

TALMORA DIAMOND INC.
(A Development Stage Company)

FINANCIAL STATEMENTS

December 31, 2009 and 2008



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
TALMORA DIAMOND INC.
(A DEVELOPMENT STAGE COMPANY)

We have audited the balance sheets of Talmora Diamond Inc. (A Development Stage Company) as at December 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended 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 23, 2010

BALANCE SHEETS
AS AT DECEMBER 31

	2009 \$	2008 \$
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	172,878	38,606
Short-term investments (Note 5)	-	30,000
Sundry receivables	<u>21,791</u>	<u>13,585</u>
	194,669	82,191
DEFERRED MINERAL EXPLORATION COSTS (Note 6)	1,347,804	998,677
FUTURE TAX ASSET (Note 8(b))	<u>22,500</u>	-
	<u>1,564,973</u>	<u>1,080,868</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>24,594</u>	<u>29,351</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7(b))	1,679,266	1,175,274
WARRANTS (Note 7(c))	75,992	71,200
CONTRIBUTED SURPLUS (Note 7(e))	296,850	225,650
(DEFICIT)	<u>(511,729)</u>	<u>(420,607)</u>
	<u>1,540,379</u>	<u>1,051,517</u>
	<u>1,564,973</u>	<u>1,080,868</u>

GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 6 and 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**

	2009 \$	2008 \$
EXPENSES		
Administration (Note 9)	90,807	122,984
Stock-based compensation (Note 7(d))	-	29,725
Professional fees	20,288	25,788
Bank charges	<u>349</u>	<u>174</u>
Loss before the under-noted	111,444	178,671
Interest income	<u>(3,022)</u>	<u>(1,423)</u>
Net loss before income taxes	108,422	177,248
Income tax recovery (Note 8(a))	<u>(17,300)</u>	<u>(44,450)</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	91,122	132,798
Deficit, beginning of year	<u>420,607</u>	<u>287,809</u>
Deficit, end of year	<u><u>511,729</u></u>	<u><u>420,607</u></u>
NET LOSS PER SHARE – basic and diluted	<u>0.003</u>	<u>0.006</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	<u>26,089,149</u>	<u>21,774,935</u>

See accompanying notes to the financial statements

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

Page 4

	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(91,122)	(132,798)
Changes not involving cash		
Income tax (recovery)	(17,300)	(44,450)
Stock-based compensation	-	29,725
Changes in non-cash working capital balances:		
(Increase) decrease in sundry receivables and	(8,206)	21,494
(Decrease) increase in accounts payable and accrued liabilities	<u>(9,132)</u>	<u>1,664</u>
Cash flows from operating activities	<u>(125,760)</u>	<u>(124,365)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placements	595,388	-
Share issue costs	<u>(20,604)</u>	<u>(6,475)</u>
Cash flows from financing activities	<u>574,784</u>	<u>(6,475)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term investments	280,000	-
Short-term investment	(250,000)	(30,000)
Deferred mineral exploration costs	<u>(344,752)</u>	<u>(136,977)</u>
Cash flows from investing activities	<u>(314,752)</u>	<u>(166,977)</u>
Increase (decrease) in cash and cash equivalents	134,272	(297,817)
Cash and cash equivalents, beginning of period	<u>38,606</u>	<u>336,423</u>
Cash and cash equivalents, end of period	<u><u>172,878</u></u>	<u><u>38,606</u></u>
SUPPLEMENTAL INFORMATION		
Interest paid	-	-
Income taxes paid	-	-
Change in accrued exploration expenditures	4,375	(12,747)
Change in accrued share issue costs	-	(6,475)

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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" or "Talmora"). 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, 2009, the Company had cash and cash equivalents totaling \$172,878 and working capital of \$170,075. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its current liabilities. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, cashable guaranteed investment certificates, and highly liquid temporary investments with original maturities of less than ninety days.

Short-Term Investments

Short-term investments comprise highly liquid Canadian dollar investments with original terms to maturity of greater than ninety days but not more than one year.

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 on a unit of production basis 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 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 on recognition and is amortized over the useful life of the property and included in operations. Management is not aware of any asset retirement obligations as at December 31, 2009 and 2008.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

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 enacted or 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.

