

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

**Management's Discussion & Analysis**  
**For the year ending December 31, 2009**

Date: April 30, 2010

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Talmora Diamond Inc. ("Talmora", or the "Company") for the year ended December 31, 2009 and the year ended December 31, 2008.

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

The following MD&A may contain forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected herein. Forward-looking statements are based on the estimates and opinions of management of the Company at the time the statements were made

**Listing on CNQ/CNSX**

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

**General**

The Board of Talmora consists of four members, including;

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

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

## **Overall Performance**

Talmora is a diamond exploration company with one property consisting of 577,153 acres of permits and 54,787 acres of claims on the Horton River, 120 kilometres south of Paulatuk in the Northwest Territories. The property straddles a major linear structure believed favourable for the occurrence of diamondiferous kimberlites. \$1,347,804 has been spent on exploration of the property to December 31, 2009.

An airborne magnetic survey has detected anomalies with the characteristics of kimberlite pipes. Till samples taken down-ice of the magnetic anomalies contain 37 times as many kimberlite indicator minerals (KIMs) as till samples taken at random. There is a strong correlation between KIMs and magnetic anomalies.

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

A Private Placement of \$305,929 on June 3, 2009 enabled the Company to fund a small field program in June/July 2009. Potential kimberlite targets were surveyed with an airborne magnetometer and 125 claims were staked over magnetic anomalies west of the previously acquired permits and claims. 51 samples were collected for KIM analysis.

A second Private Placement of \$289,459 was closed on November 12, 2009 to cover administration costs and to fund the processing of till samples and of geophysical data collected in the field. Till samples collected down-ice of kimberlite targets on both old and new claims are being processed for KIMs.

The Company's most prospective magnetic anomalies must be tested by drilling. A program costing \$2,000,000 - \$4,000,000 should confirm whether or not kimberlites are present on the property. Micro-diamond analyses of initial kimberlite samples will determine whether further investigation is warranted in which case an additional budget in the order of \$10,000,000 - \$15,000,000 would be required. A major financing for a drill program must now be pursued.

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

## **Selected Annual Information**

As at December 31, 2009, the Company had cash and cash equivalents totaling \$172,878 and working capital of \$170,075.

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

<b>Talmora Diamond Inc.</b>			
	Year ended December 31, 2009 (\$)	Year ended December 31, 2008 (\$)	Year ended December 31, 2007 (\$)
Cash, Cash Equiv.	172,878	38,606	336,423
Short Term Invest.	-	30,000	-
Working Capital	170,075	52,840	324,593
Interest Revenues	3,022	1,423	11,119
Admin. Expenses (incl. b.c.)	91,156	123,158	104,311
Professional Fees	20,288	25,788	65,467
Mineral Exploration– cum.tot.	1,347,804	998,677	874,447
Mineral Exploration - annual	349,127	124,230	662,999
Cash Inflow (outflow)	134,272	(297,817)	(87,440)
Net (Loss)	(91,122)	(132,798)	(223,084)
Net Income (Loss) Per Share	(0.003)	(0.006)	(0.013)
Total assets	1,564,973	1,080,868	1,260,949
Total liabilities	24,594	29,351	46,909

### **Factors Causing Variations**

The Company's business is diamond exploration and is currently exploring the Horton River area in the Northwest Territories. The work is seasonal. Field work utilizes helicopters and is very costly and is carried out over relatively short periods of time. Laboratory analysis for kimberlite indicator minerals (KIMs), analysis of data and preparation of assessment work reports is less costly and is spread over much longer periods of time.

Funding has depended on results and has therefore been of a rollercoaster nature. There is high working capital at the start of an exploration phase, a rapid drop after the field work is complete and a long tailing off as data is analysed and reported.

### **Results of Operations**

#### **Horton River Project, NWT**

Talmora has one significant project for which it has raised \$1,783,388 since August 2004 and on which it has expended \$1,347,804 on exploration to December 31, 2009.

