

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

**Management's Discussion & Analysis**  
**For the year ended December 31, 2007**

Date: April 29, 2008

Please read the following discussion and analysis together with the audited financial statements for the year ended December 31, 2007 and the audited financial statements of the predecessor companies, Canadian Diamond Limited and Talmora Resources Inc., for the year ending December 31, 2006.

**Amalgamation of Talmora Resources Inc. with Canadian Diamond Limited**

Talmora Diamond Inc. ("Talmora") was formed, effective January 23, 2007, upon the amalgamation of Talmora Resources Inc. and Canadian Diamond Limited, as disclosed in the information circular of Talmora Resources Inc. dated November 20, 2006. These transactions were approved by shareholders of the amalgamating companies at annual and special meetings held on January 5, 2007.

Former Talmora Resources Inc. shareholders were issued 5,142,105 shares (31.3%), and former Canadian Diamond Limited shareholders were issued 11,252,830 shares (68.6%), in Talmora for a total of 16,394,935 issued and outstanding common shares.

**Financing**

Talmora is dependent on management obtaining financing to continue operations and to fund its exploration property expenses.

Following two private placements, the first in April 2007 when 1,300,000 shares were issued at \$0.10/share and the second in December 2007 when 4,080,000 shares were issued at \$0.10/share, there are currently 21,774,935 common shares issued and outstanding and 7,540,000 common shares subject to issuance including 5,940,000 warrants and 1,600,000 management incentive options. Each of 3,900,000 warrants entitles the holder to acquire one common share for \$0.16. 3,250,000 of these warrants expire June 30, 2008 and 650,000 expire April 18, 2009. Each of the remaining 2,040,000 warrants entitles the holder to acquire one common share for \$0.20 and these warrants expire December 29, 2009. The options are exercisable at \$0.10 and expire April 25, 2012.

## **Listing on CNQ**

The common shares of Talmora Diamond Inc. commenced trading on the Canadian Trading and Quotation System Inc. ("CNQ") on May 14, 2007 under the trading symbol "TALM".

## **Exploration Program**

Canadian Diamond Limited held 3 prospecting permits on the Horton River, 120 kilometers south of Paulatuk, in the Inuvialuit Settlement Region of the Northwest Territories. Till and stream sampling in 2004 confirmed the presence of anomalous kimberlite indicator minerals.

Prior to the amalgamation Canadian Diamond Limited applied for additional exploration permits and these were granted on February 1, 2007. At year-end Talmora held 12 contiguous permits covering 645,718 acres. The three original permits expired January 31, 2008. However, claims were staked within the permit areas prior to the expiry date.

Four new permits (144,868 acres) were granted to Talmora on February 1, 2008 but on February 28, 2008 "The Sahtu Secretariat Inc." and a number of other "Applicants" in the Sahtu Settlement Region applied for a judicial review of the decision of the Supervising Mining Recorder to issue 60 prospecting permits within the Sahtu Settlement Region on February 1, 2008 including the 4 issued to Talmora Diamond Inc.

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 intend to oppose the application. The application does not affect the adjoining 9 permits (432,285 acres) and 50 claims (41,939.8 acres) held by Talmora.

An airborne magnetic survey of the Company's three original permits and one of the adjoining permits awarded in 2007 was completed at the end of June. A number of magnetic dyke-like structures strike NNW across the property. The "dykes" appear to be at a depth of 600-800m and are parallel to and probably the extension of the swarm of "dykes" that cross the Parry Peninsular and cut the "large magnetic anomaly" being explored by Darnley Bay for base metals at Paulatuk 120k to the NNW. The latter "dykes" have a spatial relation to the Darnley Bay kimberlites.

Along one of the "dykes" on the west side of Talmora's property are 4 strongly magnetic circular structures or "blows" which have model widths of about 700-1300m and appear to be at the same depth as the "dyke". The "blows" may be related to the "dykes" in the same way that the "large magnetic anomaly" at Paulatuk may be related to the "dykes" at that location. The "blows" may be the feeder pipes of an intrusive similar to that which is believed to be the cause of the "large magnetic anomaly" at Paulatuk or of an extrusive that has subsequently been eroded.

