TALMORA DIAMOND INC.
(A Development Stage Company)

FINANCIAL STATEMENTS

December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Talmora Diamond Inc.

We have audited the accompanying financial statements of Talmora Diamond Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles 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.

Auditor's Responsibility

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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Talmora Diamond Inc. as at December 31, 2010 and 2009, and its financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes that the Company is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 19, 2011

BALANCE SHEETS
AS AT DECEMBER 31

	2010 $	2009 $
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	145,311	172,878
Sundry receivables	11,861	21,791
	157,172	194,669
DEFERRED MINERAL EXPLORATION COSTS (Notes 5 and 8)	1,428,389	1,347,804
FUTURE TAX ASSET (Note 7(b))	-	22,500
	1,585,561	1,564,973
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	21,210	24,594
FUTURE TAX LIABILITY (Note 7(b))	14,200	-
	35,410	24,594
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6(b))	1,780,291	1,679,266
WARRANTS (Note 6(c))	72,642	75,992
CONTRIBUTED SURPLUS (Note 6(e))	302,374	296,850
DEFICIT	(605,156)	(511,729)
	1,550,151	1,540,379
	1,585,561	1,564,973

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 5 and 9)

APPROVED ON BEHALF OF THE BOARD:

Signed "Raymond Davies", Director

Signed "Richard Hogarth", Director

See accompanying notes to the financial statements.

(A Development Stage Company)
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	2010 $	2009 $
EXPENSES		
Administration (Note 8)	94,798	91,156
Stock-based compensation (Note 6(d))	5,524	-
Professional fees	23,286	20,288
Loss before the under-noted	123,608	111,444
Interest income	(756)	(3,022)
Net loss before income taxes	122,852	108,422
Income tax recovery (Note 7(a))	(29,425)	(17,300)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	93,427	91,122
Deficit, beginning of year	511,729	420,607
Deficit, end of year	605,156	511,729
NET LOSS PER SHARE		
- basic and diluted	0.003	0.003
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- basic and diluted	33,709,802	26,089,149

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(93,427)	(91,122)
Changes not involving cash		
Income tax (recovery)	(29,425)	(17,300)
Stock-based compensation	5,524	-
Changes in non-cash working capital balances:		
Decrease (increase) in sundry receivables and	9,930	(8,206)
(Decrease) in accounts payable and accrued liabilities	(4,584)	(9,132)
Cash flows from operating activities	(111,982)	(125,760)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placements	165,000	595,388
Share issue costs	-	(20,604)
Cash flows from financing activities	165,000	574,784
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term investments	-	280,000
Acquisition of investments	-	(250,000)
Deferred mineral exploration costs	(80,585)	(344,752)
Cash flows from investing activities	(80,585)	(314,752)
(Decrease) increase in cash and cash equivalents	(27,567)	134,272
Cash and cash equivalents, beginning of year	172,878	38,606
Cash and cash equivalents, end of year	145,311	172,878
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Change in accrued exploration expenditures	4,594	4,375
Change in accrued share issue costs	1,200	-

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Talmora Diamond Inc. (the "Company" or "Talmora") is a development stage company as defined by CICA Accounting Guideline 11 "Enterprises in the Development Stage" and currently has interests in exploration and development properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these 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 recoverability of the carrying value of exploration properties and 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. Changes in future conditions could require material write-downs of the carrying values.

As at December 31, 2010, the Company had cash and cash equivalents totaling $145,311 and working capital of $135,962. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year, except where disclosed below. Outlined below are those policies considered particularly significant:

Cash and Cash Equivalents

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

Deferred Mineral Exploration Costs

The cost of mineral properties and related exploration expenditures are deferred until the properties to which they relate are placed into production, sold or allowed to lapse. These costs will be amortized over the estimated useful life of the properties following commencement of production or written off if the properties are sold or allowed to lapse. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures are charged to operations as incurred.

The cost of exploration properties includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The carrying value of the mineral properties is reduced by option proceeds received until such time as the acquisition and exploration costs are reduced to nominal amounts and any excess is included in operations. The recorded amounts of property claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews its mineral properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying amount of the mineral properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that change in future conditions in the near-term could require a change in the determination of the need for and amount of any write-down.

Asset Retirement Obligations

The Company records a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mineral exploration properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration properties and deferred exploration expenditures and is amortized over the useful life of the property. Management is not aware of any material asset retirement obligations as at December 31, 2010 and 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to deferred mineral exploration costs.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital. The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Stock-Based Compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

For the years ended December 31, 2010 and 2009, all issued and outstanding warrants and options were anti-dilutive and were excluded from the diluted loss per share calculations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenue and expense during the period. Significant estimates include the valuation of the deferred mineral exploration costs, stock-based compensation, warrants and future tax assets and liabilities. Actual results could differ from estimates. Management believes that the estimates are reasonable.

