

# **TALMORA DIAMOND INC.**

**2010 ANNUAL REPORT**

**AND**

**NOTICE OF ANNUAL AND SPECIAL MEETING  
OF SHAREHOLDERS**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**



May 06 2011



## **Message to the Shareholders**

Talmora Diamond Inc. has benefited tremendously from the work done by Diamondex and Sanatana in what is known as the Lena West diamond region of Canada. Our neighbours found numerous and widespread kimberlite indicator minerals (KIMs) and diamonds west and south of Talmora but have not found their source. Despite the good diamond association chemistry of the KIMs they have moved on.

Since Darnley Bay discovered kimberlites near Paulatuk in 2000 the Dharma diamondiferous kimberlite has been the only new discovery and it lies on a structure related to that of Talmora. Diamondex showed that many if not all of the KIMs west of Talmora have been derived from the base of the Cretaceous basin and have entered the basin from the east. Darnley Bay, Dharma and Talmora are the only properties on the east side of Lena West that lie outside the Cretaceous basin.

There is considerable evidence that the Talmora property was subjected to a period of laterite formation in post Cretaceous time. Laterite destroys silicate KIMs which explains why Talmora has relatively few garnets and chrome diopsides. It is important to note that KIMs at the base of and within the Cretaceous basin are protected from the laterite effect.

Talmora has carried out an airborne magnetic survey that shows numerous magnetic anomalies with characteristics of kimberlite pipes and collected 350 bulk till samples. Samples taken down-ice of magnetic targets contain 35 times as many KIMs as those collected randomly showing a strong correlation between KIMs and magnetic anomalies.

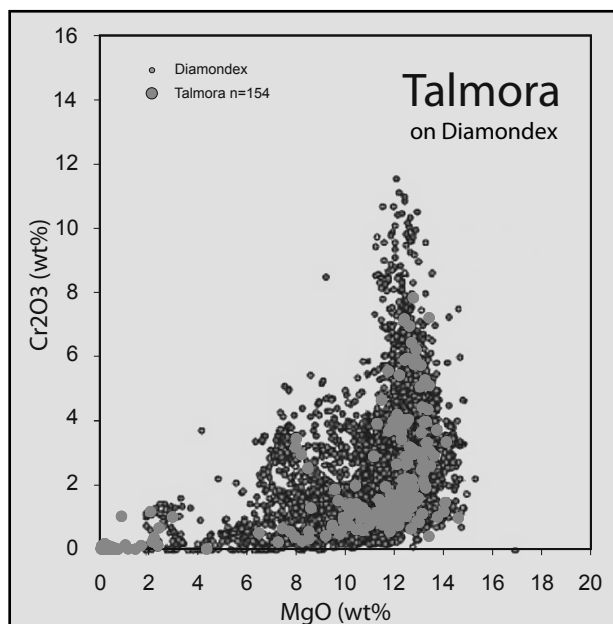
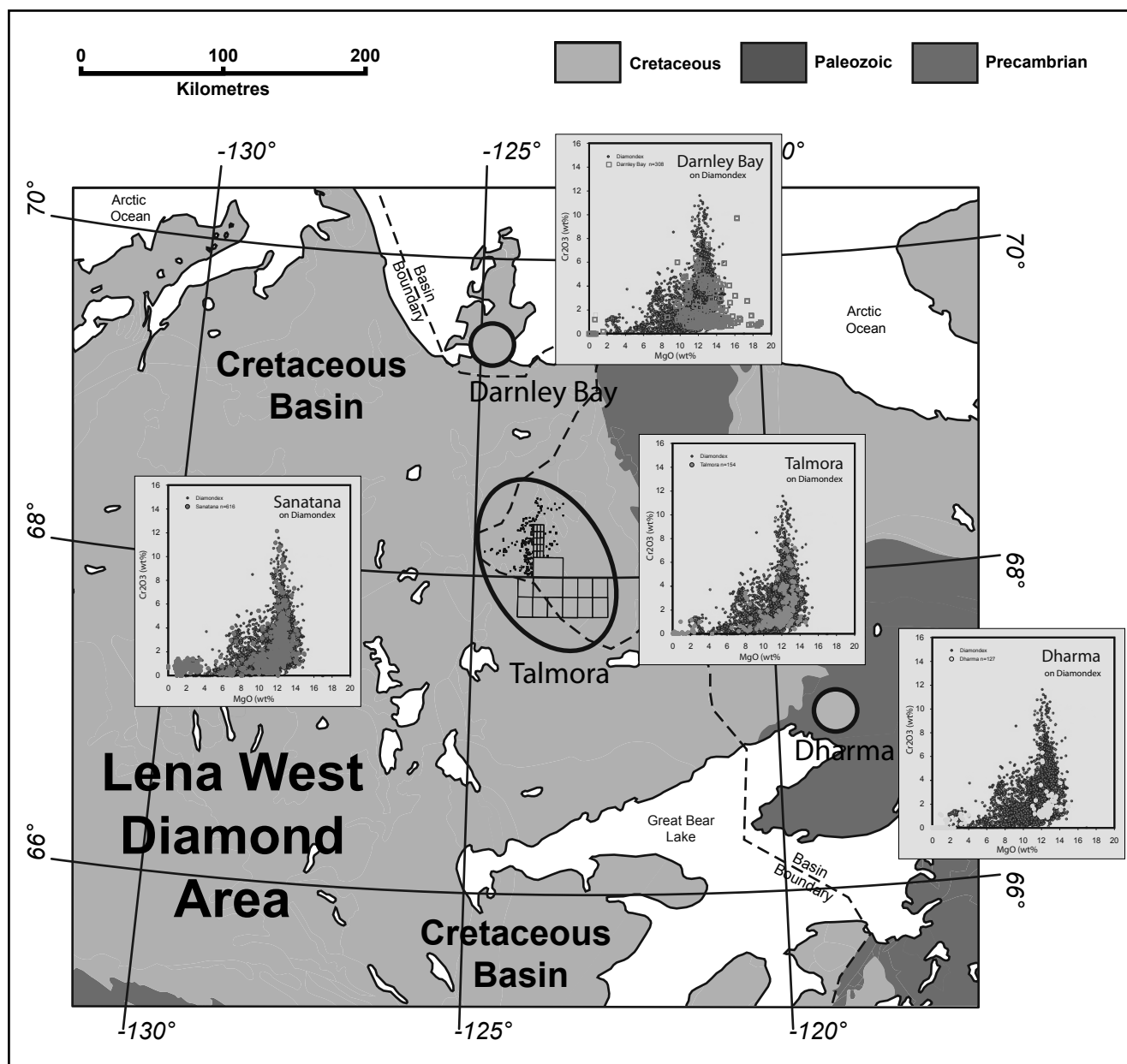
\$75 million has been spent by others, mostly in the Cretaceous basin to the west and south of Talmora. The KIMs over this huge area show good diamond association chemistry but very little variation as if they were all from a single source. The source of the diamonds and the KIMs within the Cretaceous basin has not been found.

The chemistry of KIMs from the Cretaceous basin differs completely from that of the Darnley Bay kimberlites to the NE. The Dharma KIMs match some of those from the Cretaceous basin but do not match the full range of compositions and cannot be the source of them all. Talmora's oxide KIMs match those of the Cretaceous basin perfectly while the few silicates match reasonably well considering their destruction during laterite formation. The ilmenite chemistry, which is unaffected by laterite, is shown opposite.

**EVIDENCE POINTS TO THE TALMORA PROPERTY AS THE POTENTIAL SOURCE OF THE NUMEROUS KIMS & DIAMONDS OF LENA WEST. TALMORA IS THE ONLY PROPERTY OUTSIDE THE CRETACEOUS BASIN WITH THE SAME KIM CHEMISTRY THAT IS ASSOCIATED WITH MAGNETIC TARGETS READY FOR DRILLING. TALMORA'S FOCUS IS NOW ON RAISING FUNDS FOR A DRILL PROGRAM.**

**Raymond Davies**  
**President**

**May 6, 2011**



## ILMENITE, Cr<sub>2</sub>O<sub>3</sub> 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.

## **CORPORATE PROFILE**

Talmora Diamond Inc. is a junior exploration company (formed by the amalgamation of Talmora Resources Inc. and Canadian Diamind Limited). Talmora holds 13 contiguous permits (577,153 acres) and 175 mineral claims (54,787 acres) in the Horton River area south of Paulatuk in the Northwest Territories. The permits were acquired as a diamond prospect on the basis of anomalous stream sediment samples.

An orientation survey was carried out in 2004. Follow-up work in 2007 included an airborne magnetic survey 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 staked on prospective ground that came open in 2009. The new claims were traversed with an airborne magnetometer and additional samples were collected.

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

## **TALMORA DIAMOND INC.**

### **NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that an annual and special meeting of the shareholders of Talmora Diamond Inc. (the “**Corporation**”) will be held at **390 Bay Street, Suite 806, Toronto, Ontario** on Tuesday, June 7, 2011, at the hour of 2:00 p.m. (Toronto time) for the following purposes:

1. To receive and consider the audited financial statements of the Corporation for the twelve months ended December 31, 2010, together with a report of the auditors thereon;
2. To elect directors;
3. To appoint auditors and to authorize the directors to fix their remuneration;
4. To consider and if thought fit, to pass, with or without amendment, an ordinary resolution approving a new stock option plan for the Corporation (attached as Schedule “B” to the Management Information Circular (“**Circular**”)); and
5. To transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

This notice is accompanied by a form of proxy, a management information circular and the audited financial statements of the Corporation for the twelve months ended December 31, 2010. Shareholders who are unable to attend the meeting in person are requested to complete, date, sign and return the enclosed form of proxy so that as large a representation as possible may be had at the meeting.

**DATED** at Toronto, Ontario this 6<sup>th</sup> day of May, 2011.

**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 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 7, 2011 at 2:00 p.m. (Toronto time) at **390 Bay Street, Suite 806, Toronto, Ontario, Ontario**, and at any continuation thereof after an adjournment.

The information contained herein is given as of May 6, 2011, 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 May 12, 2011. 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 of Talmora has fixed May 6, 2011 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 or to the transfer agent for the Common Shares, Computershare Investor Services Inc., Proxy Dept., 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, in either case to be received not later than the close of business on June 3, 2011 or, in the event of an adjournment, not later than two (2) business days preceding the day to which the Meeting is adjourned.

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 of Directors to fix the remuneration of the auditors; and



(3) FOR the approval of the 2011 Stock Option Plan.

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 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 Shareholder executing the enclosed form of proxy has the right to revoke it at any time before it is exercised. Relevant provisions of the *Business Corporations Act* (Ontario) (the “OBCA”) provide that a Shareholder may revoke a proxy by depositing an instrument in writing, executed by the Shareholder or by an attorney authorized in writing, at, or by transmitting, by telephonic or electronic means or any other manner permitted by law, a revocation to, the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or by depositing such instrument with the Chairperson of the Meeting on the day of the Meeting, or any adjournment thereof, or in any other manner permitted by law.

### **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. See “Section III – Executive Compensation and Other Information – Interest of Management and Others in Material Transactions”.

### **Voting Shares and Principal Shareholders**

The authorized capital of the Corporation consists of an unlimited Common Shares. As of May 6, 2011, there were [36,982,679] 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	Securities Owned, Controlled or Directed	Percentage of Class of Outstanding Voting Securities of the Corporation <sup>(1)</sup>
Raymond Davies	6,063,046	16.4%

Notes:

(1) Mr. Davies is President, CEO and a director of the Corporation.

(2) Based on a total of 36,982,679 issued and outstanding common shares as at May 6, 2011.

## SECTION II - BUSINESS OF THE MEETING

### 1. Financial Statements and Auditor's Report

The Management's Discussion and Analysis, including the audited financial statements of Talmora for the twelve months ended December 31, 2010 and the auditor's report on those financial statements, are included with the mailing of this Circular. Additional copies may be obtained from Talmora upon request.

