers, as a group at the present time. Such insurance may be obtained in the future.

Director Compensation

The Board determines the level of compensation for directors based on recommendations from the Compensation Committee. The Board reviews directors' compensation as needed, taking into account time commitment, risks and responsibilities to ensure that the amount of compensation adequately reflects the responsibilities and risks of being a director and makes adjustments as deemed necessary.

As of the date hereof, the Board has not adopted a cash compensation program for its directors with respect to general director's duties, meeting attendance, or for additional service on Board committees. Directors are, however, reimbursed for reasonable out-of-pocket expenses incurred in attending Board, committee or shareholder meetings.

Directors may receive option grants as determined by the Board pursuant to the Corporation's incentive stock option plan. The exercise price of such options is determined by the Board, but shall in no event be less than the market price of the Common Shares at the time of the grant of the options.

Director Compensation Table

The following table provides information regarding compensation paid to the Corporation's directors, other than the NEOs, during the financial year ended December 31, 2011:

Name[(1)]	Fees earned ($)	Share-based awards ($)	Option-based awards[(2)] ($)	Non-equity incentive plan compensation ($)	Pension value ($)	All other compensation ($)	Total ($)
Richard Hogarth	Nil	Nil	363	Nil	Nil	Nil	363
Joan Fiset	Nil	Nil	334	Nil	Nil	Nil	334
Leslie Little	Nil	Nil	328	Nil	Nil	Nil	328
TOTALS	**Nil**	**Nil**	**1,025**	**Nil**	**Nil**	**Nil**	**1,025**

Notes:

(1) Mr. Davies was a director and Named Executive Officer during the year ended December 31, 2011. Any compensation received by him in his capacity as a director of the Corporation is reflected in the Summary Compensation Table for the Named Executive Officers.

(2) The weighted average grant date fair value of the options issued during the year ended December 31, 2011 is \$0.03 (2010 - \$0.01). 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).

Incentive Plan Awards

The following table provides information regarding the incentive plan awards for each director outstanding as of December 31, 2011:

Outstanding Share Awards and Options Awards

	Option-based Awards				Share-based Awards	
Name[(1)]	**Number of Securities underlying unexercised options (#)**	**Option exercise price ($)**	**Option expiration date**	**Value of unexercised in-the-money options ($)**	**Number of shares or units of shares that have not vested (#)**	**Market or payout value of share-based awards that have not vested ($)**
Richard Hogarth	78,000 114,000 125,000	0.05 0.05 0.10	December 16, 2016 June 9, 2015 April 25, 2012	Nil Nil Nil	N/A	N/A
Joan Fiset	73,000 103,000 105,000	0.05 0.05 0.10	December 16, 2016 June 9, 2015 April 25, 2012	Nil Ni Nil	N/A	N/A
Leslie Little	72,000 101,000 100,000	0.05 0.05 0.10	December 16, 2016 June 9, 2015 April 25, 2012	Nil Ni Nil	N/A	N/A

Notes:

(1) Mr. Davies was a director and Named Executive Officer during the year ended December 31, 2011. Any compensation received by him in his capacity as a director of the Corporation is reflected in the Summary Compensation Table for the Named Executive Officers.

The following table provides information regarding the value vested or earned on incentive plan awards for each director during the year ended December 31, 2011:

Incentive Plan Awards – Value Vested or Earned During the Year

Name[(1)]	**Option awards – Value vested during the year[(2)] ($)**	**Share awards – Value vested during the year ($)**	**Non-equity incentive plan compensation – Value earned during the year ($)**
Richard Hogarth	239,000	N/A	Nil
Joan Fiset	208,000	N/A	Nil
Leslie Little	201,000	N/A	Nil

Notes:

(1) Mr. Davies was a director and Named Executive Officer during the year ended December 31, 2011. Any compensation received by him in his capacity as a director of the Corporation is reflected in the Summary Compensation Table for the Named Executive Officers.

(2) Aggregate dollar value that would have been realized if the options had been exercised on the vesting date (computed based on the difference between the market price of the Common Shares at exercise and the exercise price of the options on the vesting date).

SECTION IV – SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Stock Option Plan

Talmora adopted a stock option plan (the "**Stock Option Plan**") in accordance with the requirements of the Canadian National Stock Exchange. The Stock Option Plan was approved by the Shareholders at the Corporation's annual and special meeting held on May 6, 2011.

The purpose of the Stock Option Plan is to attract and retain superior employees, to provide a strong incentive for employees and consultants to put forth maximum effort for the continued success and growth of the Corporation and, in combination with these goals, to encourage equity ownership in the Corporation by its employees and consultants.

The Stock Option Plan is administered by the Board, with the Compensation Committee having been designated by the Board to administer it. The Compensation Committee has full and complete authority to interpret the Stock Option Plan, to prescribe such rules and regulations as it deems necessary for the proper administration of the Stock Option Plan and to make such determinations and to take such actions in connection therewith as it deems necessary or advisable.

Equity Compensation Plan Information

The following table provides details of the equity securities of the Corporation authorized for issuance as of the financial year ended December 31, 2011 pursuant to the Corporation's equity compensation plan currently in place:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by securityholders	4,201,000	$0.08	642,167
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	4,201,000(2)		642,167

Notes:
(1) Based on a total of 4,843,167 stock options issuable pursuant to the Stock Option Plan.
(2) Representing approximately 8.7% of the issued and outstanding Common Shares as at the date hereof.

As at December 31, 2011, there were 4,201,000 outstanding options under the Stock Option Plan.

SECTION V – STATEMENT OF CORPORATE GOVERNANCE

Talmora believes that good corporate governance is an essential element in a well-managed company. The following is a description of the Corporation's corporate governance practices.

Board of Directors

The duties and responsibilities of the Board are:

- to supervise the management of the business and affairs of the Corporation; and
- to act with a view towards the best interests of the Corporation.

In discharging its mandate, the Board is responsible for the oversight and review of the development of, among other things, the following matters:

- the strategic planning process of the Corporation;
- identifying the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training and monitoring senior management;
- a communications policy for the Corporation to facilitate communications with investors and other interested parties; and
- the integrity of the Corporation's internal control and management information systems.

The Board also has the mandate to assess the effectiveness of the Board as a whole, its committees and the contribution of individual directors.

NI 58-101 defines an "independent director" as a director who has no direct or indirect "material relationship" with the issuer. A "material relationship" is as a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment. The Board maintains the exercise of independent supervision over management by ensuring that the majority of its directors are independent.

The Board is currently comprised of four (4) directors being Raymond Davies, Richard Hogarth, Joan Fiset and Leslie Little. Messrs. Hogarth and Little, and Ms. Fiset are independent within the meaning of NI 58-101. Mr. Davies is not independent as he is an officer of the Corporation and thereby has a "material relationship" with the Corporation.

The Board believes that it functions independently of management and reviews its procedures on an ongoing basis to ensure that it is functioning independently of management. The Board meets without management present, as circumstances require. When conflicts arise, interested parties are precluded from voting on matters in which they may have an interest. In light of the suggestions contained in National Policy 58-201 – *Corporate Governance Guidelines*, the Board convenes meetings, as deemed necessary, of the independent directors, at which non-independent directors and members of management are not in attendance. In the Last Financial Year, the Board met four (4) times.

Other Public Company Directorships

The following members of the Board of Directors currently hold directorships in other reporting issuers as set forth below:

Name of Director	Name of Reporting Issuer	Market
Raymond Davies	Dolly Varden Resources Inc. Ditem Exploration Inc	TSXV TSXV

Orientation and Continuing Education

The Board, together with the Nominating and Corporate Governance Committee (the "**Nominating Committee**") is responsible for providing a comprehensive orientation and education program for new directors which fully sets out:

- the role of the Board and its committees;
- the nature and operation of the business of the Corporation; and
- the contribution which individual directors are expected to make to the Board in terms of both time and resource commitments.

In addition, the Board, together with the Nominating Committee, is also responsible for providing continuing education opportunities to existing directors so that individual directors can maintain and enhance their abilities and ensure that their knowledge of the business of the Corporation remains current.

Ethical Business Conduct

The Board encourages and promotes a culture of ethical business conduct amongst the directors, officers and employees of the Corporation.

In addition to those matters which, by law, must be approved by the Board, the approval of the Board is required for:

- the Corporation's annual business plan and budget;
- material transactions not in the ordinary course of business; and
- transactions which are outside of the Corporation's existing business.

To ensure the directors exercise independent judgment in considering transactions and agreements in which a director or officer has a material interest, all such matters are considered and approved by the independent directors. Any interested director would be required to declare the nature and extent of his interest and would not be entitled to vote at meetings of directors which evoke such a conflict.

Nomination of Directors

The Nominating Committee holds the responsibility for the appointment and assessment of directors.

The Nominating Committee seeks to achieve a balance of knowledge, experience and capability among the members of the Board. When considering candidates for director, the Nominating Committee takes into account a number of factors, including the following (although candidates need not possess all of the following characteristics and not all factors are weighted equally):

- Personal qualities and characteristics, accomplishments and reputation in the business community;
- Current knowledge and contacts in the countries and/or communities in which the Corporation does business and in the Corporation's industry sectors or other industries relevant to the Corporation's business; and
- Ability and willingness to commit adequate time to Board and committee matters, and be responsive to the needs of the Corporation.

The Board will periodically assess the appropriate number of directors on the Board and whether any vacancies on the Board are expected due to retirement or otherwise. If vacancies are anticipated, or otherwise arise, or the size of the Board is expanded, the Nominating Committee will consider various potential candidates for director. Candidates may come to the attention of the Nominating Committee through current directors or management, stockholders or other persons. These candidates will be evaluated at regular or special meeting of the Nominating Committee, and may be considered at any point during the year.

Compensation

The Compensation Committee assists the Board in its oversight role with respect to (i) the Corporation's human resource strategy, policies and programs, and (ii) all matters relating to the proper utilization of human resources within the Corporation, with special focus on management succession, development and compensation.

