

**CANADIAN DIAMIND LIMITED**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

**CANADIAN DIAMIND LIMITED**  
**(A Development Stage Company)**

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**AUDITORS' REPORT**

To the Shareholders of  
**Canadian Diamind Limited**  
(A Development Stage Company)

We have audited the balance sheets of Canadian Diamind Limited as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
April 18, 2007,  
Except for Note 11(b),  
which is as at April 25, 2007

**BALANCE SHEETS**  
AS AT DECEMBER 31

	2006 \$	2005 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	423,863	35,217
Short term investment (Note 4)	153,646	-
GST receivable	<u>2,436</u>	<u>2,431</u>
	579,945	37,648
<b>DEFERRED MINERAL EXPLORATION COSTS</b> (Note 5)	211,448	139,534
<b>FUTURE TAX ASSET</b> (Note 7(b))	<u>25,500</u>	<u>-</u>
	<u>816,893</u>	<u>177,182</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	<u>14,936</u>	<u>8,500</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 6(b))	710,932	243,682
<b>WARRANTS</b> (Note 6(c))	155,750	-
<b>DEFICIT</b>	<u>(64,725)</u>	<u>(75,000)</u>
	<u>801,957</u>	<u>168,682</u>
	<u>816,893</u>	<u>177,182</u>

**CONTINUANCE** (Note 1)

**COMMITMENT** (Note 9)

APPROVED ON BEHALF OF THE BOARD:

Signed "Raymond Davis"\_\_\_\_\_, Director

Signed "James D'Cruz"\_\_\_\_\_, Director

CANADIAN DIAMIND LIMITED  
(A Development Stage Company)  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
FOR THE YEARS ENDED DECEMBER 31

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	2006 \$	2005 \$
<b>EXPENSES</b>		
Administration	9,022	14,971
Professional fees	16,888	6,628
Bank charges	<u>70</u>	<u>85</u>
(Loss) before the under-noted	(25,980)	(21,684)
Interest Income	<u>10,755</u>	<u>248</u>
(Loss) before income taxes	(15,225)	(21,436)
Income tax recovery (Note 7(a))	<u>25,500</u>	<u>27,360</u>
<b>NET INCOME FOR THE YEAR</b>	10,275	5,924
<b>(DEFICIT)</b> , beginning of year	<u>(75,000)</u>	<u>(80,924)</u>
<b>(DEFICIT)</b> , end of year	<u>(64,725)</u>	<u>(75,000)</u>
<b>NET INCOME PER SHARE</b> - Basic and diluted	<u>(0.00)</u>	<u>0.00</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b> - Basic and diluted	<u>41,483,328</u>	<u>23,764,150</u>

See accompanying notes to the financial statements

CANADIAN DIAMIND LIMITED  
(A Development Stage Company)  
**STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31

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	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income for the year	10,275	5,924
Charges not involving cash:		
Income tax (recovery)	(25,500)	(27,360)
Changes in non-cash working capital:		
(Increase) decrease in GST receivable	(5)	5,109
Increase (decrease) in accounts payable and accrued liabilities	<u>5,000</u>	<u>(7,512)</u>
Net cash flows from operating activities	<u>(10,230)</u>	<u>(23,839)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Deferred mineral exploration costs, net of recoveries	(70,478)	7,846
Short term investment	<u>(153,646)</u>	<u>-</u>
	<u>(224,124)</u>	<u>7,846</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Private placements, net of share issue costs	<u>623,000</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	388,646	(15,993)
Cash and cash equivalents, beginning of year	<u>35,217</u>	<u>51,210</u>
Cash and cash equivalents, end of year	<u>423,863</u>	<u>35,217</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	-	-
Income taxes paid	-	-
Change in accrued exploration expenditures	1,436	-

See accompanying notes to the financial statements

## 1. NATURE OF OPERATIONS AND CONTINUANCE

Canadian Diamind Limited (the "Company") is a development stage company 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. Subsequent to December 31, 2006, the Company amalgamated with Talmora Resources Inc. (see Note 11).

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, 2006, the Company had cash and cash equivalents, and short-term investments of \$577,509 and working capital of \$565,009 (See Notes 9 and 11(b)). The Company's continued operation is dependent upon its ability to obtain the financing necessary to provide adequate working capital for the foreseeable future. Management believes that the Company has sufficient working capital for the next year. Management continues to actively pursue additional financing and strives to obtain and thereafter maintain profitable operations to support the validity of the "going concern" assumption.

## 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. Outlined below are those policies considered particularly significant:

### **Cash and Cash Equivalents:**

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary investments with a maturity of less than ninety days.

### **Short-Term Investments:**

Short-term investments comprise highly liquid Canadian dollar investments with term to maturity of greater than 90 days but not more than one year. Short-term investments are carried at the lower of cost or recoverable amount.

### **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 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 changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write-down.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Asset Retirement Obligations:**

The Company follows the CICA accounting standard on "Asset retirement obligations". Under the standard the Company is required to record 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 asset retirement obligations as at December 31, 2006 and 2005.