### 2. Election of Directors

The articles of Talmora provide that the board of directors of Talmora (the “**Board of Directors**”) shall consist of a minimum of three (3) and a maximum of ten (10) directors. The Board of Directors 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 of Directors and management, 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 has been informed that each nominee is willing to serve as a director, if elected. Management recommends a vote for all nominees for election as directors of the Corporation.

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 of May 6, 2011, the number of Common Shares owned by each of them or over which control or direction is exercised by each of them, and the number of warrants or stock options which they hold in Talmora.

### NOMINEES FOR ELECTION AS DIRECTORS

<b><u>Name, Position with the Corporation and/or Principal Occupation</u></b>	<b><u>Common Shares</u></b>	<b><u>Warrants</u></b>	<b><u>Stock Options</u></b>
Richard M. Hogarth <sup>(1)(2)(3)(4)</sup> Resident of Toronto, Ontario Retired stock broker Director of Talmora since Jan. 2007	400,000	Nil	239,000
Raymond Davies Resident of Toronto, Ontario President & CEO of Talmora Director of Talmora since Jan. 2007	6,063,046	1,710,000	874,000
Joan E. Fiset, C.A. <sup>(1)(2)(3)(4)</sup> Resident of Toronto, Ontario Tax manager of Breakwater Resources Limited Director of Talmora since Jan. 2007	50,000	25,000	208,000

<b><u>Name, Position with the Corporation and/or Principal Occupation</u></b>	<b><u>Common Shares</u></b>	<b><u>Warrants</u></b>	<b><u>Stock Options</u></b>
Leslie C. Little <sup>(1)(2)(3)(4)</sup> Resident of Surrey, England Retired, former Company Secretary, Rambler Metals & Mining plc Director of Talmora since Jan. 2007	Nil	Nil	201,000

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Nominating and Corporate Governance Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Occupational Health & Safety Committee.

The Corporation does not have an executive committee.

The Corporation has an Audit Committee, as required by the OBCA, and its members are Joan E. Fiset (Chair), Richard M. Hogarth, and Leslie C. Little. See “Section IV - Corporate Governance - Committees of the Board of Directors - Audit Committee”.

Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little comprise the Nominating and Corporate Governance Committee of the Board of Directors. See “Section IV – Corporate Governance – Committees of the Board of Directors - Nominating and Corporate Governance Committee”.

Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little comprise the Compensation Committee of the Board of Directors. See “Section IV – Corporate Governance – Committees of the Board of Directors – Compensation Committee”.

Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little comprise the Occupational Health & Safety Committee of the Board of Directors. See “Section IV – Corporate Governance – Committees of the Board of Directors – Occupational Health & Safety Committee”.

### **3. Re-Appointment of Auditor**

The Board of Directors recommends that McGovern, Hurley, Cunningham, LLP, Chartered Accountants, be re-appointed as Talmora's auditor to hold office until the close of the next Annual Meeting and that the Board of Directors be authorized to fix their remuneration as such. See “Section III - Executive Compensation and Other Information - Disclosure of Auditor Fees”.

### **4. 2011 Stock Option Plan**

Shareholders of the Corporation approved the Corporation's existing stock option plan (the “**Existing Plan**”) at the Corporation's annual and special shareholders meeting held on January 5, 2007. Under the Existing Plan, the maximum number of Common Shares that can be reserved for issuance was set at a fixed amount of 3,250,000 Common Shares.

The Board wishes to implement a new stock option plan (the “**2011 Stock Option Plan**”) subject to Shareholder and regulatory approval. The Corporation recommends the replacement of its Existing Plan with a plan that will permit the reservation of Common Shares not to exceed 10% of the issued and outstanding Common Shares of the Corporation in the aggregate. The Existing Plan provides that the maximum number of Common Shares which can be reserved for issuance was set at a fixed amount of 3,250,000 Common Shares.

The 2011 Stock Option Plan provides for the acquisition of Common Shares by directors, officers, employees or Consultants (as defined in the 2011 Stock Option Plan) of the Corporation and its subsidiaries for the purpose of advancing the interests of the Corporation through the motivation, attraction and retention of key employees and directors and to secure for the Corporation and the Shareholders of the Corporation the benefits inherent in the ownership of the Common Shares by key employees and directors, it being generally recognized that stock option plans can aid in attracting, retaining and encouraging employees and directors due to the opportunity offered to them to acquire a proprietary interest in such company.

The Shareholders will be asked to consider and, if thought appropriate, approve a resolution adopting the 2011 Stock Option Plan (the “**2011 Stock Option Plan Adoption Resolution**”) and to authorize the Board to make any amendments thereto that may be required for the purpose of obtaining any necessary regulatory approvals. Pursuant to the 2011 Stock Option Plan Resolution, the 2011 Stock Option Plan (a copy of which is attached hereto as Schedule “B”) will be the stock option plan for the Corporation. If the 2011 Stock Option Plan is approved by Shareholders, previous stock options granted under any Existing Plan of the Corporation will now be subject to the terms of the 2011 Stock Option Plan.

The following information is intended to be a brief description of the 2011 Stock Option Plan and is qualified in its entirety by the full text of the 2011 Stock Option Plan as set out in Schedule “B”, subject to any revisions or amendments deemed necessary by the Board:

- (a) The aggregate number of Common Shares which may be issued under the 2011 Stock Option Plan shall not exceed 10% of the issued and outstanding Common Shares in the aggregate.
- (b) The maximum number of Common Shares which may be reserved for issuance to insiders of the Corporation pursuant to the 2011 Stock Option Plan at any given time, shall not exceed 10% of the total number of Common Shares issued and outstanding (on a non-diluted basis).
- (c) The maximum number of Common Shares which may be issued to any one person or entity pursuant to the 2011 Stock Option Plan, within any one year period shall not exceed 5% of the total number of Common Shares issued and outstanding (on a non-diluted basis).
- (d) Any Common Share subject to an option which has been granted under the 2011 Stock Option Plan and which has been cancelled, repurchased, expired or terminated in accordance with the terms of the 2011 Stock Option Plan without having been exercised will again be available under the 2011 Stock Option Plan. No fractional Shares shall be issued, and the Board may determine the manner in which fractional share value shall be treated.
- (e) The option price of any Common Shares in respect of which an option may be granted shall be fixed by the Board but shall not be less than the closing price of the Common Shares on the prior trading day on the CNSX, or another stock exchange where the majority of the trading volume and value of the Shares Common occurs.
- (f) Options issued pursuant to the 2011 Stock Option Plan will vest as the Board may determine from time to time.
- (g) Options granted under the 2011 Stock Option Plan may be exercisable over a period not exceeding five (5) years.
- (h) Options granted to any Optionee (as defined in the 2011 Stock Option Plan) who is a director, officer, employee or consultant must expire within 90 days after the Optionee ceases to be in at

least one of those categories of employment or such longer period as may be determined by the Board up to a maximum period of one (1) year.

- (i) In the event of death of an Optionee, the legal representative of the optionee may exercise the option within a period after the date of the Optionee's death as determined by the Board, provided that no option shall remain outstanding for any period which exceeds the earlier of (i) the expiry date of such option and (ii) 12 months following the date of the death of the optionee but only to the extent that the options were by their terms exercisable on the date of death. The Board may determine at any time, including for greater certainty at any time subsequent to the date of grant of the options, that such portion of the option vest automatically or pursuant to a vesting schedule determined by the board.
- (j) Options are non-assignable, except in certain circumstances.
- (k) The 2011 Stock Option Plan does not provide for any financial assistance upon the exercise of options.
- (l) The Board may amend the 2011 Stock Option Plan at any time, provided, however, that no such amendment may materially and adversely affect any option previously granted to an Optionee without the consent of the Optionee, except to the extent required by law. Any such amendment shall be subject to all necessary regulatory approvals. The Board will have the power to approve amendments relating to the 2011 Stock Option Plan or to options, without further approval of the Shareholders, which amendments relate to any of the following: i) amendments of a "housekeeping" or clerical nature; ii) a change to the vesting provisions of a security or the 2011 Stock Option Plan; iii) amendments to reflect any requirements of any regulatory authorities to which the Corporation is subject, including the CNSX; iv) a change to the termination provisions of a security or the 2011 Stock Option Plan which does not entail an extension beyond the original expiry date; v) acceleration of vesting upon a change of control and merger and acquisition; vi) determination of entitlements for the holders of options in the case of a transaction which results in change of control; vii) the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the reserve under the 2011 Stock Option Plan; and viii) amendments to reflect changes to applicable laws or regulations. The Board will have the power to approve amendments relating to the 2011 Stock Option Plan or to options, but only with the approval of the shareholders of the Corporation, to the extent that such amendments relate to any of the following: i) a change from a fixed maximum percentage of Common Shares to a fixed maximum number of Common Shares; ii) any change to the definition of the "Eligible Persons" which would have the potential of broadening or increasing insider participation; iii) the addition of any form of financial assistance; iv) any amendment to a financial assistance provision which is more favourable to the participants; v) any addition of a cashless exercise feature payable in cash or securities which does not provide for a full deduction of the number of underlying securities from the 2011 Stock Option Plan reserve; vi) the addition of a deferred or restricted share unit or any other provision which results in participants receiving Common Shares while no cash consideration is received by the Corporation (other than a cashless exercise discussed above); vii) discontinuance of the 2011 Stock Option Plan; viii) any other amendments that may lead to significant and unreasonable dilution in the Corporation's outstanding securities or may provide additional benefits to Eligible Persons (as defined in the 2011 Stock Option Plan), especially insiders of the Corporation at the expense of the Corporation and the existing Shareholders.
- (m) Where the expiry date for an option occurs during a "Black-Out Period", being an interval of time during which the Corporation has determined that one or more participants may not trade any

securities of the Corporation because they may be in possession of confidential information pertaining to the Corporation, the expiry date for such option shall be extended to the date that is 10 business days following the end of such Black-Out Period.

The approval by Shareholders requires a favourable vote of a majority the Common Shares voted in respect thereof at the Meeting excluding the votes cast by interested Shareholders.

The following is the text of the 2011 Stock Option Plan Adoption Resolution which will be put forward to Shareholders for approval at the Meeting:

**“BE IT RESOLVED**, as an ordinary resolution of the disinterested Shareholders of the Corporation that:

1. the 2011 Stock Option Plan in substantially the form as set out in Appendix “B” to the management information circular be and is hereby approved and adopted as the new stock option plan of the Corporation;
2. all existing stock options granted under any previous and existing stock option plan of the Corporation will continue and be governed by the 2011 Stock Option Plan;
3. the number of Common Shares of the Corporation issuable pursuant to the 2011 Stock Option Plan shall not exceed 10% of the issued and outstanding Common Shares in the aggregate;
4. the 2011 Stock Option Plan is conditional upon receipt of approval by the Canadian National Stock Exchange; and
5. any director or officer of the Corporation be, and such director or officer of the Corporation hereby is, authorized, instructed and empowered, acting for, in the name of and on behalf of the Corporation, to do or to cause to be done all such other acts and things in the opinion of such director or officer of the Corporation as may be necessary or desirable in order to fulfill the intent of this foregoing resolution.”

### **SECTION III - EXECUTIVE COMPENSATION AND OTHER INFORMATION**

#### **STATEMENT OF EXECUTIVE COMPENSATION**

##### **Named Executive Officers**

For the purposes of this Information Circular, a Named Executive Officer (“NEO”) of the Corporation means each of the following individuals:

- (a) a chief executive officer (“CEO”) of the Corporation;
- (b) a chief financial officer (“CFO”) of the Corporation;
- (c) each of the Corporation’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6, for that financial year; and

- (d) each individual who would be an NEO under paragraph (c) above but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of that financial year.

The Corporation currently has the following two NEOs: Raymond Davies, President and Chief Executive Officer and Robert T. Owen, Chief Financial Officer.