The Compensation Committee:

- reviews and makes recommendations to the Board at least annually regarding the Corporation's remuneration and compensation policies, including short and long-term incentive compensation plans and equity-based plans, bonus plans, pension plans (if any), executive stock option plans including the Plan and grants and benefit plans;
- has sole authority to retain and terminate any compensation consultant to assist in the evaluation of director compensation, including sole authority to approve fees and other terms of the retention;
- reviews and approves at least annually all compensation arrangements with the senior executives of the Corporation;
- reviews and approves at least annually all compensation arrangements with the directors of the Corporation; and
- reviews the executive compensation sections disclosed in annual management proxy circular distributed to the shareholders in respect of the Corporation's annual meetings of shareholders.

Other Board Committees

In addition to the Audit Committee, the Compensation Committee and the Nominating Committee, the Board has an Occupational Health & Safety Committee.

The Occupational Health & Safety Committee is responsible for reviewing environmental and occupational health and safety policies and programs, overseeing the Corporation's occupational health and safety performance, and monitoring current, as well as future, regulatory issues.

Assessments

The Board does not consider formal assessments useful given the stage of the Corporation's business and operations. However, the chairman of the Board meets annually with each director individually, which facilitates a discussion of his contribution and that of other directors. When needed, time is set aside at a meeting of the Board for a discussion regarding the effectiveness of the Board and its committees. If appropriate, the Board then considers procedural or substantive changes to increase the effectiveness of the Board and its committees. On an informal basis, the chairman of the Board is also responsible for reporting to the Board on areas where improvements can be made. Any agreed upon improvements required to be made are implemented and overseen by the Nominating Committee. A more formal assessment process will be instituted as, if, and when the Board considers it to be necessary.

SECTION VI – AUDIT COMMMITTEE INFORMATION

The Audit Committee's Charter

The Board adopted a Charter for the Audit Committee, which sets out the Audit Committee's mandate, organization, powers and responsibilities. The full text of the Audit Committee Charter is attached as Schedule "A" to this Circular.

Composition of the Audit Committee

The members of the Audit Committee are Joan Fiset (Chair), Richard Hogarth and Leslie Little. All members of the Audit Committee are independent and financially literate, as those terms are defined in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**").

Name of Member	Independent(1)	Financially Literate(2)
Joan Fiset (Chair)	Yes	Yes
Richard Hogarth	Yes	Yes
Leslie Little	Yes	Yes

Notes:

(1) To be considered independent, a member of the Audit Committee must not have any direct or indirect "material relationship" with the Corporation. A "material relationship" is a relationship which could, in the view of the board of directors of the Corporation, be reasonably expected to interfere with the exercise of a member's independent judgment.

(2) To be considered financially literate, a member of the Committee must have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

Relevant Education and Experience

Ms. Fiset has a background in accounting, tax and treasury with extensive mining industry experience, including oral and written fluency in French and a strong knowledge of Spanish. She received a Bachelor of Science (Honours) in mining engineering from Queen's University, a Masters of Business Administration from the University of Western Ontario, and a C.A. designation and a Bachelor of Laws degree from the University of Toronto.

Mr. Hogarth is a retired investment advisor who worked for Scotia McLeod (and its predecessors) from 1975 to 1999 and has served as a director on the boards of numerous mining resources companies. He is a life member of the Canadian Institute of Mining, Metallurgy and Petroleum and is a member of the Prospectors and Developers Association of Canada.

Mr. Little is retired and was a former Corporate Secretary with Rambler Metals & Mining PLC, a mineral exploration company. He previously was consultant/investment manager and has previously worked for several investment management firms in the United Kingdom responsible for managing funds and discretionary private client portfolios.

Audit Committee Oversight

At no time during the Last Financial Year have any recommendations by the Audit Committee respecting the appointment and/or compensation of the external auditors of the Corporation not been adopted by the Board.

Pre-Approval Policies and Procedures

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in its Charter.

External Auditor Services Fees (By Category)

The following table discloses the fees billed to the Corporation by its external auditor during the last two completed financial years:

Financial Year Ending	Audit Fees(1)	Audit Related Fees(2)	Tax Fees(3)	All Other Fees(4)
December 31, 2011	$35,000	Nil	$2,000	Nil
December 31, 2010	$18,000	Nil	$2,000	Nil

Notes:
(1) The aggregate fees billed for professional services rendered by the auditor for the audit of the Corporation's annual financial statements.
(2) The aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not disclosed in the "Audit Fees" column.
(3) The aggregate fees billed for tax compliance, tax advice, and tax planning services.
(4) No other fees were billed by the auditor of the Corporation other than those listed in the other columns.

External Auditor Services Fees (By Category)

Since the Corporation is a "Venture Issuer" pursuant to NI 52-110 (its securities are not listed or quoted on any of the Toronto Stock Exchange, a market in the United States of America, or a market outside of Canada and the United States of America), it is exempt from the requirements of Part 3 (*Composition of the Audit Committee*) and Part 5 (*Reporting Obligations*) of NI 52-110.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

During the year ended December 31, 2011, no director, executive officer or associate of any director or executive officer of the Corporation was indebted to the Corporation, nor were any of these individuals indebted to any other entity which indebtedness was the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by the Corporation, including under any securities purchase or other program.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Since the commencement of the Corporation's most recently completed financial year, no informed person of the Corporation, or any associate or affiliate of any informed person or nominee, has or had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or will materially affect the Corporation or any of its subsidiaries.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Other than as disclosed herein, no director or executive officer of the Corporation who has held such position at any time since the beginning of the Corporation's last financial year, each proposed nominee for election as a director of the Corporation, and associates or affiliates of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matters to be acted upon at the Meeting.

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found under the Corporation's profile on SEDAR at www.sedar.com. Inquiries including requests for copies of the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2011 may be directed to the Corporation by telephone at 416.491.6771

Additional financial information is provided in the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2011 which is also available on SEDAR.

BOARD OF DIRECTORS APPROVAL

The contents of this Circular and the sending thereof to the Shareholders of the Corporation have been approved by the Board.

DATED this 25th day of May, 2012.

"*Raymond Davies*"
RAYMOND DAVIES
President and Chief Executive Officer

SCHEDULE “A”

TALMORA DIAMOND INC.
AUDIT COMMITTEE CHARTER

AUDIT COMMITTEE

The Audit Committee (hereinafter referred to as the "**Committee**") shall i) assist the Board of Directors in its oversight role with respect to the quality and integrity of the financial information; ii) assess the effectiveness of the Company’s risk management and compliance practices; iii) assess the independent auditor’s performance, qualifications and independence; iv) assess the performance of the Company’s internal audit function; v) ensure the Company’s compliance with legal and regulatory requirements, and vi) prepare such reports of the Committee required to be included in Management Information Circular in accordance with applicable laws or the rules of applicable securities regulatory authorities.

STRUCTURE AND OPERATIONS

The Committee shall be composed of not less than three Directors. All members of the Committee shall not be an Officer or employee of the Company. All members shall satisfy the applicable independence and experience requirements of the laws governing the Company, the applicable stock exchanges on which the Company’s securities are listed and applicable securities regulatory authorities.

Each member of the Committee shall be financially literate as such qualification is interpreted by the Board of Directors in its business judgment.

Members of the Committee shall be appointed or reappointed at the annual meeting of the Company and in the normal course of business will serve a minimum of three years. Each member shall continue to be a member of the Committee until a successor is appointed, unless the member resigns, is removed or ceases to be a Director. The Board of Directors may fill a vacancy that occurs in the Committee at any time.

The Board of Directors or, in the event of its failure to do so, the members of the Committee, shall appoint or reappoint, at the annual meeting of the Company a Chairman among their number. The Chairman shall not be a former Officer of the Company. Such Chairman shall serve as a liaison between members and senior management. The time and place of meetings of the Committee and the procedure at such meetings shall be determined from time to time by the members therefore provided that:

a) a quorum for meetings shall be at least three members;

b) the Committee shall meet at least quarterly;

c) notice of the time and place of every meeting shall be given in writing or by telephone, facsimile, email or other electronic communication to each member of the Committee at least 24 hours in advance of such meeting;

d) a resolution in writing signed by all directors entitled to vote on that resolution at a meeting of the Committee is as valid as if it had been passed at a meeting of the Committee.

The Committee shall report to the Board of Directors on its activities after each of its meetings. The Committee shall review and assess the adequacy of this charter annually and, where necessary, will recommend changes to the Board of Directors for its approval. The Committee shall undertake and review with the Board of Directors an annual performance evaluation of the Committee, which shall compare the performance of the Committee with the requirements of this charter and set forth the goals and objectives of the Committee for the upcoming year. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board of Directors may take the form of an oral report by the chairperson of the Committee or any other designated member of the Committee.

SPECIFIC DUTIES:

Oversight of the Independent Auditor

- Sole authority to appoint or replace the independent auditor (subject to shareholder ratification) and responsibility for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between Management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

- Sole authority to pre-approve all audit services as well as non-audit services (including the fees, terms and conditions for the performance of such services) to be performed by the independent auditor.

- Evaluate the qualifications, performance and independence of the independent auditor, including (i) reviewing and evaluating the lead partner on the independent auditor's engagement with the Company, and (ii) considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence.

- Obtain and review a report from the independent auditor at least annually regarding: the independent auditor's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm; any steps taken to deal with any such issues; and all relationships between the independent auditor and the Company.

- Review and discuss with Management and the independent auditor prior to the annual audit the scope, planning and staffing of the annual audit.

- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

- Review as necessary policies for the Company's hiring of employees or former employees of the independent auditor.

Financial Reporting

- Review and discuss with Management and the independent auditor the annual audited financial statements prior to the publication of earnings.

- Review and discuss with Management the Company's annual and quarterly disclosures made in Management's Discussion and Analysis. The Committee shall approve any reports for inclusion in the Company's Annual Report, as required by applicable legislation.

- Review and discuss with Management and the independent auditor management's report on its assessment of internal controls over financial reporting and the independent auditor's attestation report on management's assessment.

- Review and discuss with Management the Company's quarterly financial statements prior to the publication of earnings.