Anomalies of low magnetic susceptibility are of interest as kimberlite targets. Many of these anomalies coincide with small lakes and are concentrated along the “dykes” especially the “dyke” with the circular “blows”. Some of them were ground truthed in the field program carried out in the later half of August. The field program included staking of the kimberlite targets and sampling of the tills for kimberlite indicator minerals down-ice of the magnetic targets.

The coarse (-0.50+0.30mm) fractions of all 178 till samples collected in 2007 have now been examined for kimberlite indicator minerals (KIMs) and preliminary results have been received. These samples were specifically collected down-ice of pipe-like magnetic anomalies in order to prioritize the anomalies for drill testing. A total of 558 grains of KIMs and possible KIMs have been picked for microprobe analysis.

Microprobe analyses of the first 32 samples have been received. Of the 90 grains that were visually classified as KIMs and possible KIMs and another 17 that were considered unlikely to be KIMs but were never-the-less analysed, 95 proved to be KIMs.

The KIMs recovered from samples collected in 2007, which were located down-ice of magnetic targets, are very much more numerous (33 times) than the KIMs recovered from samples collected in 2004, which tested the same general area but were not located with respect to magnetic targets. There is a strong correlation between KIMs and magnetic anomalies.

Magnetic anomalies that have anomalous KIMs down-ice will be tested by drilling and additional magnetic anomalies must be sampled. An airborne magnetic survey and reconnaissance sampling of the new permits should proceed at the same time. A more extensive program is required than any carried out by the company to date and a major funding is essential.

A program costing \$2,000,000 - \$4,000,000 should establish the potential of the new permits for hosting kimberlites and confirm whether or not kimberlites are present on the part of the property explored to date. Micro-diamond analysis of initial kimberlite samples will determine whether further investigation is warranted in which case a budget in the order of \$10,000,000 - \$15,000,000 would be required.

## **General**

The Board of Talmora consists of four members, including;

- Raymond Davies, Ph.D., P.Eng., geologist, former CEO and director of Talmora Resources Inc., former director of Canadian Diamind Limited, director of Ditem Explorations Inc. and director of Dolly Varden Resources Inc.,
- Richard M. Hogarth, retired stock broker, former director of Talmora Resources Inc.,

- Leslie C. Little, a manager with a British investment management firm; and
- Joan E. Fiset, a Chartered Accountant with extensive mining industry experience.

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

### **Selected Financial Information**

The amalgamation of Canadian Diamind Limited and Talmora Resources Inc. is a capital transaction and is accounted for as a reverse takeover with Canadian Diamind Limited identified as the acquirer. The comparative figures presented are therefore those of Canadian Diamind Limited.

As at December 31, 2007, Talmora had cash and cash equivalents of \$336,423 and working capital of \$324,593

Funds are sufficient to cover the costs of analyses of the samples collected in August / September 2007 and to meet ongoing administrative expenses and meet liabilities for the ensuing year as they fall due. However, additional financing will be required in order to drill test kimberlite targets and to extend sampling and airborne magnetic surveying to the new permits.

	<b><u>Talmora Diamond Inc.</u></b>	<b><u>Canadian Diamind Limited</u></b>
	<b>12 Months ended</b>	
	<b>December 31 2007</b>	<b>December 31 2006</b>
Interest Revenues	11,119	10,755
Admin.expenses (incl. bank charges)	104,311	9,092
Professional fees	65,467	16,888
Mineral exploration [deferred costs]	874,447	211,448
Cash Inflow/(Outflow)	(87,440)	388,646
	<b>3 Months ended</b>	
	<b>December 31 2007</b>	<b>December 31 2006</b>
Interest Revenues	484	5,733

Admin. Expenses (recovery) (incl.bank charges)	(10,877)	1,768
Professional fees	34,278	11,888
Mineral exploration (deferred costs)	60,505	0
Cash Inflow/(Outflow)	266,725	221