### **Compensation Discussion and Analysis**

The Compensation Committee of the Corporation's Board is responsible for ensuring that the Corporation has in place an appropriate plan for executive compensation and for making recommendations to the board with respect to the compensation of the Corporation's executive officers. The Compensation Committee ensures that total compensation paid to all NEOs is fair and reasonable and is consistent with the Corporation's compensation philosophy.

Compensation plays an important role in achieving short and long-term business objectives that ultimately drive business success. The Corporation's compensation philosophy is to foster entrepreneurship at all levels of the organization through, among other things, the granting of stock options, a significant component of executive compensation. This approach is based on the assumption that the performance of the Common Share price over the long term is an important indicator of long term performance.

The Corporation's compensation philosophy is based on the following fundamental principles:

1. *Compensation programs align with shareholder interests* – the Corporation aligns the goals of executives with maximizing long term shareholder value;
2. *Performance sensitive* – compensation for executive officers should be linked to operating and market performance of the Corporation and fluctuate with the performance; and
3. *Offer market competitive compensation to attract and retain talent* – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest calibre.

The objectives of the compensation program in compensating all NEOs were developed based on the above-mentioned compensation philosophy and are as follows:

- to attract and retain highly qualified executive officers;
- to align the interests of executive officers with shareholders' interests and with the execution of the Corporation business strategy;
- to evaluate executive performance on the basis of key measurements that correlate to long-term shareholder value; and
- to tie compensation directly to those measurements and rewards based on achieving and exceeding predetermined objectives.

### ***Competitive Compensation***

Aggregate compensation for each NEO is designed to be competitive. The Compensation Committee reviews compensation practices of similarly situated companies in determining compensation policy. Although the Compensation Committee reviews each element of compensation for market competitiveness, and it may weigh a particular element more heavily based on the NEO's role within the Corporation, it is primarily focused on remaining competitive in the market with respect to total compensation.

The Compensation Committee reviews data related to compensation levels and programs of various companies that are similar in size to the Corporation and operate within the mining exploration and development industry, prior to making its decisions. These companies are used as the Corporation's primary peer group because they have similar business characteristics or because they compete with the Corporation for employees and investors. The Compensation Committee also relies on the experience of its members as officers and/or directors at other companies in similar lines of business as the Corporation in assessing compensation levels. These other companies are identified under the heading "Statement of Corporate Governance Practices – Directorships".

The purpose of this process is to:

- understand the competitiveness of current pay levels for each executive position relative to companies with similar revenues and business characteristics;
- identify and understand any gaps that may exist between actual compensation levels and market compensation levels; and
- establish as a basis for developing salary adjustments and short-term and long-term incentive awards for the Compensation Committee's approval.

### ***Aligning the Interests of the NEOs with the Interests of the Corporation's Shareholders***

The Corporation believes that transparent, objective and easily verified corporate goals, combined with individual performance goals, play an important role in creating and maintaining an effective compensation strategy for the NEOs. The Corporation's objective is to establish benchmarks and targets for its NEOs which, if achieved, will enhance shareholder value.

A combination of fixed and variable compensation is used to motivate executives to achieve overall corporate goals. For the 2010 financial year, the three basic components of executive officer compensation program were:

- fixed salary;
- annual incentives (cash bonus); and
- option based compensation.

Fixed salary comprises a portion of the total cash-based compensation; however, annual incentives and option based compensation represent compensation that is "at risk" and thus may or may not be paid to the respective executive officer depending on: (i) whether the executive officer is able to meet or exceed his or her applicable performance targets; and (ii) market performance of the Corporation's Common Shares. To date, no specific formulae have been developed to assign a specific weighting to each of these components. Instead, the board considers each performance target and the Corporation's performance and



assigns compensation based on this assessment and the recommendations of the Compensation Committee.

### ***Base Salary***

The Compensation Committee and the Board approve the salary ranges for the NEOs. The base salary review for each NEO is based on assessment of factors such as current competitive market conditions, compensation levels within the peer group and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. Comparative data for the Corporation's peer group is also accumulated from a number of external sources including independent consultants. The Corporation's policy for determining salary for executive officers is consistent with the administration of salaries for all other employees.

### ***Annual Incentives***

The Corporation is not currently awarding any annual incentives by way of cash bonuses. However, the Corporation, in its discretion, may award such incentives in order to motivate executives to achieve short-term corporate goals. The Compensation Committee and the Board approve annual incentives.

The success of NEOs in achieving their individual objectives and their contribution to the Corporation in reaching its overall goals are factors in the determination of their annual bonus. The Compensation Committee assesses each NEO's performance on the basis of his or her respective contribution to the achievement of the predetermined corporate objectives, as well as to needs of the Corporation that arise on a day to day basis. This assessment is used by the Compensation Committee in developing its recommendations to the Board with respect to the determination of annual bonuses for the NEOs. Where the Compensation Committee cannot unanimously agree, the matter is referred to the full board for decision. The board relies heavily on the recommendations of the Compensation Committee in granting annual incentives.

### ***Compensation and Measurements of Performance***

The Board approves targeted amounts of annual incentives for each NEO at the beginning of each financial year. The targeted amounts are determined by the Compensation Committee based on a number of factors, including comparable compensation of similar companies.

Achieving predetermined individual and/or corporate targets and objectives, as well as general performance in day to day corporate activities, will trigger the award of a bonus payment to the NEO. The NEO will receive a partial or full incentive payment depending on the number of the predetermined targets met and the Compensation Committee's and the board's assessment of overall performance. The determination as to whether a target has been met is ultimately made by the board and the board reserves the right to make positive or negative adjustments to any bonus payment if they consider them to be appropriate.

### ***Long Term Compensation***

The Corporation currently has no long-term incentive plans, other than stock options granted from time to time by the Board under the provisions of the Corporation's Stock Option Plan. The shareholders of the Corporation first approved the Stock Option Plan at the Annual and Special Meeting of shareholders held on January 5, 2007. The purpose of the Stock Option Plan is to encourage common share ownership in the Corporation by directors, senior officers, employees and consultants of the Corporation and its affiliates and other designated persons. The Compensation Committee believes that the plan aligns the

interests of the NEOs with shareholders by linking a component of executive compensation to the longer term performance of the Corporation's Common Shares. Options may be granted under the Stock Option Plan only to directors, senior officers, employees and consultants of the Corporation and its subsidiaries and other designated persons as designated from time to time by the Board. The number of shares which may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued and outstanding shares of the Corporation as at the date of the grant of Options. The maximum number of common shares which may be reserved for issuance to any one director, senior officer or employee under the Stock Option Plan in any 12 month period is 5% of the common shares outstanding at the time of the grant (calculated on a non-diluted basis) and 2% with respect to any one consultant of the Corporation. Any shares subject to an option which for any reason is cancelled or terminated prior to exercise will be available for a subsequent grant under the Stock Option Plan. The option price of any common shares cannot be less than the closing price of the shares on the day immediately preceding the day upon which the option is granted, less any discount permitted by the policies of the CNSX. Options granted under the Stock Option Plan may be exercised during a period not exceeding five years, subject to earlier termination upon the termination of the optionee's employment, upon the optionee ceasing to be an employee, senior officer, director or consultant of the Corporation or any of its subsidiaries or ceasing to have a designated relationship with the Corporation, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The options are non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable thereunder in the event of a subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Corporation's capitalization. Subject to shareholder approval in certain circumstances, the board of directors may from time to time amend or revise the terms of the Stock Option Plan or may terminate the Stock Option Plan at any time. The Stock Option Plan does not contain any provision for financial assistance by the Corporation in respect of options granted under the Stock Option Plan.

### Compensation Summary

The table below sets forth information concerning the compensation paid, awarded or earned by each of the NEOs for services rendered in all capacities to the Corporation during the fiscal years ended December 31, 2010, 2009 and 2008. In light of significant changes to the requirements, content and format for executive compensation disclosure, the Corporation has reported compensation in the table below its two most recently completed financial years only, in accordance with these requirements. Disclosure of the compensation for prior years, in accordance with applicable requirements, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Summary Compensation Table**

NEO Name and Principal Position	Year	Salary (\$)	Share- based awards (\$)	Option- based awards <sup>(1)</sup> (\$)	Non-Equity incentive plan compensation (\$)		Pension Value (\$)	All other compensa- tion (\$)	Total compensation (\$)
					Annual incentive plans	Long- term incentive plans <sup>(2)</sup>			
Raymond Davies CEO	2010	\$25,913	Nil	\$1,698	Nil	Nil	Nil	Nil	\$27,611
	2009	\$50,187	Nil	Nil	Nil	Nil	Nil	Nil	\$50,187
	2008	\$54,113	Nil	Nil	Nil	Nil	Nil	Nil	\$54,113

Robert T. Owen CFO	2010	\$14,053	Nil	\$593	Nil	Nil	Nil	Nil	\$14,646
	2009	\$11,630	Nil	Nil	Nil	Nil	Nil	Nil	\$11,630
	2008	\$17,775	Nil	Nil	Nil	Nil	Nil	Nil	\$17,775

Notes:

- (1) Grant date fair value calculations are based on the Black-Scholes Option Pricing Model. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Corporation's share and option-based awards.
- (2) "LTIP" or "long term incentive plan" means any plan that provides compensation intended to motivate performance to occur over a period greater than one fiscal year, but does not include option or share-based awards.

## Incentive Plan Awards

### Outstanding Option-Based and Share-based Awards

The following table sets out for each NEO, the incentive stock options (option-based awards) and share-based awards outstanding as at December 31, 2010. These incentive stock options either vested at the time of grant or were fully vested during the year ended December 31, 2010. The closing price of the Corporation's shares on the CNSX on December 31, 2010 was \$0.015.

Name	Option-based Awards <sup>(1)</sup>				Share-based Awards	
	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 (\$)
Raymond Davies CEO	449,000	\$0.05	June 9, 2015	\$Nil	Nil	Nil
	425,000	\$0.10	April 25, 2012	\$Nil	Nil	Nil
Robert Owen CFO	149,000	\$0.05	June 9, 2015	\$Nil	Nil	Nil
	210,000	\$0.10	April 25, 2012	\$Nil	Nil	Nil

Notes:

- (1) The Stock Option Plan is a fixed share stock option plan pursuant to which up to 3,250,000 Common Shares may be reserved for issuance.

### Value Vested or Earned During the Year

The following table sets forth, for each NEO, the value of all incentive plan awards issued during the year ended December 31, 2010.

Name	Option-based awards- Value vested during the year <sup>(1)</sup> (\$)	Share-based awards- Value vested during the year <sup>(1)</sup> (\$)	Non-equity incentive plan compensation- Value earned during the year <sup>(2)</sup> (\$)
Raymond Davies President and Chief Executive Officer	Nil	Nil	Nil

Robert Owen Chief Financial Officer	Nil	Nil	Nil
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Notes:

- (1) Summarizes for each of the NEOs the aggregate value that would have been realized if the options had been exercised on the vesting date during the financial year ended December 31, 2010. As these options were not necessarily exercised, or exercised on such vesting date, by the NEOs, these amounts do not necessarily reflect amounts realized by the NEOs during the year ended December 31, 2010.
- (2) These are the same amounts as disclosed under “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table earlier in this Information Circular.

## Employment Agreements

The Corporation has no employment contracts. Consulting arrangements are used to retain service providers. If directors and officers provide services, rates are charged on an arm’s length basis.

## Pension Plan Benefits

There are no pension plan benefits in place for the NEOs.

## Termination and Change of Control Benefits

The Corporation does not have in place any pension or retirement plan. The Corporation has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now acts or has previously acted as a NEO of the Corporation, in connection with or related to the retirement, termination or resignation of such person and the Corporation has provided no compensation to such persons as a result of a change of control of the Corporation, its subsidiaries or affiliates. The Corporation is not party to any compensation plan or arrangement with NEOs resulting from the resignation, retirement or the termination of employment of such person.

## Director Compensation

The following table describes director compensation for non-executive directors for the year ended December 31, 2010.