- Review and discuss with Management and the independent auditor at least annually significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

- Review and discuss with Management and the independent auditor at least annually reports from the independent auditors on: critical accounting policies and practices to be used; significant financial reporting issues, estimates and judgments made in connection with the preparation of the financial statements; alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and other material written communications between the independent auditor and Management, such as any management letter or schedule of unadjusted differences.

- Discuss with the independent auditor at least annually any "Management" or "internal control" letters issued or proposed to be issued by the independent auditor to the Company.

- Review and discuss with Management and the independent auditor at least annually any significant changes to the Company's accounting principles and practices suggested by the independent auditor, internal audit personnel or Management.

- Discuss with Management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance (if any) provided to analysts and rating agencies.

- Review and discuss with Management and the independent auditor at least annually the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

- Review and discuss with the Chief Executive Officer and the Chief Financial Officer the procedures undertaken in connection with the Chief Executive Officer and Chief Financial Officer certifications for the annual filings with applicable securities regulatory authorities.

- Review disclosures made by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the annual filing with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving Management or other employees who have a significant role in the Company's internal controls.

- Discuss with the Company's General Counsel at least annually any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies and any material reports or inquiries received by the Company or any of its subsidiaries from regulators or governmental agencies.

Oversight of Risk Management

- Review and approve periodically Management's risk philosophy and risk management policies.

- Review with Management at least annually reports demonstrating compliance with risk management policies.

- Review with Management the quality and competence of Management appointed to administer risk management policies.

- Review reports from the independent auditor at least annually relating to the adequacy of the Company's risk management practices together with Management's responses.

- Discuss with Management at least annually the Company's major financial risk exposures and the steps Management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Oversight of Regulatory Compliance

- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- Discuss with Management and the independent auditor at least annually any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting.

- Meet with the Company's regulators, according to applicable law.

- Exercise such other powers and perform such other duties and responsibilities as are incidental to the purposes, duties and responsibilities specified herein and as may from time to time be delegated to the Audit Committee by the Board of Directors.

FUNDING FOR THE INDEPENDENT AUDITOR AND RETENTION OF OTHER INDEPENDENT ADVISORS:

The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of issuing an audit report and to any advisors retained by the Committee. The Committee shall also have the authority to retain such other independent advisors as it may from time to time deem necessary or advisable for its purposes and the payment of compensation therefore shall also be funded by the Company.

TALMORA DIAMOND INC.
6 Willowood Court, Toronto, Ontario M2J 2M3
Management's Discussion & Analysis
For the year ending December 31, 2011

Date: April 27, 2012

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of the Corporation for the year ended December 31, 2011 and the year ended December 31, 2010.

The Corporation's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Corporation reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standard accounting principles (IFRS).

The following MD&A may contain forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected herein. Forward-looking statements are based on the estimates and opinions of management of theCorporation at the time the statements were made.

IFRS

The Canadian Accounting Standards Board requires publicly accountable enterprises such as the Company to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company's annual financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

For each reporting period in 2011, the Company also presented comparative information for 2010, both for interim and annual financial statements, as applicable, on an IFRS basis. The Company's financial statements for the year ended December 31, 2011, are its first annual financial statements that comply with IFRS. As this is the Company's first year of reporting under IFRS, First Time Adoption of IFRS ("IFRS 1") was applicable.

In accordance with IFRS 1, the Company has applied IFRS retrospectively as of January 1, 2010 (the "Transition Date") for comparative purposes. In preparing the opening statement of financial position in accordance with IFRS, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-conversion Canadian GAAP. For further information, please refer to the Company's audited financial statements and notes for the year ended December 31, 2011.

Overall Performance

Talmora is a diamond exploration company with one property consisting of 68,784.15 acres of claims on the Horton River, 120 kilometres south of Paulatuk in the Northwest Territories. The property straddles a major linear structure believed favourable for the occurrence of diamondiferous kimberlites. $1,600,061 has been spent on exploration of the property to December 31, 2011.

An airborne magnetic survey has detected anomalies with the characteristics of kimberlite pipes. Till samples taken down-ice of the magnetic anomalies contain 37 times as many kimberlite indicator minerals (KIMs) as till samples taken at random. There is a strong correlation between KIMs and magnetic anomalies. KIMs on the Talmora property match the widespread KIMs with accompanying diamonds found by others within the Cretaceous basin to the west.

The Talmora property was ready for drilling in 2008 but the global financial crisis made financing difficult. The climate for financing diamond projects seemed to improve in early 2011 and an attempt to raise $1.2 million in a private placement for a drill program was undertaken. The Greek crisis in 2011 caused many investors to back out after more than half the target amount had been assured.

The Private Placement financing closed at $400,000 on July 8, 2011 which was used to do some necessary staking and some exploration for assessment work purposes. Since 2009 management has focused on asset preservation and acquisition by staking of highly prospective new ground adjoining the Company's original claims.

The Company's most prospective magnetic anomalies must be tested by drilling. A program costing $2,000,000 - $4,000,000 should confirm whether or not kimberlites are present on the property. Micro-diamond analyses of initial kimberlite samples will determine whether further investigation is warranted in which case an additional budget in the order of $10,000,000 - $15,000,000 would be required. A major financing for a drill program must now be pursued.

Talmora is dependent on management obtaining financing to continue operations and to fund its exploration property expenses.

Selected Annual Information

As at December 31, 2011, the Company had cash, and cash equivalents totaling $36,172 and working capital of $160,579.

Funds are sufficient to meet ongoing administrative expenses and meet current liabilities during 2012. However, a small funding of up to $200,000 is required to cover exploration expenses.

	Year ended December 31, 2011 ($) (IFRS)	Year ended December 31, 2010 ($) (IFRS)	Year ended December 31, 2009 ($) (Canadian GAAP)
Cash and Cash Equiv.	36,172	145,311	172,878
Working Capital	160,579	135,962	170,075
Mineral Exploration– cum.tot.	1,600,061	1,339,995	1,347,804
Total assets	180,579	245,566	1,564,973
Total liabilities	20,000	21,210	22,594
Interest Revenues	703	756	3022
Admin. Expenses	169,533	94,798	90,807
Exploration and evaluation expenditures	260,066	51,920	349,127
Professional Fees	44,950	23,286	20,288
Net (Loss)	(471,628)	(174,772)	(91,122)
Net (Loss) Per Share	(0.01)	(0.01)	(0.00)

Factors Causing Variations

The Company's business is diamond exploration and is currently exploring the Horton River area in the Northwest Territories. The work is seasonal. Field work utilizes helicopters and is very costly and is carried out over relatively short periods of time. Laboratory analysis for kimberlite indicator minerals (KIMs), analysis of data and preparation of assessment work reports is less costly and is spread over much longer periods of time.

Funding has depended on results and has therefore been of a rollercoaster nature. There is high working capital at the start of an exploration phase, a rapid drop after the field work is complete and a long tailing off as data is analysed and reported.

Results of Operations

Horton River Project, NWT

Talmora has one significant project for which it has raised $2,370,838 since August 2004 and on which it has expended $1,600,061 on exploration to December 31, 2011.

Canadian Diamind Limited held 3 prospecting permits on the Horton River, 120 kilometers south of Paulatuk, in the Inuvialuit Settlement Region of the Northwest Territories. Till and stream sampling in 2004 confirmed the presence of anomalous kimberlite indicator minerals.

Prior to the amalgamation with Talmora Diamond Inc., Canadian Diamind Limited applied for additional exploration permits and these were granted on February 1, 2007. At the 2007 year-end Talmora held 12 contiguous permits covering 645,718 acres. The three original permits expired January 31, 2008. However, claims were staked within the permit areas prior to the expiry date.

An airborne magnetic survey of the Company's three original permits and one of the adjoining permits awarded in 2007 was completed at the end of June 2007. KIMs in samples subsequently taken down-ice of magnetic anomalies with the characteristics of kimberlite pipes were 37 times more abundant than those in samples collected on a random basis in 2004.

Four new permits (144,868 acres) were granted to Talmora on February 1, 2008 but on February 28, 2008 "The Sahtu Secretariat Inc." and a number of other "Applicants" in the Sahtu Settlement Region applied for a judicial review of the decision of the Supervising Mining Recorder to issue 60 prospecting permits within the Sahtu Settlement Region on February 1, 2008 including the 4 permits issued to Talmora Diamond Inc.The Minister Of Indian Affairs And Northern Development and the Supervising Mining Recorder opposed the application and a settlement was reached in March 2010.

Private placements in June and November 2009 enabled the Company to fly 865 line kilometers of airborne magnetics over potential kimberlite targets and to stake 125 claims (12,860.85 acres) between June 28 and July 13 on ground that came open February 1, 2009. Samples collected at the same time have been analysed for KIMs and added to the database. KIMs on the Talmora property match the widespread KIMs with accompanying diamonds found by others within the Cretaceous basin to the west.

The Talmora property was ready for drilling in 2008 but the global financial crisis made financing difficult. The climate for financing diamond projects seemed to improve in early 2011 and an attempt to raise $1.2 million in a private placement for a drill program was undertaken. The Greek crisis in 2011 caused many investors to back out after more than half the target amount had been assured.

The Private Placement financing closed at $400,000 on July 8, 2011 which was used to do some necessary staking and some exploration for assessment work purposes. Since 2009 management has focused on asset preservation and acquisition by staking of highly prospective new ground adjoining the Company's original claims.

The Company's most prospective magnetic anomalies must be tested by drilling. A program costing $2,000,000 - $4,000,000 should confirm whether or not kimberlites are present on the property. Micro-diamond analyses of initial kimberlite samples will determine whether further investigation is warranted in which case an additional budget in the order of $10,000,000 -$15,000,000 would be required. A major financing for a drill program must now be pursued.

Talmora is dependent on management obtaining financing to continue operations and to fund its exploration property expenses.

Geology

Most of the property is underlain by limestone of Ordovician age with a thin cover of glacial drift. A slump block of Cretaceous sediment outcrops in the NW part and Cretaceous sediment has been mapped in the SW.

