

**TALMORA DIAMOND INC.**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**

**TALMORA DIAMOND INC.**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

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**AUDITORS' REPORT**

To the Shareholders of  
**Talmora Diamond Inc.**  
(A Development Stage Company)

We have audited the balance sheets of Talmora Diamond Inc. as at December 31, 2007 and 2006 and the statements of operations, comprehensive loss and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

A handwritten signature in black ink that reads 'McGovern, Hurley, Cunningham, LLP'.

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
April 15, 2008

**BALANCE SHEETS**  
AS AT DECEMBER 31,

|  | 2007<br>\$       | 2006<br>\$      |
|--|------------------|-----------------|
| <b>ASSETS</b>                                      |                  |                 |
| <b>CURRENT</b>                                     |                  |                 |
| Cash and cash equivalents (Note 4)                 | 336,423          | 423,863         |
| Short-term investment (Note 5)                     | -                | 153,646         |
| Sundry receivables                                 | <u>35,079</u>    | <u>2,436</u>    |
|  | 371,502          | 579,945         |
| <b>DEFERRED MINERAL EXPLORATION COSTS</b> (Note 6) | 874,447          | 211,448         |
| <b>FUTURE TAX ASSET</b> (Note 8(b))                | <u>15,000</u>    | <u>25,500</u>   |
|  | <u>1,260,949</u> | <u>816,893</u>  |
| <b>LIABILITIES</b>                                 |                  |                 |
| <b>CURRENT</b>                                     |                  |                 |
| Accounts payable and accrued liabilities (Note 9)  | <u>46,909</u>    | <u>14,936</u>   |
| <b>SHAREHOLDERS' EQUITY</b>                        |                  |                 |
| <b>CAPITAL STOCK</b> (Note 7(b))                   | 1,225,724        | 710,932         |
| <b>WARRANTS</b> (Note 7(c))                        | 184,250          | 155,750         |
| <b>CONTRIBUTED SURPLUS</b> (Note 7(e))             | 91,875           | -               |
| <b>(DEFICIT)</b>                                   | <u>(287,809)</u> | <u>(64,725)</u> |
|  | <u>1,214,040</u> | <u>801,957</u>  |
|  | <u>1,260,949</u> | <u>816,893</u>  |
| <b>CONTINUANCE</b> (Note 1)                        |                  |                 |
| <b>COMMITMENTS AND CONTINGENCIES</b> (Note 10)     |                  |                 |

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,**

|  | 2007<br>\$        | 2006<br>\$       |
|--|-------------------|------------------|
| <b>EXPENSES</b>  |                   |                  |
| Administration   | 103,083           | 9,022            |
| Stock-based compensation   | 91,875            | -                |
| Professional fees  | 65,467            | 16,888           |
| Bank charges   | <u>1,228</u>      | <u>70</u>        |
| <b>(Loss) before the under-noted</b>   | (261,653)         | (25,980)         |
| Interest income  | <u>11,119</u>     | <u>10,755</u>    |
| <b>Net (loss) before income taxes</b>  | (250,534)         | (15,225)         |
| Income tax recovery (Note 8(a))  | <u>27,450</u>     | <u>25,500</u>    |
| <b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME<br/>FOR THE YEAR</b>    | (223,084)         | 10,275           |
| (Deficit), beginning of year   | <u>(64,725)</u>   | <u>(75,000)</u>  |
| (Deficit), end of year   | <u>(287,809)</u>  | <u>(64,725)</u>  |
| <b>NET (LOSS) INCOME PER SHARE – basic and diluted</b>                       | <u>(0.013)</u>    | <u>0.001</u>     |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES<br/>OUTSTANDING – basic and diluted</b> | <u>17,026,912</u> | <u>8,296,666</u> |