Financial Instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as “held-for-trading” or “available-for-sale” financial assets, and “held-to-maturity”, “loans and receivables” or “other” financial liabilities.

Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

3. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (“IFRS”)

In January 2006, the CICA Accounting Standards Board (“ACSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS for accounting periods commencing on or after January 1, 2011. Beginning with the interim financial statements for the three month period ended March 31, 2011, the Company will be required to prepare IFRS financial statements and provide comparative figures for 2010. The Company is continuing to assess and develop its plans for adoption of IFRS for 2011.

4. CASH AND CASH EQUIVALENTS

	2010 $	2009 $
Cash and cash equivalents are composed of		
Cash	134,930	172,878
Guaranteed Investment Certificates, bearing interest at 1.25% (2009 – Nil%)	10,381	-
	145,311	172,878

5. DEFERRED MINERAL EXPLORATION COSTS

As at December 31, 2010 and 2009, the Company held thirteen prospecting permits and 175 claims in the Horton River area of the Northwest Territories. The property is 120 kilometers south of Paulatuk, a village located on the Arctic coast, about 400 kilometers east of Inuvik. All the Company's permits and claims are located on Crown Land straddling the boundary between the Inuvialuit and Sahtu Settlement Regions of the Northwest Territories. Three 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. Subsequent to December 31, 2010, the Company allowed two of the permits in the Inuvialuit Settlement Area to lapse and made a cash deposit of $28,664 to cover the final one year work period of the remaining permit. The permits require a deposit paid in advance, refundable when equivalent exploration work has been performed. The claims are in good standing until August 13, 2011 or later. Claims can be staked within the permits at any time so long as the permits are in good standing.

On February 28, 2008, the Sahtu Secretariat Inc. and a number of other applicants (collectively, the "Applicants") in the Sahtu Settlement Area applied for a judicial review of the decision of the Supervising Mining Recorder to issue 60 prospecting permits within the Sahtu Settlement Area on February 1, 2008. Four of the permits were those issued to Talmora. The Applicants claim that they were insufficiently consulted and accommodated by the Supervising Mining Recorder before the permits were issued. The Minister of Indian Affairs and Northern Development and the Supervising Mining Recorder opposed the application and a settlement was reached in March 2010. This settlement did not affect the permits and claims held by Talmora.

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

5. DEFERRED MINERAL EXPLORATION COSTS (Continued)

HORTON RIVER, NWT

Acquisition costs	$
Balance, December 31, 2008	85,952
Staking	59,949
Balance, December 31, 2009 and 2010	145,901
Exploration Expenditures	
Balance, December 31, 2008	912,725
Wages	42,270
Helicopter fuel	4,923
Fixed wing support	31,789
Airborne geophysics	20,383
Helicopter charter	60,308
Field reports	32,258
Professional services	61,126
Travel	9,209
Accommodation and meals	11,584
Equipment purchase/rental	4,213
Freight	3,696
Other	7,419
Balance, December 31, 2009	1,201,903
Licences and permits	32,580
Exploration	24,825
Field reports	9,735
Wages	5,600
Sample sorting and analysis	4,276
Travel	2,124
Remote sensing	1,419
Post-mail courier	26
Balance, December 31, 2010	1,282,488
Total Balance, December 31, 2010	1,428,389

6. CAPITAL STOCK

a) Authorized

Unlimited number of common shares

b) Issued

	Common Shares #	Amount $
Balance, December 31, 2008	21,774,935	1,175,274
Common shares (Series IV) issued for cash (i)	3,318,571	165,929
Flow-through common shares (Series IV) issued for cash (i)	2,800,000	140,000
Warrant valuation (i)	-	(40,383)
Share issue costs (i)	-	(7,938)
Common shares (Series V) issued for cash (ii)	3,299,173	164,959
Flow-through common shares (Series V) issued for cash (ii)	2,490,000	124,500
Warrant valuation (Series V)	-	(38,209)
Share issue costs (ii)	-	(4,866)
Balance, December 31, 2009	33,682,679	1,679,266
Common shares (Series VI) issued for cash (iii)	2,100,000	105,000
Flow-through common shares (Series VI) issued for cash (iii)	1,200,000	60,000
Warrant valuation (Series VI)	-	(16,300)
Share issue costs (iii)	-	(1,200)
Renunciation of flow-through expenditures (v)	-	(46,475)
Balance, December 31, 2010	36,982,679	1,780,291

i) On June 3, 2009, the Company closed a private placement financing for 3,318,571 non-flow-through units and 2,800,000 flow-through units at price of $0.05 per unit for total gross proceeds of $305,929. 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 June 3, 2011. The warrants issued as part of a flow-through unit are exercisable into common shares. *(Series IV)*

The grant date fair value of the warrants of $40,383 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 116%; risk free interest rate of 2.25%; and expected life of two years.