An airborne magnetic survey shows a number of magnetic dyke-like structures that strike NNW across the property. The "dykes" appear to be at a depth of 600-800m and are parallel to and probably the extension of the swarm of "dykes" that cross the Parry Peninsular and cut the "large magnetic anomaly" being explored by Darnley Bay for base metals at Paulatuk 120k to the NNW. The latter "dykes" have a spatial relation to the Darnley Bay kimberlites.

Cu-Au-U Targets

Along one of the "dykes" on the west side of Talmora's property are 4 strongly magnetic circular structures or "blows" which have model widths of about 700-1300m and appear to be at the same depth as the "dyke". The "blows" may be related to the "dykes" in the same way that the "large magnetic anomaly" at Paulatuk may be related to the "dykes" at that location. The "blows" may be the feeder pipes of an intrusive similar to that which is believed to be the cause of the "large magnetic anomaly" at Paulatuk or of an extrusive that has subsequently been eroded.

Darnley Bay Resources has demonstrated that they have relatively shallow (300-500m) gravity anomalies above their deep magnetic anomaly suggesting that the gravity anomalies may be Olympic Dam type (U-Cu-Au) deposits. The magnetic "blows" on the Talmora property may be similarly capped by gravity anomalies indicating Olympic Dam targets and a gravity survey over the "blows" is recommended.

Kimberlite Targets

Anomalies of low magnetic susceptibility are of interest as kimberlite targets. Many of these anomalies coincide with small lakes and are concentrated along the "dykes" especially the "dyke" with the circular "blows". Some of them were ground truthed in the field program carried out in the later half of August 2007. The field program included staking of the kimberlite targets and sampling of the tills for kimberlite indicator minerals (KIMs) down-ice of the magnetic targets.

The KIMs recovered from samples collected in 2007, are very much more numerous (37 times) than the KIMs recovered from samples collected in 2004, which tested the same general area but were not located with respect to magnetic targets. There is a strong correlation between KIMs and magnetic anomalies.

Ground to the west of the Talmora property came open in February 2009. Ponds with similar characteristics to those with coincident magnetic anomalies and all lying within the same prominent morphostructure (mantle focused circular fracture) were obvious on the immediately adjacent open ground. A two week field program was carried out in June/July 2009.

A magnetic profile was flown across each of the characteristic ponds as well as across other less characteristic ponds further west outside the morphostructure. Many of the ponds show coincident magnetic anomalies. Samples were collected down-ice of a few of the ponds and 125 new claims were staked.

After the 2011 financing fell short of what was needed for drilling a limited program of staking within a permit due to lapse on January 31, 2012 was carried out. At the same time samples were collected and spectra of soil, rocks and vegetation recorded as part of the ground truthing of ASTER satellite images that show interesting relations between mineral spectra and ponds coincident with magnetic anomalies. The spectral data has been submitted as assessment work that should result in the return of certain cash deposits on lapsing permits and provide credits that will be applied to claims within those lapsing permits.

Sanatana's 2006 assessment work south of 68ºN became public late in 2010. It enables the evaluation of 2,312 samples, mostly within the Cretaceous basin, west and south of the Talmora property which could be related to the Talmora property.

Diamondex showed that many if not all of the KIMs within the Cretaceous basin are derived from the base of the basin and that the KIMs most likely entered the basin from the east. The KIMs within the Diamondex and Sanatana parts of the Cretaceous basin show very little variation as if they are all from a single source.

The Talmora property and the Darnley Bay and Dharma kimberlites, to the N and SE of Talmora respectively, lie outside of the basin. The Darnley Bay KIMs are very different to those within the basin and the Dharma KIMs are sufficiently different that they cannot be the source of all those in the basin. Talmora's oxide KIMs are identical to those in the basin and Talmora's few eclogitic garnets and chrome diopsides are a good match. Talmora's few pyrope garnets are too few to make a meaningful `comparison. Talmora is the only property with drill targets that have not been drilled.

Magnetic anomalies that have anomalous KIMs down-ice will be tested by drilling and additional magnetic anomalies must be sampled. An airborne magnetic survey and reconnaissance sampling of the new claims should proceed at the same time. A more extensive program is required than any carried out by the company to date and a major funding is essential.

A program costing $2,000,000 - $4,000,000 should establish the potential of the property for hosting kimberlites and confirm whether or not kimberlites are present.

Budget

Staking 75,000 acres @ $2/acre (contract staker cost)		$150,000	
Data Processing & planning		100,000	
Drill Program			
Permitting cost		75,000	
Drilling 2500m @ $250/m		625,000	
Contract labour		135,000	
Camp construction		150,000	
Camp costs – labour & board		130,000	
Fuel		120,000	
Helicopter & fixed-wing – 3 months		560,000	
Accommodation & transport		120,000	
Ground geophysics		150,000	
Caustic laboratory		240,000	
Reports		20,000	
Contingency		175,000	
	Total Drilling & Camp		$2,750,000
Airborne Magnetic Survey - 12,000 line kilometers			425,000
Sampling Program			
Transport – samples & personnel		45,000	
Camp costs		15,000	
Helicopter		120,000	
Sample processing & probing		150,000	
Expediting		5,000	
Contingency		40,000	
	Total Sampling Program		375,000
Supervision & support			500,000
	Total		**$4,050,000**

Micro-diamond analysis of any kimberlite discovered will determine whether further investigation is warranted in which case a budget in the order of $10,000,000 -$15,000,000 would be required.

Property Commitments

The Company at December 31, 2011 held eleven prospecting permits (577,153 acres) and 211 claims (68,784.15 acres) in the Horton River area, south of Paulatuk in the Northwest Territories. All the permits 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 permit and 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.

The 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 amounting to \$88,394 on permits and keep the newer claims in good standing for various lengths of time but at least to August 2013. Current expiry dates on the claims are shown below:

Claims

	Property Units		Size acres	Record Date	Current Expiry Date
	36	claims	13,997.15	Sept.22, 2011	Sept. 22, 2013
	125	claims	12,860.85	Aug. 13, 2009	*Aug.13, 2011
	9	claims	23,242.50	Oct. 11, 2007	Oct. 11, 2013
	10	claims	1,187.95	Oct. 11, 2007	Oct. 11, 2016
	31	claims	17,495.70	Oct. 11, 2007	Oct. 11, 2017
Total	211		68,784.15		

* Assessment work has been submitted for approval that should extend the expiry date.

Permits

Property units	Size acres	Future performance deposits/work	Grant date	Current expiry date	With future performance deposits/work
Permit 7307 (5 year)	71,661		Jan. 31, 2007	Jan. 31, 2012	
Permit 7311 (3 year)	36,217		Jan. 31, 2007	Jan. 31, 2012	
Permit 7309 (3 year)	36,217		Jan. 31, 2007	Jan. 31, 2012	
Permit 7308 (3 year)*	36,217	$14,486.80	Jan. 31, 2007	Jan. 31, 2012	Jan. 31, 2013
Permit 7310 (3 year) *	36,217	$14,486.80	Jan. 31, 2007	Jan. 31, 2012	Jan. 31, 2013
Permit 7312 (3 year) *	36,217	$14,486.80	Jan. 31, 2007	Jan. 31, 2012	Jan. 31, 2013
Permit 7313 (3 year)*	36,217	$14,486.80	Jan. 31, 2007	Jan. 31, 2012	Jan. 31, 2013
Permit 7618 (3 year) *	36,217	$21,730.20	Jan. 31, 2008	Jan. 31, 2012	Jan. 31, 2014
Permit 7619 (3 year)*	36,217	$21,730.20	Jan. 31, 2008	Jan. 31, 2012	Jan. 31, 2014
Permit 7620 (3 year) *	36,217	$21,730.20	Jan. 31, 2008	Jan. 31, 2012	Jan. 31, 2014
Permit 7621 (3 year)*	36,217	$21,730.20	Jan. 31, 2008	Jan. 31, 2012	Jan. 31, 2014
Total	577,153	$230,861.20			

Note : * During the year ended December 31, 2011, permits 7307, 7309 and 7311 lapsed and subsequent to December 31, 2011, permits 7308, 7310, 7312, 7313, 7618, 7619, 7620 and 7621 were allowed to lapse. Claims were staked within permits 7307, 7312 and 7313 during the year ended December 31, 2011.

Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and 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.

During the year ended December 31, 2010, the Company renounced flow-through expenditures in the amount of $60,000 to investors with an effective date of December 31, 2010. The Company has agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that become payable by them, if the Company fails to meet its expenditure commitments. As at December 31, 2011, all of the $60,000 renouncement related to 2010 has been incurred.

Subsequent to December 31, 2011, the Company renounced flow-through expenditures in the mount 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 Company is committed to incur the balance of $28,400 prior to December 31, 2012 on a best efforts basis. The Company has agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that become payable by them, if the Company fails to meet its expenditure.