TALMORA DIAMOND INC.  
(A Development Stage Company)  
**STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31,

|   | 2007<br>\$       | 2006<br>\$       |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                  |                  |
| Net (loss) income for the year                                  | (223,084)        | 10,275           |
| Changes not involving cash                                      |                  |                  |
| Income tax (recovery)   | (27,450)         | (25,500)         |
| Stock-based compensation  | 91,875           | -                |
| Changes in non-cash working capital balances:                   |                  |                  |
| (Increase) in sundry receivables                                | (26,988)         | (5)              |
| (Decrease) increase in accounts payable and accrued liabilities | <u>(1,384)</u>   | <u>5,000</u>     |
| Cash flows from operating activities                            | <u>(187,031)</u> | <u>(10,230)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                  |                  |
| Private placements  | 538,000          | 650,000          |
| Share issue costs   | <u>-</u>         | <u>(27,000)</u>  |
| Cash flows from financing activities                            | <u>538,000</u>   | <u>623,000</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                  |                  |
| Cash acquired in reverse take-over, net of costs (Note 3)       | 59,633           | -                |
| Short-term investment   | 153,646          | (153,646)        |
| Deferred mineral exploration costs, net of recoveries           | <u>(651,688)</u> | <u>(70,478)</u>  |
| Cash flows from investing activities                            | <u>(438,409)</u> | <u>(224,124)</u> |
| (Decrease) increase in cash and cash equivalents                | (87,440)         | 388,646          |
| Cash and cash equivalents, beginning of year                    | <u>423,863</u>   | <u>35,217</u>    |
| Cash and cash equivalents, end of year                          | <u>336,423</u>   | <u>423,863</u>   |
| <b>SUPPLEMENTAL INFORMATION</b>                                 |                  |                  |
| Interest paid   | -                | -                |
| Income taxes paid   | -                | -                |
| Change in accrued exploration expenditures                      | 11,311           | 1,436            |
| Change in accrued share issue costs                             | 6,475            | -                |
| Common shares issued in reverse take-over (Note 3)              | 138,218          | -                |

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Canadian Diamond Limited and Talmora Resources Inc. amalgamated on January 23, 2007 to continue as Talmora Diamond Inc. (the "Company"). In accordance with EIC-10 "Reverse Takeover Accounting" of the Canadian Institute of Chartered Accountants ("CICA") Handbook, the substance of the transaction is a capital transaction and is accounted for as a reverse takeover ("RTO"), since Canadian Diamond Limited was identified as the acquirer. As Talmora Resources Inc. did not meet the definition of a business for accounting purposes, this RTO did not constitute a business combination but a capital transaction in substance. The comparative figures presented in the financial statements are those of Canadian Diamond Limited.

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.

As at December 31, 2007, the Company had cash and cash equivalents of \$336,423 and working capital of \$324,593. 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. 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 as disclosed below. 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 ninety days but not more than one year. Short-term investments are carried at the lower of cost or recoverable amount.

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

**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.

**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, 2007 and 2006.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

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

**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 year 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) Income Per Share**

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

**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 and future tax assets and liabilities. Actual results could differ from estimates. Management believes that the estimates are reasonable.

Effective January 1, 2007, the Company adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") in 2005. The new standards and accounting policy changes are as follows:

**Financial Instruments – Recognition and Measurement (Section 3855)**

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. All derivatives are recorded on the balance sheet at fair value. Mark-to-market adjustments on these instruments are included in net income, unless the instruments are designated as part of a cash flow hedge relationship.

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other than temporary impairment remain unchanged. Transaction costs incurred to acquire financial instruments are included in the underlying balance. Regular-way purchases and sales of financial assets are accounted for on the trade date.

**Comprehensive Income (Section 1530)**

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until the year that the related asset or liability affects income. For the years ended December 31, 2007 and 2006, the Company did not have other comprehensive income or loss; therefore, the comprehensive loss for the year is equal to the net loss for the year.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Hedges (Section 3865)**

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered in this standard.