COMPENSATION OF DIRECTORS <sup>(1)(2)</sup>				
Name	Fees earned (\$)	Option-based awards <sup>(3)</sup> (\$)	All other compensation (\$)	Total compensation (\$)
Joan E. Fiset	Nil	389	Nil	389
Leslie C. Little	Nil	392	Nil	392
Richard M. Hogarth	Nil	431	Nil	431

Notes:

- (1) Table does not include any amount paid as reimbursement for expenses.
- (2) Compensation paid to the NEOs who served as directors of the Corporation is disclosed in the Summary Compensation Table. See “Statement of Executive Compensation”.
- (3) Grant date fair value calculations are based on the Black-Scholes Option Pricing Model. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management’s opinion, existing models do not necessarily provide a reliable measure of the fair value of the Corporation’s share and option-based awards.

### ***Option-based and Share Based Awards to Directors***

The following table sets out for each independent director the incentive stock options (option-based awards) and share-based awards outstanding as of December 31, 2010. These incentive stock options vested at the time of grant. The closing price of the Corporation's shares on the CNSX on December 31, 2010 was \$0.015.

Name	Option-based Awards				Share-based Awards	
	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 (\$)
Joan Fiset	103,000	\$0.05	June 9, 2015	Nil	Nil	Nil
Leslie Little	101,000	\$0.05	June 9, 2015	Nil	Nil	Nil
Richard Hogarth	114,000	\$0.05	June 9, 2015	Nil	Nil	Nil

### ***Value Vested or Earned During the Year***

Options granted to the independent directors of the Corporation vest at the time of grant. Because the exercise price of options at the time of grant is set at or above the market price of the Common Shares on the grant date, the value of these incentive stock option grants at the time of vesting is nil.

### **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.

### **Interests of Management and Others in Material Transactions**

As of December 31, 2010, no director or executive officer of the Corporation, no security holder who is known to the Corporation to own of record or beneficially hold more than 10% of Common Shares and no associate or affiliate of any such director, executive officer or security holder has had any material interest, direct or indirect, in any transaction or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries, except as disclosed herein.

Raymond Davies, Director CEO and President owns 16.4% of the Common Shares of the Corporation.

### **Report on Executive Compensation**

The Compensation Committee of the Board of Directors considers compensation matters as and when required. The Compensation Committee reviews and submits recommendations to the Board of Directors 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 of Directors 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.

### ***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 to the Board of Directors recommendations 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.

In 2010, no bonuses were awarded to the officers of the Corporation.

### ***Long-Term Incentives***

The Corporation maintains a Stock Option Plan, which has been approved by the Shareholders of the Corporation.

During 2010, the Board of Directors, on the recommendation of the Compensation Committee, granted stock options to executive officers of the Corporation, as more fully described above.

### **Securities Authorized for Issuance Under Equity Compensation Plans**

#### ***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, 2010 pursuant to the Corporation's equity compensation plans currently in place:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<sup>(2)</sup></b>
Equity compensation plans approved by securityholders	3,050,000 <sup>(1)</sup>	CDN\$0.09	200,000
Equity compensation plans not approved by securityholders	Nil	N/A	Nil
<b>Total</b>	<b>3,050,000<sup>(3)</sup></b>		<b>200,000</b>

Notes:

- (1) Of this amount, 3,250,000 common shares are issuable pursuant to the Existing Plan
- (2) Based on a total of 3,250,000 stock options issuable pursuant to the Existing Plan
- (3) Representing approximately 8.2% of the issued and outstanding Common Shares as at December 31, 2010.

For the year ended December 31, 2010, a total of 3,050,000 options (approximately 8.2% of the 36,982,679 issued and outstanding shares) were granted pursuant to the Existing Plan, a total of Nil options were cancelled and a total of Nil options expired.

For a description of the material features of the Existing Plan and the 2011 Stock Option Plan see "Section II – Business of the Meeting – 2011 Stock Option Plan".

## **SECTION IV – 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.

## **Mandate of the Board of Directors**

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

## **Composition of the Board of Directors**

The Board of Directors, as proposed in this Circular for election at the Meeting, will consist of four (4) members, of whom the Board of Directors has determined that three (3) are independent. These three (3) directors are Richard M. Hogarth, Joan E. Fiset and Leslie C. Little.

## **Meetings of the Board of Directors**

The Board of Directors meets at least once each calendar quarter and following the annual meeting of Shareholders of the Corporation. The frequency of the meetings and the nature of the meeting agendas are dependent upon the nature of the business and affairs which the Corporation faces from time to time. In fiscal 2010, the Board of Directors 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:

<b>Name of Director</b>	<b>Name of Reporting Issuer</b>	<b>Market</b>
Raymond Davies	Dolly Varden Resources Inc.	TSXV
	Ditem Exploration Inc.	TSXV
Leslie C. Little	Rambler Metals and Mining plc	London Stock Exchange



## **Independence of the Board of Directors**

To facilitate the functioning of the Board of Directors independently of management, the following structures and processes are in place:

- members of management on the Board of Directors are limited to a minority of the directors;
- when appropriate, members of management are not present for the discussion and determination of certain matters at meetings of the Board of Directors;
- under the by-laws of the Corporation, the chairman, if any, or any two directors may call a meeting of the Board of Directors; and
- in addition to the standing committees of the Board of Directors, independent committees are appointed from time to time, when appropriate.

## **Committees of the Board of Directors**

The Board of Directors has four (4) standing committees:

- the Audit Committee;
- the Nominating and Corporate Governance Committee;
- the Compensation Committee; and
- the Occupational Health & Safety Committee.

All of these committees are independent of management and report directly to the Board of Directors. From time to time, when appropriate, *ad hoc* committees of the Board of Directors are appointed by the Board of Directors.

## ***Audit Committee***

### Overview

The Audit Committee of the Corporation's Board of Directors is principally responsible for:

- a) recommending to the Corporation's Board of Directors the external auditor to be nominated for election by the Corporation's shareholders at each annual meeting and negotiating the compensation of such external auditor;
- b) overseeing the work of the external auditor;
- c) reviewing the Corporation's annual and interim financial statements, Management's Discussion and Analysis and press releases regarding earnings before they are reviewed and approved by the Board of Directors and publicly disseminated by the Corporation; and
- d) reviewing the Corporation's financial reporting procedures to ensure adequate procedures are in place for the Corporation's public disclosure of financial information extracted or derived from its financial statements, other than disclosure described in the previous paragraph.

### The Audit Committee's Charter

The Corporation's Board of Directors has adopted a Charter for the Audit Committee, which sets out the Committee's mandate, organization, powers and responsibilities. The complete Charter is attached as Schedule "A" to this Management Information Circular.

### Composition of the Audit Committee

The members of the Audit Committee are Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little, all of whom are financially literate and independent members of the Audit Committee. National Instrument 52-110 - *Audit Committees* ("NI 52-110") of various Canadian securities administrators exempts the members of the Corporation's Audit Committee from being independent and financially literate [since the Corporation is a "Venture Issuer" **Is this true?**] (its securities are not listed or quoted on any of the Toronto Stock Exchange, a market in the U.S.A., or a market outside of Canada and the U.S.A.).

<b>Name of Member</b>	<b>Independent <sup>(1)</sup></b>	<b>Financially Literate <sup>(2)</sup></b>
Joan E. Fiset (Chair)	Yes	Yes
Richard M. Hogarth	Yes	Yes
Leslie C. 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.

### Audit Committee Oversight

During the twelve months ended December 31, 2010, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Corporation's Board of Directors.

### Reliance on Certain Exemptions

During the twelve months ended December 31, 2010, the Corporation has not relied on the exemption in Section 2.4 (*De Minimis Non-Audit Services*) of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*) of NI 52-110.

### 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 Service Fees (By Category)

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

<b>Financial Year Ended</b>	<b>Audit Fees <sup>(1)</sup></b>	<b>Audit Related Fees <sup>(2)</sup></b>	<b>Tax Fees <sup>(3)</sup></b>	<b>All Other Fees <sup>(4)</sup></b>
December 31, 2010	\$18,000	Nil	\$2,000	Nil
December 31, 2009	\$18,000	Nil	\$2,000	Nil

Notes:

- (1) The aggregate fees billed for audit services.
- (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) The aggregate fees billed for professional services other than those listed in the other columns.

### Exemption

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

### ***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little. During fiscal 2010, the Nominating and Corporate Governance Committee met one (1) time.

The purposes of the Nominating and Corporate Governance Committee are:

- to identify and recommend individuals to the Board of Directors for nomination as members of the Board of Directors and its committees (other than the Nominating and Corporate Governance Committee);
- to review and set out recommendations for the remuneration of the President and Chief Executive Officer of Talmora; and
- to develop and recommend to the Board of Directors a set of corporate governance principles applicable to Talmora.

The Nominating and Corporate Governance Committee is also responsible for providing a comprehensive orientation and education program for new directors which fully sets out the role of the Board of Directors and its committees, the nature and operation of the business of Talmora and the contribution which individual directors are expected to make to the Board of Directors in terms of both time and resource commitments. New directors of Talmora will also have the opportunity to meet with the other members of the Board of Directors in addition to management to obtain insight into Talmora's business. The Nominating and Corporate Governance Committee is also responsible for providing continuing education opportunities to existing directors to ensure that each member maintains the skill and knowledge necessary to meeting their obligations as directors.

### ***Compensation Committee***

The members of the Compensation Committee are Joan E. Fiset (Chair), Richard M. Hogarth and Leslie C. Little. During fiscal 2010, the Compensation Committee met one (1) time.

The purposes of the Compensation Committee are to make recommendations to the Board of Directors relating to the compensation of:

- the members of the Board of Directors;
- Members of senior management of Talmora.

### **Ethical Business Conduct**

The Audit Committee has adopted a written code of ethics entitled the “Code of Business Conduct and Ethics” (the “**Ethics Code**”), which applies to all employees, officers and directors of the Corporation. The purpose of the Ethics Code is to, among other things, promote honest and ethical conduct, promote legal compliance, promote the avoidance of conflicts of interest, provide mechanisms to report unethical conduct and help foster a culture of honesty and accountability for the Corporation. The Ethics Code applies to, and is to be followed by, all employees, officers and directors of the Corporation.

The Audit Committee is responsible for compliance issues relating to the Ethics Code, which contains the procedures by which an individual can report actual or potential violations of the Ethics Code to the Chairman of the Audit Committee. Any violations of the Ethics Code by any employee, officer or director are grounds for disciplinary action including termination of employment, office and directorship.

Pursuant to the Ethics Code, directors or officers of the Corporation are required to disclose to the Board in writing, any conflicts of interest, or request to have entered into the minutes of meetings of the Board the nature and extent of such interest. The fiduciary duties placed on individual directors pursuant to corporate legislation and the common law, and the conflict of interest provisions under corporate legislation which restricts an individual director’s participation in decisions of the Board in which the director has an interest also ensure that the Board operates independently of management and in the best interests of the Corporation.

The Audit Committee has also adopted a written “Whistleblower Policy” which establishes procedures for: (1) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, auditing matters or violations of the Code; and (2) the submission by employees of the Corporation, on a confidential and anonymous basis, of concerns regarding questionable accounting, auditing matters or violations of the Ethics Code.

The Audit Committee has also adopted a “Disclosure, Confidentiality and Insider Trading Policy” to ensure that: (i) the Corporation complies with timely disclosure obligations under securities laws; (ii) the Corporation prevents the selective disclosure of material changes; (iii) documents released by the Corporation or public oral statements that relate to the business and affairs of the Corporation do not contain a misrepresentation; (iv) persons to whom this policy applies understand their obligations to preserve the confidentiality of “undisclosed material information” (as defined in the policy); and (v) all appropriate parties who have “undisclosed material information” are prohibited from trading in securities of the Corporation on such information and “tipping” under applicable laws, the policies of the Canadian National Stock Exchange and the policy. The Corporation has a disclosure committee, comprised of the Chief Executive Officer, the Chief Financial Officer and such other persons as may be designated by the

foregoing, which is responsible for implementing the Disclosure, Confidentiality and Insider Trading Policy.