As at December 31, 2009 and 2008, all issued and outstanding warrants and options were anti-dilutive and were excluded from the diluted loss per share calculations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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, asset retirement obligations, 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 loss 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 loss.

New Accounting Pronouncements:

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has adopted this standard in its significant accounting policies; adoption of this standard has not had a material impact on its results or operations. The Company is continually evaluating its counterparties and their credit risks.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements. To make the appropriate disclosures, an entity must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The adoption of the new standard has resulted in additional disclosures in the notes to the financial statements.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

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 2011. Beginning in 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; accordingly, the financial reporting impact of the Company's transition to IFRS cannot be reasonably estimated at this time.

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.

Consolidations and Non-Controlling Interests

CICA Handbook Sections 1601, "Consolidations", 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

4. CASH AND CASH EQUIVALENTS

	2009	2008
	\$	\$
Cash and cash equivalents are composed of		
Cash	172,878	32,772
Guaranteed Investment Certificates, bearing interest at Nil% (2008 – 2.5%)	_____ -	_____ 5,834
	<u>172,878</u>	<u>38,606</u>

5. SHORT-TERM INVESTMENTS

As at December 31, 2009, the Company had no short-term investments. During the year ended December 31, 2009, the Company redeemed short-term investments in the amount of \$280,000, which included a short-term investment of \$80,000 bearing interest at 0.30%, and four GICs of \$50,000 each bearing interest at 1.0%, in order to finance the summer staking and exploration program.

As at December 31, 2008, the Company had short-term investments of \$30,000 bearing interest at 2.75% with a maturity date of June 8, 2009.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

6. DEFERRED MINERAL EXPLORATION COSTS

In 2003, the Company acquired the Horton River property, consisting of three prospecting permits 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. These permits lapsed on January 31, 2008 but during the year ended December 31, 2008 the Company staked 50 claims within the same area covered by these expired permits. These claims are in good standing until October 2012 or later.

In 2007, the Company acquired a further nine prospecting permits adjoining the Horton River property of which six permits in the Sahtu Settlement Region are valid until January 31, 2012, and the remaining three permits in the Inuvialuit Settlement Region are valid until January 31, 2012. Two of the six Sahtu permits are in good standing to 2012. Future cash deposits of \$57,947 or work of equal value are required by January 31, 2011 on four of the six Sahtu permits to maintain them in good standing to 2012 and future cash deposits of \$85,993 or work of equal value are required by January 31, 2011 on the three Inuvialuit permits to maintain them in good standing to 2012.

In 2008, the Company acquired four new prospecting permits, which are valid until January 31, 2013. Future cash deposits of \$28,974 or work of equal value are required by January 31, 2011 and further cash deposits of \$57,947 or work of equal value are required by January 31, 2012 to maintain these permits in good standing to 2012.

Claims can be staked within the permits at any time so long as the permits are in good standing. 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.

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 is opposing the application. This application does not affect the adjoining nine permits and 50 claims held by Talmora.

In January, 2009, the Mining Recorder granted Talmora a one year extension on all ten permits located in the Sahtu Settlement Region. In January, 2010, the Mining Recorder granted Talmora a second one year extension on all ten permits. The proceedings affecting the four permits were stayed and discussions were initiated between Canada and the Sahtu. A status report from the Department of Justice dated December 10, 2009 indicates that settlement negotiations between the Sahtu and Canada are well advanced and that negotiations are on-going. A status report dated March 19, 2010 requested that the proceedings remain stayed and indicated that a further status report would be provided no later than May 31, 2010.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

6. DEFERRED MINERAL EXPLORATION COSTS (Continued)

HORTON RIVER, NWT	<u>\$</u>
<u>Acquisition costs:</u>	
Balance, December 31, 2007 and 2008	85,952
Staking	<u>59,949</u>
Balance, December 31, 2009	<u>145,901</u>
<u>Exploration expenditures</u>	
Balance, December 31, 2007	788,495
Supplies and freight	2,167
Sample sorting, analyses	67,148
Field office support	48,139
Exploration	<u>6,776</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	<u>1,201,903</u>
Total Balance, December 31, 2009	<u>1,347,804</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