Variance to Original Budget of M.Millard (2005)

		Budget M. Millard (2005)	Actual R. Davies assessment work reports (2008 & 2009)	
Phase 1 [minimum required to determine whether to continue to phase 2]				
Airborne survey	9000 line k @ $35	$315,000	10,196 line k	$352,258.59
Process 2004 fine fractions	120 @ $150	$18,000	117 fine fractions	$12,267.00
Claim staking	36 claims @ $1,000	$36,000	50 claims	$50,461.83
	Contingency @ 10%	$36,000		
Exploration sub-total		**$405,000**		**$414,987.42**
Administration		*$100,000*	2007 expenses	$169,778.00
	Total	**$505,000**		**$584,765.42**
Phase 2a [assumes encouragement from phase 1]				
Till sampling [follow-up, target evaluation]	200 samples @ $1000	$200,000	178 [target evaluation]	$316,403.30
Stream samples [follow-up]	50 @ $1500	$75,000		
Ground magnetic survey	8 targets @ $6,000	$48,000	10 anomalies	$25,130.73
	Contingency @ 20%	$32,000		
Exploration sub-total		**$355,000**		**$341,534.03**
Administration		*$100,000*	2008 expenses to Dec. 31	$148,946.00
	Total	**$455,000**		**$490,480.03**
Phase 2b [assumes continued encouragement]				
Drilling	4 targets @ $80,000	$320,000		
	Contingency @ 20%	$66,000		
Exploration sub-total		**$386,000**		
Administration		*$50,000*		
	Total	**$436,000**		
Exploration Total		**$1,146,000**		**$756,521.45**
Administration Total		*$250,000*		*$318,724.00*
Grand Total		**$1,396,000**		**$1,075,245**

Grand Total from previous page		$1,075,245
	2009 Field Program on New Ground	
	Staking 125 claims	59,936
	Airborne magnetic survey – 865 line ks	99,525
	Sampling – 51 samples collected	189,665
Exploration sub-total		349,126
Administration Expenses sub-total		111,444
	Total	$460,570
	2010 Data Evaluation and Reporting	
	Staking	32,581
	Sample sorting and analysis	22,701
	Geophysics	25,277
Exploration sub-total		80,585
Administration Expenses sub-total		118,084
	Total	$198,669
	2011 Field Program, Evaluation & Reporting	
	Staking	40,678
	ASTER image ground truthing	219,388
Exploration sub-total		260,066
Administration Expenses sub-total		169,533
	Total	$429,599
Grand Total (with 2011 Program)		$2,164,083

Phase 1 exploration costs were very much on budget with higher airborne survey cost due to higher line kilometers flown and higher staking cost due to greater number of claims staked.

Administration costs in 2007 were higher than budget because of the amalgamation of Talmora Resources Limited and Canadian Diamind Limited. [$44,762 legal, $30,000 accounting, $10,000 other].

Administration costs in 2008 were lower than in 2007 but are higher than budget. These costs reflect the real costs of administering the company.

As a result of the financial crisis of 2008 funds were not available for the drilling proposed as Phase 2b. However, funding in 2009 enabled Talmora to fly an airborne magnetic survey over potential kimberlite targets on new ground that came open February 1, 2009 and to stake 125 additional claims. Administration costs were down and at a normal level.

2010 exploration expenses include evaluation and reporting of sampling and geophysical surveys carried out the previous year. Included in staking is a $28,664 cash deposit required to hold permit 7307 until January 31, 2012. Administration costs in 2010 were again at a normal level.

2011 expenses were essentially to acquire additional claims and to do work not contemplated in the original budget but necessary to maintain the claims in good standing.

There are a lot more kimberlite targets than expected and Talmora proposes a more extensive drill program than the small Phase 2b budget above.

Summary of Quarterly Results

(a) Year	**2011**	**2011**	**2011**	**2011**
(b) Quarter	December 31	September 30	June 30	March 31
Cash, Cash Equivalents	$36,172	$175,077	$121,862	$72,318
Working Capital	$160,579	$145,656	$84,587	$30,247
Interest Revenue	$381	$322	-	-
Admin. Expenses	$21,886	$33,430	$47,544	$67,723
Exploration and Evaluation Expenditures	$37,334	$175,981	$13,200	$33,551
Cash in (out) flow	$38,905	($46,785)	$49,544	($72,993)
Net (Loss)	($ 85,187)	($213,399)	($66,181)	($106,861)
Net (Loss) (per share)	($0.00)	($0.00)	($0.00)	($0.00)
Total Assets	$180,579	$302,487	$233,293	$186,616
Total Liabilities	$20,000	$68,437	$60,312	$67,975

(a) Year	**2010**	**2010**	**2010**	**2010**
(b) Quarter	December 31	September 30	June 30	March 31
Cash, Cash Equivalents	$145,311	$24,889	$18,839	$133,365
Working Capital	$224,356	$55,279	$83,519	$136,565
Interest Revenue	$45	$630	$81	-
Admin. Expenses	$14,079	$18,681	$38,897	$23,141
Exploration and Evaluation Expenditures	$17,687	$9,729	$14,212	$10,292
Cash in (out) flow	$147,989	$6,050	($114,526)	($39,513)
Net (Loss)	($66,172)	($40,203)	($44,901)	($23,496))
Net (Loss) (per share)	($0.001)	($0.001)	($0.001)	($0.001)
Total Assets	$245,566	$85,983	$145,136	179,156
Total Liabilities	$21,210	$8,204	$39,117	$20,091

The mineral exploration and evaluation costs in the fourth quarter 2011 were $37,334 ($175,981 in September 2011 quarter; $46,751 for June 2011; $33,551 for March 2011.) The drop in exploration expenditures in the fourth quarter reflects the fact that the major field costs (helicopter, fuel etc.) were paid in the September quarter. Administration expenses have steadily dropped from an extreme high of $67,723 in the first quarter to $21,886 in the final quarter as the cost of the change from GAAP to IFRS accounting has eased and the company has run short of funds.

The net loss of $85,187 for the fourth quarter of 2011 compared to a net loss of $213,399 for the quarter ended September 30, 211 reflects a combination of the decrease in administrative expenses and exploration expenditures in the fourth quarter as noted above. Compared to the 2010 results, the net loss has increased each quarter and for the year due to the adoption of IFRS requirements to expense exploration and evaluation expenditures rather than capitalizing them, and the added administrative burden of converting from Canadian GAAP to IFRS requirements. In addition, exploration and evaluation expenditures increased significantly in 2011 compared to the activity in 2010.

Finally, the balance sheet indicates a slight increase in working capital in the fourth quarter ($160,579 as at December 31, 2011) compared to $145,656 as at September 31, 2011, due in part to the reclassification as a current asset of the outstanding deposits of $88,394 that are refundable in the coming year.

Financing

Talmora is dependent on management obtaining financing to continue operations and to fund its exploration property expenses. If such financing is unavailable for any reason, Talmora may become unable to carry out its business plan. Talmora intends to fund all future commitments with cash on hand, or through any other financing alternative it may have available to it at the time in question. As Talmora has no business undertaking, there can be no assurance that it will be profitable. In the interim, Talmora has no source of cash flow to fund its expenditures and its continued existence depends on its ability to raise further financing for working capital as the need may arise. The length of time needed to identify a new business, is indeterminate and the amount of resulting income, if any, is impossible to predict. Talmora does not expect to receive any income in the foreseeable future.

Talmora's success is dependent on the knowledge and expertise of its management and employees and their ability to identify and advance attractive business opportunities.

Other than as discussed herein, Talmora is not aware of any trends, demands, commitments, events or uncertainties that may result in the Talmora's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in Talmora's liquidity and capital resources will be substantially determined by the success or failure of any new proposed business of Talmora and its ability to obtain equity financing.

The continuing global financial uncertainty made a major funding in 2011 difficult. A private placement of $400,000 that closed July 8, 2011 was insufficient for a drill program but enabled Talmora to stake claims on a permit that was to lapse on January 31, 2012 and to do exploration in order to recover cash deposits on lapsing permits and to obtain credits that will keep certain claims in good standing.. A small private placement of $150,000 to cover administration and exploration in 2012 should be completed in April 2012. The Company will concentrate on maintaining the property in good standing until funding of a drill program is achieved.

As at December 31, 2011 there are 45,431,679 common shares issued and outstanding. 9,851,000 common shares subject to issuance are comprised of 5,650,000 warrants (a), (c) and 4,201,000 management incentive options (b), (d).

As at April 25, 2012 there are 48,431,679 common shares issued and outstanding. 9,751,000 common shares subject to issuance are comprised of 7,150,000 warrants (a), (c) and 2,601,000 management incentive options (b), (d).

Update of new Financing as at April 16, 2012.

Warrants:

a) 1,650,000 December 2010, (*Series VI*) warrants entitle the holder to acquire one common share per warrant for $0.16 and expire December 29, 2012.

   4,000,000 July 2011, (Series VII) warrants entitle the holder to acquire one common share per warrant for $0.10 and expire July 9, 2013.

   1,500,000 April 16, 2012 9 (Series VIII) warrants entitle the holder to acquire one common share per warrant for $0.10 and expire April 17, 2014

Options:

b) 1,600,000 management incentive options were exercisable at $0.10 and expired April 25, 2012 unexercised.

   50,000 management incentive options are exercisable at $0.05 and expire March 1, 2015.

   951,000 management incentive options are exercisable at $0.05 and expire June 9, 2015.

   100,000 management incentive options are exercisable at $0.05 and expire May 1, 2016.

   1,500,000 management incentive options are exercisable at $0.05 and expire December 16, 2016.

c) During the year ended December 31, 2011, 3,059,286 June 2009(Series IV) warrants and 2,894,586 November 2009 warrants exercisable at $0.16 per share expired unexercised.

d) During the year ended December 31, 2011, 449,000 management incentive options were exercised at $0.05.

Off-Balance- Sheet Arrangements

The Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition, including, without limitation, such considerations as liquidity, capital expenditures and capital resources that would be considered material to investors.

An analysis of the liquidity of Talmora Diamond Inc. is provided below:

Talmora had cash and cash equivalents and short term investments in the amount of $36,172 as at December 31, 2011, compared to $175,077 as at September 30, 2011; $121,862 as at June 30, 2011; $72,318 as at March 31, 2011. The rise in September reflects the influx of funds from the July 2011 Private Placement of $400,000 which was largely reduced by major field expenditures in August.

As at December 31, 2011, Talmora had working capital in the amount of $160,579 compared to the September 30, 2011, amount of $145,656; $84,587 as of June 30, 2011; and $30,247 as of March 31, 2011. The working capital mirrors the cash and cash equivalents for the first three quarters. The high working capital at year-end includes HST refunds $46,681 and expected return of deposits of $88,394 for work done on certain permits. Included in amounts receivable as at December 31, 2011, is $9,260 (December 31, 2010 and January 1, 2010 - $Nil), advanced to an officer of the Company. This amount is unsecured, non-interest bearing and due on demand.

There were interest revenues of $381 for the quarter ending December 31, 2011, $322 for Q3, $Nil for Q2 and $Nil in Q1 as cash from the July Private Placement was invested.

Administrative expenses (including bank charges and stock based compensation) for the quarter ending December 31, 2011 were $21,886. This is compared to Q3 charges of $33,430, Q2 charges of $47,544 and Q1 charges of $67,723. The extremely high expenses in the first quarter reflect the cost of the change from GAAP to IFRS accounting which steadily decreased to year-end.