### **Decisions requiring Board of Directors Approval**

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

- the Corporation's annual business plan and budget;
- major acquisitions or dispositions by the Corporation; and
- transactions which are outside of the Corporation's existing business.

### **Shareholder Communications**

The Board of Directors has authorized management to represent the Corporation in its communications with shareholders and members of the investment community. In addition, management meets regularly with investors and other interested parties to receive and respond to inquiries and comments. The Corporation seeks to ensure that all inquiries and concerns receive a complete and timely response from the appropriate member of management.

The Board of Directors reviews the Corporation's significant communications with investors and the public, including the Corporation's Annual Information Form, Management's Discussion & Analysis, Management Information Circular, annual audited financial statements and quarterly unaudited financial statements.

### **Expectations of Management**

The Board of Directors has charged management with responsibility for the efficient management of the business and affairs of the Corporation and the identification and proposal of initiatives for the Corporation to secure opportunities as they arise. In order for the Board of Directors to effectively carry out its mandate, it regularly assesses the abilities of, and communicates those assessments to, management.

The Board of Directors recognizes the value of direct input from management as it serves to assist the Board of Directors in its deliberations. Where appropriate, members of management are invited to attend meetings of the Board of Directors to provide their input on various matters.

## **INDEBTENESS OF DIRECTORS AND SENIOR OFFICES**

During the year ended December 31, 2010, 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.

### **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.

### **ADDITIONAL INFORMATION**

The Corporation will furnish, without charge, to any Shareholder submitting a written request, a copy of the Corporation's annual report for the twelve months ended December 31, 2010, including the financial statements and schedules thereto. Such written request should be directed to the attention of Talmora Diamond Inc., 6 Willowood Court, Toronto, Ontario, M2J 2M3.

### **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 of Directors of the Corporation.

DATED this 6<sup>th</sup> day of May, 2011.

*"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.

**SCHEDULE “B”**

**TALMORA DIAMOND INC.**

**INCENTIVE SHARE OPTION PLAN**  
**June 7, 2011**

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**TALMORA DIAMOND INC.****SHARE INCENTIVE PLAN****ARTICLE 1  
PURPOSE AND INTERPRETATION****Section 1.1 Purpose.**

The purpose of the Plan shall be to advance the interests of the Corporation by encouraging equity participation in the Corporation through the acquisition of Common Shares of the Corporation.

**Section 1.2 Definitions.**

In the Plan, the following capitalized words and terms shall have the following meanings:

“**Act**” means the *Business Corporations Act* (Ontario) or its successor, as amended from time to time.

“**Affiliate**” includes any company in which the Corporation has an equity or voting interest of more than 50%.

“**Blackout Period**” means the period during which the relevant Participant is prohibited from exercising an Option due to trading restrictions imposed by the Corporation in accordance with its trading policies affecting trades by employees in the Corporation's securities.

“**Board of Directors**” means the board of directors of the Corporation as constituted from time to time and any committee of the board of directors.

“**Bonus Common Shares**” means Common Shares issued pursuant to the Share Bonus Plan.

“**Common Shares**” means the common shares of the Corporation.

“**Consultant**” shall have the meaning ascribed thereto in section 1.2 of the Stock Exchange policy 4.4 – *Incentive Stock Options*.

“**Corporation**” means Talmora Diamond Inc., a corporation incorporated under the Act and its successors from time to time.

“**Designated Affiliate**” means an Affiliate of the Corporation designated by the Board of Directors for purposes of the Plan from time to time.

“**Investor Relations Activities**” shall have the meaning ascribed thereto in section 1.2 of the Stock Exchange policy 1.1 – *Interpretation*.

**“Issuer Bid”** shall have the meaning ascribed thereto in the *Securities Act*.

**“Option Period”** means the period of time an option may be exercised as specified in Section 2.6(1).

**“Participant”** means a participant under the Plan.

**“Plan”** means collectively the Share Option Plan and the Share Bonus Plan provided for herein.

**“Securities Act”** means the *Securities Act* (Ontario) or its successor, as amended from time to time.

**“Share Bonus Plan”** means the share bonus plan described in Article 3 hereof.

**“Share Compensation Arrangement”** means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of securities of the Corporation to one or more service providers.

**“Share Option Plan”** means the share option plan described in Article 2 hereof.

**“Stock Exchange”** means the Canadian National Stock Exchange or any principal stock exchange(s) upon which the Common Shares are listed and posted for trading.

**“Take-over Bid”** shall have the meaning ascribed thereto in the *Securities Act*.

## **ARTICLE 2 SHARE OPTION PLAN**

### **Section 2.1 The Share Option Plan.**

A Share Option Plan is hereby established for certain employees, senior officers and directors of, and consultants to, the Corporation and Designated Affiliates.

### **Section 2.2 Participants.**

Participants in the Share Option Plan shall be directors, senior officers or employees of the Corporation or any of its Designated Affiliates (including officers thereof, whether or not directors), Consultants or persons conducting Investor Relations Activities for the Corporation or any of its Designated Affiliates who, by the nature of their positions or jobs, are, in the opinion of the Board of Directors, upon the recommendation of the President of the Corporation, in a position to contribute to the success of the Corporation. For any options granted to employees or Consultants, the Corporation represents that the optionee is a bona fide employee or Consultant, as the case may be.

### **Section 2.3 Amount of Options.**

The determination regarding the amount of optioned Common Shares outstanding to each Participant will take into consideration the Participant's present and potential contribution to the success of the Corporation and shall be determined from time to time by the Board of Directors. However, in no event shall the number of optioned Common Shares available for issuance under

the Share Option Plan together with the Share Bonus exceed 10% of the issued and outstanding Common Shares in the aggregate.

#### **Section 2.4 Price.**

The exercise price per Common Share shall be determined by the Board of Directors at the time the option is granted, but such price shall not be less than the closing price of the Common Shares on the Stock Exchange on the trading day immediately preceding the day of the grant of the option.

#### **Section 2.5 Lapsed options.**

In the event that options granted under the Share Option Plan are surrendered, terminate or expire without being exercised in whole or in part, new options may be granted covering the Common Shares not purchased under such lapsed options.

#### **Section 2.6 Consideration, Option Period and Payment.**

(1) The period during which options may be exercised shall be determined by the Board of Directors in its discretion, to a maximum of ten years from the date the option is granted (the “**Option Period**”), except as the same may be reduced with respect to any option as provided in Section 2.7 and Section 2.8 respecting termination of employment or death of the Participant.

(2) Options shall be exercisable (in each case to the nearest full share) during the Option Period in the determination of the Board of Directors. Unless otherwise stated by the Board of Directors, options shall be granted so that they qualify as incentive stock options (“ISO”) under Section 422(d) of the U.S. Internal Revenue Service Code (“**IRS Code**”). The Board of Directors may grant options that do not qualify as ISO and may also grant the right to choose whether options are to qualify as ISO pursuant to Section 422(d) of the IRS Code.

(3) Except as set forth in Section 2.7 and Section 2.8, no option may be exercised unless the Participant is, at the time of such exercise, a director or senior officer of or in the employ of, a Consultant to, or a person conducting Investor Relations Activities for, the Corporation or any of its Designated Affiliates and shall have been continuously a director or senior officer or so employed or providing said services to the Corporation or any of its Designated Affiliates since the grant of his or her option. Absence on leave with the approval of the Corporation or a Designated Affiliate shall not be considered an interruption of employment for any purpose of the Share Option Plan.

(4) The exercise of any option will be contingent upon receipt by the Corporation of cash payment of the full purchase price of the Common Shares or providing a guarantee of payment satisfactory to the Corporation which are the subject of the exercised option. No Participant or his or her legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any Common Shares with respect to which he or she was granted an option under this Share Option Plan, unless and until certificates for such Common Shares are issued to him or her, or them, under the terms of the Share Option Plan.

(5) Options granted to persons conducting Investor Relations Activities for the Corporation must vest in stages over twelve months with no more than  $\frac{1}{4}$  of the options vesting in any three month period.



(6) If the Termination (see section 2.7) date for an option occurs during a Blackout Period applicable to the relevant Participant, or within 10 Business Days after the expiry of a Blackout Period applicable to the relevant Participant, then the Termination Date for the option shall be the date that is the tenth Business Day after the expiry date of the Blackout.

(7) If there is a Take-over Bid or Issuer Bid made for all or any of the issued and outstanding Common Shares, then the Board of Directors may, by resolution, permit all options outstanding to become immediately exercisable in order to permit Common Shares issuable under such options to be tendered to such bid.

### **Section 2.7 Termination of Employment.**

If a Participant shall:

(a) cease to be a director or senior officer of the Corporation and any of its Designated Affiliates (and is not or does not continue to be an employee thereof); or

(b) cease to be employed by the Corporation or any of its Designated Affiliates or to provide consulting services to the Corporation or any of its Designated Affiliates (and is not or does not continue to be a director or senior officer thereof) for any reason (other than death) or shall receive notice from the Corporation or any of its Designated Affiliates of the termination of his or her employment or provision of consulting services;

(collectively, “**Termination**”) he or she may, but only within 365 days next succeeding such Termination, exercise his or her options to the extent that he or she was entitled to exercise such options at the date of such Termination, provided that in no event shall such right extend beyond the Option Period. This section is subject to any agreement with any director or officer of the Corporation or any of its Designated Affiliates with respect to the rights of such director or officer upon Termination or change in control of the Corporation.

### **Section 2.8 Death of Participant.**

In the event of the death of a Participant who is a director or senior officer of the Corporation or any of its Designated Affiliates or who is an employee having been continuously in the employ of the Corporation or any of its Designated Affiliates or who has continuously provided consulting services to the Corporation or any of its Designated Affiliates for one year from and after the date of the granting of his or her option, the option theretofore granted to him or her shall be exercisable within the 365 days next succeeding such death and then only:

(a) by the person or persons to whom the Participant's rights under the option shall pass by the Participant's will or the laws of descent and distribution; and

(b) to the extent that he or she was entitled to exercise the option at the date of his or her death, provided that in no event shall such right extend beyond the Option Period.

## **Section 2.9 Adjustment in Shares Subject to the Share Option Plan.**

In the event:

- (a) there is any change in the Common Shares of the Corporation through subdivisions or consolidations, or otherwise;
- (b) the Corporation declares a dividend on Common Shares payable in Common Shares or securities convertible into or exchangeable for Common Shares; or
- (c) the Corporation issues Common Shares, or securities convertible into or exchangeable for Common Shares, in respect of, in lieu of, or in exchange for, existing Common Shares;

the number of Common Shares available for option, the Common Shares subject to any option, and the option price thereof, shall be adjusted appropriately by the Board of Directors and such adjustment shall be effective and binding for all purposes of the Share Option Plan.

## **Section 2.10 Record Keeping.**

The Corporation shall maintain a register in which shall be recorded:

- (a) The name and address of each Participant in the Share Option Plan; and
- (b) The number of options granted to a Participant and the number of options outstanding.

## **Section 2.11 Necessary Approvals.**

The obligation of the Corporation to issue and deliver any Common Shares in accordance with the Plan shall be subject to any necessary approval of any stock exchange or regulatory authority having jurisdiction over the securities of the Corporation. If any Common Shares cannot be issued to any Participant for whatever reason, the obligation of the Corporation to issue such Common Shares shall terminate and any option exercise price paid to the Corporation shall be returned to the Participant.

# **ARTICLE 3 SHARE BONUS PLAN**

## **Section 3.1 The Share Bonus Plan.**

A Share Bonus Plan is hereby established for certain employees of the Corporation and Designated Affiliates.