### **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.

### **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.

### **Income Per Share:**

Basic income per share is calculated using the weighted average number of shares outstanding. Diluted income per share is calculated using the treasury stock method. In order to determine diluted income 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 income per share calculation. The diluted income per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease income per share.

### **Use of Estimates:**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make 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 revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of warrants, and income tax accounts. Actual results could differ from those reported. Management believes that the estimates are reasonable.

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**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are composed of:

	<u>2006</u>	<u>2005</u>
	\$	\$
Cash	16,796	35,217
Guaranteed investment certificate, bearing interest at 3.4%	<u>407,067</u>	<u>-</u>
	<u>423,863</u>	<u>35,217</u>

**4. SHORT-TERM INVESTMENT**

Short-term investment consists of a guaranteed investment certificate, bearing interest at 3.9%, with a maturity date of July 23, 2007.

**5. DEFERRED MINERAL EXPLORATION COSTS**

<b>HORTON RIVER, NWT</b>	\$
<u>Acquisition costs:</u>	
Balance, December 31, 2004, 2005 and 2006	<u>22,000</u>
<u>Exploration expenditures:</u>	
Balance, December 31, 2004	125,380
Permits	42,742
Consulting	5,595
Field office support	4,486
Analysis and laboratory	3,361
Government refund	<u>(64,030)</u>
Balance, December 31, 2005	117,534
Permits	53,428
Consulting	7,156
Field office support	<u>11,330</u>
Balance, December 31, 2006	<u>189,448</u>
Total balance, December 31, 2006	<u>211,448</u>

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**5. DEFERRED MINERAL EXPLORATION COSTS (Continued)**

In 2003, the Company acquired the Horton River property, consisting of three prospecting permits covering 213,433 acres in the Horton River area in the Inuvialuit settlement region 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. The permits are valid until January 31, 2008, provided a performance deposit is made or work is done amounting to \$9,920 before January 31, 2007 (completed).

In 2006, the Company acquired a further nine prospecting permits covering 432,285 acres in the Horton River property. Six of these permits, covering 217,302 acres are valid until January 31, 2010 while three permits, covering 214,983 acres, are valid until January 31, 2012.

**6. CAPITAL STOCK**

The capital stock is as follows:

- a) **Authorized**  
Unlimited number of common shares
- b) **Issued**

	2006		2005	
	Number of Shares	Amount	Number of Shares	Amount
	#	\$	#	\$
Balance at beginning of year	23,764,150	243,682	23,764,150	271,042
Flow-through shares issued for cash	18,500,000	370,000	-	-
Common shares issued for cash	14,000,000	280,000	-	-
Warrant valuation	-	(162,500)	-	-
Flow-through renunciation	-	-	-	(27,360)
Share issue costs	-	(20,250)	-	-
	<u>56,264,150</u>	<u>710,932</u>	<u>23,764,150</u>	<u>243,682</u>
Balance at end of year	<u>56,264,150</u>	<u>710,932</u>	<u>23,764,150</u>	<u>243,682</u>

During the year ended December 31, 2006, the Company closed a private placement financing through an offering of 14,000,000 non-flow-through units and 18,500,000 flow-through units at a price of \$0.02 per unit for total gross proceeds of \$650,000. 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 \$0.032 per common share for a period of two years until June 30, 2008.

The fair value of the warrants of \$162,500 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 4.24%; and expected life of two years.

In connection with the financing, the Company paid \$27,000 in finders' fees and commissions, of which \$6,750 was allocated to the warrants.

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**6. CAPITAL STOCK** (Continued)

**c) Warrants**

A summary of changes in warrants is as follows:

	Warrants	Weighted Average Exercise Price	Value
	#	\$	\$
Balance, December 31, 2004 and 2005	-	-	-
Issued (Note 6(b))	16,250,000	0.032	162,500
Issue costs (Note 6(b))	-	-	(6,750)
Balance, December 31, 2006	<u>16,250,000</u>	0.032	<u>155,750</u>

As at December 31, 2006, the following warrants were issued and outstanding:

<u>Number of warrants</u>	<u>Exercise Price</u>	<u>Expiry date</u>
#	\$	
<u>16,250,000</u>	<u>0.032</u>	<u>June 30, 2008</u>

**7. INCOME TAXES**

**(a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the federal statutory rate of 36% (2005 – 36%) were as follows:

	<u>2006</u>	<u>2005</u>
	\$	\$
(Loss) before income taxes:	<u>(15,225)</u>	<u>(21,436)</u>
Expected income tax (benefit)	(5,500)	(7,700)
Adjustments to benefit resulting from:		
Share issue costs	(9,600)	-
Other	-	(3,760)
Change in valuation allowance	<u>(10,400)</u>	<u>(15,900)</u>
Income tax recovery	<u>(25,500)</u>	<u>(27,360)</u>

Continued...