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

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

An airborne magnetic survey of the Company's three original permits and one of the adjoining permits awarded in 2007 was completed at the end of June, 2007. KIMs in samples subsequently taken down-ice of magnetic anomalies with the characteristics of kimberlite pipes were 37 times more abundant than those in samples collected on a random basis in 2004.

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

The "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 are opposing the application. The application does not affect the adjoining 9 permits (432,285 acres) and 175 claims (54,787 acres) held by Talmora.

A private placement in June 2009 enabled the Company to fly 865 line kilometers of airborne magnetics over potential kimberlite targets and to stake 125 claims (12,860.85 acres) between June 28 and July 13 on ground that came open February 1, 2009. Samples collected at the same time are currently being analysed for KIMs.

## Geology

Most of the property is underlain by limestone of Ordovician age with a thin cover of glacial drift. A slump block of Cretaceous sediment outcrops in the NW part and Cretaceous sediment has been mapped in the SW.

An airborne magnetic survey shows a number of magnetic dyke-like structures that strike NNW across the property. The "dykes" appear to be at a depth of 600-800m and are parallel to and probably the extension of the swarm of "dykes" that cross the Parry Peninsular and cut the "large magnetic anomaly" being explored by Darnley Bay for base metals at Paulatuk 120k to the NNW. The latter "dykes" have a spatial relation to the Darnley Bay kimberlites.

### ***Cu-Au-U Targets***

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

Darnley Bay Resources has demonstrated that they have relatively shallow (300-500m) gravity anomalies above their deep magnetic anomaly suggesting that the gravity anomalies may be Olympic Dam type (U-Cu-Au) deposits. The magnetic "blows" on the Talmora property may be similarly capped by gravity anomalies indicating Olympic Dam targets and a gravity survey over the "blows" is recommended.

### ***Kimberlite Targets***

Anomalies of low magnetic susceptibility are of interest as kimberlite targets. Many of these anomalies coincide with small lakes and are concentrated along the "dykes" especially the "dyke" with the circular "blows". Some of them were ground truthed in the field program carried out in the later half of August, 2007. The field program included staking of the kimberlite targets and sampling of the tills for kimberlite indicator minerals (KIMs) down-ice of the magnetic targets.

Both coarse and fine (-0.50+0.25mm) fractions of 178 till samples collected in 2007 have been examined for KIMs and all the KIMs identified visually have been analysed by microprobe. These samples were specifically collected down-ice of pipe-like magnetic anomalies in order to prioritize the anomalies for drill testing.

The KIMs recovered from samples collected in 2007, are very much more numerous (37 times) than the KIMs recovered from samples collected in 2004, which tested the same general area but were not located with respect to magnetic targets. There is a strong correlation between KIMs and magnetic anomalies.

Ground to the west of the Talmora property came open in February 2009. Ponds with similar characteristics to those with coincident magnetic anomalies and all lying within the same prominent morphostructure (mantle focused circular fracture) were obvious on the immediately adjacent open ground. A two week field program was carried out in June/July.

A magnetic profile was flown across each of the characteristic ponds as well as across other less characteristic ponds further west outside the morphostructure. Many of the ponds show coincident magnetic anomalies. Samples were collected down-ice of a few of the ponds and 125 new claims were staked. Processing of samples and geophysical data is underway.

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

A program costing \$2,000,000 - \$4,000,000 should establish the potential of the new permits for hosting kimberlites and confirm whether or not kimberlites are present on the part of the property explored to date.

**Budget**

Staking 75,000 acres @ \$2/acre (contract staker cost)	150,000	
Data Processing & planning	100,000	
<b>Drill Program</b>		
Permitting cost	75,000	
Drilling 2500m @ 250/m	625,000	
Contract labour	135,000	
Camp construction	150,000	
Camp costs – labour & board	130,000	
Fuel	120,000	
Helicopter & fixed-wing – 3 months	560,000	
Accommodation & transport	120,000	
Ground geophysics	150,000	
Caustic laboratory	240,000	
Reports	20,000	
Contingency	<u>175,000</u>	
Total Drilling & Camp		2,750,000
<b>Airborne Magnetic Survey</b> - 12,000 line kilometers		425,000
<b>Sampling Program</b>		
Transport – samples & personnel	45,000	
Camp costs	15,000	
Helicopter	120,000	
Sample processing & probing	150,000	
Expediting	5,000	
Contingency	<u>40,000</u>	
Total Sampling Program		375,000
<b>Supervision &amp; support</b>		<u>500,000</u>
<b>Total</b>		<b>\$4,050,000</b>

Micro-diamond analysis of any kimberlite discovered will determine whether further investigation is warranted in which case a budget in the order of \$10,000,000 - \$15,000,000 would be required.