## **Section 3.2 Participants.**

Participants in the Share Bonus Plan shall be directors, senior officers or employees of the Corporation or any of its Designated Affiliates (including officers thereof, whether or not directors) or Consultants to the Corporation or any of its Designated Affiliates who, by the nature of their positions or jobs, are, in the opinion of the Board of Directors, upon the recommendation of the President of the Corporation, in a position to contribute to the success of the Corporation.

**Section 3.3 Amount of Bonus Shares.**

The determination regarding the amount of Bonus Common Shares issued to each Participant will take into consideration the Participant's present and potential contribution to the success of the Corporation and shall be determined from time to time by the Board of Directors. However, in no event shall the number of Bonus Common Shares issuable under the Share Bonus Plan together with the Share Option Plan exceed 10% of the issued and outstanding Common Shares in the aggregate.

**Section 3.4 Necessary Approvals.**

The obligation of the Corporation to issue and deliver any Common Shares in accordance with the Share Bonus Plan shall be subject to any necessary approvals of any stock exchange or regulatory authority having jurisdiction over the securities of the Corporation. If any Common Shares cannot be issued to any Participant for whatever reason, the obligation of the Corporation to issue such Common Shares shall terminate.

**ARTICLE 4  
GENERAL****Section 4.1 Number of Shares.**

In no event shall the number of Common Shares issuable under the Plan exceed 10% of the issued and outstanding Common Shares in the aggregate. The aggregate reserved for issuance pursuant to the Plan to any one person in any twelve month period shall not exceed 5% of the total number of Common Shares outstanding from time to time, unless disinterested shareholder approval is obtained pursuant to the policies of the Stock Exchange, any stock exchange or regulatory authority having jurisdiction over the securities of the Corporation. No more than 2% of the outstanding Common Shares may be granted to any one Consultant in any twelve month period, or to persons conducting Investor Relations Activities in any twelve month period. The number of securities issuable to insiders, at any time, under all security based compensation arrangements, shall not exceed 10% of the issued and outstanding securities and that the number of securities issued to insiders, within any one-year period, under all security based compensation arrangements, shall not exceed 10% of the issued and outstanding securities. The maximum number of Common Shares reserved for issuance under the Share Option Plan shall together with the Share Bonus Plan shall not exceed 10% of the issued and outstanding Common Shares in the aggregate.

**Section 4.2 Transferability.**

The benefits, rights and options accruing to any Participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable by a Participant unless specifically provided herein. During the lifetime of a Participant, all benefits, rights and options shall only be exercised by the Participant or by his or her guardian or legal representative.

**Section 4.3 Employment.**

Nothing contained in the Plan shall confer upon any Participant any right with respect to employment or continuance of employment with the Corporation or any Designated Affiliate, or

interfere in any way with the right of the Corporation or any Affiliate to terminate the Participant's employment or provision of consulting services at any time. Participation in any of the Plan by a Participant shall be voluntary.

#### **Section 4.4 Delegation to Compensation Committee.**

All of the powers exercisable hereunder by the Board of Directors of the Corporation may, to the extent permitted by applicable law and by resolution of the Board of Directors of the Corporation, be exercised by a Compensation Committee of such Board of Directors. All of the powers exercisable by the Board of Directors under the Plan may, to the extent permitted by applicable law and authorized by resolution of the Board of Directors of the Corporation, be exercised by a Compensation Committee of not less than three directors. The directors on such Compensation Committee shall not be employees of the Corporation so long as they are on such committee. In addition, if determined appropriate by the Board of Directors of the Corporation, the Board of Directors may delegate any or all of the powers of the Board of Directors of the Corporation under the Plan to an independent consultant.

#### **Section 4.5 Administration of the Plan.**

The Plan shall be administered by the Board of Directors of the Corporation. The Board of Directors shall be authorized to interpret the Plan and may, from time to time, establish, amend or rescind rules and regulations required for carrying out the Plan. Any such interpretation of the Plan shall be final and conclusive. All administrative costs of the Plan shall be paid by the Corporation. The senior officers of the Corporation are authorized and directed to do all things and execute and deliver all instruments, undertakings and applications and writings as they, in their absolute discretion, consider necessary for the implementation of the Plan and of the rules and regulations established for administering the Plan.

#### **Section 4.6 Amendment, Modification or Termination of the Plan.**

Subject the requisite shareholder and regulatory approvals set forth under subparagraphs 4.6(a) and (b) below, the Board of Directors, or the Compensation Committee of the Board of Directors pursuant to Section 4.4, may from time to time amend or revise the terms of the Plan or may discontinue the Plan at any time provided however that no such right may, without the consent of the optionee, in any manner adversely affect his rights under any option theretofore granted under the Plan. Any reduction in the exercise price of options if the optionee is an insider of the Corporation at the time of the proposed amendment will require disinterested shareholder approval pursuant to the Policies of the Stock Exchange.

(a) Subject to Section 4.4, The Board of Directors may, subject to receipt of requisite shareholder and regulatory approval, make the following amendments to the Plan:

- (i) any amendment to the number of securities issuable under the Plan, including an increase to a fixed maximum number of securities or a change from a fixed maximum number of securities to a fixed maximum percentage. A change to a fixed maximum percentage which was previously approved by shareholders will not require additional shareholder approval;

- (ii) any change to the definition of “Participants” which would have the potential of narrowing or broadening or increasing insider participation;
  - (iii) the addition of any form of financial assistance;
  - (iv) any amendment to a financial assistance provision which is more favourable to Participants;
  - (v) any addition of a cashless exercise feature, payable in cash or securities which does not provide for a full deduction in the number of underlying securities from the Plan;
  - (vi) the addition of deferred or restricted share unit or any other provision which results in Participants receiving securities while no cash consideration is received by the Company;
  - (vii) any other amendments that may lead to significant or unreasonable dilution in the Company's outstanding securities or may provide additional benefits to Participants, especially to insiders of the Company, at the expense of the Company and its existing shareholders.
- (b) Subject to Section 4.4, the Board of Directors may, subject to receipt of requisite regulatory approval, where required, in its sole discretion make all other amendments to the Plan that are not of the type contemplated in subparagraph 4.6(a) above, including, without limitation:
- (i) amendments of a housekeeping nature;
  - (ii) the addition of or a change to vesting provisions of a security or the Plan; and
  - (iii) a change to the termination provisions of a security or the Plan which does not entail an extension beyond the original expiry date.
- (c) Notwithstanding the provisions of subparagraph 4.6(b), the Company shall additionally obtain requisite shareholders approval in respect of amendments to the Plan that are contemplated pursuant to subparagraph 4.6(b) to the extent such approval is required by any applicable law or regulations.

#### **Section 4.7 Consolidation, Merger, etc.**

If there is a consolidation, merger or statutory amalgamation or arrangement of the Corporation with or into another corporation, a separation of the business of the Corporation into two or more entities or a transfer of all or substantially all of the assets of the Corporation to another entity, upon the exercise of an option under the Share Option Plan, the holder thereof shall be entitled to receive the securities, property or cash which the holder would have received upon such consolidation, merger, amalgamation, arrangement, separation or transfer if the holder had exercised the option immediately prior to such event, unless the directors of the Corporation otherwise determine the basis upon which such option shall be exercisable.

**Section 4.8 No Representation or Warranty.**

The Corporation makes no representation or warranty as to the future market value of any Common Shares issued in accordance with the provisions of the Plan.

**Section 4.9 Interpretation.**

This Plan shall be governed by and construed in accordance with the laws of the Province of Ontario.

**Section 4.10 Approval and Effective Date.**

This Plan shall be effective as of the date it is approved by the shareholders of the Corporation in accordance with the rules of the Stock Exchange.

**TALMORA DIAMOND INC.**  
**6 Willowood Court, Toronto, Ontario M2J 2M3**

**Management's Discussion & Analysis**  
**For the year ending December 31, 2010**

Date: April 27, 2011

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Talmora Diamond Inc. ("Talmora", or the "Company") for the year ended December 31, 2010 and the year ended December 31, 2009.

The Company's reporting currency is the Canadian dollar and all amounts in this MD&A are expressed in Canadian dollars. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

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 the Company at the time the statements were made

**Listing on CNQ/CNSX**

The common shares of Talmora commenced trading on the Canadian Trading and Quotation System Inc. ("CNQ") on May 14, 2007 under the trading symbol "TALM". The trading symbol was changed to "**TAI**" on September 19, 2008. The CNQ was relaunched as the Canadian National Stock Exchange "**CNSX**" on November 6, 2008.

**General**

The Board of Talmora consists of four members, including;

- Raymond Davies, Ph.D., P.Eng., geologist, former CEO and director of Talmora Resources Inc., former director of Canadian Diamond Limited, director of Ditem Explorations Inc. and director of Dolly Varden Resources Inc.,
- Richard M. Hogarth, retired stock broker, former director of Talmora Resources Inc.,
- Leslie C. Little, a manager with a British investment management firm, and Secretary of Rambler Metals & Mining PLC,
- Joan E. Fiset, a Chartered Accountant with extensive mining industry experience.

Officers of Talmora are Richard M. Hogarth (Chairman), Raymond Davies (President and Chief Executive Officer), Robert T. Owen (Chief Financial Officer), Alan W. Davies (Vice-President Exploration) and Maria Grimes (Corporate Secretary).

## Overall Performance

Talmora is a diamond exploration company with one property consisting of 577,153 acres of permits and 54,787 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. \$1,428,389 has been spent on exploration of the property to December 31, 2010.

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.

Management focused in 2009 on asset preservation and acquisition by staking of highly prospective new ground adjoining the Company's original claims.

A Private Placement of \$305,929 on June 3, 2009 enabled the Company to fund a small field program in June/July 2009. Potential kimberlite targets were surveyed with an airborne magnetometer and 125 claims were staked over magnetic anomalies west of the previously acquired permits and claims. 51 samples were collected for KIM analysis. A second Private Placement of \$289,459 was closed on November 12, 2009 to cover administration costs and to fund the processing of till samples and of geophysical data collected in the field.

Till samples collected down-ice of kimberlite targets on both old and new claims were processed in 2010 for KIMs and a fraction of each till sample has undergone multiple element ICP analysis that shows Mg:Ca ratios (Mg 36.5% of combined Mg + Ca) lower than those found by Sanatana in tills down-ice of the Talmora property and ratios that would be expected from a dolomite source area.

KIMs on the Talmora property match those to the west within the Cretaceous basin and could be the source of the KIMs and accompanying diamonds.

A Private Placement of \$165,000 on December 28, 2010 will enable the Company to fund ongoing exploration and administration costs. Additional funds will be required for staking and a limited exploration program in 2011.

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, 2010, the Company had cash and cash equivalents totaling \$145,311 and working capital of \$135,962.

Funds are sufficient to meet ongoing administrative expenses and meet current liabilities during 2010.

<b>Talmora Diamond Inc.</b>			
	Year ended December 31, 2010 (\$)	Year ended December 31, 2009 (\$)	Year ended December 31, 2008 (\$)
Cash, Cash Equiv.	\$145,311	\$172,878	\$38,606
Working Capital	\$135,962	\$170,075	\$52,840
Mineral Exploration– cum.tot.	\$1,428,389	\$1,347,804	\$998,677
Total assets	\$1,585,561	\$1,564,973	\$1,080,868
Total liabilities	\$35,410	\$24,594	\$29,351
Interest Revenues	\$756	\$3,022	\$1,423
Admin. Expenses (incl. bank charges)	\$94,798	\$91,156	\$123,158
Professional Fees	\$23,286	\$20,288	\$25,788
Net (Loss)	(\$93,427)	(\$91,122)	(\$132,798)
Net (Loss) Per Share	(\$0.003)	(\$0.003)	(\$0.006)

## 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 \$1,948,388 since August 2004 and on which it has expended \$1,428,389 on exploration to December 31, 2010.

Canadian Diamond 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 Diamond 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 add to the database. The same samples have been analysed by ICP for multiple elements and show Mg:Ca ratios (Mg 36.5% of combined Mg + Ca) lower than those found by Sanatana in tills down-ice of the Talmora property and ratios that would be expected from a dolomite source area.