The net cash increase for the quarter ended December 31, 2011, was $38,905. This compares to an decrease of $46,785 for the quarter ended September 30; a net inflow of $49,544 for the quarter ended June 30; and a net outflow of $72,993 for the quarter ended March 31. These amounts reflect the net effect of cash flows for normal administrative expenses and exploration costs and from offset, from a by cash inflow of $69,619 from the redemption of the $100,000 GIC established in the previous quarter and $400,000 proceeds from the July 2011 placement.

The net loss of $85,187 for the fourth quarter of 2011 compared to a net loss of $213,399 for the quarter ended September 30, 211 reflects a combination of the decrease in administrative expenses and exploration expenditures in the fourth quarter as noted above. Compared to the 2010 results, the net loss has increased each quarter and for the year due to the adoption of IFRS requirements to expense exploration and evaluation expenditures rather than capitalizing them, and the added administrative burden of converting from Canadian GAAP to IFRS requirements. In addition, exploration and evaluation expenditures increased significantly in 2011 compared to the activity in 2010.

Finally, the balance sheet indicates a slight increase in working capital in the fourth quarter ($160,579 as at December 31, 2011) compared to $145,656 as at September 31, 2011, due in part to the reclassification as a current asset of the outstanding deposits of $88,394 that are refundable in the coming year.

Mineral exploration and evaluation costs for the quarter ended December 31, 2011, were $37,334. The drop as compared to expenditures of $175,981 for the third quarter reflects the payment of the major costs (helicopter, fuel etc.) of the August field program in the second quarter. Expenditures for the second quarter totalled $13,200 and for the first quarter totalled $33,551.

Funds are sufficient to meet ongoing administrative expenses and meet current liabilities. A small financing in April 2012 will enable exploration to continue.

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 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 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.

During the year ended December 31, 2010, the Company renounced flow-through expenditures in the amount of $264,500 with respect to flow-through financings that occurred during the year ended December 31, 2009.

During the year ended December 31, 2011, the Company renounced flow-through expenditures in the amount of $60,000 with respect to flow-through financings that occurred during the year ended December 31, 2010. The $60,000 of expenditures were incurred to December 31, 2011

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 Company is committed to incur the balance of $28,400 prior to December 31, 2012 on a best efforts basis. The Company has agreed to indemnify the subscribers of its flow-through shares for any tax-related amounts that become payable by them, if the Company fails to meet its expenditure commitments.

Options

The Company has a stock option plan under which officers, directors, employees, and consultants 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.

	Options	Weighted Average Exercise Price
	#	$
Balance, December 31, 2010	3,050,000	0.08
Granted May 1, 2011	100,000	0.05
Exercised December 9, 2011	(449,000)	0.05
Granted December 16, 2011	1,500,000	0.05
Balance, December 31, 2011	4,201,000	0.08

As at December 31. 2011, 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	0.32
50,000	50,000	0.05	March 1, 2015	3.17
951,000	951,000	0.05	June 9, 2015	3.44
100,000	33,332	0.05	May 1, 2016	4.34
1,500,000	-	0.05	December 16, 2016	4.96
4,201,000	2,634,332	0.07		2.81

The weighted average exercise price of options exercisable at December 31, 2011 is $0.08 (December 31, 2010 - $0.09, 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.

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 December 31, 2011 is $0.03 (2010 - $0.01). 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).

Share-based payment reserve

	Amount $
Balance, December 31, 2010	127,124
Employee share-based compensation	8,482
Options expired	(2,462)
Balance, December 31, 2011	133,144

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 December 31	
	2011	2010
	$	$
Salaries and benefits	200,326	97,773
Share-based payments	5,057	4,605

The amount of $200,326 in 2011 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 December 31, 2011, is $9,260 (December 31, 2010 and January 1, 2010 - $Nil), advanced to an officer of the Company. This amount is unsecured, non-interest bearing and due on demand.

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

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

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 statements 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 financial statements.

Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2011 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the table below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

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.

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.

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 December 31, 2011 Carrying Value	Approximate fair value	As at December 31, 2010 Carrying Value	Approximate fair value	As at January 1, 2010 Carrying Value	Approximate fair value
	$	$	$	$	$	$
Loans and receivables						
Cash	36,172	36,172	134,930	134,930	172,878	172,878
Sundry receivables	56,013	56,013	11,861	11,861	21,791	21,791
Other financial liabilities						
Accounts payable and accrued liabilities	20,000	20,000	21,210	21,210	24,594	24,594

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 December 31, 2010.

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 December 31, 2011, the Company had a cash and cash equivalents balance of $36,172 (December 31, 2010 - $145,311; January 1, 2010 - $172,878) to settle current liabilities of $20,000 (December 31, 2010 - $21,210; January 1, 2010 - $24,594). See Note 15 for a private placement financing that closed subsequent to December 31, 2011.

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.

TALMORA DIAMOND INC.

FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

December 31, 2011 and 2010

TALMORA DIAMOND INC.
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For the Year ended December 31, 2011

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Talmora Diamond Inc.

We have audited the accompanying financial statements of Talmora Diamond Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010., and the statements of operations and comprehensive loss, statements of changes in equity and statements of cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

<u>Management's Responsibility for the Financial Statements</u>
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

<u>Auditor's Responsibility</u>
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

<u>Opinion</u>
In our opinion, the financial statements present fairly, in all material respects, the financial position of Talmora Diamond Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

<u>Emphasis of Matter</u>
Without qualifying our opinion, we draw attention to Note 1 in the financial statements indicating the existence of a material uncertainty that may cast significant doubt about Talmora Diamond Inc.'s ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 24, 2012

TALMORA DIAMOND INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

		As at December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
			(Note 16)	(Note 16)
ASSETS				
Current assets				
Cash and cash equivalents	6	36,172	145,311	172,878
Sundry receivables	12	56,013	11,861	21,791
Refundable performance bond	7	88,394	-	-
Total current assets		180,579	157,172	194,669
Refundable performance bond	7	-	88,394	59,729
Total assets		180 579	245,566	254,398
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		20,000	21,210	24,594
SHAREHOLDERS' EQUITY				
Share capital	8	2,307,471	1,945,766	1,798,266
Warrant reserve	8	67,126	92,292	75,992
Share-based payment reserve	9	133,144	127,124	121,600
Accumulated deficit		(2,347,162)	(1,940,826)	(1,766,054)
Total shareholders' equity		160,579	224,356	229,804
Total liabilities and shareholders' equity		180 579	245,566	254,398

Going concern (Note 1)
Commitments and contingencies (Notes 7 and 13)

Approved on behalf of the Board of Directors:

/s/ Raymond Davies
Director

/s/Richard Hogarth
Director

The notes are an integral part of these financial statements.

TALMORA DIAMOND INC
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011 $	2010 $ (Note 16)
EXPENSES		
Administration (Note 12)	169,533	94,798
Exploration and evaluation expenditures (Note 7)	260,066	51,920
Professional fees	44,950	23,286
Share-based payments (Note 9)	8,482	5,524
Loss before interest income	483,031	175,528
Interest income	(703)	(756)
Loss before income taxes	482,328	174,772
Income tax recovery (Note 14)	(10,700)	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	471,628	174,772
NET LOSS PER SHARE – basic and diluted	0.01	0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	40,843,904	33,709,802

The notes are an integral part of these financial statements.

TALMORA DIAMOND INC.
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Note	Share Capital $	Share-based payment reserve	Warrant Reserve $	Deficit $	Total $
Balance at January 1, 2010		1,798,266	121,600	75,992	(1,766,054)	229,804
Private placement	8	147,500	-	16,300	-	163,800
Share-based payments	9	-	5,524	-	-	5,524
Net loss and comprehensive loss for the year		-	-	-	(174,772)	(174,772)
Balance at December 31, 2010		1,945,766	127,124	92,292	(1,940,826)	224,356
Private placement	8	336,793	-	50,826	-	387,619
Options exercised	9	24,912	(2,462)	-	-	22,450
Share-based payments	9	-	8,482	-	-	8,482
Expired warrants	8	-	-	(75,992)	75,992	-
Tax effect of expired warrants		-	-	-	(10,700)	(10,700)
Net loss and comprehensive loss for the year		-	-	-	(471,628)	(471,628)
Balance at December 31, 2011		2,307,471	133,144	67,126	(2,347,162)	160,579

The notes are an integral part of these financial statements.

TALMORA DIAMOND INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011 $	2010 $ (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(471,628)	(174,772)
Changes not involving cash:		
Income tax (recovery)	(10,700)	-
Share-based payments	8,482	5,524
Changes in non-cash working capital balances:		
(Increase) decrease in sundry receivables	(44,152)	9,930
(Increase) in refundable performance bond	-	(28,665)
(Decrease) in accounts payable and accrued liabilities	(10)	(4,584)
Cash flows from operating activities	(518,008)	(192,567)
CASH FLOWS FROM FINANCING ACTIVITIES		
Options exercised	22,450	-
Private placement proceeds	400,000	165,000
Issue costs	(13,581)	-
Cash flows from financing activities	408,869	165,000
(Decrease) in cash and cash equivalents	(109,139)	(27,567)
Cash and cash equivalents, beginning of year	145,311	172,878
Cash and cash equivalents, end of year	36,172	145,311
SUPPLEMENTAL INFORMATION		
Change in accrued share issue costs	(1,200)	1,200

The notes are an integral part of these financial statements.

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 April 24, 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 December 31, 2011, the Company had working capital of $160,579. 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 financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s financial statements for the year ended December 31, 2011 represent the Company’s initial presentations of its results and financial position under IFRS. They were prepared in accordance with International Accounting Standard (“IAS”) 1, Presentation of Financial Statement and by IFRS 1, First-time Adoption of IFRS. The policies set out in below were consistently applied to all the periods presented unless otherwise noted below.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Canadian GAAP differs in some areas from IFRS. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive loss, and the statements of financial position and cash flows are provided in Note 16 to facilitate the reader’s understanding of the financial statements.