## Property Commitments

The Company currently holds thirteen prospecting permits (577,153 acres) and 175 claims (54,787 acres) in the Horton River area, south of Paulatuk in the Northwest Territories. Three of the permits (214,983 acres) and all of the claims are in the Inuvialuit Settlement Area and ten of the permits (362,170 acres) are in the adjoining Sahtu Settlement Area. All are on crown land.

The Crown owns both mineral and surface rights to the permit and claim areas, the exploration and exploitation of which is governed by the Canada Mining Regulations. Prospecting permits, claims, mining leases and work permits are dealt with under the Regulations. The Land Settlement Agreements deal with environmental matters, creates environmental agencies and related procedures, and provides the Inuvialuit and Sahtu with equal representation on the agencies. Those who conduct economic activity in the Region need their approval.

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

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

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

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

Property Units	Size <u>acres</u>	Expected & excess <u>credits</u>	Record <u>Date</u>	Current <u>expiry date</u>	Expected expiry date <u>with credits</u>
125 Claims	12,860.85		Aug. 13,2009	Aug. 13,2011	
6 Claims	15,495.00	\$38,496.79	Oct. 11, 2007	Oct. 11, 2012	Oct. 11, 2013
15 Claims	774.75	\$7,747.50	Oct. 11, 2007	Oct. 11, 2012	Oct. 11, 2017
3 Claims	7,747.50			Oct. 11, 2007	
6 Claims	1,239.60	\$4,958.40	Oct. 11, 2007	Oct. 11, 2015	Oct. 11, 2017
11 Claims	10,898.15	\$21,814.90	Oct. 11, 2007	Oct. 11, 2016	Oct. 11, 2017
8 Claims	5,733.15			Oct. 11, 2007	
1 Claim Pending	38.00	\$1,033.00	Oct. 11, 2007	?	Oct. 11, 2017
	Total	\$ 74,050.59			

<u>Property units</u>	<u>Size acres</u>	<u>Future performance deposits/work</u>	<u>Grant date</u>	<u>Current expiry date</u>	<u>With future performance deposits/work</u>
Permit 7307 (5 year)	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7306 (5 year)	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7305 (5 year)	71,661	\$28,664.40	Jan. 31, 2007	Jan. 31, 2011	Jan. 31, 2012
Permit 7311 (3 year)	36,217		Jan. 31, 2007	Jan. 31, 2011	
Permit 7309 (3 year)	36,217		Jan. 31, 2007	Jan. 31, 2011	
Permit 7308 (3 year)	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2010	Jan. 31, 2011
Permit 7310 (3 year)	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2010	Jan. 31, 2011
Permit 7312 (3 year)	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2010	Jan. 31, 2011
Permit 7313 (3 year)	36,217	\$14,486.80	Jan. 31, 2007	Jan. 31, 2010	Jan. 31, 2011
Permit 7618 (3 year)	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2010	Jan. 31, 2012
Permit 7619 (3 year)	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2010	Jan. 31, 2012
Permit 7620 (3 year)	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2010	Jan. 31, 2012
Permit 7621 (3 year)	36,217	\$21,730.20	Jan. 31, 2008	Jan. 31, 2010	Jan. 31, 2012
	<b>Total</b>	<b>\$230,861.20</b>			

Note: Subsequent to the year end a 1 year extension without an additional cash deposit was granted on all 10 three year permits in the Sahtu Settlement Area.

### Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

On February 28, 2008, the Sahtu Secretariat Inc. and a number of other applicants (collectively, the "Applicants") in the Sahtu Settlement Region applied for a judicial review of the decision of the Supervising Mining Recorder to issue 60 prospecting permits within the Sahtu Settlement Region on February 1, 2008. Four of the permits were those issued to Talmora. The Applicants claim that they were insufficiently consulted and accommodated by the Supervising Mining Recorder before the permits were issued. The Minister of Indian Affairs and Northern Development and the Supervising Mining Recorder are opposing the application. This application does not affect the adjoining nine permits and 175 claims held by Talmora.

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.

Variance to Original Budget of M.Millard (2005)

**Budget M. Millard (2005)**

**Actual R. Davies assessment work reports (2008 & 2009)**

<b>Phase 1</b> [minimum required to determine whether to continue to phase 2]		
Airborne survey	9000 line k @ \$35	\$315,000
Process 2004 fine fractions	120 @ \$150	\$18,000
Claim staking	36 claims @ \$1,000	\$36,000
	Contingency @ 10%	\$36,000
<b>Exploration sub-total</b>		<b>\$405,000</b>
<b>Administration</b>		<b>\$100,000</b>
	<b>Total</b>	<b>\$505,000</b>

10,196 line k	\$352,258.59
117 fine fractions	\$12,267.00
50 claims	\$50,461.83
	<b>\$414,987.42</b>
2007 expenses	<u>\$169,778.00</u>
	<b>\$584,765.42</b>

<b>Phase 2a</b> [assumes encouragement from phase 1]		
Till sampling [follow-up, target evaluation]	200 samples @ \$1000	\$200,000
Stream samples [follow-up]	50 @ \$1500	\$75,000
Ground magnetic survey	8 targets @ \$6,000	\$48,000
	Contingency @ 20%	\$32,000
<b>Exploration sub-total</b>		<b>\$355,000</b>
<b>Administration</b>		<b>\$100,000</b>
	<b>Total</b>	<b>\$455,000</b>

178 [target evaluation]	\$316,403.30
10 anomalies	\$25,130.73
	<b>\$341,534.03</b>
2008 expenses to Dec. 31	<u>\$148,946.00</u>
	<b>\$490,480.03</b>

<b>Phase 2b</b> [assumes continued encouragement]		
Drilling	4 targets @ \$80,000	\$320,000
	Contingency @ 20%	\$66,000
<b>Exploration sub-total</b>		<b>\$386,000</b>
<b>Administration</b>		<b>\$50,000</b>
	<b>Total</b>	<b>\$436,000</b>

<b>Exploration Total</b>	<b>\$1,146,000</b>	<b>\$756,521.45</b>
<b>Administration Total</b>	<b>\$250,000</b>	<b>\$318,724.00</b>

<b>Grand Total</b>	<b>\$1,396,000</b>	<b>\$1,075,245</b>
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**2009 Field Program on New Ground**

	Staking 125 claims	59,936
	Airborne magnetic survey – 865 line ks	99,525
	Sampling – 51 samples collected	<u>189,665</u>
Exploration sub-total		\$349,126
Administration Expenses sub-total		<u>\$111,444</u>
	<b>Total</b>	<b>\$460,570</b>

<b>Grand Total (with 2009 Program)</b>	<b>\$1,535,815</b>
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Phase 1 exploration costs were very much on budget with higher airborne survey cost due to higher line kilometers flown and higher staking cost due to greater number of claims staked.

Administration costs in 2007 were higher than budget because of the amalgamation of Talmora Resources Limited and Canadian Diamind Limited. [\$44,762 legal, \$30,000 accounting, \$10,000 other].

Phase 2a exploration costs were on budget but cost per sample was higher than budget because sampling was all target evaluation requiring greater use of helicopter per sample. In addition the fine fractions of all samples were examined.

Administration costs in 2008 were lower than in 2007 but are higher than budget. These costs reflect the real costs of administering the company.

As a result of the financial crisis of 2008 funds were not available for the drilling proposed as Phase 2b. However, a small funding in June 2009 enabled Talmora to fly an airborne magnetic survey over potential kimberlite targets on new ground that came open February 1, 2009 and to stake 125 additional claims.