**Accounting Changes**

Effective January 1, 2007, the Company adopted the revised CICA section 1506, "Accounting Changes." Under the revised section, voluntary changes in accounting policy are permitted only if they result in financial statements that provide more reliable and relevant information to the reader. Changes in accounting policy must be applied retrospectively, while changes in accounting estimates are to be applied prospectively. The revised section also outlines additional disclosures required when accounting changes are applied, including the justification for the change, a complete description of the policy, the primary source of GAAP and the detailed effect of financial statement line items

Future Accounting Pronouncements:

**Capital Disclosures**

In December 2006, the CICA issued Section 1535, "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective January 1, 2008, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

**Financial Instruments – Disclosure and Presentation**

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective January 1, 2008. This new requirement is for disclosure only and will not impact the financial results of the Company.

**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 by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

**General Standards of Financial Statement Presentation**

The Accounting Standards Board (AcSB) has amended CICA Handbook section 1400 to include requirements to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The amendment is effective for interim and annual financial statements beginning on or after January 1, 2008.

The Company is currently evaluating the impact of these new standards on its financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**3. AMALGAMATION**

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

Immediately after amalgamation, former shareholders of Canadian Diamind Limited held 68.6% of the common shares of the amalgamated company and Canadian Diamind Limited was deemed the acquirer for accounting purposes. The substance of the transaction was a capital transaction and was accounted for as a reverse takeover in accordance with EIC-10 "Reverse Takeover Accounting" of the CICA Handbook.

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 Resources Inc. and a director of Canadian Diamind Limited, owns 14.4% and 10.9% of the issued and outstanding shares of Talmora Resources Inc. and Canadian Diamind Limited, 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 Resources Inc. were listed or quoted on any specified markets.

Based on the audited December 31, 2006 balance sheet of Talmora Resources Inc., the net assets at estimated fair market value that were combined with Canadian Diamind Limited were as follows:

|                            |                   |
|----------------------------|-------------------|
| Cash                       | \$ 87,899         |
| Amounts receivable         | 5,655             |
| Deferred transaction costs | 57,168            |
| Current liabilities        | (15,571)          |
| Future tax assets          | <u>62,700</u>     |
| Net assets acquired        | <u>\$ 197,851</u> |

Additional related transaction costs of \$28,266 were recorded as a share issue cost in fiscal 2007.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are composed of:

|   | <u>2007</u>    | <u>2006</u>    |
|---|----------------|----------------|
|   | \$             | \$             |
| Cash  | 311,423        | 16,796         |
| Guaranteed investment certificate, cashable, bearing interest at 3.40% (2006 - 3.89%) | <u>25,000</u>  | <u>407,067</u> |
|   | <u>336,423</u> | <u>423,863</u> |

Continued...

**NOTES TO THE FINANCIAL STATEMENTS**  
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**5. SHORT-TERM INVESTMENT**

As at December 31, 2006, short-term investments consisted of a guaranteed investment certificate bearing interest at 3.90%, with a maturity date of July 23, 2007.

**6. DEFERRED MINERAL EXPLORATION COSTS**

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). These permits lapsed on January 31, 2008 and 50 claims covering an area of 41,940 acres have been staked within the area covered by these permits.

In 2007, 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.

| <b>HORTON RIVER, NWT</b>             | \$             |
|--------------------------------------|----------------|
| <u>Acquisition costs:</u>            |                |
| Balance, December 31, 2005, and 2006 | 22,000         |
| Staking                              | <u>63,952</u>  |
| Balance, December 31, 2007           | <u>85,952</u>  |
| <u>Exploration expenditures:</u>     |                |
| Balance, December 31, 2005           | 117,534        |
| Permits                              | 53,428         |
| Consulting                           | 7,156          |
| Field office support                 | <u>11,330</u>  |
| Balance, December 31, 2006           | 189,448        |
| Permits and legal                    | 15,491         |
| Consulting                           | 1,175          |
| Geophysical airborne survey          | 330,017        |
| Summer exploration program           | <u>252,364</u> |
| Balance, December 31, 2007           | <u>788,495</u> |
| Total Balance, December 31, 2007     | <u>874,447</u> |