## **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. Processing of samples and geophysical data is ongoing.

Sanatana's 2006 assessment work south of 68°N 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 permits 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 new permits for hosting kimberlites and confirm whether or not kimberlites are present on the part of the property explored to date.

**Budget**

Staking 75,000 acres @ \$2/acre (contract staker cost)	\$150,000	
Data Processing & planning	100,000	
<b>Drill Program</b>		
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	<u>175,000</u>	
Total Drilling & Camp		\$2,750,000
<b>Airborne Magnetic Survey</b> - 12,000 line kilometers		
		425,000
<b>Sampling Program</b>		
Transport – samples & personnel	45,000	
Camp costs	15,000	
Helicopter	120,000	
Sample processing & probing	150,000	
Expediting	5,000	
Contingency	<u>40,000</u>	
Total Sampling Program		375,000
<b>Supervision &amp; support</b>		<u>500,000</u>
<b>Total</b>		<b>\$4,050,000</b>

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, 2010 held thirteen prospecting permits (577,153 acres) and 175 claims (54,787 acres) in the Horton River area, south of Paulatuk in the Northwest Territories. Three of the permits (214,983 acres) and all of the claims are in the Inuvialuit Settlement Area and ten of the permits (362,170 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.

Application made for credits for work done on the claims prior to 2009 amounting to \$36,669 has been approved, which together with excess credits will keep the claims in good standing until the dates shown in the table below. Additional credits will be available from work done in 2009.

The Company currently has performance deposits on the permits amounting to \$59,729.35 which will be refunded after an equal amount of work has been done. Refunds of previous deposits on 6 of the permits amounting to \$53,148.36 were received in 2008 after expenditures made in 2007 were accepted by the Mining Recorder. If no further work is done on the property performance deposits amounting to \$230,861.20 will be required to hold the current permits until their expiry dates shown below:

Property Units	Size <u>acres</u>	Record <u>Date</u>	Current <u>Expiry Date</u>
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
<u>31</u> claims	17,495.70	Oct. 11, 2007	Oct. 11, 2017
175	54,787.00		

<u>Property units</u>	<u>Size Acres</u>	<u>Future performance deposits/work</u>	<u>Grant date</u>	<u>Expiry date as at Dec. 31, 2010</u>	<u>Expiry date with future Deposits/work</u>
Permit 7307 (5 year)	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7306 (5 year)**	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7305 (5 year)**	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	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, 2011	Jan. 31, 2012
Permit 7310 (3 year)*	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7312 (3 year)*	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7313 (3 year)*	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7618 (3 year)*	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2011	Jan. 31, 2013
Permit 7619 (3 year)*	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2011	Jan. 31, 2013
Permit 7620 (3 year)*	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2011	Jan. 31, 2013
Permit 7621 (3 year)*	36,217	<u>\$21,730.20</u>	Jan. 31, 2008	Jan. 31, 2011	Jan. 31, 2013
Total		\$230,861.20			

Note : \* Subsequent to the year end a 1 year extension to January 31, 2012 without an additional cash deposit was granted on permits 7308, 7310, 7312, 7313, 7618, 7619, 7620 and 7621 in the Sahtu Settlement Area. The expiry dates of these permits in the above table are therefore extended one year. Further extensions are unlikely.

\*\* Subsequent to the year end on January 31, 2011 permits 7305 and 7306 were allowed to lapse reducing the future performance deposits by \$57,328.80. A cash deposit of \$28,664.40 was made on permit 7307.

## 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.

On February 28, 2008, the Sahtu Secretariat Inc. and a number of other applicants (collectively, the "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. 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.

Subsequent to December 31, 2009, the Company renounced flow-through expenditures in the amount of \$264,500 to investors with an effective date of December 31, 2009. 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, 2010, all of the \$264,500 renouncement related to 2009 has been incurred.

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.

#### Variance to Original Budget of M. Millard (2005)

Budget M. Millard (2005)			Actual R. Davies assessment work reports (2008 & 2009)	
<b>Phase 1</b> [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		
<b>Exploration sub-total</b>		<b>\$405,000</b>		<b>\$414,987.42</b>
<b>Administration</b>		<b>\$100,000</b>	2007 expenses	<b>\$169,778.00</b>
	<b>Total</b>	<b>\$505,000</b>		<b>\$584,765.42</b>
<b>Phase 2a</b> [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		
<b>Exploration sub-total</b>		<b>\$355,000</b>		<b>\$341,534.03</b>
<b>Administration</b>		<b>\$100,000</b>	2008 expenses to Dec. 31	<b>\$148,946.00</b>
	<b>Total</b>	<b>\$455,000</b>		<b>\$490,480.03</b>
<b>Phase 2b</b> [assumes continued encouragement]				
Drilling	4 targets @ \$80,000	\$320,000		
	Contingency @ 20%	\$66,000		
<b>Exploration sub-total</b>		<b>\$386,000</b>		
<b>Administration</b>		<b>\$50,000</b>		
	<b>Total</b>	<b>\$436,000</b>		
<b>Exploration Total</b>		<b>\$1,146,000</b>		<b>\$756,521.45</b>
<b>Administration Total</b>		<b>\$250,000</b>		<b>\$318,724.00</b>
<b>Grand Total</b>		<b>\$1,396,000</b>		<b>\$1,075,245</b>

#### 2009 Field Program on New Ground

	Staking 125 claims	59,936
	Airborne magnetic survey – 865 line ks	99,525
	Sampling – 51 samples collected	<u>189,665</u>
Exploration sub-total		\$349,126
Administration Expenses sub-total		<u>\$111,444</u>

Total	\$460,570
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**2010 Data Evaluation and Reporting**

Staking	32,581
Sample sorting and analysis	22,701
Geophysics	<u>25,277</u>
Exploration sub-total	80,585
Administration Expenses sub-total	<u>\$118,084</u>
Total	\$198,669

Grand Total (with 2010 Program)	\$1,734,484
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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.

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 for Talmora Diamond Inc

<b>(a) Year</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
<b>(b) Quarter</b>	December 31	September 30	June 30	March 31
Cash, Cash Equivalent	\$145,311	\$55,279	\$118,839	\$133,365
Working Capital	\$135,962	\$55,29	\$83,519	\$136,565
Interest Revenue	\$756	\$630	\$81	-
Expenses	\$14,297	\$40,833	\$44,982	\$23,496
Mineral Exploration Expenditures	\$46,352	\$9,729	\$14,212	10,292
Cash in (out) flow	\$120,422	\$6,050	(\$114,526)	(\$39,513)
Net Income (Loss)	\$15,173	(\$40,203)	(\$44,901)	(\$23,496)
Net Income (Loss) (per share)	\$0.0005	(\$0.0013)	(\$0.0013)	(\$0.0007)
Total Assets	\$1,585,561	\$1,468,020	\$1,517,444	1,535,252
Total Liabilities	\$35,410	\$8,204	\$39,117	\$20,091

<b>(a) Year</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2009</b>
<b>(b) Quarter</b>	December 31	September 30	June 30	March 31
Cash, Cash Equivalent	\$172,878	\$26,322	\$16,997	\$16,937
Short Term investments	\$0	\$0	\$280,000	\$30,000
Working Capital	\$170,075	\$42,110	\$285,418	\$41,105
Interest Revenue	\$0	\$432	\$821	\$1,768
Expenses	\$48,301	\$19,946	\$34,486	\$8,711
Mineral Exploration Expenditures	\$99,988	\$223,794	\$20,552	\$4,793
Cash in (out) flow	\$146,556	\$9,325	\$60	(\$21,669)
Net (Loss)	(\$31,000)	(\$19,514)	(33.665)	(\$6,943)
Net (Loss) (per share)	(\$0.0009)	(\$0.0008)	(\$0.0014)	(\$0.0003)
Total Assets	\$1,564,973	\$1,289,936	\$1,324,658	\$1,065,268
Total Liabilities	\$24,594	\$10	\$15,218	\$20,693

The deferred mineral exploration costs in the fourth quarter 2010 were \$46,352 (\$9,729 in September 2010 quarter.) The uptick in exploration expenditures in the fourth quarter is essentially the \$28,664 cash deposit on permit 7307. Expenses of \$14,279 in the fourth quarter 2010, (\$40,833 in the third quarter, \$44,982 in the second quarter 2010) were down due to invoicing of normal expenses in comparison to the third and second quarters of 2010 when expenses were up due to delayed invoicing of normal expenses. The net income of \$15,173 for the fourth quarter (\$40,203 loss in the third quarter, \$44,901 loss for the June 30, 2010 quarter) reflects a decrease in administrative expenses and a \$29,425 adjustment for income tax recovery for the period. The balance sheet shows a increase in working capital from \$55,279 as at September 30, 2010 to \$135,962 as at December 31, 2010 due to inflow of funds from the December 28, 2010 Private Placement of \$165,000.

## **Liquidity**

The Company 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 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.

## **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 through 2009 and 2010 is making a major funding at this time difficult and would dilute current shareholders heavily. A small private placement of \$305,929 to cover administrative expenses and to carry out a limited field exploration program was completed in June 2009. Another private placement of \$289,459 to cover administration expenses into the new

year and to process samples and geophysical data was completed in early November, 2009. A small private placement of \$165,000 to cover administration and exploration in early 2011 was completed in December 2010. The Company will concentrate on maintaining the property in good standing until funding of a drill program is achieved.

As at December 31, 2010 there are 36,982,679 common shares issued and outstanding. 10,653,872 common shares subject to issuance are comprised of 7,603,872 warrants and 3,050,000 management incentive options.

- a) 3,059,286 June 2009, (*Series IV*) warrants entitle the holder to acquire one common share per warrant for \$0.16 and expire June 04, 2011.
- b) 2,894,586 November 2009, (*Series V*) warrants entitle the holder to acquire one common share per warrant for \$0.16 and expire November 13, 2011.
- c) 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.
- d) The 1,600,000 management incentive options (No.1) are exercisable at \$0.10 and expire April 25, 2012.

The 50,000 management incentive options (No.2) are exercisable at \$0.05 and expire March 1, 2015.

The 1,400,000 management incentive options (No.3) are exercisable at \$0.05 and expire June 9, 2015.

- e) During the year ended December 31, 2009, 650,000 April 2007 (*Series II*) warrants exercisable at \$0.16 per share and 2,040,000 December 2007 (*Series III*) warrants exercisable at \$0.20 per share, expired unexercised.

**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 \$145,311 as at December 31, 2010, compared to \$55,720 as at September 30, 2010; \$118,839 as at June 30, 2010; \$133,365 as at March 31, 2010. This reflects the influx of funds from the December 2010 Private Placement of \$165,000.

As at December 31, 2010, Talmora had a working capital in the amount of \$135,962 compared to the September 30, 2010, amount of \$55,270; \$83,519 as of June 30, 2010; and \$136,565 as of March 31, 2010. The reduction in working capital is essentially the cost of administering the company.

There were interest revenues of \$756 for the quarter ending December 31, 2010 compared to interest revenues during Q3 of \$630, in Q2 \$81; and \$Nil in Q1 as cash on hand was invested. This compares to \$Nil for the quarter ending December 2009, \$432 for the quarter ending September 30, 2009, \$821 for the quarter ending June 30, 2009, and \$1,768 for the quarter ending March 31, 2009 and reflects current low interest rates and expenditure on the field program soon after receipt of the funds.

Administrative expenses (including bank charges and stock based compensation) for the quarter ending December 31, 2010 were \$14,297. This is compared to Q3 charges of \$40,833; \$44,982 during Q2; and \$23,496 during Q1. These expenses compare favourably to the 2009 amounts of \$48,301 for the quarter ending December 31; \$19,946 for September 30; \$34,486 for June 30, 2009 and \$8,711 for March 31. Total expenses of \$123,608 for all of 2010 compare favourably to the 2009 total of \$111,444 and are thus in line with past annual expenses.