There are a lot more kimberlite targets than expected and Talmora proposes a more extensive drill program than the small Phase 2b budget above.

### Summary of Quarterly results for Talmora Diamond Inc.

(a) Year	2009	2009	2009	2009
(b) Quarter	December 31	September 30	June 30	March 31
Cash, Cash Equivalent	\$172,878	\$26,322	\$16,997	\$16,937
Short Term investments	\$0	\$0	\$280,000	\$30,000
Working Capital	\$170,075	\$42,110	\$285,418	\$41,105
Interest Revenue	\$0	\$432	\$821	\$1,768
Expenses	\$48,301	\$19,946	\$34,486	\$8,711
Mineral Exploration (deferred costs)	\$99,988	\$223,794	\$20,552	\$4,793
Cash in (out) flow	\$146,556	\$9,325	\$60	(\$21,669)
Net Income (Loss)	(\$31,000)	(\$19,514)	(\$33,665)	(\$6,943)
Net Income (Loss) (per share)	(\$0.0009)	(\$0.0008)	(\$0.0014)	(\$0.0003)
Total Assets	\$1,564,973	\$1,289,936	\$1,324,658	\$1,065,268
Total Liabilities	\$24,594	\$10	\$15,218	\$20,693

(a) Year	2008	2008	2008	2008
(b) Quarter	December 31	September 30	June 30	March 31
Cash, Cash Equivalent	\$38,606	\$38,665	\$25,808	\$241,287
Short Term Investments	\$30,000	\$30,000	\$120,000	\$0
Working Capital	\$52,840	\$64,457	\$122,560	\$193,893
Revenue	\$889	\$461	\$32	\$41
Expenses	\$8,053	\$57,495	\$33,286	\$79,837
Mineral Exploration (deferred costs)	\$6,117	\$14,345	\$38,114	\$65,654
Cash in (out) flow	(\$59)	\$12,857	(\$215,479)	(\$95,136)
Net Income (Loss)	(\$4,164)	(\$57,034)	(\$36,254)	(\$35,346)
Net Income (Loss) (per share)	(\$0.003)	(\$0.003)	(\$0.002)	(\$0.002)
Total Assets	\$1,080,868	\$1,073,392	\$1,140,279	\$1,193,974
Total Liabilities	\$29,351	\$16,375	\$39,514	\$59,980

The 2009 fourth and third quarter numbers reflect an uptick in exploration expenditures as preparations were made and a field program was carried out from June 28 to July 13, 2009. No field work was carried out in 2008 or in early 2009 prior to the June 3rd financing.

The deferred mineral exploration costs in the fourth quarter 2009 are \$99,988 (\$223,794 in third quarter) and include many of the costs of service providers for the field program. Expenses of \$48,301 in the fourth quarter 2009 (\$19,946 in the third quarter 2009) were up due to delayed invoicing of normal expenses. The second quarter 2009, \$34,486 had one time costs related to audits and the annual meeting. The increased net loss for the fourth quarter of \$31,000 reflects the increased administrative expenditures.

The balance sheet shows an increase in working capital from \$42,110 as at September 30, 2009 to \$170,075 as at December 31, 2009 due to inflow of funds from the November, 2009 private placement.

## **Liquidity**

The Company is a development stage company as defined by CICA Accounting Guideline 11 "Enterprises in the Development Stage" and currently has interests in exploration and development properties in Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties contain mineral reserves, which are economically recoverable

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

## **Financing**

Talmora is dependent on management obtaining financing to continue operations and to fund its exploration property expenses. If such financing is unavailable for any reason, Talmora may become unable to carry out its business plan. Talmora intends to fund all future commitments with cash on hand, or through any other financing alternative it may have available to it at the time in question. As Talmora has no business undertaking, there can be no assurance that it will be profitable. In the interim, Talmora has no source of cash flow to fund its expenditures and its continued existence depends on its ability to raise further financing for working capital as the need may arise. The length of time needed to identify a new business, is indeterminate and the amount of resulting income, if any, is impossible to predict. Talmora does not expect to receive any income in the foreseeable future.