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. CAPITAL STOCK**

**a) Authorized**

Unlimited number of common shares

**b) Issued**

|  | <u>Common Shares</u> | <u>Amount</u>    |
|--|----------------------|------------------|
|  | #                    | \$               |
| Balance, December 31, 2005                         | 4,752,830            | 243,682          |
| Flow-through shares issued for cash (i)            | 3,700,000            | 370,000          |
| Common shares issued for cash (i)                  | 2,800,000            | 280,000          |
| Warrant valuation (i)                              | -                    | (162,500)        |
| Share issue costs (i)                              | -                    | <u>(20,250)</u>  |
| <br>   |                      |                  |
| Balance, December 31, 2006                         | 11,252,830           | 710,932          |
| Common shares issued in reverse take-over (Note 3) | 5,142,105            | 197,851          |
| Common shares issued for cash (iii)                | 170,000              | 17,000           |
| Flow-through common shares issued for cash (iii)   | 1,130,000            | 113,000          |
| Warrant valuation (iii)                            | -                    | (21,000)         |
| Common shares issues for cash (iv)                 | 3,160,000            | 316,000          |
| Flow-through common shares issued for cash (iv)    | 920,000              | 92,000           |
| Warrant valuation (iv)                             | -                    | (59,200)         |
| Share issue costs                                  | -                    | (72,309)         |
| Renunciation of flow-through expenditures (ii)     | -                    | <u>(68,550)</u>  |
| <br>   |                      |                  |
| Balance, December 31, 2007                         | <u>21,774,935</u>    | <u>1,225,724</u> |

- (i) During the year ended December 31, 2006, the Company closed a private placement financing through an offering of 14,000,000 pre-reorganization non-flow-through units and 18,500,000 pre-reorganization 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.

- (ii) During the year ended December 31, 2007, the Company renounced flow-through expenditures in the amount of \$370,000 with respect to a flow-through financing that occurred during the year ended December 31, 2006, creating a future income tax liability of \$120,250, of which \$68,550 was allocated as a cost of issuing the flow-through shares and \$51,700 was allocated as a cost of issuing warrants.
- (iii) In April 2007, the Company closed a private placement financing for 170,000 non-flow-through units and 1,130,000 flow-through units at a price of \$0.10 per unit for total gross proceeds of \$130,000. (See Note 12) 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 April 18, 2009.

The fair value of the warrants of \$21,000 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 4.1%; and expected life of two years.

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7. **CAPITAL STOCK** (Continued)

b) **Issued** (Continued)

(iv) On December 28, 2007, the Company closed another private placement financing for 3,160,000 non-flow-through units and 920,000 flow-through units at a price of \$0.10 per unit for total gross proceeds of \$408,000. (See Note 12). 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 \$0.20 per common share until December 28, 2009.

The fair value of the warrants of \$59,200 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 4.1%; and expected life of two years.

On June 12, 2007, shareholders of the Company entered into an escrow agreement relating to 5,654,935 common shares of the Company and 525,000 common share purchase warrants. The escrowed securities will be released as follows: 1/10 on the listing date, 1/6 of the remaining escrowed securities 6 months after the listing date, 1/5 of the remaining escrowed securities 12 months after listing date, 1/4 of the remaining escrowed securities 18 months after the listing date, 1/3 of the remaining escrowed securities 24 months after the listing date, 1/2 of the remaining escrowed securities 30 months after the listing date and the remaining escrowed securities, 36 months after the listing date.

c) **Warrants**

A summary of changes in warrants is as follows:

|  | Warrants         | Weighted<br>Average<br>Exercise Price | Value          |
|--|------------------|---------------------------------------|----------------|
|  | #                | \$                                    | \$             |
| Balance, December 31, 2005                                   | -                | -                                     | -              |
| Issued (Note 7(b)(i))  | 3,250,000        | 0.160                                 | 162,500        |
| Issue costs (Note 7(b)(i))                                   | -                | -                                     | (6,750)        |
| Balance, December 31, 2006                                   | 3,250,000        | 0.160                                 | 155,750        |
| Issued (Note 7(b)(iii))                                      | 650,000          | 0.160                                 | 21,000         |
| Issued (Note 7(b)(iv))                                       | 2,040,000        | 0.200                                 | 59,200         |
| Renunciation of flow-through expenditures<br>(Note 7(b)(ii)) | -                | -                                     | (51,700)       |
| Balance, December 31, 2007                                   | <u>5,940,000</u> | 0.174                                 | <u>184,250</u> |