**7. INCOME TAXES (Continued)**

(b) **Future Tax Balances**

The tax effects of temporary differences that give rise to future income tax assets at December 31, 2006 are as follows:

	<u>2006</u>	<u>2005</u>
	\$	\$
Future income tax assets:		
Mineral exploration properties	14,800	5,500
Non-capital loss carry-forwards	2,500	4,100
Share issue costs	<u>8,200</u>	<u>800</u>
	25,500	10,400
Valuation allowance	<u>-</u>	<u>(10,400)</u>
	<u>25,500</u>	<u>-</u>

(c) **Tax Loss Carry-Forwards**

As at December 31, 2006 the Company had available for deduction against future taxable income, non-capital losses of approximately \$13,000, which expire as follows:

2014	6,000
2015	1,000
2026	<u>6,000</u>
	<u>\$ 13,000</u>

The Company also has approximately \$22,000, \$57,000 and \$60,000 of Canadian development, Canadian exploration and foreign exploration and development expenditures as at December 31, 2006, which under certain circumstances, may be utilized to reduce taxable income of future years. The potential income tax benefit of these losses has not been recognized in the accounts.

**8. RELATED PARTY TRANSACTIONS**

Included in administration expenses is \$8,538 (2005 - \$8,019) charged for services provided by an officer of the Company during the year.

Included in deferred mineral exploration costs is \$7,156 (2005 - \$5,933) charged during the year for consulting services provided by a director of the Company. Included in accounts payable and accrued liabilities at December 31, 2006 was \$1,436 (December 31, 2005 - \$Nil) due to this director.

Directors and officers of the Company subscribed for 2,000,000 flow-through units and 1,500,000 non flow-through units for gross proceeds of \$70,000 pursuant to the private placement described in Note 6(b).

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

## 9. COMMITMENT

As at December 31, 2006, the Company is committed to incur prior to December 31, 2007, on a best efforts basis, approximately \$257,000 in qualifying Canadian exploration expenditures pursuant to the private placement described in Note 6(b) for which flow-through proceeds had been received and renounced to the subscribers with an effective date of December 31, 2006.

## 10. FINANCIAL INSTRUMENTS

### *Fair value*

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, short-term investments, GST receivable and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of the instruments.

### *Commodity Price Risk*

The future profitability of the Company is directly related to the market price of diamonds.

## 11. SUBSEQUENT EVENTS

### (a) Amalgamation

Effective January 23, 2007, pursuant to a letter of intent dated June 30, 2005 and a definitive amalgamation agreement dated July 31, 2006, the Company amalgamated with Talmora Resources Inc. ("Talmora"), a junior capital pool company formed under the rules of the Alberta Stock Exchange, and will continue under the name Talmora Diamond Inc. ("Amalco"). Talmora was de-listed from the TSX Venture Exchange on July 3, 2001 for failure to complete listing requirements. Pursuant to the amalgamation agreement, shares of Amalco were issued on the basis of one post-amalgamation share for each pre-amalgamation share of Talmora and one post-amalgamation share for every five pre-amalgamation shares of the Company. Holders of common share purchase warrants in the capital of the Company received 3,250,000 common share purchase warrants in the capital of Amalco. Each whole Amalco warrant entitles the holder to acquire one Amalco share for \$0.16 until June 30, 2008.

Immediately after amalgamation, former shareholders of the Company held 68.6% of the common shares of the amalgamated company and the Company was deemed the acquirer for accounting purposes. The substance of the transaction is a capital transaction and will be accounted for as a reverse takeover.

This transaction is a "related party transaction" for the purposes of Ontario Securities Commission Rule 61-501 as the President who is also a director of Talmora and a director of the Company, owns 14.4% and 10.9% of the issued and outstanding shares of Talmora and the Company, respectively. The transaction is exempt from the related party valuation and minority security holder approval requirements of the OSC Rule on the basis that no securities of Talmora were listed or quoted on any specified markets.

**11. SUBSEQUENT EVENTS** (Continued)

Based on the unaudited September 30, 2006 balance sheet of Talmora, the net assets at estimated fair market value that will be combined with the Company is as follows:

Cash	\$ 149,756
Amounts receivable	1,846
Current liabilities	<u>(2,726)</u>
Net assets assumed	<u>\$ 148,876</u>

Related transaction costs, amounting to approximately \$110,000, will be recorded as a reduction of the cash acquired, in fiscal 2007.

(b) Private Placement

On April 25, 2007, Amalco completed a private placement of 1,300,000 units at \$0.10 per unit for total proceeds of \$130,000, of which 1,130,000 units were on a flow-through basis. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share of Amalco at \$0.16 per share until April 18, 2009. All securities issued pursuant to the financing are subject to a four-month hold period, which expires August 19, 2007. Insiders acquired a total of 350,000 units in the financing.

On April 25, 2007, Amalco also granted stock options to directors, officers and consultants to acquire 1,600,000 common shares of Amalco at an exercise price of \$0.10 per share, which expire on April 25, 2012.