Talmora's success is dependent on the knowledge and expertise of its management and employees and their ability to identify and advance attractive business opportunities.

Other than as discussed herein, Talmora is not aware of any trends, demands, commitments, events or uncertainties that may result in the Talmora's liquidity or capital resources either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in Talmora's liquidity and capital resources will be substantially determined by the success or failure of any new proposed business of Talmora and its ability to obtain equity financing.

The continuing global financial uncertainty through 2009 is making a major funding at this time difficult and would dilute current shareholders heavily. A small private placement of \$305,929 to cover administrative expenses and to carry out a limited field exploration program was completed in June 2009. Another private placement of \$289,459 to cover administration expenses into the new year and to process samples and geophysical data was completed in early November, 2009. The Company will concentrate on maintaining the property in good standing until funding of a drill program is achieved.

As at December 31, 2009, there are 33,682,679 common shares issued and outstanding. 7,553,872 Common shares subject to issuance are comprised of 5,953,872 warrants and 1,600,000 management incentive options.)

- a) 3,059,286 June 2009, (*Series IV*) warrants entitle the holder to acquire one common share per warrant for \$0.16. and expire June 04, 2011.
- b) 2,894,586 November 2009, (*Series V*) warrants entitle the holder to acquire one common share per warrant for \$0.16 and expire November 12, 2011.
- c) The 1,600,000 management incentive options are exercisable at \$0.10 and expire April 25, 2012.
- d) During the year ended December 31, 2009, 650,000 April 2007 (*Series II*) warrants exercisable at \$0.16 per share and 2,040,000 December 2007 (*Series III*) warrants exercisable at \$0.20 per share, expired unexercised.

**An analysis of the liquidity of Talmora Diamond Inc. is provided below:**

Talmora had cash, cash equivalents and short term investments in the amount of \$172,878 as at December 31, 2009 compared to \$26,322 as at September 30, 2009, \$296,997 as at June 30, 2009, and \$46,937 as at March 31, 2009, which reflects the June and November 2009 Private Placements and expenditures on the field program. These numbers closely match the working capital which at December 31, 2009 was \$170,075.

There were no interest revenues for the quarter ending December 31, 2009 as cash on hand was not invested. This compares to \$432 for the quarter ending September 30, 2009, \$821 for the quarter ending June 30, 2009, and \$1,768 for the quarter ending March 31, and reflects current low interest rates and expenditure on the field program soon after receipt of the funds. Administration expenses (including bank charges and professional fees) of \$48,301 for the quarter ending December 31, 2009, compared to \$19,946 for the quarter ending September 30, 2009, \$34,486 for the quarter ending June 30, 2009 and \$8,711 for the quarter ending March 31, 2009 (\$148,946 in all 2008 and \$169,778 in all 2007) are a matter of timing and are in line with past annual expenses. The March 2009 quarter number appears to be down compared to previous years but includes a cash refund of \$7,233 and a first quarter administrative expenses of \$16,251 which are included in Accounts payable and accrued liabilities.

The net cash inflow of \$146,556 in the fourth quarter (inflow \$9,325 in third quarter and inflow of \$60 in the second quarter) reflects the net inflow from the November, 2009 funding.

The \$99,988 in deferred mineral exploration costs for the fourth quarter of 2009 are down from \$223,794 for the third quarter but together constitute the costs of the June/July field program and are compared to the field program preparation costs of \$20,551 for the quarter ending June 30, 2009 and \$4,793 for the quarter ending March 31, 2009 (\$6,117, \$14,345, \$38,114 & \$65,654 for the 4<sup>th</sup>, 3<sup>rd</sup>, 2<sup>nd</sup> & 1<sup>st</sup> quarters of 2008 respectively). The \$124,230 in 2008 was the cost of processing samples and reporting the work done in 2007.

Funds are sufficient to meet ongoing administrative expenses and meet current liabilities. The November, 2009 financing will maintain the Company through 2010.

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. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant was exercisable at \$0.16 per common share until April 18, 2009. These warrants expired on April 18, 2009 without being exercised (Series II).