Prior to January 23, 2007, the date of amalgamation, Canadian Diamind Limited had 16,250,000 warrants outstanding. Each warrant entitled the holder to acquire one common share of Canadian Diamind Limited for \$0.032 until June 30, 2008. On amalgamation, the 16,250,000 warrants were converted into 3,250,000 warrants, with each warrant entitling the holder to acquire one common share of the Company at \$0.16 until June 30, 2008.

As at December 31, 2007, the following warrants were issued and outstanding:

| <u>Number of warrants</u> | <u>Exercise Price</u> | <u>Expiry date</u> |
|---------------------------|-----------------------|--------------------|
| #                         | \$                    |                    |
| 3,250,000                 | 0.160                 | June 30, 2008      |
| 650,000                   | 0.160                 | April 18, 2009     |
| <u>2,040,000</u>          | 0.200                 | December 29, 2009  |
| <u>5,940,000</u>          |                       |                    |

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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

**7. CAPITAL STOCK (Continued)**

**d) Options**

The Company has a stock option plan under which officers, directors, employees, and consultants are eligible to receive stock options. The aggregate number of shares to be issued upon exercise of all options granted under the plan may not exceed 10% of the outstanding shares of the Company. Options granted under the plan generally have a term of five years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option is fixed by the board of directors but shall not be less than the price permitted by any stock exchange on which the Company's common shares may be listed which is generally the trading price of the Company's stock at or about the grant date of the options.

A summary of changes in stock options is as follows:

|                                     | Options<br>#     | Weighted<br>Average<br>Exercise Price<br>\$ | Value<br>\$   |
|-------------------------------------|------------------|---|---------------|
| Balance, December 31, 2005 and 2006 | -                |   | -             |
| Issued                              | <u>1,600,000</u> | 0.10  | <u>33,102</u> |
| Balance, December 31, 2007          | <u>1,600,000</u> | 0.10  | <u>33,102</u> |

The weighted average grant date fair value of the options issued during the year ended December 31, 2007 is \$0.076. 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 100%; risk free interest rate of 4.1%; and expected life of five years.

As at December 31, 2007, the following options were issued and outstanding:

| <u>Number of options</u><br># | <u>Exercise Price</u><br>\$ | <u>Expiry date</u>    |
|-------------------------------|-----------------------------|-----------------------|
| <u>1,600,000</u> (i)          | <u>0.10</u>                 | <u>April 25, 2012</u> |

(i) 16.67% of these options vest every 3 months beginning July 25, 2007. As at December 31, 2007, 533,440 of these options had vested.

**e) Contributed Surplus**

|                                       | <u>Amount</u><br>\$ |
|---------------------------------------|---------------------|
| Balance, December 31, 2005 and 2006   | -                   |
| Employee stock based compensation     | 69,768              |
| Non-employee stock based compensation | <u>22,107</u>       |
| Balance, December 31, 2007            | <u>91,875</u>       |

Continued...

**NOTES TO THE FINANCIAL STATEMENTS**  
DECEMBER 31, 2007 AND 2006

**8. INCOME TAXES**

**a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the federal statutory rate of approximately 36% (2006 – 36%) are as follows.

|  | <u>2007</u>      | <u>2006</u>     |
|--|------------------|-----------------|
|  | \$               | \$              |
| (Loss) before taxes:                   | <u>(250,534)</u> | <u>(15,225)</u> |
| Expected income tax (benefit)          | (90,200)         | (5,500)         |
| Adjustments to benefit resulting from: |                  |                 |
| Stock-based compensation               | 33,000           | -               |
| Share issue costs                      | -                | (9,600)         |
| Expiry of losses                       | 16,200           | -               |
| Change in expected tax rate            | 13,550           | -               |
| Change in valuation allowance          | <u>-</u>         | <u>(10,400)</u> |
| Income tax expense (recovery)          | <u>(27,450)</u>  | <u>(25,500)</u> |