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 ("$"). 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.

(Expressed in Canadian Dollars)

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 December 31, 2011 $	As at December 31, 2010 $	As at January 1, 2010 $
Cash and cash equivalents are composed of:			
Cash	36,172	134,930	172,878
GIC bearing interest at 1.25%	-	10,381	-
	36,172	145,311	172,878

7. EXPLORATION AND EVALUATION EXPENDITURES

The exploration and evaluation expenditures incurred by the Company during the years ended December 31, 2011 and 2010 are as follows:

	Years ended December 31 2011 $	2010 $
Staking costs	40,678	-
Exploration and evaluation expenditures	219,388	51,920
Total	260,066	51,920

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

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

	2011 $	2010 $
Exploration and Evaluation Expenditures		
Balance, beginning of the year	1,339,995	1,288,075
Field communications	1,175	3,941
Conference	124	24,825
Equipment rental & purchase	12,289	-
Freight	2,380	9,735
Aircraft charter (helicopter and fixed wing)	82,996	5,600
Aircraft fuel	9,252	4,276
Travel (aircraft, taxi etc.)	11,930	2,124
Travel (accommodation and meals)	5,714	1,419
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	10,273	-
Expenditures for the year	260,066	51,920
Less: acquisition costs included in the above	(40,678)	-
Exploration and evaluation expenditures incurred during the year	219,388	51,920
Balance, end of year	1,413,482	1,194,094
Cumulative expenditures, end of the year	1,600,061	1,339,995

As at December 31, 2011, the Company held prospecting permits and claims in the Horton River area of the Northwest Territories. The property is 120 kilometres south of Paulatuk, a village located on the Arctic coast, about 400 kilometres 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 year ended December 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 December 31, 2011, the Company had refundable performance bonds of $88,394 (December 31, 2010 - $88,394; January 1, 2010 - $59,729) with the Mining Recorder. A report on the airborne geophysics and sampling carried out in 2009 has been submitted to the Mining Recorder on November 5, 2011 to fulfill the assessment work requirements of the 125 claims with an expiry date of August 13, 2011 which should keep them in good standing for at least another year. 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. 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. The Company has decided to let these permits lapse.

An application to record 36 new claims was made and recorded by the Mining Recorder's Office on September 22, 2011.

(Expressed in Canadian Dollars)

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

(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.

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.

(Expressed in Canadian Dollars)

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)	1,650,000	0.16	16,300
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)	4,000,000	0.10	50,826
Balance, December 31, 2011	5,650,000	0.13	67,126

As at December 31, 2011, 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 a December 31, 2011 have a weighted average remaining contractual life of 1.36 years (December 31, 2010 - 0.92 years). Of the warrants outstanding, 200,000 warrants expiring July 9, 2013 are exercisable into flow-through shares.

(Expressed in Canadian Dollars)

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, December 31, 2011	4,201,000	0.08

As at December 31, 2011, 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	0.32
50,000	50,000	0.05	March 1, 2015	3.17
951,000	951,000	0.05	June 9, 2015	3.44
100,000	33,332	0.05	May 1, 2016	4.34
1,500,000	-	0.05	December 16, 2016	4.96
4,201,000	2,634,332	0.07		2.81

The weighted average exercise price of options exercisable at December 31, 2011 is $0.08 (December 31, 2010 - $0.09, January 1, 2010 - $0.10).

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 December 31, 2011 is $0.03 (2010 - $0.01). 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.

(Expressed in Canadian Dollars)

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 December 31, 2011 Carrying Value $	Approximate fair value $	As at December 31, 2010 Carrying Value $	Approximate fair value $	As at January 1, 2010 Carrying Value $	Approximate fair value $
Loans and receivables						
Cash	36,172	36,172	134,930	134,930	172,878	172,878
Sundry receivables	56,013	56,013	11,861	11,861	21,791	21,791
Other financial liabilities						
Accounts payable and accrued liabilities	20,000	20,000	21,210	21,210	24,594	24,594

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 December 31, 2011, the Company had a cash and cash equivalents balance of $36,172 (December 31, 2010 - $145,311; January 1, 2010 - $172,878) to settle current liabilities of $20,000 (December 31, 2010 - $21,210; January 1, 2010 - $24,594). See Note 15 for a private placement financing that closed subsequent to December 31, 2011.

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.

(Expressed in Canadian Dollars)

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 December 31	
	2011 $	2010 $
Salaries and benefits	200,326	97,773
Shares-based payments	5,059	4,605

The amount of $200,326 in 2011 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 December 31, 2011, is $9,260 (December 31, 2010 and January 1, 2010 - $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 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.

(Expressed in Canadian Dollars)

14. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 28% (2010 – 31%) are as follows:

	2011	2010
Loss before income taxes	$ (482,328)	$ (174,722)
Expected tax recovery at statutory rate	$ (136,000)	$ (54,000)
Non-deductible expenses	2,400	1,900
Change in expected tax rates	15,400	10,200
Flow-through renunciation	65,400	66,125
Other	(13,300)	(7,825)
Change in tax assets not recognized	55,400	(16,400)
Income tax recovery	$ (10,700)	$ -

b) Deferred Tax Balances

The significant components of the Company's deferred income tax assets not recognized, as at the end of the year, are as follows:

	2011	2010
Non-capital losses	$ 23,000	$ 30,900
Share issue costs	5,000	3,700
Other	15,300	15,300
Exploration properties	355,000	293,000
Deferred income tax asset not recognized	$ 398,300	$ 342,900

c) Tax Loss Carry-Forwards

As at December 31, 2011, the Company had approximately $59,700, $187,000 and $1,169,000 of foreign exploration, Canadian development and Canadian exploration expenditures respectively, which under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2011, the Company had available for deduction against future taxable income, non-capital losses of approximately $92,000 which expire as follows:

2014	$ 26,000
2025	38,000
2028	6,000
2029	11,000
2030	11,000
	$ 92,000

15. 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.

16. FIRST TIME ADOPTION OF IFRS

These financial statements are the Company's first annual financial statements prepared in accordance with IFRS. The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date, which for the Company is December 31, 2011. However, IFRS 1 also provides certain optional exemptions and certain mandatory exceptions to this retrospective treatment.

Exemptions applied
IFRS 1 requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's Transition Date and allows first-time adopters certain exemptions from the retrospective application on certain IFRSs. The Company has elected and applied the following exemptions:

S*hare-based payments* - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

Mandatory exceptions to retrospective application
IFRS 1 provides specific guidelines that a first-time adopter must adhere to under certain circumstances. The guideline pertaining to estimates applies to the Company, which prohibits the use of hindsight to create or revise estimates. Accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Reconciliation of equity and net loss and comprehensive loss as previously reported under Canadian GAAP to IFRS
The Company's transition from Canadian GAAP to IFRS has resulted in a number of adjustments to its statements of financial position as at January 1, 2010 and December 31, 2010 and the statements of loss and comprehensive loss and cash flows for the year ended December 31, 2010. The changes made to the statements of financial position and the statement of loss and comprehensive loss has resulted in reclassifications of various amounts on the statement of cash flows which are presented herein.

Further details of the adjustments to the statements of financial position, loss and comprehensive loss and cash flows are provided in the following reconciliations and the notes that accompany the reconciliations.

(Expressed in Canadian Dollars)

16. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliation of the Statement of Financial Position as previously reported under Canadian GAAP to IFRS.

	Notes	December 31, 2010 Canadian GAAP	December 31, 2010 IFRS transition effect	December 31, 2010 IFRS	January 1, 2010 Canadian GAAP	January 1, 2010 IFRS transition effect	January 1, 2010 IFRS
ASSETS							
Current assets							
Cash and cash equivalents		$ 145,311	$ -	**$ 145,311**	$ 172,878	$ -	**$ 172,878**
Sundry receivables		11,861	-	**11,861**	21,791	-	**21,791**
Total current assets		157,172	-	**157,172**	194,669	-	**194,669**
Exploration and evaluation expenditures	(a)	1,428,389	(1,428,389)	-	1,347,804	(1,347,804)	**-**
Deferred tax asset	(b)	-	-	-	22,500	(22,500)	**-**
Refundable performance bond	(a)	-	88,394	**88,394**	-	59,729	**59,729**
Total assets		1,585,561	(1,339,995)	**245,566**	1,564,973	(1,310,575)	**254,398**
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		21,210	-	**21,210**	24,594	-	**24,594**
Deferred tax liability	(b)	14,200	(14,200)	-	-	-	**-**
Total liabilities		35,410	(14,200)	**21,210**	24,594		**24,594**
SHAREHOLDERS' EQUITY							
Share capital	(b)	1,780,291	165,475	**1,945,766**	1,679,266	119,000	**1,798,266**
Warrant reserve	(b)	72,642	19,650	**92,292**	75,992	-	**75,992**
Share-based payment reserve	(c)	302,374	(175,250)	**127,124**	296,850	(175,250)	**121,600**
Accumulated deficit	(a) (b) (c)	(605,156)	(1,335,670)	**(1,940,826)**	(511,729)	(1,254,325)	**(1,766,054)**
Total shareholders' equity		1,550,151	(1,325,795)	**224,356**	1,540,379	(1,310,575)	**229,804**
Total shareholders' equity and liability		$ 1,585,561	$ (1,339,995)	**$ 245,566**	$ 1,564,973	$ (1,310,575)	**$ 254,398**

(Expressed in Canadian Dollars)

16. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Loss and Comprehensive Loss as previously reported under Canadian GAAP to IFRS.