The grant date 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.

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. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant was exercisable at \$0.20 per common share until December 28, 2009. These warrants expired on December 29, 2009 without being exercised (Series III).

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.

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.

On June 3, 2009, the Company closed another private placement financing for 3,318,571 non-flow-through units and 2,800,000 flow-through units at a price of \$0.05 per unit for total gross proceeds of \$305,929. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant will be exercisable at \$0.16 per common share until June 3, 2011. The warrants issued as part of a flow-through unit are exercisable into flow-through shares (Series IV).

The fair value of the warrants of \$40,383 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.

On November 12, 2009 the Company closed a private placement financing for 3,299,173 non-flow-through units and 2,490,000 flow-through units at price of \$0.05 per unit for total gross proceeds of \$289,459. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable at \$0.16 per common share until November 12, 2011. The warrants issued as part of a flow-through unit are exercisable into flow-through shares. (Series V).

The grant date fair value of the warrants of \$38,209 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.

## Options

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

A summary of changes in stock options is as follows:

<u>Value</u>	<u>Weighted Average Options</u>	<u>Exercise Price</u>	
	#	\$	\$
Issued, April 25, 2007	<u>1,600,000</u>	0.10	<u>33,102</u>
Balance, December 31, 2007, 2008 and 2009	<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

The expiry date of all the options is April 25, 2012.

16.67% of these options vested every 3 months beginning July 25, 2007. As at December 31, 2008, all 1,600,000 of these options had vested.

## Contributed Surplus

	Amount
	\$
Balance, December 31, 2008	225,650
Employee stock based compensation	Nil
Non-employee stock based compensation	Nil
Expiration of Warrants (Series II & III)	<u>71,200</u>
Balance, December 31, 2009	<u>296,850</u>

## 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 - \$37,651.03) 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 recalculated) of which \$13,227 (2008 - \$13,227 recalculated) was for out-of-pocket expenses, were paid to a Company 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. 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 Company 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 (*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 (*Series V*).

During the year ended December 31, 2009, a Company 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 placemen (*Series V*).

### **Subsequent Events**

Because of the dispute between the Mining Recorder and the Sahtu regarding four of the Company's prospecting permits, the Mining Recorder granted Talmora Diamond Inc. a second one year extension on all ten permits the Company holds in the Sahtu Settlement Area.

The proceedings affecting the four permits in dispute 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.

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

#### **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 is continually evaluating its counterparties and their credit risks.

#### **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 in 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).

## **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 required to have a plan for the changeover from GAAP to IFRS and is currently establishing such a plan to convert to the new standards in the allotted timeframe. The Company does not believe that it is exposed to substantial risk by not having a changeover plan at the present time.

The Company is aware of the changeover and is assessing the impact of the IFRS conversion. After accounting or disclosure differences between GAAP and IFRS have been identified the potential impact to existing accounting policies, information systems and business processes will be reviewed and analyzed. An action plan will be developed for each impact area.

Management’s decisions about accounting options and related disclosures will determine the tools required for the conversion. External consultants will assist the Company in designing the changes to be implemented to accounting and consolidation processes, information technology systems and other affected business aspects, including but not limited to, changes to contracts, key performance indicators and internal reporting.

New accounting policies, accounting manuals, guidelines, reporting process packages, and templates will be developed. By June 30, 2010, IFRS financial statements and related disclosures will be prepared, including a dry run of the process, in order to facilitate comparative reporting for the first quarter of 2010.

### **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.

## **Other Accounting Notes**

### **Critical Accounting Estimates**

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

The Company's recoverability of its recorded value of its mineral properties and associated deferred exploration expenses is based on current market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

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

### **Disclosure Controls**

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

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of December 31, 2009, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

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

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

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

## **Sensitivity Analysis**

As at December 31, 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.

### ***Financial Instruments and Other Instruments***

The Company has cash equivalent balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Currently, the Company does not hedge against interest rate risk.

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

The Company does not hedge against any other risks.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-Balance Sheet arrangements.