**b) Future Tax Balances**

The tax effects of temporary differences that give rise to future income tax assets and liabilities at December 31, 2007 are as follows:

|   | <u>2007</u>   | <u>2006</u>   |
|---|---------------|---------------|
|   | \$            | \$            |
| Future income tax assets (liabilities): |               |               |
| Mineral exploration properties          | (56,000)      | 14,800        |
| Non-capital loss carry-forwards         | 47,000        | 2,500         |
| Share issue and transaction costs       | <u>24,000</u> | <u>8,200</u>  |
|   | <u>15,000</u> | <u>25,500</u> |

During the year ended December 31, 2007, the Company renounced \$370,000 of Canadian exploration expenditures related to proceeds from the issuance of flow-through shares with an effective date of December 31, 2006. Consequently, this increased the future income tax liability by \$120,250.

**c) Tax Loss Carry-Forwards**

As at December 31, 2007, the Company had approximately \$59,700, \$86,000 and \$543,600 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, 2007 the Company had available for deduction against future taxable income, non-capital losses of approximately \$162,000 which expire as follows:

|      |                   |
|------|-------------------|
| 2008 | \$ 19,000         |
| 2009 | 42,000            |
| 2010 | 20,000            |
| 2013 | 6,000             |
| 2014 | 30,000            |
| 2025 | 38,000            |
| 2027 | <u>7,000</u>      |
|      | <u>\$ 162,000</u> |

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**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

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**9. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2007, administration expenses of \$84,450 (2006 - \$8,538) were charged for services provided by four officers (2006 – one officer) of the Company.

During the year ended December 31, 2007, deferred mineral exploration costs of \$134,577 (2006 – \$7,156) were charged for services provided by an officer who is also a director of the Company. Of the above, \$107,322 (2006 - \$Nil) represented reimbursements of out-of-pocket expenses at cost.

During the year ended December 31, 2007, deferred mineral exploration costs of \$9,600 (2006 - \$Nil) were paid to a corporation, in which a director and officer of the Company holds a significant interest.

During the year ended December 31, 2007, deferred mineral exploration costs of \$21,012 (2006 - \$Nil) were charged for services provided by a corporation controlled by an officer of the Company. Included in accounts payable and accrued liabilities at December 31, 2007 was \$6,274 (2006 - \$Nil) due to this corporation.

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, 2006, 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 7(b)(i).

During the year ended December 31, 2007, directors and officers of the Company and a spouse of an officer subscribed for 40,000 non-flow-through units and 330,000 flow-through units for gross proceeds of \$37,000 pursuant to the private placement described in Note 7(b)(iii).

During the year ended December 31, 2007, directors and officers of the Company and a spouse of an officer subscribed for 400,000 non-flow-through units and 400,000 flow-through units for gross proceeds of \$80,000 pursuant to the private placement described in Note 7(b)(iv). A spouse of an officer of the Company charged a finder's fee of \$3,450 with respect to this financing which was included in accounts payable as at December 31, 2007.

See also Note 3.

**10. COMMITMENTS AND CONTINGENCIES**

**Environmental 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.

**Flow-through Expenditures**

As at December 31, 2007, the Company is committed to incur prior to December 31, 2008, on a best efforts basis \$92,000 in qualifying Canadian exploration expenditures pursuant to the flow-through private placement described in Note 7(b)(iv) renounced to the subscribers effective December 31, 2007. See Note 12.

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

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**11. 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, sundry receivables 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.

**12. SUBSEQUENT EVENTS**

On February 1, 2008, the Company acquired four new prospecting permits for property located on Crown Land straddling the boundary between the Inuvialuit and Sahtu Settlement Regions of the Northwest Territories.

On February 9, 2008, the Company renounced Canadian exploration expenditures of \$205,000 to flow-through investors pursuant to the flow-through financings described in Notes 7(b)(iii) and (iv).