Year ended December 31, 2010

	Notes	**Canadian GAAP**	**IFRS transition effect**	**IFRS**
EXPENSES				
Administration		$ 94,798	-	**$ 94,798**
Exploration and evaluation expenditures	(a)	-	51,920	**51,920**
Share-based payments		5,524	-	**5,524**
Bank charges		-	-	**-**
Professional fees		23,286	-	**23,286**
Loss before the under-noted		123,608	51,920	**175,528**
Interest income		(756)	-	**(756)**
Net loss before income taxes		122,852	51,920	**174,772**
Income tax (recovery) expense	(b)	(29,425)	29,425	**-**
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		$ 93,427	81,345	**$ 174,772**
LOSS PER SHARE - basic and diluted		$ 0.00	$ 0.00	**$ 0.01**

(Expressed in Canadian Dollars)

16. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliation of the Statement of Cash Flow as previously reported under Canadian GAAP to IFRS

	Notes	Canadian GAAP	IFRS transition effect	IFRS
		Year ended December 31, 2010		
Cash flow from the operating activities				
Net loss and comprehensive loss for the year	(a)(b)	$ (93,427)	$ (81,345)	**$ (174,772)**
Changes not involving cash				
Income tax (recovery)	(b)	(29,425)	29,425	**-**
Share-based payments		5,524	-	**5,524**
Changes in non-cash working capital balances:				
Decrease (increase) in sundry receivables		9,930	-	**9,930**
(Increase) in refundable performance bonds		-	(28,665)	**(28,665)**
(Decrease) in accounts payable and accrued liabilities		(4,584)	-	**(4,584)**
Cash flow from the operating activities		(111,982)	(80,585)	**(192,567)**
Cash flow from financing activities				
Private placements		165,000	-	**165,000**
Cash flow from financing activities		165,000	-	**165,000**
Cash flow from investing activities				
Deferred mineral exploration costs	(a)	(80,585)	80,585	**-**
Cash flow from investing activities		(80,585)	80,585	**-**
(Decrease) in cash and cash equivalents		(27,567)	-	**(27,567)**
Cash and cash equivalents, beginning of year		172,878	-	**172,878**
Cash and cash equivalents, end of year		$ 145,311	$ -	**$ 145,311**

Notes to the IFRS reconciliation above

a) Exploration and evaluation expenditures

Concurrently with the transition to IFRS, the Company elected to expense exploration and evaluation expenditures as incurred. Previously, the Company's Canadian GAAP policy was to capitalize exploration and evaluation expenditures as incurred. As a result of expensing exploration and evaluation expenditures, the deferred tax impact of temporary differences related to the capitalized exploration and evaluation expenditures were derecognized. In addition, on transition to IFRS, the Company reclassified certain exploration and evaluation expenditures related to permits as a refundable performance bond. As at the Transition Date and as at December 31, 2010, capitalized exploration and evaluation expenditures decreased by $1,347,804 and $1,428,389, respectively with an increase to refundable performance bond of $59,729 as at the Transition Date and $88,394 as at December 31, 2010. The Company's net loss and comprehensive loss for year ended December 31, 2010 increased by $51,920 and accumulated deficit increased by $1,339,995 and opening deficit as of January 1, 2010 increased by $1,288,075.

16. FIRST TIME ADOPTION OF IFRS (Continued)

b) Flow through shares

On transition to IFRS, the Company elected to follow US GAAP whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the market value of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors and is then recognized in operations in the period of renunciation. If flow-through shares are sold at a discount, this policy does not apply and the flow-through shares issued follow applicable IFRS guidance. Previously, the Company's Canadian GAAP policy was to adopt the recommendations of EIC 146 with respect to the accounting for flow-through shares.

This resulted in the Company reducing the net proceeds of the flow through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favor of the flow-through share subscribers. As at the Transition Date, share capital increased by $119,000, deferred tax asset decreased by $22,500 and the accumulated deficit increased by $141,500. As at December 31, 2010, share capital increased by $165,475, deferred tax liability decreased by $14,200, income tax recovery decreased by $29,425, warrant reserve increased by $19,650 and accumulated deficit increased by $170,925.

c) Expiration of stock options and warrants

Under Canadian GAAP, the Company’s policy was to leave the value recorded for expired, unexercised stock options in contributed surplus, and to record the value of expired, unexercised warrants to contributed surplus. The Company has changed its policy regarding expired share-based compensation under IFRS whereby amounts recorded for expired, unexercised stock options and warrants are transferred to deficit on expiry. As at the Transition Date and December 31, 2010, share-based payment reserve decreased by $175,250 and the accumulated deficit decreased by $175,250.

d) Forfeitures

Under Canadian GAAP, forfeitures of awards are recognized as they occur. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No material difference was determined and consequently no adjustment was made.

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Maria Grimes – Corporate Secretary
Robert Owen – Chief Financial Officer

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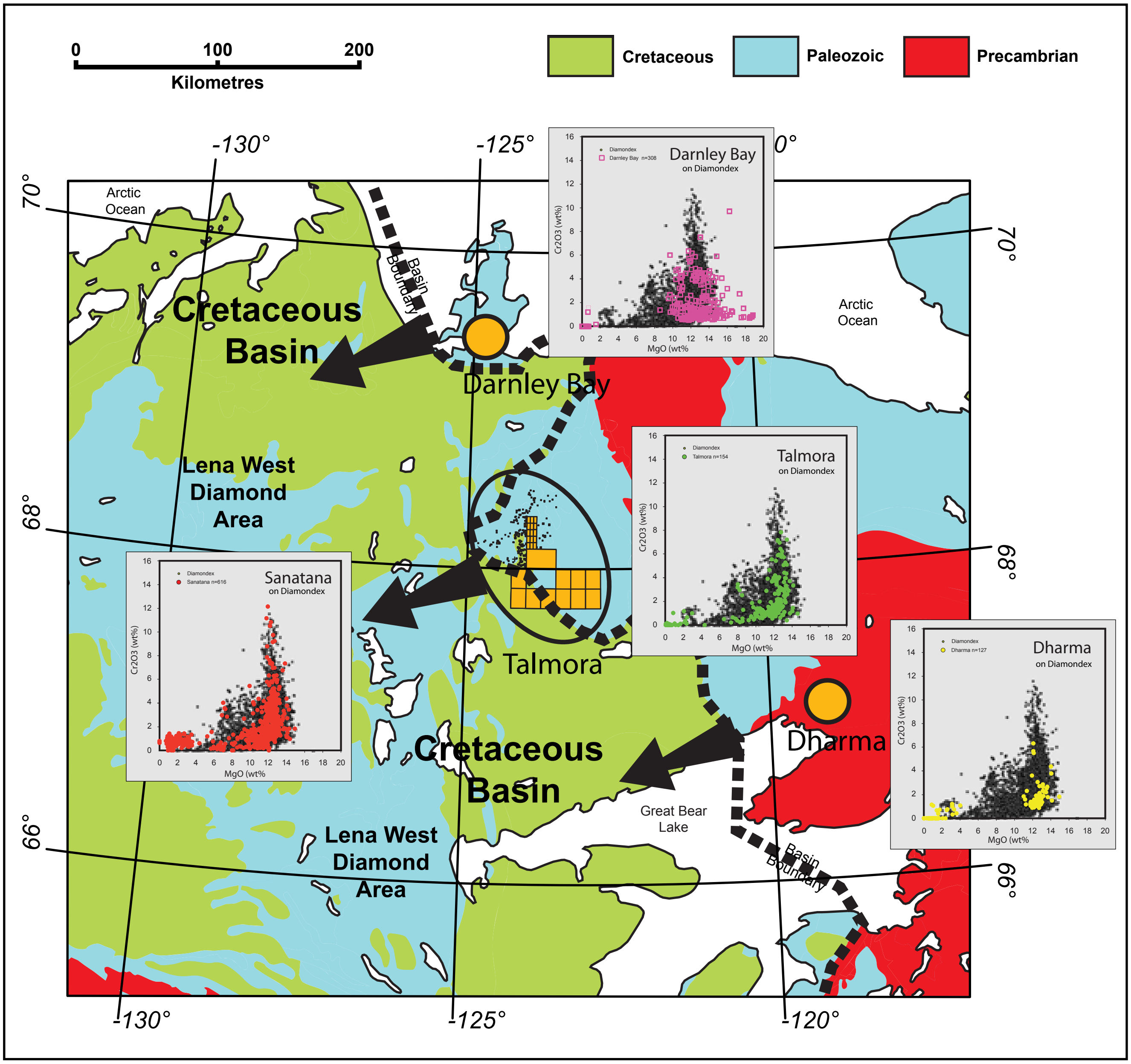
McGovern, Hurley, Cunningham, LLP

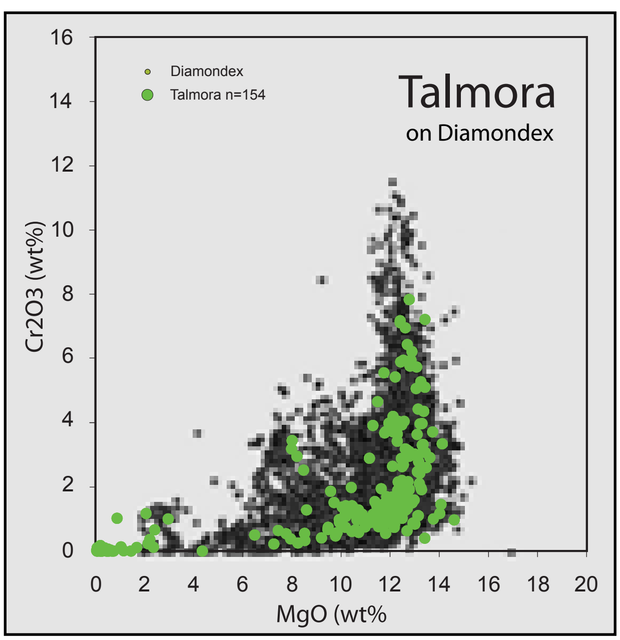
Legal Counsel

Peterson Law Professional Corporation

Transfer Agents

Computershare Trust Company of Canada





ILMENITE, Cr_2O_3 vs MgO plots:

Area comparisons of ilmenites are meaningful because they are little affected by laterite weathering processes.

Diamondex (black) and superimposed Sanatana (red) ilmenites within the Cretaceous basin are identical.

Darnley Bay (pink), Talmora (green) and Dharma (yellow) ilmenites located outside the Cretaceous basin are superimposed on Diamondex ilmenites within the basin. Only Talmora is a perfect match.

TALMORA DIAMOND INC.