	<b>As at</b>	
	<b>December 31</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
Deferred mineral exploration costs	874,447	211,448
Total assets	1,260,949	816,893
Cash, cash equivalents	336,423	423,863
Accounts receivable/(payable)	(46,909)	(14,936)
Short term investment		153,646
Working Capital	324,593	565,009

#### Summary of Quarterly Results

	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
<b>2007</b>				
Assets (end of period)	\$856,103	\$937,636	\$939,563	\$1,260,949
Cash inflow (outflow)	\$66,113	(\$135,576)	(\$284,702)	\$266,725
Interest revenues	\$5,304	\$4,058	\$1,273	\$484
Net Income (loss)	\$12,625	(\$45,036)	(\$25,979)	(\$164,694)
Net income (loss) per share-				
Basic and diluted	\$0.001	(\$0.003)	(\$0.001)	(\$0.010)
<b>2006</b>				
Assets (end of period)	Pre-amalgamation figures not available			\$816,893
Cash inflow (outflow)	\$1,658	\$631,037	(\$244,270)	\$221
Interest revenues	\$-	\$-	\$5,022	\$5,733
Net Income (loss)	(\$722)	(\$7,212)	\$632	\$17,577
Net income (loss) per share-				
basic and diluted	(\$0.000)	(\$0.001)	\$0.000	\$0.002

Note: For comparative purposes the number of shares prior to the amalgamation is the average number issued and outstanding divided by five (exchange ratio of 5 for 1 on amalgamation).

The 2007 numbers reflect the exploration expenditures incurred in the second half of the year including an airborne magnetic survey that cost \$330,017 and till sampling, ground magnetic surveys and staking that cost \$269,030. Staking and property acquisition costs were \$63,952. Increased administrative expenditures of \$103,083 (\$9,022 in 2006) and professional fees at \$65,467 (\$16,888 in 2006) are the result of the amalgamation, the listing activities and the active exploration program of the Company. Professional fees of \$34,278 in the fourth quarter (\$11,888 in 2006) related mostly to exploration. The cash outflow of \$135,576 and \$284,702 in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters respectively largely reflect the exploration expenditures and the cash inflow of \$266,725 in the 4<sup>th</sup> quarter reflects the private placement completed in December 2007. Interest revenues of \$11,119 (\$10,755 in 2006) result from the investment of the proceeds of the private placements completed in June 2006 and April 2007. The drop in interest revenues in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2007 reflects the exploration expenditures.

The balance sheet shows an increase in deferred mineral exploration costs from \$211,448 in 2006 to \$874,447 in 2007. The reduction in working capital from \$565,009 as at December 31, 2006 to \$324,593 as at December 31, 2007 is a combination of the cost of the airborne survey, the summer exploration program and the private placement completed in December 2007.

### **Accounting Principles Followed by Company**

All financial numbers in this MD&A are in Canadian currency and 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 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.

### **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.

### **Stock-Based Compensation**

The Company records compensation cost based on the fair value method of accounting for stockbased 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) 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.

### **Change in Accounting Policies**

Effective January 1, 2007, the Company adopted four new accounting standards (a, b, c & d) issued by the Canadian Institute of Chartered Accountants (“CICA”) in 2005.

The new standards and accounting policy changes are as follows:

#### **(a) 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.

(b) 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 period that the related asset or liability affects income

(c) 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.

The Company has evaluated the impact of these new standards on its consolidated financial statements and determined that no adjustments are currently required

(d) Accounting Changes (section 1506)

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.

### **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, one of whom, Raymond

Davies, is also a director (Maria Grimes \$27,865, Raymond Davies \$36,137, Robert Owen \$17,675 and Alan Davies \$2,773) of the Company.

During the year ended December 31, 2007, deferred mineral exploration costs of \$134,577 (2006 –\$7,156) related to the summer field program were charged for services provided by Raymond Davies, 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. Further deferred exploration costs of \$9,600 were charged at cost by HDM Laboratories, a corporation in which Raymond Davies has a significant interest, for mineralogical studies provided by unrelated third parties.