The net cash increase for the quarter ended December 31, 2010, was \$120,422. This compares to an increase of \$6,050 for the quarter ended September 30; a net outflow of \$114,526 for the quarter ended June 30; and a net outflow of \$39,513 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 \$165,000 proceeds from the December 2010 placement.

Deferred mineral exploration cost for the quarter ended December 31, 2010, were \$46,352. The increase, as compared to expenditures of \$9,729 for the quarter ended September 30 are up due to the reporting and recording of previously incurred expenditures. Expenditures for the quarter ended June 30 totalled \$14,212 and for the quarter ended March 31 they were \$10,292.

Overall December 2010 quarter expenditures are down from \$99,988 for the December quarter of 2009, are down from \$223,794 for the 2009 third quarter but together constitute the costs of the June/July, 2009 field program and are compared to the field program preparation costs of \$20,551 for the quarter ending June 30, 2009 and \$4,793 for the quarter ending March 31, 2009.

Funds are sufficient to meet ongoing administrative expenses and meet current liabilities. The December 2010 financing will maintain the Company through the middle of 2011.

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 a price of \$0.05 per unit for total gross proceeds of \$305,929. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant will be exercisable at \$0.16 per common share until June 3, 2011. The warrants issued as part of a flow-through unit are exercisable into flow-through 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.

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 flow-through 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.

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.

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.

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.

## 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:

	<u>Options</u> #	<u>Weighted Average</u> <u>Exercise Price</u> \$
Balance, December 31, 2008 and 2009	1,600,000	0.10
Granted March 31, 2010	50,000	0.05
Granted June 30, 2010	<u>1,400,000</u>	0.05
Balance, December 31, 2010	<u>3,050,000</u>	

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

<u>Options Granted</u> #	<u>Options</u> <u>Exercisable</u> \$	<u>Exercise Price</u> \$	<u>Expiry date</u>	<u>Remaining</u> <u>Contractual</u> <u>Life (years)</u>
1,600,000	1,600,000	0.10	April 25, 2012	1.32
50,000	42,154	0.05	March 1, 2015	4.16
<u>1,400,000</u>	<u>964,861</u>	0.05	June 9, 2015	<u>4.44</u>
<u>3,050,000</u>	<u>2,607,015</u>			<u>2.80</u>

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 \$0.055 (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.

#### Contributed Surplus

	Amount \$
Balance, December 31, 2008 and 2009	296,850
Employee stock based compensation	5,293
Non-employee stock based compensation	<u>231</u>
<b>Balance, December 31, 2010</b>	<u><b>302,374</b></u>

#### 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. (*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. (*Series VI*)

### **Subsequent Events**

The dispute between the Mining Recorder and the Sahtu regarding four of the Company's prospecting permits was settled in March 2010. However, because of the dispute the Mining Recorder granted Talmora Diamond Inc. a third one year extension on eight permits 7308, 7310, 7312, 7313, 7618, 7619, 7620 and 7621 in the Sahtu Settlement Area on the permits the Company holds in the Sahtu Settlement Area. Two permits 7309 and 7311 not granted extensions already have credits and will now expire January 31, 2012.

A performance deposit of \$28,664.40 was submitted on one of the three permits (7307) in the Inuvialuit Settlement Region and the remaining two were permitted to lapse. The deposit is expected to be refunded after assessment work done in 2009 is reported later this year.

### **Changes in Accounting Policies including Initial Adoption**

#### **New Accounting Pronouncements:**

There are no new accounting pronouncements adopted during fiscal 2010.

#### **Future Accounting Pronouncements:**

#### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. As a result, the Company will report under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

## IFRS PROJECT UPDATE

The Company's IFRS conversion plan consists of three phases: Scoping and Diagnostic; Detailed Evaluation; and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS – Canadian GAAP differences and accounting policy choices under IFRS, and the initial assessment of the nonfinancial reporting related impacts. The Scoping phase has been completed.

The Diagnostic and Detailed Evaluation and Implementation and Review phases are in progress and will be completed in the first quarter of 2011, in time for filing of the March 31, 2011 interim financial statements.

Based on the work completed to date, the transition to IFRS is not expected to result in significant impacts to the Company's business activities or its covenants, capital requirements or compensation arrangements. The transition did not result in significant changes to key controls during or after the transition to IFRS. The training of finance personnel is ongoing.

The International Accounting Standards Board, responsible for the development and publication of IFRS, has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, the Company continues to monitor and evaluate changes in IFRS, and to update the conversion plan as required.

The Company has identified several areas where potential differences between Canadian GAAP and IFRS could result in changes to the amounts reported by the Company in its financial statements. While the quantification of these potential changes has not yet been finalized, the areas where the changes are most anticipated include:

### Share-based payments

While there is convergence between IFRS and Canadian GAAP in that share-based payments are recognized as an expense, there are a number of measurement differences. Under Canadian GAAP, the Company records forfeitures on unvested stock options as they occur. Unlike Canadian GAAP, IFRS requires that the rate of forfeiture be estimated every reporting period and an adjustment be made to stock based compensation expense. Canadian GAAP also allows the vesting of employee stock options to be recognized to operations on a straight-line basis whereas IFRS requires the use of a graded vesting model.

### Exploration Expenditures

IFRS 6 applies to exploration and evaluation expenditures incurred by an entity in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures or recognize all such expenditures in operations as incurred. IFRS currently allows an entity to retain its existing accounting policies related to the exploration and evaluation of mineral properties, subject to some restrictions.

### Flow-through Shares

Under Canadian GAAP, the accounting treatment of flow-through shares is addressed by EIC 146 "Flow-Through Shares". IAS 12 contains no specific guidance on the appropriate accounting for flow-through shares. The Company will review the recognition and timing of future income taxes relating to flow-through renunciations to investors under IFRS.



## IFRS 1, First-Time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. Prior to reporting the first IFRS compliant financial statements for the quarter ending March 31, 2011, the Company may decide to apply certain exemptions contained in IFRS 1.

### **Business Combinations**

CICA Handbook Section 1582, "Business Combinations", replaces Section 1581, "Business Combinations", and provides the Canadian equivalent to International Financial Reporting Standards 3 – "Business Combinations". This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be re-measured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company plans to adopt this standard on January 1, 2011, though no impact on adoption of this standard is expected based on the Company's current financial statements.

### **Consolidated Financial Statements and Non-Controlling Interests**

CICA Handbook Sections 1601, "Consolidated financial statements", and 1602, "Non-Controlling Interests", replace Section 1600, "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27, "Consolidated and Separate Financial Statements", for non-controlling interests. The Company plans to adopt this standard on January 1, 2011, though no impact on adoption of this standard is expected based on the Company's current financial statements.

### **Consolidated Financial Statements and Non-Controlling Interests**

CICA Handbook Sections 1601, "Consolidated financial statements", and 1602, "Non-Controlling Interests", replace Section 1600, "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27, "Consolidated and Separate Financial Statements", for non-controlling interests. The Company plans to adopt this standard on January 1, 2011, though no impact on adoption of this standard is expected based on the Company's current financial statements.

### **Other Accounting Notes**

#### **Critical Accounting Estimates**

In the resource exploration sector, critical accounting estimates used in the preparation of the financial statements would include the Company's estimate of recoverable value of its mineral properties, related deferred exploration expenditures and asset retirement obligations as well as the value of warrants, future tax assets and liabilities and stock-based compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company's recoverability of its recorded value of its mineral properties and associated deferred exploration expenses is based on current market conditions for minerals, underlying mineral

resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and stock price volatility. The timing for exercise of options is out of the Company's control and will depend on a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes model. However, the future volatility is uncertain and the model has its limitations.

### **Disclosure Controls**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. They are assisted in this responsibility by the Chairperson of the Audit Committee who serves as an independent director of the Company. All three individuals sit on the Company's Disclosure Policy Committee ("DPC"). The Disclosure Policy requires all staff to keep the DPC fully apprised of all material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. Access to such material information by the DPC is facilitated by the small size of the Company's senior management.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of December 31, 2010, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have been known to them.

### **Management's Responsibility for Financial Statements**

The information provided in this Management Discussion and Analysis, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

### **Sensitivity Analysis**

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.

### ***Financial Instruments and Other 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.

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.

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.

The Company does not hedge against any other risks.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-Balance Sheet arrangements.

**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

Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
April 19, 2011

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

**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

**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31**

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

See accompanying notes to the financial statements.

	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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	<u>(4,584)</u>	<u>(9,132)</u>
Cash flows from operating activities	<u>(111,982)</u>	<u>(125,760)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Private placements	165,000	595,388
Share issue costs	<u>-</u>	<u>(20,604)</u>
Cash flows from financing activities	<u>165,000</u>	<u>574,784</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption of short-term investments	-	280,000
Acquisition of investments	-	(250,000)
Deferred mineral exploration costs	<u>(80,585)</u>	<u>(344,752)</u>
Cash flows from investing activities	<u>(80,585)</u>	<u>(314,752)</u>
(Decrease) increase in cash and cash equivalents	(27,567)	134,272
Cash and cash equivalents, beginning of year	<u>172,878</u>	<u>38,606</u>
Cash and cash equivalents, end of year	<u><u>145,311</u></u>	<u><u>172,878</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
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%)	<u>10,381</u>	<u>-</u>
	<u>145,311</u>	<u>172,878</u>

## **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**

<u>Acquisition costs</u>	\$
Balance, December 31, 2008	85,952
Staking	<u>59,949</u>
Balance, December 31, 2009 and 2010	<u>145,901</u>
<u>Exploration Expenditures</u>	
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	<u>7,419</u>
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	<u>26</u>
Balance, December 31, 2010	<u>1,282,488</u>
Total Balance, December 31, 2010	<u>1,428,389</u>

## 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)
<b>Balance, December 31, 2010</b>	<b><u>36,982,679</u></b>	<b><u>1,780,291</u></b>

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)) <i>Series IV</i>	3,059,286	0.16	40,383
Issue costs (Note 6(b)(i)) <i>Series IV</i>	-		(1,850)
Issued (Note 6(b)(ii)) <i>Series V</i>	2,894,586	0.16	38,209
Issue costs (Note 6(b)(ii)) <i>Series V</i>	<u>--</u>		<u>(750)</u>
Balance, December 31, 2009	5,953,872	0.18	75,992
Issued (Note 6(b)(iii)) <i>Series VI</i>	1,650,000	0.16	16,300
Renunciation of flow-through expenditures (Note 6(b)(v))	<u>-</u>	-	<u>(19,650)</u>
Balance, December 31, 2010	<u>7,603,872</u>	0.16	<u>72,642</u>



## 6. CAPITAL STOCK (Continued)

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

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

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:

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

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

<u>Options Granted</u>	<u>Options Exercisable</u>	<u>Exercise Price</u>	<u>Expiry date</u>	<u>Remaining Contractual Life (years)</u>
#	\$	\$		
1,600,000	1,600,000	0.10	April 25, 2012	1.32
50,000	24,999	0.05	March 1, 2015	4.16
<u>1,400,000</u>	<u>466,662</u>	0.05	June 9, 2015	4.44
<u>3,050,000</u>	<u>2,091,661</u>			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	<u>919</u>
<b>Balance, December 31, 2010</b>	<b><u>302,374</u></b>

## 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
	<u>\$ 123,000</u>

## 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 its 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.









## **CORPORATE INFORMATION**

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### **Directors**

Richard M. Hogarth\* – Chairman  
Raymond Davies,  
Joan Fiset \*  
Leslie Little\*

\* Audit Committee

### **Officers**

Raymond Davies – President and Chief Executive Officer  
Alan W. Davies – Vice-President Exploration  
Robert Owen – Chief Financial Officer  
Maria Grimes – Corporate Secretary

### **Auditors**

McGovern, Hurley, Cunningham, LLP

### **Legal Counsel**

Peterson Law Professional Corporation

### **Transfer Agent**

Computershare Trust Company of Canada

## TALMORA DIAMOND INC.