7. CAPITAL STOCK

a) Authorized

Unlimited number of common shares

b) Issued

	Common Shares #	Amount \$
Balance, December 31, 2007	21,774,935	1,225,724
Renunciation of flow-through expenditures (i)	-	<u>(50,450)</u>
Balance, December 31, 2008	21,774,935	1,175,274
Common shares (Series IV) issued for cash (ii)	3,318,571	165,929
Flow-through common shares (Series IV) issued for cash (ii)	2,800,000	140,000
Warrant valuation (ii)	-	(40,383)
Share issue costs (ii)	-	(7,938)
Common shares (Series V) issued for cash (iii)	3,299,173	164,959
Flow-through common shares (Series V) issued for cash (iii)	2,490,000	124,500
Warrant valuation (Series VI)	-	(38,209)
Share issue costs (iii)	-	<u>(4,866)</u>
Balance, December 31, 2009	<u>33,682,679</u>	<u>1,679,266</u>

i) During the year ended December 31, 2008, the Company renounced flow-through expenditures in the amount of \$205,000 with respect to flow-through financings that occurred during the year ended December 31, 2007, creating a future income tax liability of \$59,450, of which \$50,450 was allocated as a cost of issuing the flow-through shares and \$9,000 was allocated as a cost of issuing warrants.

ii) 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 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 before future taxes of \$3,300 of which \$1,850 was allocated to the warrants.

iii) 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 flow-through common share purchase warrant. Each whole common share purchase warrant is exercisable at \$0.16 per flow-through 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 before future taxes of \$1,900 of which \$750 was allocated to the warrants.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

7. CAPITAL STOCK (Continued)

c) Warrants

A summary of changes in warrants is as follows:

	Warrants	Weighted Average Exercise Price	Value
	#	\$	\$
Balance, December 31, 2007	5,940,000	0.17	184,250
Expired <i>Series I</i>	(3,250,000)	0.16	(104,050)
Renunciation of flow-through expenditures (Note 7(b)(i))	-	-	(9,000)
Balance, December 31, 2008	2,690,000	0.19	71,200
Expired	(2,690,000)	0.19	(71,200)
Issued (Note 7(b)(ii)) <i>Series IV</i>	3,059,286	0.16	40,383
Issue costs (Note 7(b)(ii)) <i>Series IV</i>	-		(1,850)
Issued (Note 7(b)(iii)) <i>Series V</i>	2,894,586	0.16	38,209
Issue costs (Note 7(b)(iii)) <i>Series V</i>	-		(750)
Balance, December 31, 2009	<u>5,953,872</u>	0.18	<u>75,992</u>

As at December 31, 2009, 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	38,533	June 3, 2011
<u>2,894,586</u>	<u>0.16</u>	<u>37,459</u>	November 12, 2011
<u>5,953,872</u>	<u>0.16</u>	<u>75,992</u>	

The weighted average grant date fair value of warrants granted during the year ended December 31, 2009 was \$0.01. The 5,953,872 warrants outstanding and exercisable as at December 31, 2009 have a weighted average remaining contractual life of 1.64 years (2008 – 0.82 years). Of the warrants outstanding, 1,400,000 warrants expiring June 3, 2011 and 1,649,586 warrants expiring November 12, 2011 are exercisable into flow-through shares.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 #	Weighted Average Exercise Price \$
Balance, December 31, 2007, 2008 and 2009	<u>1,600,000</u>	0.10

As at December 31, 2009, the following options were issued and outstanding:

<u>Options Granted</u> #	<u>Options Vested</u> \$	<u>Exercise Price</u> \$	<u>Expiry date</u>
<u>1,600,000</u>	<u>1,600,000</u>	0.10	April 25, 2012

The 1,600,000 options outstanding and exercisable as at December 31, 2009 have a weighted average remaining contractual life of 2.32 years (2008 – 3.32 years).

e) Contributed Surplus

	Amount \$
Balance, December 31, 2007	91,875
Employee stock based compensation (Note 7(d))	22,572
Non-employee stock based compensation (Note 7(d))	7,153
Expiration of warrants (Note 7(c))	<u>104,050</u>
Balance, December 31, 2008	225,650
Expiration of warrants (Note 7(c))	<u>71,200</u>
Balance, December 31, 2009	<u>296,850</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 33% (2008 – 34%) are as follows:

	2009	2008
Loss before income taxes	\$ (108,422)	\$ (177,248)
Expected tax recovery at statutory rate	(35,800)	(59,400)
Stock-based compensation	-	10,000
Expiry of losses	13,900	6,300
Change in expected tax rates	8,700	6,600
Other	(3,200)	(8,850)
Change in valuation allowance	(900)	900
	<hr/>	<hr/>
Income tax recovery	\$ (17,300)	\$ (44,450)
	<hr/>	<hr/>

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:

	2009	2008
Non-capital losses	\$ 28,200	\$ 41,500
Share issue costs	21,500	22,200
Exploration properties	(27,200)	(62,800)
	<hr/>	<hr/>
Valuation allowance	22,500	900
	-	(900)
	<hr/>	<hr/>
Future income tax asset	\$ 22,500	\$ -
	<hr/>	<hr/>

c) Tax Loss Carry-Forwards

As at December 31, 2009, the Company had approximately \$59,700, \$146,000 and \$1,033,000 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, 2009, the Company had available for deduction against future taxable income, non-capital losses of approximately \$112,000 which expire as follows:

2010	\$ 27,000
2013	30,000
2025	38,000
2028	6,000
2029	11,000
	<hr/>
	\$ 112,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, administration expenses of \$65,327 (2008 - \$85,335) of which \$6,991 (2008 - \$15,003) was for out-of-pocket expenses, were charged by three officers of the Company, one of whom is also a director of the Company.

During the year ended December 31, 2009, deferred mineral exploration costs of \$65,121 (2008 - \$37,651) was charged for services provided by a director and officer of the Company and one officer of the Company. Of this amount \$27,258 (2008 - \$4,407) was for out-of-pocket expenses at cost.

During the year ended December 31, 2009, deferred mineral exploration costs of \$69,702 (2008 - 19,432) of which \$13,227 (2008 - \$ 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.

(June 2009 Private Placement)

During the year ended December 31, 2009, a director and officers of the Company and a spouse of an officer subscribed for 700,000 non-flow-through units and 1,000,000 flow-through units for gross proceeds of \$85,000 pursuant to the private placement described in Note 7(b)(ii). A spouse of an officer of the Company charged a consultant's fee of \$1,999. with respect to this financing. (*Series IV*)

During the year ended December 31, 2009, a corporation of which a director and officer of the Company holds a significant interest subscribed for 200,000 non-flow-through units for gross proceeds of \$10,000 pursuant to the private placement described in Note 7(b)(ii) . (*Series IV*)

(November 2009 Private Placement)

During the year ended December 31, 2009, a director and an officer of the Company subscribed for 1,500,000 non-flow-through units for gross proceeds of \$75,000 pursuant to the private placement described in Note 7(b)(iii). (*Series V*)

During the year ended December 31, 2009, a corporation of which a director and officer of the Company holds a significant interest subscribed for 200,000 non-flow-through units for gross proceeds of \$10,000 pursuant to the private placement described in Note 7(b)(iii) . (*Series V*)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

Sahtu Settlement Region

See also Note 6 with respect to four claims located in the Sahtu Settlement Region, which are currently subject to dispute.

Flow-through Shares

See Note 13, Subsequent Events, for additional information concerning the Company's flow-through commitment.

11. 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 year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

12. 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 and 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. The Company did not have any cash equivalents as at December 31, 2009. 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, 2009, the Company had a cash and cash equivalents balance of \$172,878 (2008 - \$38,606) and no short-term investments (2008 - \$30,000) to settle current liabilities of \$24,594, (2008 - \$29,351).

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. The Company did not hold any short-term deposit certificates at December 31, 2009.

(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 Note 6.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

12. FINANCIAL RISK FACTORS (Continued)

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, 2009, 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 and cash equivalents and are classified as "Level 1" within the fair value hierarchy.

Management believes that sensitivity analysis on the Company's financial instruments is presently unnecessary, since in subsequent months, its sundry receivables are likely to be converted to cash which will be used to pay accounts payable and accrued liabilities. The Company will reassess whether sensitivity analysis should be performed at the end of its next reporting period.

13. SUBSEQUENT EVENTS

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. Of this amount, approximately \$235,000 was incurred to December 31, 2009. The Company is committed to incur the balance of \$29,500 prior to December 31, 2010 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.

See Note 6.