Other deferred mineral exploration costs of \$21,012 were charged for services provided by a corporation controlled by Alan Davies, 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 completed in June.

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 completed in April and 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 completed in December.

The spouse of Alan Davies, an officer of the Company, charged a finder's fee of \$3,450 with respect to the December 2007 financing which was included in accounts payable as at December 31, 2007.

### **Property Commitments**

The Company currently holds thirteen prospecting permits (577,153 acres) and 50 claims (41,939.8 acres) in the Horton River area, south of Paulatuk in the Northwest Territories. three of the permits (214,983 acres) are in the Inuvialuit Settlement Area and ten of the permits (362,170 acres) are in the adjoining Sahtu Settlement Area. All are on crown land.

The Crown owns both mineral and surface rights to the permit and claim areas, the exploration and exploitation of which is governed by the Canada Mining Regulations. Prospecting permits, claims, mining leases and work permits are dealt with under the

Regulations. The Land Settlement Agreements deal with environmental matters, creates environmental agencies and related procedures, and provides the Inuvialuit and Sahtu with equal representation on the agencies. Those who conduct economic activity in the Region need their approval.

The permits require a deposit paid in advance, refundable when equivalent exploration work has been performed, of \$0.10/acre for the first work period, \$0.20/acre for the second work period and \$0.40/acre for the third work period. The first and second work periods are 2 years north of 68°N latitude and 1 year south of 68°N latitude. Areas of interest within the permits may be staked by the permit holder before the expiration of the permits but may not be staked by the permit holder for 1 year after the expiration of the permits.

Claims require assessment work of \$4.00/acre for the first two years and \$2.00/acre for each year thereafter.

The Company has performance deposits on 13 of the permits amounting to \$101,176 and expects to receive refunds of deposits on 5 of the permits amounting to \$43,229 if expenditures made in 2007 are accepted by the Mining Recorder. Application has been made for credits on the claims amounting to \$548,640, which will keep them in good standing until the dates shown in the table below. If no further work is done on the property performance deposits amounting to \$244,884.20 will be required to hold the current permits until their expiry dates shown below:

Property Units	Size acres	Expected credits	Record or grant date	Expiry date
21 Claims 2828 area	1601.15	\$41,943	Oct. 11, 2007	Oct. 11, 2020
12 Claims 2829 area	16114.8	\$273,254	Oct. 11, 2007	Oct. 11, 2015
17 Claims 2827 area	24223.9	\$233,443	Oct. 11, 2007	Oct. 11, 2011
Permit 7307(5 year)	71,661	\$19,544.62	Jan. 31, 2007	Jan. 31, 2012
Permit 7306(5 year)	71,661	\$21,498.30	Jan. 31, 2007	Jan. 31, 2012
Permit 7305(5 year)	71,661	\$21,498.30	Jan. 31, 2007	Jan. 31, 2012
Permit 7311(3 year)	36,217	\$25,351.90	Jan. 31, 2007	Jan. 31, 2010
Permit 7309(3 year)	36,217	\$25,351.90	Jan. 31, 2007	Jan. 31, 2010
Permit 7308(3 year)	36,217		Jan. 31, 2007	Jan. 31, 2010
Permit 7310(3 year)	36,217		Jan. 31, 2007	Jan. 31, 2010
Permit 7312(3 year)	36,217		Jan. 31, 2007	Jan. 31, 2010
Permit 7313(3 year)	36,217		Jan. 31, 2007	Jan. 31, 2010
Permit 7618(3 year)	36,217		Jan. 31, 2008	Jan. 31, 2011
Permit 7619(3 year)	36,217		Jan. 31, 2008	Jan. 31, 2011
Permit 7620(3 year)	36,217		Jan. 31, 2008	Jan. 31, 2011
Permit 7621(3 year)	36,217		Jan. 31, 2008	Jan. 31, 2011

### **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, approximately \$92,000 in qualifying Canadian exploration expenditures pursuant to the private placement completed in December 2007 for which flow-through proceeds had been received and renounced to the subscribers with an effective date of December 31, 2007.