In connection with the financing the Company paid $7,400 in finders' and consultants fees and $5,688 in legal fees of which $1,850 was allocated to the warrants.

ii) On November 12, 2009, the Company closed a private placement financing for 3,299,173 non-flow-through units and 2,490,000 flow-through units at price of $0.05 per unit for total gross proceeds of $289,459. 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 November 12, 2011. The warrants issued as part of a flow-through unit are exercisable into common shares. *(Series V)*

The grant date fair value of the warrants of $38,209 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 116%; risk free interest rate of 2.25%; and expected life of two years.

In connection with the financing the Company paid $3,000 in finders' fees and legal fees of $4,516 of which $750 was allocated to the warrants.

6. CAPITAL STOCK (Continued)

iii) 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 consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at $0.16 per common share until December 28, 2012. *(Series VI)*

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

In connection with the financing, the Company incurred legal fees of $1,200.

iv) 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, creating a future income tax liability of $66,125, of which $46,475 was allocated as a cost of issuing the flow-through shares and $19,650 was allocated as a cost of issuing warrants.

c) Warrants

A summary of changes in warrants is as follows:

	Warrants	Weighted Average Exercise Price	Value
	#	$	$
Balance, December 31, 2008	2,690,000	0.19	71,200
Expired	(2,690,000)	0.19	(71,200)
Issued (Note 6(b)(i)) *Series IV*	3,059,286	0.16	40,383
Issue costs (Note 6(b)(i)) *Series IV*	-		(1,850)
Issued (Note 6(b)(ii) *Series V*	2,894,586	0.16	38,209
Issue costs (Note 6(b)(ii)) *Series V*	--		(750)
Balance, December 31, 2009	5,953,872	0.18	75,992
Issued (Note 6(b)(iii)) *Series VI*	1,650,000	0.16	16,300
Renunciation of flow-through expenditures (Note 6(b)(v))	-	-	(19,650)
Balance, December 31, 2010	7,603,872	0.16	72,642

6. CAPITAL STOCK (Continued)

As at December 31, 2010, the following warrants were issued and outstanding:

Number of warrants	Exercise Price	Value	Expiry date
#	$	$	
3,059,286	0.16	28,433	June 4, 2011
2,894,586	0.16	27,909	November 13, 2011
1,650,000	0.16	16,300	December 29, 2012
7,603,872	0.16	72,642	

The weighted average grant date fair value of warrants granted during the year ended December 31, 2010 was $0.01 (2009 - $0.01). The warrants outstanding and exercisable as at December 31, 2010 have a weighted average remaining contractual life of 0.92 years (2009 – 1.64 years). Of the warrants outstanding, 1,400,000 warrants expiring June 4, 2011 and 1,649,586 warrants expiring November 13, 2011 are exercisable into flow-through shares.

d) 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.

A summary of changes in stock options is as follows:

	Options	Weighted Average Exercise Price
	#	$
Balance, December 31, 2008 and 2009	1,600,000	0.10
Granted	1,450,000	0.05
Balance, December 31, 2010	3,050,000	0.08

As at December 31, 2010, 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	1.32
50,000	24,999	0.05	March 1, 2015	4.16
1,400,000	466,662	0.05	June 9, 2015	4.44
3,050,000	2,091,661			2.80

The weighted average exercise price of options exercisable at December 31, 2010 is $0.09 (2009 - $0.10).

6. CAPITAL STOCK (Continued)

d) Options (Continued)

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

The weighted average grant date fair value of the options issued during the year ended December 31, 2010 is $0.0055 (2009 - $Nil). 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.

e) Contributed Surplus

	Amount $
Balance, December 31, 2008 and 2009	296,850
Employee stock based compensation	4,605
Non-employee stock based compensation	919
Balance, December 31, 2010	302,374

7. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the statutory rate of approximately 31% (2009 – 33%) are as follows:

	2010	2009
Loss before income taxes	$ (122,852)	$ (108,422)
Expected tax recovery at statutory rate	(38,100)	(35,800)
Stock-based compensation	1,900	-
Expiry of losses	-	13,900
Change in expected tax rates	6,775	8,700
Other	-	(3,200)
Change in valuation allowance	-	(900)
Income tax recovery	$ (29,425)	$ (17,300)

b) Future Tax Balances

The significant components of the Company's future income tax asset (liability), as at the end of the year, are as follows:

	2010	2009
Non-capital losses	$ 30,900	$ 28,200
Share issue costs	3,700	6,200
Other	15,300	15,300
Exploration properties	(64,100)	(27,200)
	(14,200)	22,500
Valuation allowance	-	-
Future income tax (liability) asset	$ (14,200)	$ 22,500

c) Tax Loss Carry-Forwards

As at December 31, 2010, the Company had approximately $59,700, $146,000 and $966,000 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, 2010, the Company had available for deduction against future taxable income, non-capital losses of approximately $123,000 which expire as follows:

2013	$ 27,000
2014	30,000
2025	38,000
2028	6,000
2029	11,000
2030	11,000
	$ 123,000

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, administration expenses of $72,696 (2009 - $65,327) of which $9,542 (2009 - $6,991) was for out-of-pocket expenses, were charged by two officers of the Company, one of whom is also a director of the Company.

During the year ended December 31, 2010, deferred mineral exploration costs of $14,261 (2009 - $65,121) was charged for services provided by a director and officer of the Company and one officer of the Company. Of this amount, $180 (2009 - $27,258) was for out-of-pocket expenses at cost.

During the year ended December 31, 2010, deferred mineral exploration costs of $23,846 (2009 - $69,702) of which $3,521 (2009 - $13,227) was for out-of-pocket expenses, was paid to a corporation of which a director and officer of the Company holds a significant interest.

The above transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended December 31, 2010, a director and officers of the Company subscribed for 1,280,000 non-flow-through units and 440,000 flow-through units for gross proceeds of $86,000 pursuant to the private placement described in Note 6(b)(iii). A director and an officer of the Company subscribed for 440,000 non-flow-through units for gross proceeds of $22,000 pursuant to the private placement described in Note 6(b)(iii). *(Series VI)*

During the year ended December 31, 2010, a corporation of which a director and officer of the Company holds a significant interest subscribed for 100,000 non-flow-through units for gross proceeds of $5,000 pursuant to the private placement described in Note 6(b)(iii). *(Series VI)*

9. COMMITMENTS AND CONTINGENCIES

Environmental Contingencies
The Company's mining and 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.

Flow-through Shares
See Note 12, Subsequent Events, for additional information concerning the Company's flow-through commitment.

As at December 31, 2010, the Company is committed to incur prior to December 31, 2011 and on a best-efforts basis, $60,000 in qualifying Canadian exploration expenditures pursuant to private placements for which flow-through proceeds had been received and renounced 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 it expenditure commitments. See Note 12.

10. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of capital stock, warrants and contributed surplus. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration and development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts 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 reasonable. There were no changes in the Company's approach to capital management during the years ended December 31, 2010 and 2009. The Company is not subject to externally imposed capital requirements.

11. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures of the Company from the previous period. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 instruments included in sundry receivable consist of goods and services tax due from the Federal Government of Canada and receivables from unrelated companies. Management believes that the credit risk concentration with respect to these financial instruments included in cash equivalents and sundry receivable is remote.

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, 2010, the Company had a cash and cash equivalents balance of $145,311 (2009 -$172,878) to settle current liabilities of $21,210 (2009 - $24,594).

11. FINANCIAL RISK FACTORS (Continued)

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.

(d) Title Risk
See Notes 1 and 5.

Sensitivity Analysis

The Company has designated its cash and cash equivalents and short-term investments as held-for-trading, measured at fair value. Financial instruments included in sundry receivables are classified as receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments are approximately the same. The Company does not anticipate any material fluctuations as a result of changes in interest or foreign currency rates. In addition, the Company’s financial instruments that are carried at fair value consist of cash equivalents that are classified as Level 2 within the fair value hierarchy.

12. SUBSEQUENT EVENTS

Flow-Through Renunciation
Subsequent to 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. Of this amount, no expenditures were incurred to December 31, 2010. The Company is committed to incur the balance of $60,000 prior to December 31, 2011 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.

Sahtu Application for Judicial Review:
The Company was informed on January 19, 2011, that the application of the Sahtu Secretariat Inc. and a number of other Applicants in the Sahtu Settlement Area for a judicial review of the decision of the Supervising Mining Recorder to issue prospecting permits including the four permits issued to the Company within the Sahtu Settlement Area on February 1, 2008, was settled on March 2010. The settlement had no affect on the permits issued to the Company and the Company was granted a one year extension to January 2012 for eight permits in the Sahtu Settlement Region for no additional consideration. Further extensions for no additional cash consideration will be unlikely and cash performance deposits or equivalent work will be required to cover the remaining work periods to the expiry dates.